

*Creating Shared Value*  
Striving to create and share value for society

**HITACHI**

Reliable solutions



# CSR & Financial Report 2020

*for all stakeholders*



# 70<sup>th</sup> Anniversary

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. We believe that the products and technologies that we have created over the past seven decades represent the very history and the culture of the HCM Group. The HCM Group will continue to tackle challenges around the world with a strong sense of pride in its manufacturing.



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**Editorial Policy**

From fiscal 2011, we consolidated our Annual Report, which reported our management strategy and financial statements, and our CSR Report, which reported Environment, Social, and Governance (ESG) information, to produce a comprehensive CSR & Financial Report. We did this to provide a clear overall view of the activities of the Hitachi Construction Machinery Group as it aims at the integrated advancement of our growth strategies and CSR management as a corporate group. In this FY2020 CSR & Financial Report, we have highlighted the areas described right to allow our stakeholders to gain a clearer understanding of the Hitachi Construction Machinery Group's corporate management.

**Reporting Period**

April 1, 2019 - March 31, 2020  
(Some of the information included is from after April 1, 2020.)

**Reporting Organizations**

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

**Guidelines used for reference**

The HCM Group CSR & Financial Report 2020 and HCM's corporate website "Environment / CSR" were prepared in accordance with the Core GRI Standards referencing the International Integrated Reporting Framework of the International Integrated Reporting Council (IIRC) and Guidance for Integrated Corporate Disclosure and Company-Investor Dialogues for Collaborative Value Creation of Japan's Ministry of Economy, Trade and Industry.

**Next scheduled release**

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# The HCM Group's Philosophy

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

## Hitachi Construction Machinery's Vision

"To pass on a productive environment and prosperous cities to future generations. HCM Group helps to create comfortable living spaces."

### Identity

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

Our philosophy

### Innovation

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

### CSR

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

## "Kenkijin Spirit"

To realize our philosophy, it is vital that we fulfill the HCM Group's mid- to long-term vision and mid-term management plan while addressing the needs of society in the form of our CSR. The driving force behind these efforts will be our people (Kenkijin). If these actions are in line with shared values and guiding principles, we can pursue our goals while making the most of each employee's ideas and initiatives.

The Kenkijin Spirit codifies the shared values and codes of conduct for all HCM Group employees. The underlying commitment behind this spirit are the three words "Challenge," "Customer" and "Communication."

### Ideology of the 3Cs

**3C**  
**Challenge**  
**Customer**  
**Communication**

## Hitachi Founding Spirit

The Hitachi Founding Spirit has been carefully fostered over more than a century since Hitachi's founder Namihei Odaira and our other predecessors.

### Harmony

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

### Sincerity

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

### Pioneering Spirit

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



Hitachi founder  
**Namihei Odaira**

# History of the Hitachi Construction Machinery Group

Since it launched the first cable-operated power shovel to the market in 1950 as part of Hitachi, Ltd., HCM has continued to evolve construction machinery using its industry-leading technical prowess and to provide a broad range of services to support the stable operation of its machinery.

Toward a new stage using cutting edge information technology

2020

Began mass producing and selling the first cable-operated power shovel

Since 1950



The U05, Hitachi's first cable-operated power shovel developed in 1949. Began mass producing and selling the U06, the successor machine to the U05, in 1950. It was called an all-purpose excavator, which acted as a powerful driver behind Japan's efforts to restore its national infrastructure following World War II. (Pictured is the U05)



The ZX200X-6, HCM's latest ICT construction machinery. Enables highly accurate work while supporting the operator with our proprietary machine control technology.

The evolution of construction machinery

- 1950** Began selling the U06 cable-operated power shovel.
- 1957** Developed the U23, the largest cable-operated power shovel at the time.
- 1958** Released the Hitachi U106 all-purpose excavator, the first mass produced model in the world to have a fluid coupling.
- 1965** Developed the Hitachi UH03, the first hydraulic excavator developed with Japanese technology.

- 1971** Launched sales of the KH150, the world's first fully hydraulic crawler crane that served as a model for crane modernization.
- 1973** Launched sales of the UH20, a hydraulic loading shovel equipped Auto-Leveling Crowd Mechanism, a proprietary Hitachi technology.
- 1975** Developed a tunneling machine with micro john shield suited to working in narrow shield spaces.
- 1979** Launched sales of the UH-5 series of hydraulic excavators with improved working performance and fuel efficiency.

- 1983** Launched sales of the UH-7 series of hydraulic excavators with smooth compound action and low fuel consumption.
- 1986** Launched sales of Landy EX series of hydraulic excavators incorporating electronic control.
- 1987** Released the EX3500, then the world's largest class of ultra-large hydraulic excavators.
- 1988** Launched sales of the LX Series of wheel loaders. Full-fledged entry into wheel loader market.

- 1991** Launched sales of the Landy KID EX Series of mini excavators. Full-fledged entry into mini excavator business.
- 1993** Launched sales of the HR420 self-propelled crusher and entered the environmentally conscious products market.
- 1994** Developed hydraulic excavator using wired remote operation system. Used for unmanned work to remove boulders from the Mizunashi River on Mt. Unzen.
- 1996** Launched sales of the EX200-5X EFCT Level Master hydraulic excavator that uses a control system to semi-automate front work.

- 2000** Launched sales of the ZAXIS series of hydraulic excavators, the first in the world to come equipped with satellite communication feature.
- 2004** Developed the EX8000 ultra-large hydraulic excavator, the largest made in Japan and among the largest in the world.
- 2005** Developed ASTACO, a double-arm working machine capable of complex operations.
- 2008** Released the EH3500AC-II, one of the largest AC-driven, rigid dump trucks manufactured in Japan.

- 2011** Launched sales of the ZH200-A hybrid hydraulic excavator with low fuel consumption and good practicality.
- 2013** Launched ConSite® service solutions utilizing ICT ConSite.
- 2016** Released the ZX200X-5B ICT hydraulic excavator, core of our information-oriented construction solutions.
- 2017** Begins providing Solution Linkage® Cloud, an ICT construction solution service.

1950 ~ 1969

- 1955** Established Hitachi Construction Machinery Service Co., Ltd. to reinforce service system.
- 1962** Established six companies in Japan as sales companies handling Hitachi-made construction machinery.
- 1965** Established (former) Hitachi Construction Machinery (Europe) N.V. in the Netherlands. Hitachi Construction Machinery marked its first expansion overseas.
- 1969** Spun off the construction machinery business division from the machinery business division of Hitachi, Ltd. as Hitachi Construction Machinery.

1970 ~ 1979

- 1970** Amalgamated (former) Hitachi Construction Machinery with Hitachi Construction Machinery Service Co., Ltd. to establish Hitachi Construction Machinery Co., Ltd., integrating manufacturing, sales and service businesses into a single company.
- 1972** Established Hitachi Construction Machinery (Europe) N.V. in the Netherlands. Hitachi Construction Machinery marked its first expansion overseas.
- 1974** Consolidated separate production bases at Tsuchiura Works in Ibaraki Prefecture to rationalize development and production.
- 1979** Established Yamagata Hitachi Construction Machinery Co., Ltd., which performs manufacturing and repair of construction machinery and parts. (now Hitachi Construction Machinery Camino Co., Ltd.)

1980 ~ 1989

- 1981** Opened a Technical Training Center in Kasumigaura-shi, Ibaraki Prefecture for developing technicians.
- 1981** Listed its shares on the Second Section of the Tokyo Stock Exchange.
- 1986** Established joint venture Fiat-Hitachi Excavators S.p.A. in Italy (terminated a joint venture relationship in 2001)
- 1987** Began local production overseas in response to globalization and diversification of markets.
- 1987** Established Hitachi Construction Machinery Trading Co., Ltd. as a trading company engaged in the import and export of equipment and attachments. (Merged with Hitachi Construction Machinery Japan Co., Ltd. in 2016)
- 1988** Established joint venture Deere-Hitachi Construction Machinery Corp. in the USA.
- 1989** Established Dejima Works in Kasumigaura-shi, Ibaraki Prefecture to produce swing and travel reduction gears for hydraulic excavators.
- 1989** Established Dejima Works in Kasumigaura-shi, Ibaraki Prefecture to produce swing and travel reduction gears for hydraulic excavators. (now Kasumigaura Works)
- 1989** Listed its shares on the First Section of the Tokyo Stock Exchange.

1990 ~ 1999

- 1990** Acquired management rights of agricultural machinery manufacturer Toyosha Co., Ltd. (now Hitachi Construction Machinery Tierra Co., Ltd.)
- 1991** Established PT. Hitachi Construction Machinery Indonesia.
- 1994** Established Canada-based Euclid-Hitachi Heavy Equipment, Inc. in Canada (Now Hitachi Construction Truck Manufacturing Ltd.)
- 1995** Established Hefei Hitachi Excavators Co., Ltd. in China (now Hitachi Construction Machinery (China) Co., Ltd.)
- 1995** Established Hitachi Construction Machinery Operators Training Center Co., Ltd. to support the development of human resources in the construction and civil engineering industries. (now PEO Construction Machinery Operators Training Center Co., Ltd.)
- 1996** Launched rental business in Japan to respond to the diversifying needs of customers.
- 1999** Established Hitachi Kenki Fine Tech Co., Ltd., which engages in the manufacturing and sale of precision instruments, ultrasonic imaging devices and other equipment. (Merged with Hitachi Construction Machinery Co., Ltd. in 2008)

2000 ~ 2009

- 2000** Established Elsys Co., Ltd., which is responsible for financial services. (now Hitachi Construction Machinery Leasing Co., Ltd.)
- 2000** Acquired an equity stake in Telco Construction Equipment Co., Ltd. (India) (now Tata Hitachi Construction Machinery Company Private Limited)
- 2007** Established Hitachinaka Works as a production site for mining machinery and components
- 2007** Opened the Kasumigaura Training Center.
- 2008** Consolidated the rental business in Japan and founded Hitachi Construction Machinery REC Co., Ltd.
- 2008** Established Hitachinaka-rinko Works as a production site for mining machinery.
- 2009** Made Canada-based Wenco International Mining Systems Ltd., which is involved with mine operation management systems, a consolidated subsidiary.

2010 ~ 2020

- 2011** Established Hitachi Construction Machinery Eurasia manufacturing LLC in Russia (now LLC Hitachi Construction Machinery Eurasia)
- 2012** Spun off construction machinery sales and service business in Japan and consolidated under Hitachi Construction Machinery REC Co., Ltd., and established Hitachi Construction Machinery Japan Co., Ltd.
- 2014** Opened Tsukuba Parts Center, and reorganized the global parts supply structure.
- 2016** Opened an ICT Demonstration Site adjacent to Hitachinaka Works.
- 2016** Made US-based H-E Parts International LLC a wholly owned subsidiary. It engages in provision of services and solutions related to mining and construction machinery as well as develops, fabricates and sells ancillary parts.
- 2017** Made Australia-based mining parts manufacturer and solution provider Bradken Pty. Ltd. a consolidated subsidiary.
- 2019** Established Synergy Hire Limited to engage in the rental business in the UK.

# Source of Value Creation

HCM has fostered strengths during the course of its 70-year history. These strengths are vital elements for meeting the expectations of stakeholders and the source of the Group's ability to sustainably create social, environmental, and economic value.

## One Hitachi

### Innovative technologies created from the Hitachi Group's collective strengths

The Hitachi Group centered around Hitachi, Ltd. has established a cooperative system for sharing technologies in areas where it excels within the Group. This system is referred to as "One Hitachi." HCM fully capitalizes on this approach and applies a broad range of cutting edge technologies to various products and services across industry lines.

#### Examples of technologies born from One Hitachi

- **Autonomous haulage system for mining dump trucks**  
System is controlled automatically based on commands from the mine operation management system.  
The railway operation management know-how of Hitachi, Ltd. forms the foundation of this system.
- **ConSite® Health Check**  
An application that diagnoses the condition of construction machinery using the proprietary ICT and AI technologies of Hitachi Group companies.



## Value Chain

### Providing optimal solutions throughout the entire life cycle of construction machinery

Amid changes in social issues and customer needs, the HCM Group is providing optimal solutions throughout the entire life cycle of construction machinery. As part of this initiative, we have positioned five businesses segments as the value chain business and we are taking steps to strengthen this business as an important aspect of our management strategy.

#### HCM's value chain business

- **Parts and service**... Provide parts and services that contribute to the stable operation of customers' machinery
- **Used machinery**... Sales of high quality certified used machinery with warranty
- **Rentals**... Supply the optimal machinery tailored to the customers' project size and duration
- **Parts remanufacturing**... Recover used parts and remanufacture them as parts with the same quality and performance as new ones
- **Finance**... Provide financial planning focused on construction machinery



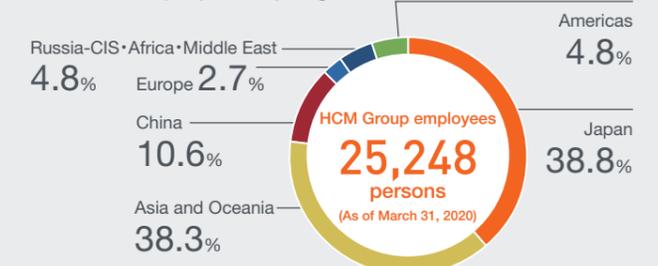
## Kenkijin



### Human resource capabilities for passing down HCM's corporate culture

At HCM, we employ Kenkijin, employees who follow the common values and behavioral standards known as Kenkijin Spirit. The Kenkijin Spirit and our respect for one another, compliance, and response to social needs such as CSR represent the driving force for achieving our medium- to long-term vision and mid-term management plan.

#### Number of employees by region



## Network



### Network supplying products and services to customers around the world

HCM has business know-how from its operations in more than 100 countries and regions around the world. We will create new values by sharing and using data from the operation and maintenance of customers construction machinery along with our knowledge built up over the years.

#### Consolidated companies of the Hitachi Construction Machinery Group

**80**  
companies\*

\* Includes two companies categorized as other.



# Changes in Organization and External Environment

The external environment surrounding many companies is experiencing major changes due to the progression of globalization and changes in social issues. Organizations, too, must build management and governance systems that can address these changes in a flexible manner. The HCM Group will work to correctly understand the changing times and reflect this knowledge in decision making regarding management strategy.

## Changes in society

Mega trends	Impacts on HCM	
	Risk	Opportunity
<b>Labor shortages caused by declining birthrate and aging society</b> →Construction workforce (Japan): set to decline about 44% by 2030 (compared to 2005) Source: "Situation of Skilled Construction Workers" published by the Ministry of Land, Infrastructure, Transport and Tourism	<ul style="list-style-type: none"> <li>Increasing difficulty of technology succession</li> <li>Loss of human resources and difficulty securing human resources</li> <li>Occurrence of occupational accidents</li> </ul>	<ul style="list-style-type: none"> <li>Increasing demand for automation and labor saving technologies</li> <li>Improvement of productivity using automation and labor saving technologies</li> </ul>
<b>Aging infrastructure in developed countries</b> →Bridges at least 2 meters long (Japan): around 63% will be considered old in 2033 Source: "Portal Site for Countermeasures Against Aging Social Capital" of the Ministry of Land, Infrastructure, Transport and Tourism	<ul style="list-style-type: none"> <li>Interruption of supply chain</li> <li>Market contraction from decline of regional economies</li> </ul>	<ul style="list-style-type: none"> <li>Rising demand for infrastructure maintenance and upgrades</li> </ul>
<b>Rapid urbanization in emerging countries</b> →Urban population as a percentage of total population (world): set to increase to 68% in 2050 Source: "World Urbanization Prospects - the 2018 Revision" published by the United Nations	<ul style="list-style-type: none"> <li>Soaring raw material and commodity prices</li> <li>Soaring personnel costs</li> </ul>	<ul style="list-style-type: none"> <li>Growing construction demand in Central Asia and Africa, etc.</li> </ul>
<b>Impacts of climate change</b> →Increase in average temperature (worldwide): up to 4.8-degree increase by 2100 Source: "Intergovernmental Panel on Climate Change (IPCC) 5th Assessment Report" published by the United Nations	<ul style="list-style-type: none"> <li>Stoppage of operations due to natural disasters</li> <li>Changes in industrial structure from transition to a low-carbon society</li> <li>Stricter environmental regulations in countries/regions</li> </ul>	<ul style="list-style-type: none"> <li>Rising demand for Environmentally-friendly products/services</li> <li>Attracting ESG investment</li> <li>Lower costs from efficient use of energy and resources</li> </ul>
<b>Advancements in AI/IoT technologies</b> →Construction site productivity (Japan): aim to increase 20% by fiscal 2025 Source: "Improving Construction Site Productivity with i-Construction" published by the Ministry of Land, Infrastructure, Transport and Tourism	<ul style="list-style-type: none"> <li>Competitors expanding business and entering new segments</li> </ul>	<ul style="list-style-type: none"> <li>Creation of innovation through partnerships with outside entities</li> </ul>
<b>Diversity of working styles</b> →Telework implementation rate (Japan): 34.6% as of June 2020 Source: "Opinion Survey on the General Public's Views and Behavior during the COVID-19 Pandemic" by the Cabinet Office	<ul style="list-style-type: none"> <li>Information leakages</li> <li>Dilution of internal communication</li> </ul>	<ul style="list-style-type: none"> <li>Securing of talented labor force through improvements to working environment</li> </ul>

## Changes in customer needs

Customer needs	Background
From ownership to rentals/sharing	Following the greater complexity, sophistication, and diversification of construction projects, a growing number of customers are looking to streamline operations by renting or sharing only the necessary types of construction machinery when needed rather than owning these machines outright.
Operating support and automation technologies	There is growing demand for machinery that can be operated safely by operators with little experience, given the declining working population in developed countries including Japan due to declining birthrates and aging populations.
Operation management of work sites	There is growing demand for optimization of machinery operation and streamlining of work, such as loading and transport, in order to increase productivity at construction and civil engineering work sites.
Improvement of maintenance quality	There is a need to reduce downtime in the event construction machinery breaks down, expand inventory of spare parts for repairs to construction machinery, and minimize the maintenance workforce.
Response to environmental conservation	There is rising demand for environmentally-friendly products from the growing seriousness of global environmental issues such as global warming. In addition, there is growing demand for construction machinery compliant with the standards set out in environmental laws and regulations in each country and region.

## Transformation of earnings structure

Given social trends and the changing needs of customers, we are now shifting from a business model focused on the sale of new construction machinery to one based on the value chain model targeting construction machinery in operation.



## Organizational restructuring

We are in the process of significantly restructuring our main development and production sites in Japan as a measure to maximize global competitiveness following our long-term plan.



# Materiality and SDGs (Sustainable Development Goals)

The HCM Group's vision calls for us to contribute to society by playing an important role in maximizing the creation of productive environment and prosperous cities, which stand as a symbol of comfortable living spaces.

To achieve this vision, we have given priority to identifying materiality (CSR key initiative themes) and incorporating these themes into our daily business activities.



In FY 2015, the HCM Group has identified eight key themes for its CSR initiatives to contribute to the realization of a sustainable society by taking economic, social, and environmental factors into consideration in efficiently allocating important management resources. In particular, the three themes with a high degree of social expectations and relevance to our business are positioned as CSV themes. We are now working to reinforce these initiatives further.

3 CSV Themes			
Themes with a high level of social expectations and correlation with our business operations			
Item	Relevant SDGs	Key issues	Scope of impact
<b>CSV theme 1</b> Resolving global environmental issues → P37		<ul style="list-style-type: none"> <li>Development of clean technologies and environmentally conscious technologies</li> <li>Address risks of climate change</li> <li>Reuse and recycling of products</li> <li>Reduce environmental impact for manufacturing processes</li> <li>Utilize renewable energy</li> </ul>	Whole value chain
<b>CSV theme 2</b> Enhancing initiatives to increase social infrastructure workforce → P41		<ul style="list-style-type: none"> <li>Develop products and solutions using ICT and IoT</li> <li>Enhance services globally</li> </ul>	Whole value chain
<b>CSV theme 3</b> Contributing to community development → P45		<ul style="list-style-type: none"> <li>Supply and support construction machinery</li> <li>Development support in local communities through cooperation with outside organizations</li> <li>Provision of technical/educational assistance and opportunities</li> </ul>	Whole value chain

5 Base Themes			
Themes that will become a platform for realizing CSV			
Item	Relevant SDGs	Key issues	Scope of impact
<b>Base theme 1</b> Pursuing safe, effective, and sophisticated products and working environments → P49		<ul style="list-style-type: none"> <li>Improvement of quality</li> <li>Provision of correct product/service information</li> </ul>	<ul style="list-style-type: none"> <li>HCM Group</li> <li>Customers</li> <li>Business partners</li> </ul>
<b>Base theme 2</b> Occupational safety and work style reform → P51		<ul style="list-style-type: none"> <li>Promote a safe and secure work environment</li> <li>Employee health advancement</li> <li>Realization of flexible working styles</li> </ul>	HCM Group
<b>Base theme 3</b> Developing human resources globally and locally → P53		<ul style="list-style-type: none"> <li>Development and hiring of local personnel</li> <li>Empower women in the workplace</li> </ul>	<ul style="list-style-type: none"> <li>HCM Group</li> <li>Local communities</li> </ul>
<b>Base theme 4</b> Creating better business transactions and value chains → P55		<ul style="list-style-type: none"> <li>Promote CSR throughout the entire value chain</li> <li>Respect for human rights in the supply chain</li> </ul>	Whole value chain
<b>Base theme 5</b> Governance → P57		<ul style="list-style-type: none"> <li>Risk management, including ESG</li> <li>Strengthening of global governance</li> </ul>	HCM Group

## Verification of validity

The identified key CSR initiative themes are discussed and reviewed regularly in terms of validity through dialogue with external stakeholders and the internal Sustainability Promotion Committee, which is comprised of executive officers and the president as members. Also, going forward we plan to conduct reviews based on changes in external environment.

# Value Creation Model

Under its slogan "Reliable solutions," the HCM Group is aiming to maximize economic value, social value, and environmental value by increasing management capital through the sustainable cycle of its value creation model, based on the social issues it should be addressing.

## The HCM Group's Business Activities

### Development marketing

We focus our energy on creating a global strategic development marketing system in order to provide the most appropriate products for the needs of specific countries and regions in a timely manner.

### Research

We harness the collective strengths of the Hitachi Group to research technology that is "kind to both human beings and the environment" and "technology that creates an even better environment" as a basis of our medium- to long-term growth.

### Development

We develop advanced and innovative construction machinery that offers improved reliability, controllability, and comfort, while meeting a broad range of customer needs.

### Production procurement

We are dedicated to standardizing and improving quality levels while aiming to achieve the concept of Made by Hitachi where all products are made with the same high quality regardless of which of our manufacturing facilities around the world they are made at.

### Logistics

We are raising logistics efficiencies by building a logistics system and global supply system powered by IT and our know-how in transporting ultra heavy objects.

### Finance

We offer various financing plans for our products to ensure that they can be employed by customers in a format that meets their needs.

### Rentals

We provide various types of construction machinery and equipment needed in the field, including standard machines, specially designed machines, recycling machines, mowers, and submersible pumps, among others.

### After-sales service

We support the preventive maintenance of construction machinery, which includes our ConSite® service solution using a wide array of operating data obtained from each individual machine.

### Parts sales

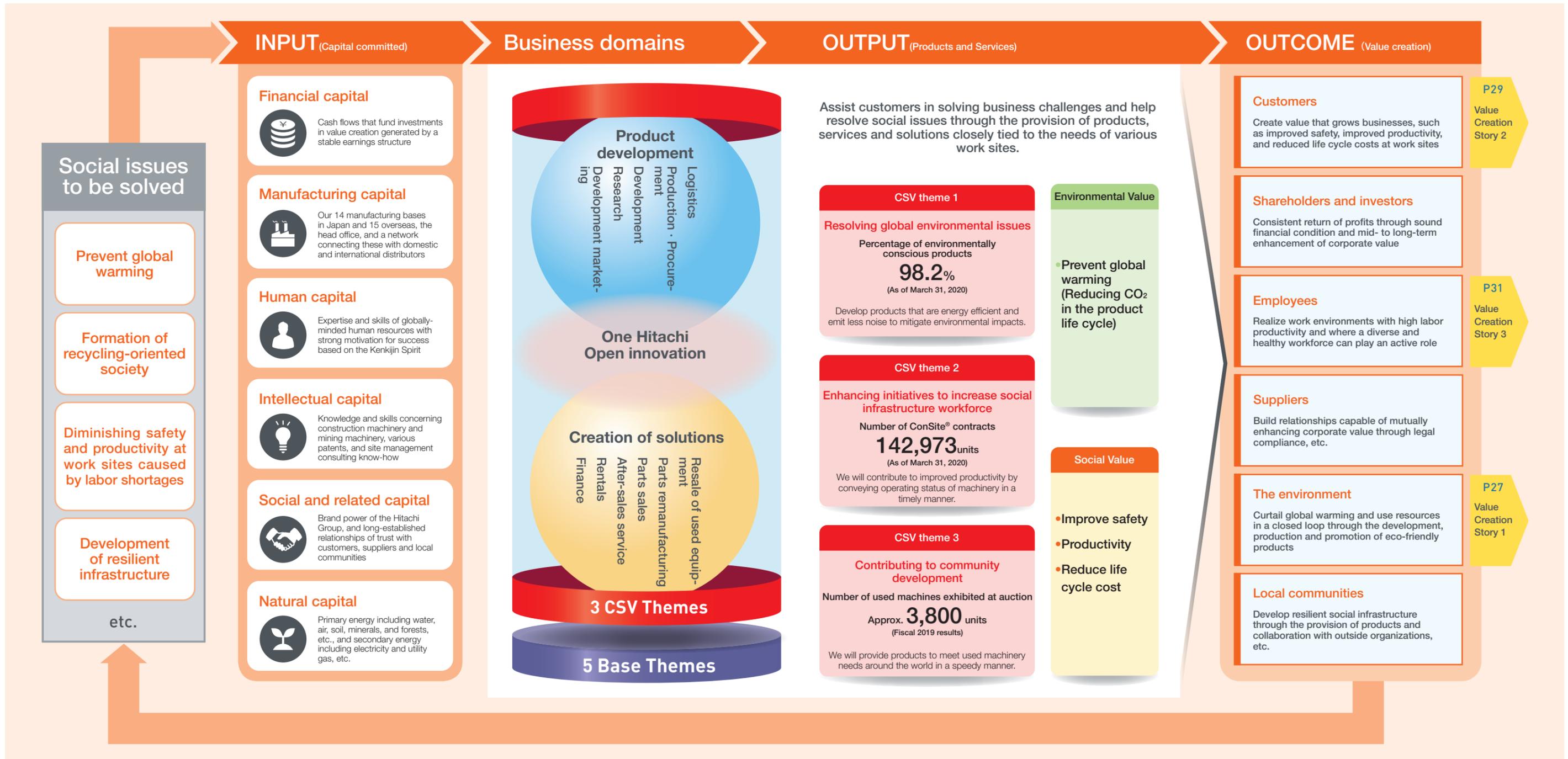
We guarantee the high performance and long service life of our products by supplying high quality parts. This reduces customer costs and helps conserve the environment.

### Parts remanufacturing

We collect replacement parts from repair work and restore them to like new condition at our remanufacturing plant. This supports the operation of construction machinery in even the most harshest work sites.

### Resale of used equipment

Resale of used equipment We propose the purchase or sale of construction machinery that matches customer needs using our worldwide network and support system.



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

Message from the President

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><b>2030 Social value</b></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="163 1423 391 1554"> <p><b>Improving safety</b> Contribute to zero fatalities due to falls or contact accidents</p> </td> <td data-bbox="400 1423 629 1554"> <p><b>Increasing productivity</b> Standardize automation and labor-saving construction machinery</p> </td> <td data-bbox="638 1423 854 1554"> <p><b>Reducing lifecycle costs</b> Aim for zero downtime</p> </td> </tr> </table>	<p><b>Improving safety</b> Contribute to zero fatalities due to falls or contact accidents</p>	<p><b>Increasing productivity</b> Standardize automation and labor-saving construction machinery</p>	<p><b>Reducing lifecycle costs</b> Aim for zero downtime</p>	<p><b>2030 Environmental value</b></p> <p>Provide low-carbon technology to the global infrastructure development</p> <p><b>Prevent global warming</b> Product lifecycle CO<sub>2</sub> reductions: Aim for Products -33%, Production -45%</p>
<p><b>Improving safety</b> Contribute to zero fatalities due to falls or contact accidents</p>	<p><b>Increasing productivity</b> Standardize automation and labor-saving construction machinery</p>	<p><b>Reducing lifecycle costs</b> Aim for zero downtime</p>		
<p><b>2022 Management Goals (Social value)</b></p> <table border="1"> <tr> <td data-bbox="163 1705 391 1835"> <p><b>Improving safety</b> Achieve contact prevention technology Commercialize human-machine cooperative control technology</p> </td> <td data-bbox="400 1705 629 1835"> <p><b>Increasing productivity</b> Promote ICT Machinery 2,800 units*</p> <p><small>* Applicable worksites: Over 5,000 worksites</small></p> </td> <td data-bbox="638 1705 854 1835"> <p><b>Reducing lifecycle costs</b> Operating status management system dissemination rate: 90% Applicable units: 200,000 units</p> </td> </tr> </table>	<p><b>Improving safety</b> Achieve contact prevention technology Commercialize human-machine cooperative control technology</p>	<p><b>Increasing productivity</b> Promote ICT Machinery 2,800 units*</p> <p><small>* Applicable worksites: Over 5,000 worksites</small></p>	<p><b>Reducing lifecycle costs</b> Operating status management system dissemination rate: 90% Applicable units: 200,000 units</p>	<p><b>Environmental value</b></p> <p><b>Prevent global warming</b> Reduce CO<sub>2</sub> emissions Products CO<sub>2</sub>: -20% Production CO<sub>2</sub>: -25% Applicable units: 500,000 units</p>
<p><b>Improving safety</b> Achieve contact prevention technology Commercialize human-machine cooperative control technology</p>	<p><b>Increasing productivity</b> Promote ICT Machinery 2,800 units*</p> <p><small>* Applicable worksites: Over 5,000 worksites</small></p>	<p><b>Reducing lifecycle costs</b> Operating status management system dissemination rate: 90% Applicable units: 200,000 units</p>		

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**





70th Anniversary  
Special Commemorative Round Table

# President × Kenkijin

Human resources are the key to value creation that is essential to the HCM Group's sustainable growth. How does each person think of the SDGs and implement them in their everyday work as they shoulder the responsibility of the society's development? A round table discussion was held with President Hirano.

**Q** : First, what is HCM's basic policy on SDGs?

**Hirano**: Our company has stated clearly it will contribute to the 10 SDGs that are deeply relevant to our business. Aside from contributing through the products and services we provide, there are also many things we can do in our day to day jobs. As such, I believe we must increase the level of awareness among our employees.

**Marcos**: I have made "always remember safety" a policy in my daily work. For example, one feels more relaxed as they get used to their work, but on the flip side they may not see dangers around them. However, if one has a sense of crisis that "accidents may occur," they can become aware of small changes and anything out of the ordinary. This not only prevents accidents but should also contribute to improving quality and customers' safety, and may even contribute to the SDGs.

**Asaga**: I share the same thoughts. I think it is important to extend the thought to society beyond the place of business for those who work around us. For example, as the company recommends telework, thinking about how to bring telework to construction sites may also contribute to the SDGs.



Toshiyuki Asaga

## Kotaro Hirano

(Representative Executive Officer, President and Executive Officer, CEO)

## Shiho Izumi

(Senior Engineer, IoT System Sec., Advanced Development Center, Research & Development Group)

## Marcos Medeiros

(MDAP Sec., Product Support Dept., Mining Sales and Service Div., Mining Group)

## Toshiyuki Asaga

(Assistant Manager, Support Sec., Remanufacturing Promotion Dept., Spare Parts Div., Life Cycle Support Group)

## Weiling Chen

(Manager, Human Resources Planning Sec., Global Human Resources Planning Dept., Human Resources Div., Human Capital Group)

Facilitator : Hiro Motoki (President, E-Square Inc.)



Shiho Izumi

**Izumi**: We must utilize ICT in order to implement work style reform on the frontline. However, I feel there are discrepancies among customers as far as the domestic environment goes. For example, the Ministry of Land, Infrastructure, Transport and Tourism has a program for i-Construction aimed at improving productivity of construction sites utilizing ICT. While there are some customers who proactively implement this program, there are also customers who don't know where to start. For this reason, while it is important to develop construction machinery with high functionality, I believe it is also an important role of ours to share information on how to get the most out of ICT.

**Hirano**: The adoption of ICT not only improves productivity on the job site but also opens up opportunities for women to be more involved, and enables work-life balance. Furthermore, it will also lead to more employment opportunities and enriching society as a whole. It is essential to depict stories on how to contribute to the SDGs and be ready and willing to develop new products and services.

**Q** : The HCM Group follows the principle of CSV (Creating Shared Value) in order to crystallize contributions to the SDGs. As it is important to grasp social issues in terms of CSV, for example, do you feel there are any changes concerning environmental issues?

**Chen**: Policies with strict restrictions particularly concerning environmental issues have emerged overseas, and we are finding models that aren't compatible with the new environmental regulations are being passed up. In China, for example, lately there are a growing number of projects demanding environmentally conscious conditions, such as shortened construction period in order to reduce environmental impact, whereas environmental issues were not typically part of the consideration for project bidding before.

**Asaga**: Currently, countries in Europe are starting to develop standards for remanufactured products. For example, remanufactured products had been considered as used goods up until now, and countries that do not allow import of used goods also didn't allow remanufactured goods. There is a movement to define remanufactured products as something separate from used ones in order to expand the import of remanufactured products with lower environmental impacts. Also,

whether or not a company has a line up of remanufactured products is becoming one of the indicators for assessing the company's sustainability.

**Marcos**: I also find lately there are a growing number of customers in Mozambique who prefer to only do business with "sustainable companies" that are undertaking initiatives for a sustainable society, including addressing, including climate change. Whether sustainability is being integrated into the entire value chain is becoming the basis for evaluating a corporate value. Also, customers are starting to pay close attention to whether their business partners are conducting proper instruction and training for their employees. This trend will likely grow going forward.



Marcos Medeiros

**Hirano**: Our company recognizes climate change as a very important issue and believes it is associated with risks as well as opportunities. Therefore, we are implementing measures across the entire value chain from the two aspects: mitigating CO<sub>2</sub> emissions and adapting to disasters caused by climate change.

\* Disaster prevention, reduction, and reconstruction, etc.

**Q** : It must be really important to train employees as a form of risk hedging. On the other hand, human resources training also forms the foundation of capitalizing on opportunities for value creation. In terms of the policies on this, what areas are you focused on?

**Chen**: While my job is to secure and train global human resources and create the training program, I find it very difficult to come up with a training program that will increase everyone's motivation, given we have a mix of nationalities, ethnicities, and cultures. Even though the SDGs may provide some hint to addressing this as a globally common language, to be honest, I am still working on it through trial and error. I believe human resources training should be implemented while making revisions according to changes in society.

**Asaga**: Before I joined the company, I had wanted to become an engineer who can provide technical support overseas, but now in my 10th year with the company I feel I am stepping up towards the ideal image at a faster speed than I anticipated. I was assigned to Zambia

for four years until last year, where I was able to work together with other overseas engineers. I believe our company has the system and environment to support employees seeking growth, as well as the field that enables further development by harnessing such experience.

**Izumi:** I feel being able to make products in a place near the customer has helped with my personal growth. The frontline where construction machinery is used each has their unique conditions. In other words, if there were 100 customers, they would be 100 different challenges to address. I think our job enables us to meet users nationwide in helping them as a “a close and reliable partner” while growing together.

**Hirano:** I believe the key in human resource cultivation is to address each individual working at the company. Without having employees fitting into one generic mold, it is important to create an environment and structure that enables employees to choose what matters to them from a number of choices in order to succeed, which I believe would also contribute to the SDGs.

**Q:** It is important to harness the power of individuals who can exert their potential in work into a collective strength of the Group. What do you think will be necessary in order to further promote diversity?

**Marcos:** There are many people seconded from overseas Group companies to HCM in Japan, for which I believe we are very much

ahead in diversity compared to other companies. I believe a new culture will form by respecting the work style and culture of those individuals and deepening the mutual understanding among one another. It will also expand partnerships with customers.



Weiling Chen

**Chen:** It is necessary to integrate the different gender perspectives and sensibilities in order to build a company adaptive to change. Our company hopes to see female employees taking the center stage in all departments from management to development and production. In addition, I hope to enhance the organization's performance by proactively taking in diverse human resources from overseas. Moreover, I feel it is essential to support the success of persons with disabilities and be responsive to LGBT.

**Izumi:** From the development standpoint, I think we have created a workplace that is easy for communication without gender barriers. However, due to the impact of the novel coronavirus, I believe we will transform into a new society that demands communication while maintaining social distancing. While some aspects may not go as well following the existing methods, since valuing the connection between each individual is a feature of the HCM Group, I hope this aspect can remain unchanged.

**Hirano:** Our Group has employees that share the criteria of Kenkijin Spirit, known as Kenkijin. Also we have a company culture that cultivates the individuality of each employee while we share a common aspiration. I believe that's the biggest strength. In today's world, we cannot talk about management without contributing to the SDGs. In such a time, every Kenkijin are the biggest asset that supports the continued growth of the company. I was convinced that we could continue to build a stronger HCM in 2030 and even further in 2050 by integrating individual perspectives and ideas into our business strategy. Thank you everyone for your participation today.

## Summary of Mid-term Management Plan (FY2017-2019)

The HCM Group announced 2020VISION as its vision for 10 years into the future from 2010. The mid-term management plan **CONNECT TOGETHER 2019**, which began in FY2017, has been positioned as the final step toward realizing this vision, with various initiatives implemented.



### Targets and progress of CONNECT TOGETHER 2019

Under CONNECT TOGETHER 2019, we made great strides toward providing products, services and solutions closely in tune with customer needs. As a result, in FY2018, the second year of the plan, we were able to beat nearly all of our targets.

In FY2019, the final year of the mid-term management plan, we continued working to reinforce the value chain businesses of

parts used equipment and rentals as cited as a focus theme, expanded the wheel loader and dump truck business, and stepped up development of solutions using ICT and IoT. Our goal was to establish a stable business foundation resilient in the face of a changing business climate, but we fell short of our targets.

	CONNECT TOGETHER 2019			
	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2019	Fiscal year ending March 31, 2019
Adjusted operating income ratio	9.8%	11.3%	8.2%	9% or more
ROE	14.1%	14.7%	8.6%	9% or more
Net D/E ratio	0.33	0.49	0.58	0.4 or less
Dividend payout policy	30.1%	31.0%	31.0%	30% approximately 30% or more

Assumptions for the fiscal year ending March 31, 2020

Foreign exchange rates	\$100 yen / €110 yen / Renminbi 15 yen	Global demand (outlook for hydraulic excavators determined by HCM)	170,000 units
Sales revenue	850 billion yen		* Guidance as of April 2017

## Message from the CTO

We will strategically promote technological innovations needed to reach our goals and provide construction machinery solutions in tune with the times.

### Hideshi Fukumoto

Vice President and Executive Officer, CTO  
President, Research & Development Group and  
Client Solutions Group



### The role HCM should play in future society and markets

HCM has grown over the past seven decades by continually manufacturing construction machinery, but the social environment surrounding the company has undergone major changes. From an era characterized predominantly by domestic demand generated by rapid economic growth driven by social infrastructure improvements to an era of global competition where HCM gambled its future with an overseas expansion, today we find ourselves in an era where we must combat serious social issues, including a declining labor population caused by a declining birthrate and aging society, frequent occurrences of serious disasters caused by climate change, and a move to review energy sources. Also, as symbolized by the SDGs, we must not only pursue our own growth, but also equally contribute to a sustainable society. Meanwhile, digital technologies that will provide solutions to these issues continue to advance at a rapid pace, resulting in the keywords such as 5G, AI, IoT and big data now a part of our daily vocabulary. In such a transformative time, our customers demand not only machinery with good performance, but also solutions that solve their issues and the speed in execution to provide these solutions.

Given these changes, HCM believes it is important to create three types of value (benefit). The value of things provided by good products, customer value that resolves the challenges customers face, and social value, where we tackle the challenges of resolving social issues. Specifically, we launched the ZAXIS brand of machines offering reliability, operability, and economic advantage (things) and the Solution Linkage<sup>®</sup>, brand of solutions where HCM works with customers to resolve their challenges. We are now working to strengthen both.

With Solution Linkage<sup>®</sup>, we aim to provide three types of customer value (benefit): improving safety, enhanced increasing productivity, and lower reducing life cycle costs. Therefore, we are working to build systems<sup>\*1</sup> that utilize data to visualize the frontlines and work and increase efficiency of management, build solutions<sup>\*2</sup> for automation and manpower reduction that pursues safety and efficiency simultaneously, and build systems<sup>\*3</sup> that predict and diagnose breakdowns to prevent them from happening. We are also actively promoting the electrification of hydraulic excavators and dump trucks, aimed at reducing CO<sub>2</sub> emissions, a particularly important aspect of social value.

\*1 Solution Linkage<sup>®</sup> Mobile, WENCOMine, etc.

\*2 Use of i-Construction an autonomous haulage system for mining dump trucks, etc.

\*3 ConSite<sup>®</sup>, etc.

### Points to consider in the technological innovation process

Construction machinery have dramatically evolved over the years. HCM aims for work sites that are safe and highly efficient for people and machines with a predominant focus on people. As a goal for this, we have established targets that can be achieved together with customers, such as contribute to zero fatalities related to machinery and cut in half CO<sub>2</sub> emissions from our products. Toward this end, we are working on the development of products, technologies and solutions. To achieve this goal, open innovation that seeks out technology broadly around the world is vital to complement our organic development efforts.

HCM has used synergies with the Hitachi Group as a foundation for open innovation. To further accelerate these efforts, we have established a dedicated organization. This organization is partnering with 66 companies for ICT solutions in response to i-Construction to develop solutions and provide support to customers. In addition, it is building close relationships with venture firms in Europe and the United States to effectively accelerate the development of collision mitigation systems, breakdown prediction and diagnosis systems, automation, and electrification systems.

Looking ahead, we will use the technologies needed for achieving our goals as a strategic roadmap for products and technologies and secure the human resources and other resources necessary. In addition, we will shift our conventional development process from processes focused on taking ample time to new processes that are shorter in duration while using customer frontlines to improve customer satisfaction. In this manner, we will boldly tackle a number of challenges.

### To our stakeholders

HCM marked the milestone of its 70th anniversary since its full-fledge production of construction machinery began. However, the path we have taken was not always smooth sailing; it represents an accumulation of efforts supported by our relationships with many business partners and customers. Therefore, we want to occupy a presence that support our customers.

We are in a time of great uncertainty about the future, and the trials awaiting companies are expected to become even more severe going forward. Given this, HCM aspires for growth together with customers by providing customers with construction machinery products and solutions in sync with the times as a close and reliable partner anywhere in the world.

## Message from the CFO

We will promote sounder cash flows and establish a resilient financial footing that is resilient even in a severe business climate.

### Keiichiro Shiojima

Executive Officer, CFO  
President, Financial Strategy Group



### Review of the financial standing in the previous mid-term management plan

Under the mid-term management plan CONNECT TOGETHER that ended in FY2019, we established management indicators for financial soundness that included ROE of 9% or higher and net D/E ratio of 0.4 times or lower, in addition to performance targets of sales revenue of 850 billion yen or higher, adjusted operating profit margin of 9% or higher. Under the plan, the entire company implemented this growth strategy. We were able to attain these targets ahead of time in FY2017 and FY2018, but in FY2019, the final fiscal year of the plan, we unfortunately fell short of all of these targets, excluding sales revenue, due to the impacts of weaker demand from U.S.-China trade frictions that began in the second half of FY2018, a stronger yen, and frequent occurrence of natural disasters.

In particular, during the fourth quarter of FY2019 the impacts of the COVID-19 pandemic emerged, causing a slowdown of demand in every market, resulting in increasing inventories, and the drop in operating capital was greater than expected, resulting in negative free cash flow. However, despite these severe headwinds, we were able to secure an adjusted operating income ratio of 8.2%. This shows that our efforts to expand and strengthen the value chain business paid off, which helped to support our earnings power. Strategically speaking, we review this as steady success.

### Outlook for FY2020 and financial strategy looking ahead

The impacts of COVID-19 are expected to be protracted and in the second half demand for construction machinery is not expected to recover to the level of previous years. Amidst this severe market environment, customers, too, are facing a number of business challenges. The HCM Group believes that speeding up and reinforcing the value chain business in the previous mid-term management plan and fully contribute to solutions to customer challenges will lead to stable profits. Of course, the entire company will work on reducing indirect expenses at the same time. Now is the time that new working styles considerate of restrictions on travel and meetings due to COVID-19 are needed. To increase productivity more efficiently, we will consider as needed reviews or postponement of new investment together with the review of work flows for the entire company. Meanwhile, we will continue without interruption investment in the reorganization of our plants in Japan, which we have worked on from the previous mid-term management plan. The goal is to quickly harvest the positive outcomes of investment by improving profitability by means of enhanced production efficiency and lowering of the sales cost ratio.

As our financial strategy, first we will quickly shrink inventory assets

and increase the accuracy of inventory management for sounder cash flows. In addition, we are addressing delays in receivables recovery expected at Group companies using a commitment line established at the start of the fiscal year. By continuing to improve capital efficiency and maintain the optimum balance of short- and long-term borrowings, we will aim to establish a resilient financial footing strongly resilient against contingencies should they occur. We will examine the diversification of financing methods for future investments, including issuing environmentally-considerate bonds, such as green bonds.

#### 1. Investment strategy for sustainable growth

Since the previous mid-term management plan, we have steered in the direction of reinforcing the value chain domain, while holding off on expanding product lines. This direction will be carried over in the new mid-term management plan, under which we will actively consider expanding the value chain business, executing complimentary M&A deals, and investing in network expansion. Regarding the consolidation of overseas plants, a rough schedule has been put into place, and we will focus on plant reorganization in Japan under the new mid-term management plan. We will carefully monitor and control the current investment plan for FY2020 based on market conditions.

#### 2. Improving capital efficiency and financial soundness

Our main policy is to generate ample cash flow by reducing operating capital and securing stable profits through the expansion of value chain earnings, while achieving a good balance between dividends as a shareholder return, improvement in financial footing, and growth investment.

#### 3. Policy on returning profits to shareholders

We have had a policy for some time to achieve a payout ratio of 30% or higher, and we will carry over this policy to FY2020 as well.

### To our stakeholders

On April 1, 2020, I became the HCM Group's Chief Financial Officer (CFO). My term soon began with the strong headwinds of COVID-19. Nevertheless, to fulfill the expectations of customers in terms of the Group's products and services, and to fulfill our social responsibilities, including addressing environmental issues, I plan to make steady efforts toward building a resilient economic base and financial footing that is not susceptible to changes in the economy and one that can agilely respond to changing situations.

In addition, I will increase opportunities for engagement with stakeholders to fulfill my accountability and ensure that feedback from stakeholder is utilized to improve management as needed.

Value creation story 1

# Bringing innovation to work sites around the world with new ideas Global launch of ConSite® OIL



In recent years, urban development is taking place in Asian countries following economic growth. In the field of civil engineering development where construction machines are particularly in use, downtime due to breakdowns is one of the issues that reduces productivity; therefore, the introduction of new technologies that ensure stable operations has been anticipated.

### Relevant SDGs



Technological advances are considered to be crucial in finding both economically and environmentally sustainable solutions, as they will lead to improved energy efficiency and creation of new employment opportunities.

## Construction machinery manufacturer addressing issues in construction and civil engineering sites around the world

Construction machinery is indispensable for infrastructure development, and resource and energy development that accompany social and economic growth. These markets are expanding all over the world. Especially in areas of rapid economic development, large hydraulic excavators are playing an active role in sites of infrastructure and mining site.

If these machines were to breakdown, a majority of on-site processes will be on hold during repair, which would lead to lost productivity. Since most machines operate in rural areas far from cities, performing breakdown maintenance which requires a service agent to travel to the site for repair after a failure occurs results in extended downtime. Up until now, time-based maintenance had been adopted at many sites in order to prevent sudden failure or performance degradation. This approach aims to conduct inspection of machinery and maintenance including oil changes at regular intervals.



Mining equipments frequently used at mining sites

## Oil status monitoring derived from the idea of condition-based maintenance

On the other hand, regular inspection according to time-based maintenance does not significantly reduce unexpected failures. In order to provide a higher value service to customers, we must reconsider approaches to maintenance outside of the conventional concept. This resulted in ConSite® OIL.

ConSite® OIL is a service developed as a new solution for ConSite®, which was made available since 2013, following the approach of condition-based maintenance. The condition of oil that had been hard to diagnose up until now is detected using a sensor, which automatically detects sudden changes in oil property and abnormality, which result in preventive maintenance, improved fuel cost and extended service life of machinery. In the past, we have proposed oil changes based on time, but going forward, we aim to provide services with oil change proposals made at appropriate timing by monitoring the condition of oil. Such service delivery will reduce the amount of time spent on inspections and wasted oil use.

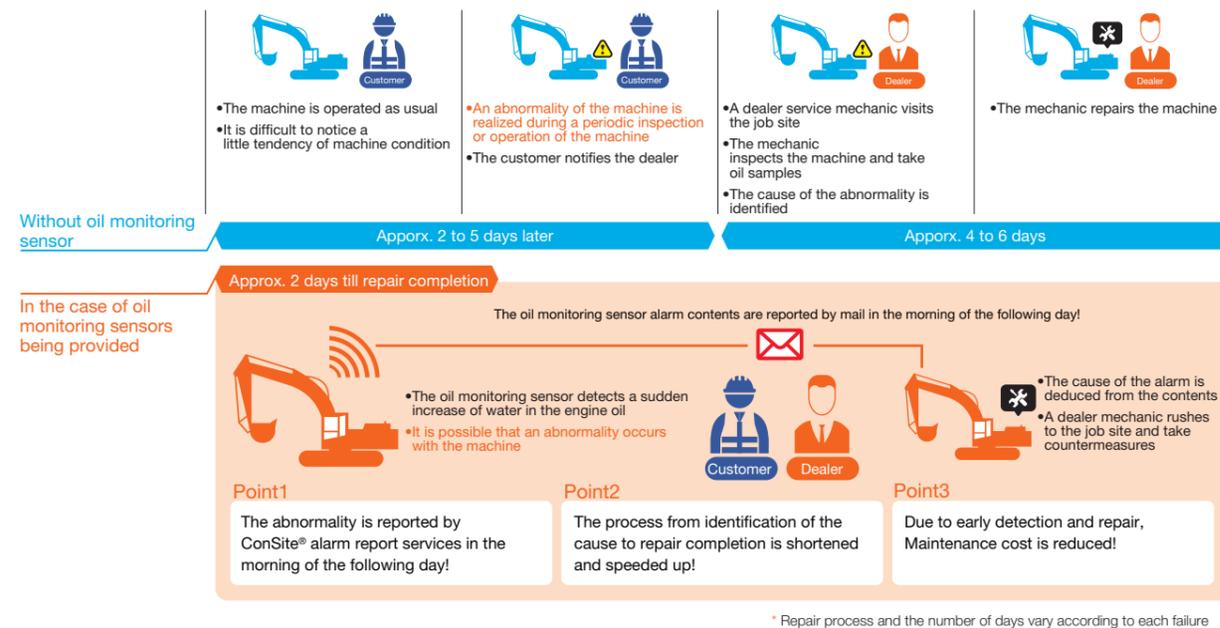
ConSite® OIL was launched in Europe, Japan, and Australia in October 2017, with good reviews from customers in these regions. Furthermore, as the extension of construction machinery's lifespan is linked to effective use of resources, it is also expected to contribute to the planet's environment.

ConSite® logo



### ConSite® OIL Case study

In case a lot of water suddenly gets mixed with the engine oil



## Expanding service provision of ConSite® OIL to the global market, including southeast Asia and China

As the center stage of economic growth and development has shifted from developed countries to other regions, there is need to help address customer issues in a wider area. To this end, the HCM Group began provision of ConSite® OIL in the Southeast Asia market, including Indonesia, Singapore, Malaysia, Thailand, Vietnam, the Philippines, Cambodia, and Laos, in September 2019, and launched it in the China market since October the same year.

At the convention of Mining Indonesia 2019 held in September, an actual model of ZX470LC-5G equipped with ConSite® OIL was on display to showcase its actual performance and specific merits. In Indonesia, the mining industry and infrastructure development are booming with an abundant labor force, where there is a strong demand for large hydraulic excavators. In addition, the concept of condition-based maintenance is highly regarded not only in Indonesia, but also in Thailand and Singapore, where it is implemented. Going forward, the HCM Group will actively incorporate AI, analysis and analytical technology in aiming to enhance machinery breakdown prediction with greater analytical precision.



ConSite® OIL equipped ZX470LC-5G large hydraulic excavator

## VOICE



Lokanath Abbigeri  
Assistant Manager, Planning & Development Sec.,  
ConSite Business IoT Dept.,  
Customer Support Div., Life Cycle Support Group

### Aiming to extend the service life of construction machinery

The spread of constant status monitoring technology such as ConSite® OIL and the concept of condition-based maintenance will ensure customers can access their construction machinery under stable and appropriate status. As a result, if the service life of construction machinery can be extended, then we can also recover core components that are still in good condition before their breakdown and expand our parts remanufacturing business. This is also considered an important initiative aimed at achieving the SDGs while effectively utilizing the planet's limited sources.

Going forward, we will continue to contribute to both reducing customers' life cycle costs, improving on-site productivity, and addressing global environmental issues through the realization of timely and appropriate maintenance.

Value creation story 2

# Contributing to problem solving in the construction and civil engineering industry through practical training on ICT construction

## Initiatives of PEO Construction Machinery Operators Training Center

The declining birth rate and aging population has largely impacted the construction and civil engineering industry. While worker shortages have become a norm, the construction workforce as a whole is projected to decrease by about 44% in Japan by 2030 according to the Ministry of Land, Infrastructure, Transport and Tourism. In addition, as the transfer of skills from experienced to younger operators is insufficient, there are concerns over the decline safety and productivity on the frontline.

### Relevant SDGs



It is important to cultivate on-site leaders through human resource education and skill transfer, in addressing the critical challenges faced by the construction and civil engineering industry.

### Launch of a new education institution for learning all work processes of ICT construction

In recent years, there has been little influx of new workers at construction and civil engineering sites. There is concern over experienced workers leaving the job without passing on their skills, which jeopardizes the continuation of safety and productivity at job sites. Given this background, the Ministry of Land, Infrastructure, Transport and Tourism has been promoting i-Construction since 2016 aimed at addressing the issues at sites that have adopted ICT construction. Using ICT in all processes of a construction ensures high productivity and safety despite a shortage of experienced engineers, and is expected to lead to work style reform.

However, there are a number of hurdles at customers newly adopting ICT construction. One of them is the cultivation of ICT human resources. In August 2019, the HCM Group established PEO Construction Machinery Operators Training Center in collaboration with comprehensive human resources service company, Outsourcing Inc. This is a new educational institution that provides training on all processes of ICT construction in addition to the existing construction machinery skills, certification training, and health and safety education.

### Logo of ICT Training Brand



Expresses the concept of a comprehensive learning institution (university) of i-Construction Technology

### Curriculum to address every issue in ICT construction implementation

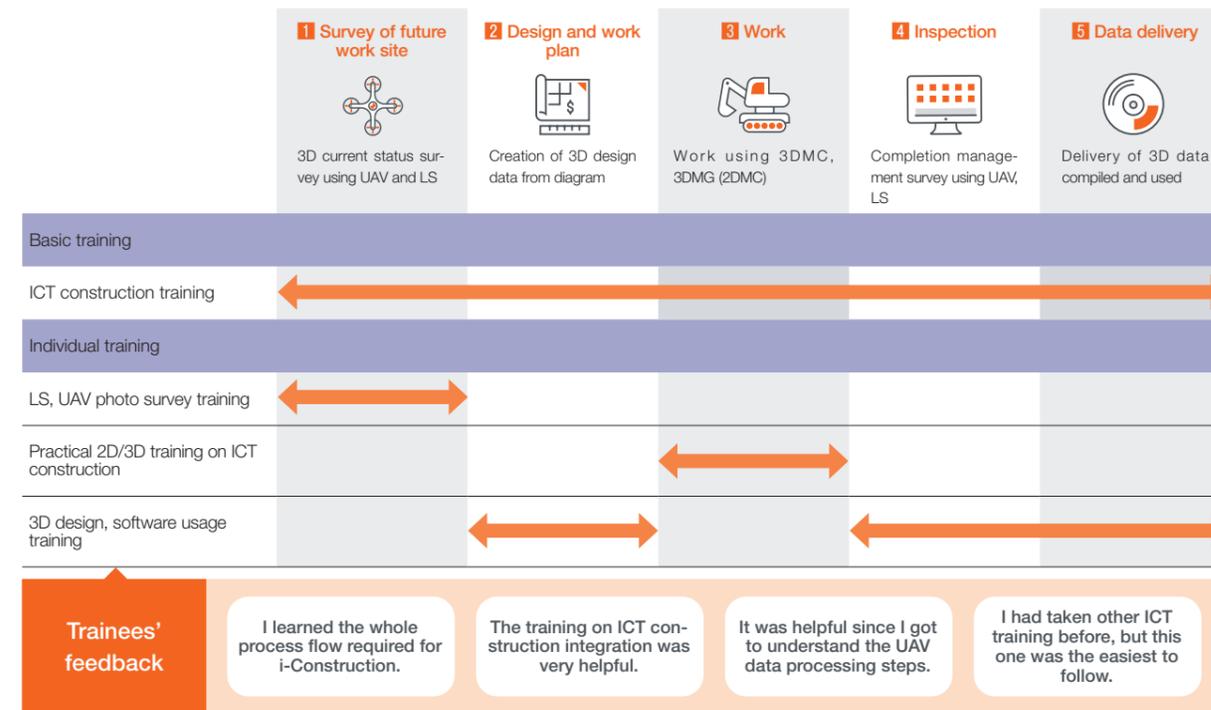
In ICT construction, operation of machines and application that did not exist conventionally is necessary through each process from work-site survey to data delivery. Moreover, the site requires a satellite positioning system, such as GNSS, and a telecommunication environment since construction is based on 3D data through surveys using drones (UAV) and laser scanner (LS). Therefore, without fully understanding the essence of ICT construction, it is difficult to fully utilize the system on site. However, up until now, customers actually had nowhere to learn hands-on techniques and processes of ICT construction.

To address this issue, we have formulated a comprehensive curriculum on the latest knowledge and practical skills with a partner business who possess leading technology in drone surveying and 3D design. The content captures a wide range of applications including local governments' public construction projects and small scale projects to tailor to the needs of customers who each have a different project size on site.



Our two domestic ICT demo sites (Ibaraki, Kagawa) showcase ICT construction and machinery that customers can experience first hand and address any questions and concerns.

### Curriculum on jobs using ICT



### ICT human resource training as the first step towards addressing social issues

The HCM Group has provided a variety of services to enable ICT utilization as a part of Solution Linkage while it expands the line up of ICT-compatible construction machinery. On the other hand, in order to overcome the crisis in the construction and civil engineering industry, new workers must be hired and cultivated. In the future, we anticipate ICT human resources who possess advanced knowledge and skills to be successful, which will enhance the productivity and safety of work sites and change the work hours and style in addressing multiple challenges faced by the construction and civil engineering industry at the same time. This will lead to a work site that is safe for women and seniors. The training for ICT human resources is undoubtedly the first step in addressing the major social issue of declining labor force.

PEO Construction Machinery Operators Training Center is working to promote ICT construction and planning to expand the ICT training facility in the future. In addition, we aim to expand our role as a base of human resources education for the future with intention to increase our scope of application to include building information modeling (BIM) that is becoming institutionalized overseas.



Lecturers certified by the Japan Construction Machinery and Construction Association (JCMA) provide thorough explanation on the basics

### VOICE



Shigenori Yamamoto  
President

PEO Construction Machinery Operators Training Center Co., Ltd.

### Cultivate next generation human resources and contribute to the future of the industry

The Center was established through collaboration between the HCM Training Center, which has been devoted to the thorough training on construction machinery and safety education over many years, and Outsourcing Inc., a global comprehensive human resources service company that supports manufacturing and IT technology, under the concept of "cultivating the next generation for construction with ICT."

Our mission is to reshape the construction and civil engineering industry through human resource cultivation and provide next generation appealing work to support the constant perpetuation and continued development of world-class Japanese technology.

Going forward, we will fully harness the synergies created through collaboration between HCM and Outsourcing Inc. in helping industry workers to gain status and boost motivation.

PEO Construction Machinery Operators Training Center Website  
<https://www.pctc.co.jp/> (Japanese Only)

Value creation story 3

# Introduction of the work posture automatic determination system utilizing AI

## What does a worker-friendly factory look like?

Not only in the field of construction and civil engineering, labor shortages due to a declining birth rate and aging population are also becoming a serious issue at manufacturing sites, with securing human resources being particularly difficult in rural areas. In order to ensure that high quality and productivity are maintained, it is crucial to develop work sites that are worker friendly, where everyone including seniors and women can also work safely and securely.

### Relevant SDGs



The development of a work environment that enables workers to feel safe, secure and a sense of reward is imperative to a sustainable prosperity where everyone can participate.

### Promoting the development of work site that is worker friendly by utilizing advanced technology

Since FY2018, the HCM Group has been restructuring its domestic development and production locations and implementing reform of manufacturing sites. Through use of ICT and advanced technology, we have incorporated "People Friendly Manufacturing" that saves labor and physical burden. One is the work posture automatic determination system, which utilizes AI image recognition, introduced at the Tsuchiura Works in January 2020.

At the construction machinery manufacturing site, workers have to bend their knees or squat to carry or unload items. If a worker has an unnatural posture due to an incident, it will damage the body. In order to create an environment that is safe for the workers and creates less load on the body, it is important to understand each person's work process and promote education that spreads the knowledge of correct work posture and equipment. To this end, HCM has undertaken research on studying the actions and posture of workers through video footage in order to come up with a system for obtaining tips on safety and work efficiency.

### AI identifies a worker's posture. Based on this, we find incidents\* which cause danger

In the beginning, we checked and analyzed the images we had taken with our own eyes. However, in order to accurately check the posture of many workers in the videos that contain many manufacturing equipment requires a tremendous amount of time. Therefore, we searched for a way to shorten the time by applying the AI technology of the Hitachi Group. The newly developed system involves searching people by AI to confirm posture, and marking the time and date of cases where the posture matched the ones previously learned in deep learning. After that, only footage before and after are checked manually by human eyes, thereby reducing the time spent on footage analysis. With its role defined, AI being used as a supplemental tool to humans has reduced the development time and cost, and made the technology ready for use in approximately one year.

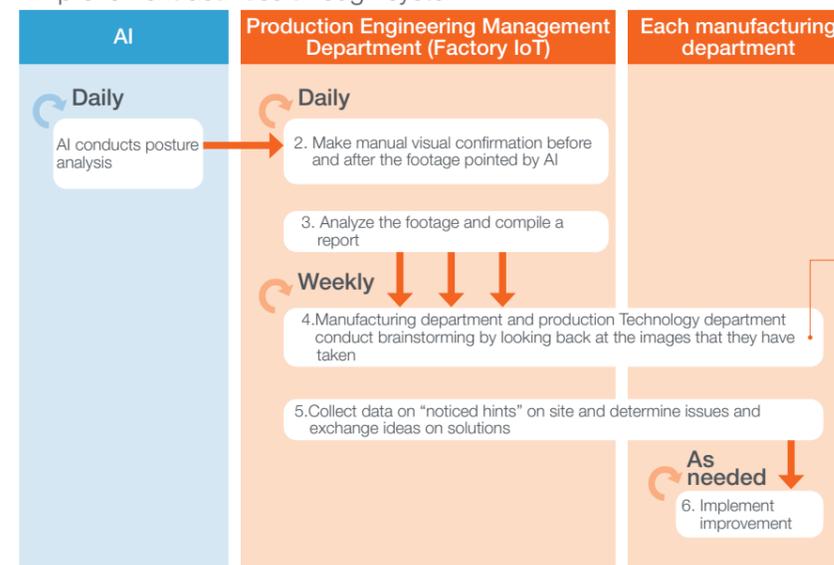
At Tsuchiura Works, the same system is used on the assembly line of medium sized hydraulic excavators for the assembly of boom cylinder, boom, arm, and bucket. AI checks for postures with large physical load, including forward bending and crouching and working at a high place, and extracts footages that require manual examination. This reduces the processing time to 1/8 of that required by manual scanning.

\* Incident: Events that can lead to accidents or trouble

### Examples of detecting high physical load postures by AI (Forward bending/crouching posture)



### Improvement activities through system



1. Check the content of the report and footages pointed out by AI
2. Repeat discussions to assess the source of trouble or incident
3. Check the video system data To obtain awareness of safety, improvement, and efficiency improvement by confirming the video which has been saved regularly

While the system is up and running, video analysis becomes easier and new hints are obtained. Then we use these to improve the production site

At Tsuchiura Works, the assembly line manager and production engineer in charge meet once a week based on the footages and report collected by this system. We made a hypothesis that any inconveniences happened ahead of the flagged image of a worker taking an unnatural posture. Gaining hints is helpful in improving the work process on site. In the future, the HCM Group plans to expand the number of postures recognized and functions such as a real-time alert feature, as well as improve accuracy, to increase its utilization among more manufacturing sites. In the group production base, we operate a "video reflection system" with two kinds of cameras as a video application system aimed at improving on-site safety and productivity.

This technology allows the visualization of the entire production floor using 360 ° camera and standard camera, while saved videos can be used to look up the time when a problem occurred and to pick up incidents. The development of worker-friendly job site is accelerated by applying the manufacturing site visualization system, which utilizes these videos, in the reform of production structure.



IoT Management Room at Tsuchiura Works  
An environment conducive to meeting and discussing among relevant parties

## VOICE



Makoto Hakuta (Left)  
Associate Senior Manager, Factory IoT Promotion Project,  
Production Engineering Div., Production & Procurement Group

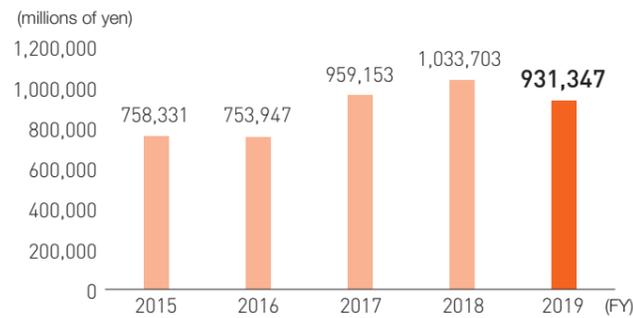
### Integrating "technology", "knowledge" and "use case" enables to apply AI and IoT

In order to integrate the latest technology, including AI and IoT, into the system, and yield actual results, it is essential to have compatibility in the match between the "knowledge" based on past successful experience and "use case" (specific scene of application site and scenario). Regardless of how convenient a technology may be, if it does not connect with the human experience accumulated over time, it will not yield its maximum result.

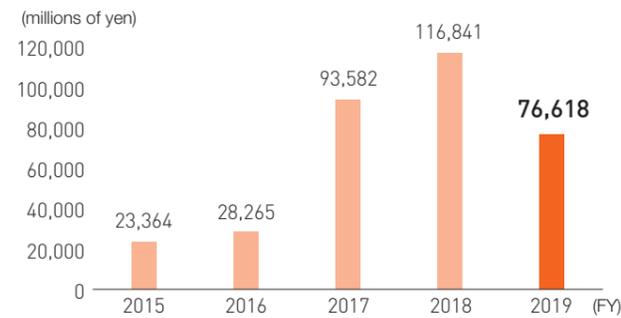
For this reason, when choosing a system to purchase, one should not be fixated on a specific industry type or field, and rather look up case examples of utilization in different industries and make a choice from a wider perspective. We will bring on tools that are convenient and easy to operate that improve the safety and efficiency of work processes of everyone involved in production.

# Financial and Non-financial Information Highlights

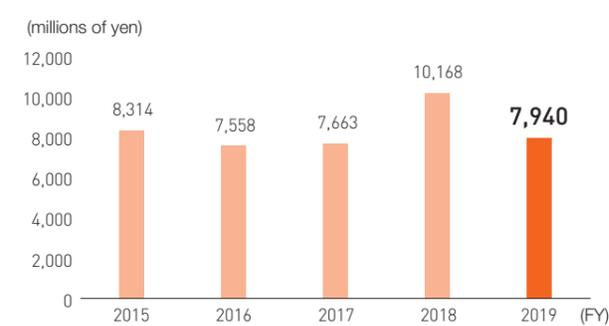
Sales revenue (consolidated basis) ↓ - 9.9%



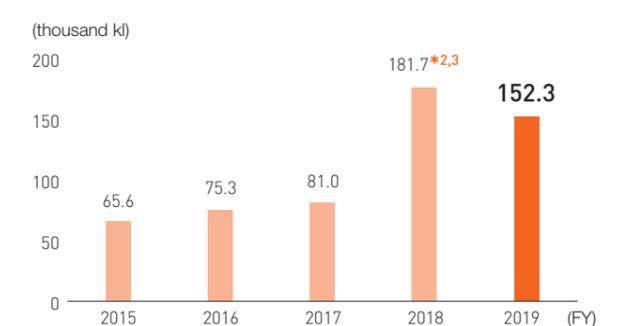
Adjusted operating income (consolidated basis) ↓ - 34.4%



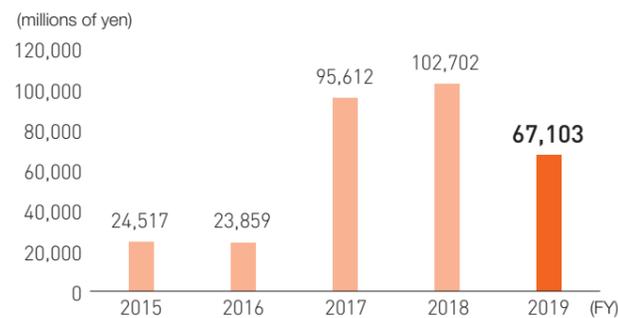
Environmental conservation costs\*1 ↓ - 21.9%



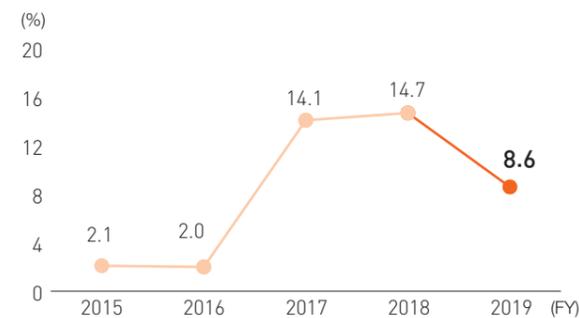
Energy consumption (Hitachi Construction Machinery Group) ↓ - 16.1%



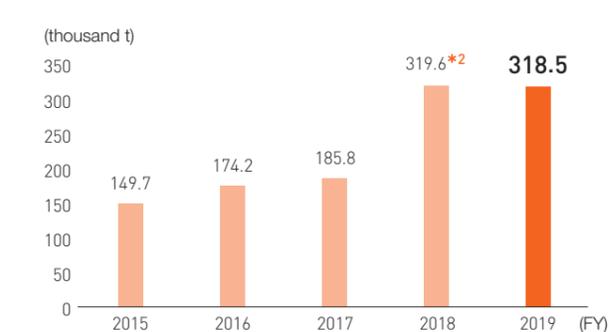
Income before income taxes (consolidated basis) ↓ - 34.7%



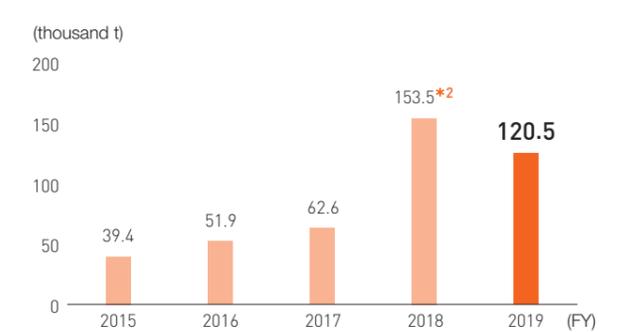
Net income on equity attributable to owners of the parent (consolidated basis) ↓ - 6.1%



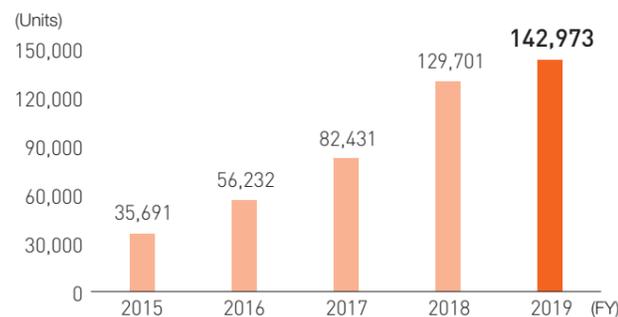
GHG emissions (Hitachi Construction Machinery Group) ↓ - 0.3%



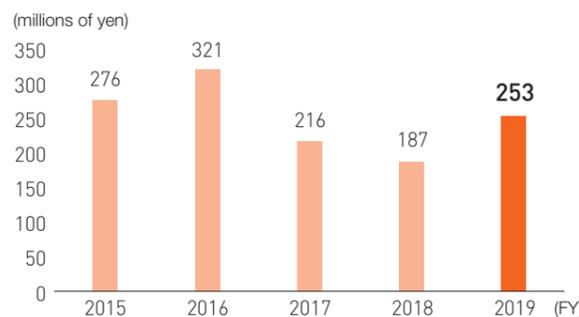
Total waste volume (Hitachi Construction Machinery Group) ↓ - 21.4%



ConSite® contracts ↑ + 10.2%



Social contribution related costs ↑ + 35.2%



Number of permanent employees (Hitachi Construction Machinery Group) ↑ + 2.6%



Ratio of managers that are female Hitachi Construction Machinery (non-consolidated) ↑ + 0.5%



\*1 All Domestic and Overseas Production Bases for Consolidation  
 \*2 Bradken has been included in the results since FY 2018.  
 \*3 Use of the 2010 edition of the International Energy Agency (IEA) CO2 energy conversion coefficient

## Message from Outside Directors

### Kazushige Okuhara

Outside Director



I believe that the growth of Hitachi Construction Machinery was made possible by our strong independence and commitment to strong growth as well as our collaboration with Hitachi, Ltd., which provides useful technical assistance in terms of IoT and other solutions.

Hitachi Construction Machinery has 80 consolidated Group companies located around the world. For someone who values the frontlines of our business, I believe that this form of governance is extremely important in the sense of ensuring our management results.

Under the assumption of the mid-term management plan that demand will experience sharp volatility, we are not only working on sales of new machinery, but also making efforts across the value chain to increase solutions and rentals. This is the right direction in terms of strengthening our earnings base. It has been shared based on in-depth discussions with each level of the company. Next is whether the company's structure is being reformed with an eye toward 2022, which marks the end of the new mid-term management plan. I plan to provide appropriate advice and recommendations as an outside director.

### Haruyuki Toyama

Outside Director



I was elected outside director in June 2015. Since then, more than five years have passed, during which time I experienced the bewildering changes of the business environment, including rapid fluctuations in demand in our main markets and the interruption of the supply chain caused by a large-scale natural disaster. As if these difficulties I faced previously were just a prologue, now the COVID-19 pandemic is affecting both supply and demand in unpredictable ways.

We are displaying Hitachi Construction Machinery's frontline strengths completely. If changes in the business environment are not transient in nature, management's ability to boldly transition to effective measures after swiftly determining a response to change will be tested. However, when thinking about the response, there is no change in my focus on the perspective of what can Hitachi Construction Machinery do to provide effective solutions to the individual business challenges of customers and social issues in a new normal, while incorporating new technology.

With my external perspective, I believe that I need to carefully identify the expectations placed in the company and project the necessary changes actively into management.

### Maoko Kikuchi

Outside Director (New appointment)



The COVID-19 pandemic has caused major impacts in all aspects of society, including people's lives, values, working styles, business structures, roles of local communities and nations, and even the international order. This requires fundamental reforms at a speed never seen before. Among them, the digital transformation of social and economic activities is now a matter of necessity. This movement is the same direction as existing environmental issues and the SDGs. Now is the time to transform risks to changes, and changes to opportunities. Today, the 70th anniversary of our full-scale production of construction machinery, making full use of IT and frontline strengths, Hitachi Construction Machinery is in a dynamic transition from "things to experiences" toward "No.1 customer issues solution provider", by expanding the value chain from new machinery sales to used cars, rentals, parts remanufacturing, services and solutions.

Looking ahead, though there is a possibility of an unexpected contingency, such as huge disaster all of us as one team will continue working toward our corporate vision of an Hitachi Construction Machinery that contributes to "passing on a productive environment and prosperous cities to future generations. Hitachi Construction Machinery Group helps to create comfortable living spaces". As an outside director, I promise to harness all of my experience to fully support Hitachi Construction Machinery's reforms, sustainable development, and expanded corporate value.

### Junko Hirakawa

Outside Director



Hitachi Construction Machinery manufactures construction machinery that cultivates land and prepares land in various formats across 30% of the planet. Furthermore, the company provides various services that ensure this construction machinery will benefit customers over a long period of time. As a result, Hitachi Construction Machinery is creating the earth's future. Kenkijin Spirit are action guidelines that are closely practiced by officers and employees alike. I sense that these guidelines demonstrate that the Hitachi Construction Machinery Group's officers and employees equally share self-confidence, technological prowess, and passion that will help create a brighter future for the earth with an eye towards the long-term.

As a member of the outside directors of Hitachi Construction Machinery, we regularly hold discussions, hearings and QA sessions with Hitachi Construction Machinery's Internal Audit Office, J-SOX Committee, accounting auditor, and each executive officer. These activities are highly conducive to the active participation in deliberations and reviews at the Board of Directors' meetings. I will keep contributing in any way I can to Hitachi Construction Machinery, a company whose officers and employees are committed to social contributions as part of a construction machinery manufacturer that contributes to society via its business locations in Japan and more than 100 other countries around the world.

## Medium- to long-term strategy

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

<b>CSV theme 1</b>	Resolving global environmental issues .....	P37	<b>Base theme 2</b>	Occupational safety and work style reform .....	P51
<b>CSV theme 2</b>	Enhancing initiatives to increase social infrastructure workforce .....	P41	<b>Base theme 3</b>	Developing human resources globally and locally.....	P53
<b>CSV theme 3</b>	Contributing to community development .....	P45	<b>Base theme 4</b>	Creating better business transactions and value chains .....	P55
<b>Base theme 1</b>	Pursuing safe, effective, and sophisticated products and working environments .....	P49	<b>Base theme 5</b>	Governance .....	P57

### ESG Index

ESG	Key Issues	Key Initiative	Reference Page
Environment	Philosophy concerning the environment	Resolving global environmental issues	P37 ~ 40
	Data relating to the environment	Financial and non-financial highlights	P33 ~ 34
	Climate change	Environmental impact reduction in manufacturing processes	P39
		Providing environmentally-conscious products and low-carbon machines	P40
Social	Customers and quality	Initiatives for disaster recovery and disaster prevention	P40
		Global launch of ConSite® OIL	P27 ~ 28
		Enhancing initiatives to increase social infrastructure workforce	P41 ~ 44
	Labor practices	Expansion of rental business globally and provision of high quality used machinery	P47
		Pursuing safe, effective, and sophisticated products and working environments	P49 ~ 50
		Introduction of the work posture automatic determination system utilizing AI	P31 ~ 32
		Occupational safety and work style reform	P51 ~ 52
	Human rights	Developing human resources globally and locally	P53 ~ 54
		Human rights initiatives	P60
		Contribute to local communities	Contributing to problem solving in the construction and civil engineering industry through practical training on ICT construction
Initiatives for disaster recovery and disaster prevention	P40		
Contributing to community development	P45 ~ 48		
Governance	Corporate governance	Governance	P57 ~ 60
	Information disclosure	Appropriate disclosure of product information	P50
		HCM's disclosure media	P66
	Compliance	Basic policy on compliance	P60
	Risk management	Basic structure of risk management	P60
	Supply chain management	Creating better business transactions and value chains	P55 ~ 56
	Approach to sustainability	The HCM Group's Philosophy	P5 ~ 6
		Materiality and SDGs	P13 ~ 14
Value Creation Model		P15 ~ 16	
	Message from the President	P17 ~ 20	
	70th Anniversary Special Commemorative Round Table	P21 ~ 23	

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	
Product	CO <sub>2</sub> saving by products	FY2010	33%	64%	<ul style="list-style-type: none"> <li>• Environmental impact reduction in manufacturing processes</li> <li>• Develop and deliver Eco-Products, low carbon construction machinery, dismantling, and recycling machinery</li> <li>• Utilize ICT and IoT</li> <li>• Applications for disaster recovery and disaster prevention</li> <li>• Eco-friendly mining operation solutions</li> <li>• Green infrastructure solutions</li> </ul>
	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

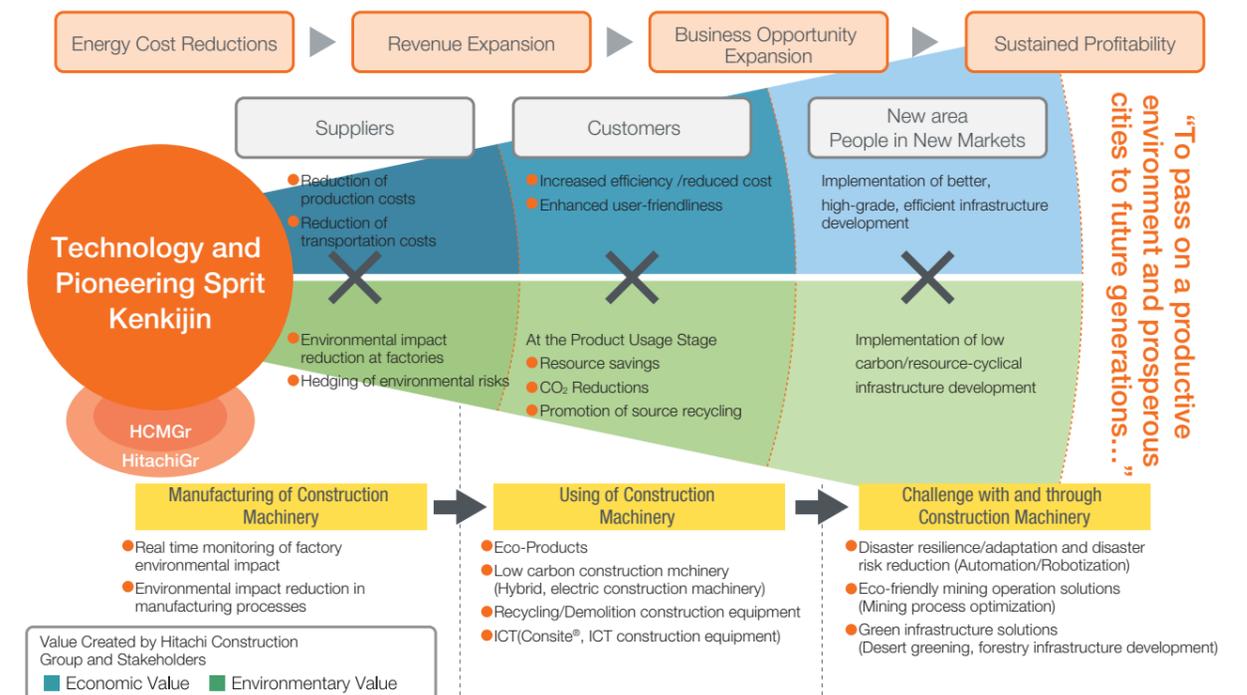
Under the new organization with Sustainability Promotion Group, in FY2019 we worked on reducing environmental impacts from manufacturing process and lowering CO<sub>2</sub> emissions during product usage, aimed at achieving our long-term targets set out in CSV2030. From FY2020, we will utilize our new 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 CO<sub>2</sub> 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 CO<sub>2</sub> 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 CO<sub>2</sub> emissions from products account for 85% of emissions during the product life cycle, controlling CO<sub>2</sub> 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 CO<sub>2</sub>, along with electric excavators and battery-powered excavators that aim to eliminate CO<sub>2</sub> 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 CO<sub>2</sub> 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



Double-Arm Working Concept Machine with Four-Crawler

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

### TOPICS

#### Developed a prototype battery-powered mini excavator

There are particularly high expectations for electric construction machinery, which do not emit CO<sub>2</sub> 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 CO<sub>2</sub> 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"> <li>Contribute to enhanced site productivity for customers using ICT and IoT</li> <li>Reduce life cycle costs and improve utilization rate of customer machinery</li> <li>Improve the safety of machinery and prevent occupational injuries on site</li> <li>Contribute to alleviating the shortage of skilled technicians through advancement of machinery and systems</li> </ul>	<ul style="list-style-type: none"> <li>Provide solutions to optimize mining processes and management</li> <li>Achieve stable machinery operations and the reduction of life cycle costs</li> <li>Popularize machinery and systems that increase work efficiency</li> <li>Develop and delivery labor-saving machinery that is unmanned/uses robotics</li> </ul>

## Progress of main activities in FY2019

Expansion of Solution Linkage® service	Expansion of ConSite® functions	Expansion of Aerial Angle® functions
<p>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.</p>	<p>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.</p>	<p>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.</p>

**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).

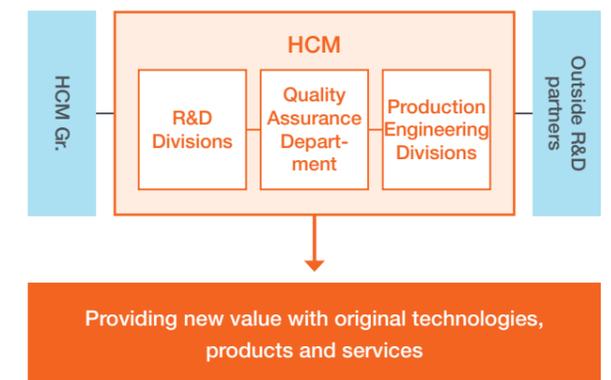
Since it launched the Client Solutions Group in 2016, the HCM Group has been supporting ICT construction (BIM) at various job sites following the development of construction site operations support services utilizing ICT. Currently, with a focus on expanding services of Solution Linkage®, an ICT construction 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"> <li>Support the self-reliance of emerging countries through infrastructure development</li> <li>Create jobs in the local community through the parts remanufacturing business</li> <li>Support environmental activities in the local community</li> </ul>	<ul style="list-style-type: none"> <li>Develop machinery and human resources that meet regional requirements</li> <li>Support the development of overall community infrastructure utilized Hitachi Group integrated capability</li> <li>Provide financing and machinery to support infrastructure development</li> </ul>

## Progress of main activities in FY2019

Expand rental business globally	Increase value of used machinery	Concluding collaboration agreements for disasters
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.	HCM has systemized the sale of certified used machines under warranty as PREMIUM USED and the sale of refurbished used machinery as REFURBISHED USED.	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.

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

## Progress of main activities in FY2019

<p><b>Enhance organizational structure for quality assurance</b></p> <p>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.</p>	<p><b>Establishment of the JCMG mark</b></p> <p>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.</p>	<p><b>Human resources development focused on achieving uniform global quality.</b></p> <p>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.</p>
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**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	Key Initiatives
<ul style="list-style-type: none"> <li>• Make efforts to completely eliminate occupational injuries</li> <li>• Increase the number of business sites with ISO 45001 (occupational health and safety management system) certification</li> <li>• Reduce the total overtime of employees (indirect workers) to a monthly average of 15 hours or less by FY2020 (HCM non-consolidated basis)</li> <li>• Increase the average number of annual paid leave days taken by all employees to 17 or more days by FY2020 (HCM non-consolidated basis)</li> </ul>	<ul style="list-style-type: none"> <li>• A fair work environment</li> <li>• Global management for health and safety of employees</li> </ul>



Progress of main activities in FY2019		
<p><b>Response to ISO 45001</b></p> <p>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.</p>	<p><b>Work process improvement using AI</b></p> <p>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.</p>	<p><b>Ensuring safety through the promotion of telework</b></p> <p>We have adopted work arrangements that prioritize safety following each country's guidelines in response to the spread of COVID-19.</p>

**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.

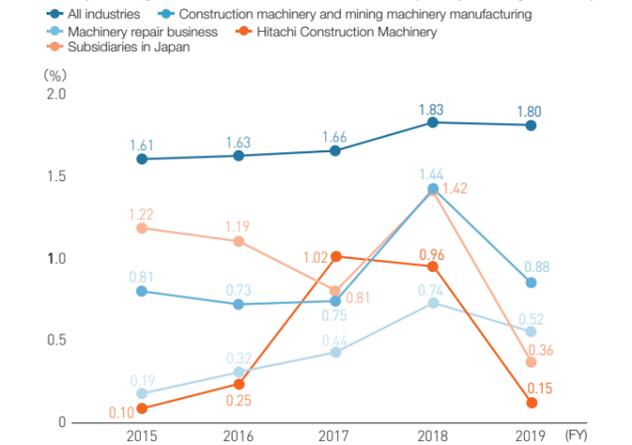
The Health and Safety Promotion Committee oversees health and safety activities across the entire Group, as well as shares information on work-related incidents and activity reports, and develops plans. Moreover, there are subcommittees under the same Committee, which are involved in fostering personnel 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)



### 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)



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

## Progress of main activities in FY2019

Technical succession for the next-generation	Empower women in the workplace	Promote diversity
<p>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.</p>	<p>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.</p>	<p>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.</p>

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

## 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 intentional 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 made 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/afilefile/2018/06/07/HITACHI\\_GROUP\\_CSR\\_PROCUREMENT\\_GUIDELINE.pdf](http://www.hitachi.com/procurement/csr/csr/_icsFiles/afilefile/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"> <li>Establish a fair and highly transparent organizational framework</li> <li>Respect international principles on human rights</li> <li>Respond to diversifying global risks</li> <li>Instill and establish awareness of compliance</li> </ul>	<ul style="list-style-type: none"> <li>Strengthen global governance</li> <li>Management transparency</li> <li>Fair tax strategies</li> <li>Risk management, including ESG</li> </ul>

## 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

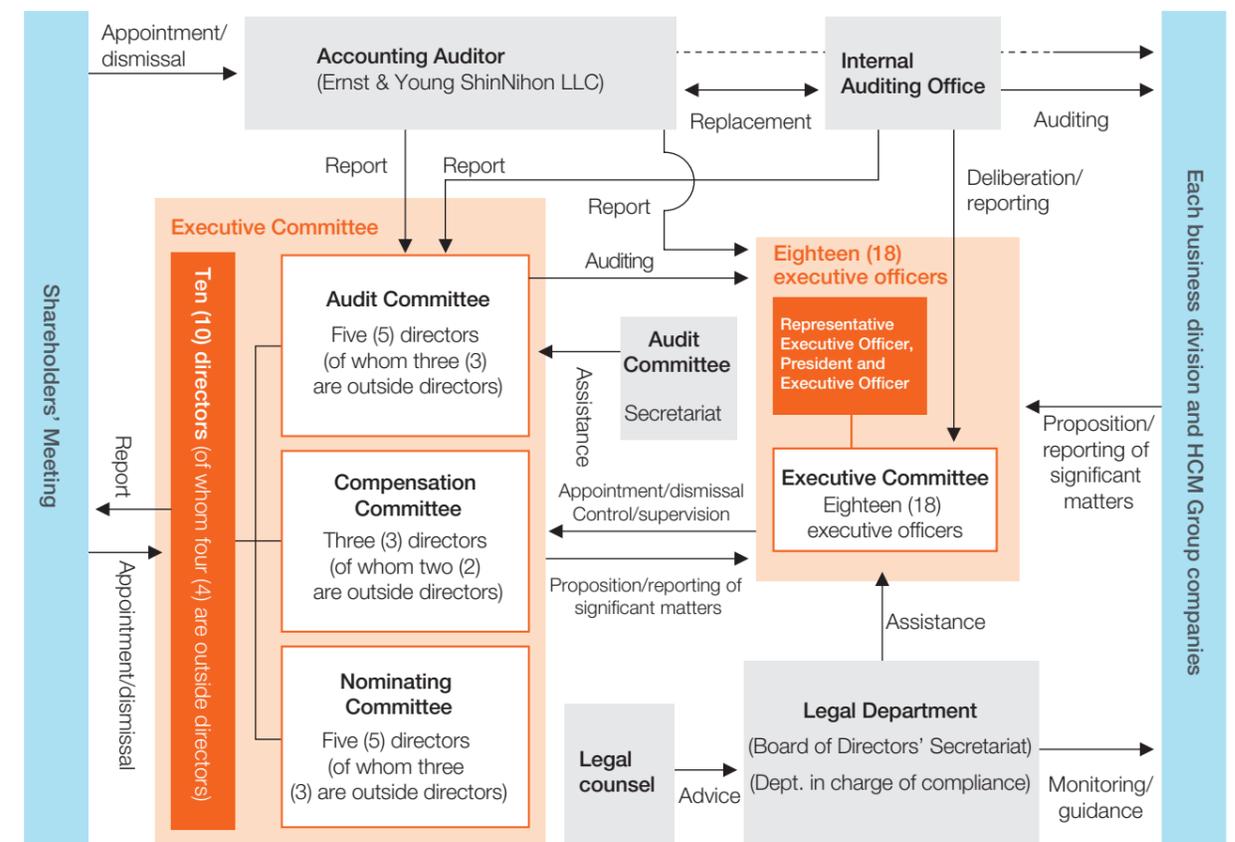
As a member of the Hitachi Group, the HCM Group shares Hitachi, Ltd.'s Basic Philosophy and Conduct guidelines and stipulates its own codes of conduct in line with them.

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)



### Executive Officers (as of July 20, 2020)

Representative Executive Officer, President and Executive Officer	Kotaro Hirano	Vice President and Executive Officer	Seishi Toyoshima	Executive Officer	Kazunori Nakamura
Representative Executive Officer, Executive Vice President and Executive Officer	Michifumi Tabuchi	Vice President and Executive Officer	Hideshi Fukumoto	Executive Officer	Masaaki Hirose
Executive Vice President and Executive Officer	Yasushi Ochiai	Executive Officer	Yusuke Kajita	Executive Officer	Hidehiko Matsui
Senior Vice President and Executive Officer	Sonosuke Ishii	Executive Officer	Moriaki Kadoya	Executive Officer	Satoshi Yamanobe
Senior Vice President and Executive Officer	Naoyoshi Yamada	Executive Officer	Keiichiro Shiojima	Executive Officer	David Harvey
Vice President and Executive Officer	Takaharu Ikeda	Executive Officer	Masafumi Senzaki	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.



[Corporate Governance Guidelines](https://www.hitachicm.com/global/environment-csr/csr-en/company-en/governance-en/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.

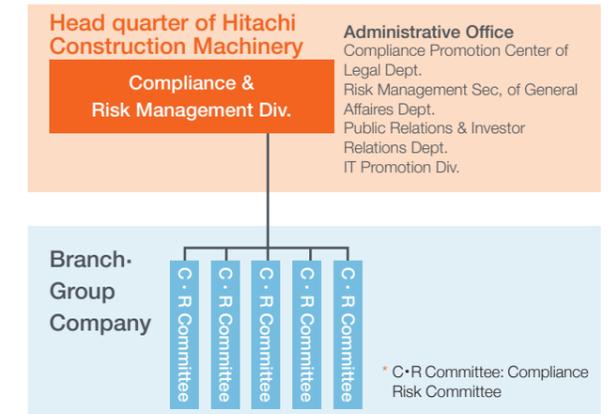
None of the details communicated or reports filed pose major risk to the HCM Group.

## 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 <sup>*1</sup>	158 persons	95 persons	63 persons
HCM Group companies <sup>*2</sup>	1,157 persons	101 persons	1,056 persons
<b>Total</b>	<b>1,315 persons</b>	<b>196 persons</b>	<b>1,119 persons</b>

\*1 The number of HCM participants are participants of rank-specific training

\*2 Group companies are the total for the 7 domestic companies



[Hitachi Construction Machinery Group Codes of Conduct](https://www.hitachicm.com/global/corporate/conduct/)

[https://www.hitachicm.com/global/corporate/conduct/](https://www.hitachicm.com/global/wp-content/uploads/2017/02/Hitachi-Construction-Machinery-Group-Human-Rights-Policy.pdf)

[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)

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

## Consolidated Balance Sheets

(unit: millions of yen)

Item	Previous fiscal year (reference) As of March 31, 2019	Current fiscal year As of March 31, 2020
<b>Assets</b>		
Current assets	673,888	612,779
Cash and cash equivalents	67,347	62,165
Trade receivables	236,164	207,843
Contract assets	2,070	4,701
Inventories	324,844	301,222
Income taxes receivable	1,167	3,671
Other financial assets	25,904	20,309
Other current assets	14,110	12,868
Subtotal	671,606	612,779
Assets held for sale	2,282	—
Non-current assets	511,368	554,788
Property, plant and equipment	311,245	315,465
Right-of-use-asset	—	57,853
Intangible assets	42,092	37,883
Goodwill	34,564	30,538
Investments accounted for using the equity method	32,628	33,177
Trade receivables	44,357	39,572
Deferred tax assets	19,145	15,094
Other financial assets	17,279	16,394
Other non-current assets	10,058	8,812
<b>Total assets</b>	<b>1,185,256</b>	<b>1,167,567</b>
<b>Liabilities</b>		
Current liabilities	470,623	371,366
Trade and other payables	251,067	173,872
Lease liabilities	—	12,996
Contract liabilities	8,503	6,593
Bonds and borrowings	185,641	160,447
Income tax payables	12,012	4,756
Other financial liabilities	10,165	10,019
Other current liabilities	3,235	2,683
Non-current liabilities	171,972	271,090
Trade and other payables	16,203	5,965
Lease liabilities	—	47,795
Contract liabilities	2,314	2,282
Bonds and borrowings	119,167	178,496
Retirement and severance benefits	17,958	17,084
Deferred tax liabilities	8,726	6,119
Other financial liabilities	1,158	3,255
Other non-current liabilities	6,446	10,094
<b>Total liabilities</b>	<b>642,595</b>	<b>642,456</b>
<b>Equity</b>		
Equity attributable to owners of the parent	486,407	473,537
Common stock	81,577	81,577
Capital surplus	81,991	80,475
Retained earnings	328,344	347,668
Accumulated other comprehensive income	△ 2,428	△ 33,101
Treasury stock, at cost	△ 3,077	△ 3,082
Non-controlling interests	56,254	51,574
<b>Total equity</b>	<b>542,661</b>	<b>525,111</b>
<b>Total liabilities and equity</b>	<b>1,185,256</b>	<b>1,167,567</b>

## Consolidated Statements of Income

(unit: millions of yen)

Item	Previous fiscal year (reference) From April 1, 2018 to March 31, 2019	Current fiscal year From April 1, 2019 to March 31, 2020
Revenue	1,033,703	931,347
Cost of sales	△ 735,507	△ 680,590
Gross profit	298,196	250,757
Selling, general and administrative expenses	△ 181,355	△ 174,139
Adjusted operating income	116,841	76,618
Other income	5,369	8,543
Other expenses	△ 19,914	△ 12,312
Operating income	102,296	72,849
Financial income	3,781	2,880
Financial expenses	△ 8,091	△ 11,308
Share of profits (losses) of investments accounted for using the equity method	4,716	2,682
Income before income taxes	102,702	67,103
Income taxes	△ 28,516	△ 22,335
<b>Net income</b>	<b>74,186</b>	<b>44,768</b>
<b>Net income attributable to</b>		
Owners of the parent	68,542	41,171
Non-controlling interests	5,644	3,597
<b>Total net income</b>	<b>74,186</b>	<b>44,768</b>
Net income attributable to owners of the Parent per share (basic) (yen)	322.31	193.61
Net income attributable to owners of the Parent per share (diluted) (yen)	322.31	193.61

## Consolidated Statements of Comprehensive Income

(unit: millions of yen)

Item	Previous fiscal year (reference) From April 1, 2018 to March 31, 2019	Current fiscal year From April 1, 2019 to March 31, 2020
Net income	74,186	44,768
Other comprehensive income		
<b>Items that cannot be reclassified into net income</b>		
Net gains and losses from financial assets measured at fairvalue through OCI	△ 1,743	△ 1,422
Remeasurements of defined benefit obligations	△ 1,077	△ 105
Other comprehensive income of equity method associates	7	8
<b>Items that can be reclassified into net income</b>		
Foreign currency translation adjustments	△ 8,988	△ 33,521
Cash flow hedges	64	15
Other comprehensive income of equity method associates	△ 502	△ 658
Other comprehensive income, net of taxes	△ 12,239	△ 35,683
<b>Comprehensive income</b>	<b>61,947</b>	<b>9,085</b>
Comprehensive income attributable to owners of the parent	57,445	9,874
Non-controlling interests	4,502	△ 789

## Consolidated Statements of Changes in Equity Current Fiscal Year

(From April 1, 2019 to March 31, 2020)

(unit: millions of yen)

	Retained earnings					
	Common stock	Capital surplus	Remeasurements of defined benefit obligations	Accumulated other comprehensive income		
				Remeasurements of defined benefit obligations	Net gains and losses from financial assets measured at fairvalue through OCI	Cash flow hedges
Balance at beginning of year	81,577	81,991	328,344	△ 2,330	7,118	213
Cumulative effects of changes in accounting policies			△ 1,447			
Restated balance	81,577	81,991	326,897	△ 2,330	7,118	213
Net income			41,171			
Other comprehensive income				△ 230	△ 1,415	15
Comprehensive income for the year	—	—	41,171	△ 230	△ 1,415	15
Acquisition of treasury stock						
Dividends to stockholders of the Company			△ 19,776			
Change in the scope of consolidation						
Transfer to retained earnings			△ 624	627	△ 3	
Change in liabilities for written put options over non-controlling interests		△ 1,516				
Transactions with owners	—	△ 1,516	△ 20,400	627	△ 3	—
Balance at end of year	81,577	80,475	347,668	△ 1,933	5,700	228

(unit: millions of yen)

	Equity attributable to owners of the Company					
	Accumulated other comprehensive income		Treasury stock, at cost	Total	Non-controlling interests	Total equity
	Foreign currency translation adjustments	Total				
Balance at beginning of year	△ 7,429	△ 2,428	△ 3,077	486,407	56,254	542,661
Cumulative effects of changes in accounting policies		—		△ 1,447	△ 39	△ 1,486
Restated balance	△ 7,429	△ 2,428	△ 3,077	484,960	56,215	541,175
Net income		—		41,171	3,597	44,768
Other comprehensive income	△ 29,667	△ 31,297		△ 31,297	△ 4,386	△ 35,683
Comprehensive income for the year	△ 29,667	△ 31,297	—	9,874	△ 789	9,085
Acquisition of treasury stock			△ 5	△ 5		△ 5
Dividends to stockholders of the Company				△ 19,776	△ 3,939	△ 23,715
Change in the scope of consolidation				—		—
Transfer to retained earnings		624		—		—
Change in liabilities for written put options over non-controlling interests		—		△ 1,516	87	△ 1,429
Transactions with owners	—	624	△ 5	△ 21,297	△ 3,852	△ 25,149
Balance at end of year	△ 37,096	△ 33,101	△ 3,082	473,537	51,574	525,111

## Consolidated Statements of Cash Flow

(unit: millions of yen)

Item	Previous fiscal year (reference) From April 1, 2018 to March 31, 2019	Current fiscal year From April 1, 2019 to March 31, 2020
Net income	74,186	44,768
Depreciation	32,343	41,443
Amortization of Intangible assets	4,611	4,704
Impairment losses	2,143	6,002
Gains on business restructuring	—	△ 3,105
Income tax expense	28,516	22,335
Share of profits of investments accounted for using the equity method	△ 4,716	△ 2,682
Gain (loss) on sales of property, plant and equipment	△ 458	△ 424
Financial income	△ 3,781	△ 2,880
Financial expenses	8,091	11,308
(Increase) decrease in trade receivables and contract assets	△ 19,101	646
(Increase) decrease in lease receivables	△ 7,115	9,213
(Increase) decrease in inventories	△ 76,497	107
Increase (decrease) in trade payables	△ 18,583	△ 32,769
Increase (decrease) in provisions and retirement benefit obligations	△ 587	133
Other	△ 11,995	△ 43,258
<b>Subtotal</b>	<b>7,057</b>	<b>55,541</b>
Interest received	2,525	2,086
Dividends received	1,800	3,382
Interest paid	△ 5,357	△ 6,923
Income tax paid	△ 31,718	△ 31,404
<b>Net cash provided by operating activities</b>	<b>△ 25,693</b>	<b>22,682</b>
Capital expenditures	△ 26,231	△ 32,044
Proceeds from sale of property, plant and equipment	5,251	2,951
Acquisition of intangible assets	△ 8,536	△ 7,311
Acquisition of investments in securities and other financial assets (including investments in associates)	△ 1,315	—
Sales of investments in securities and other financial assets (including investments in associates)	318	1,635
(Increase) decrease in short-term loan receivables, net	303	△ 1
Collection of long-term loan receivables	47	33
Other	△ 176	△ 12
<b>Net cash provided by (used in) investing activities</b>	<b>△ 30,339</b>	<b>△ 34,749</b>
Increase (decrease) in short-term borrowings, net	67,386	9,694
Proceeds from long-term borrowings and bonds	36,197	91,868
Payments on long-term borrowings and bonds	△ 28,766	△ 52,486
Payments on lease payables	△ 6,388	△ 12,770
Dividends paid to owners of the parent	△ 19,562	△ 19,764
Dividends paid to non-controlling interests	△ 4,933	△ 5,544
Other	△ 6	△ 5
<b>Net cash provided by (used in) financing activities</b>	<b>43,928</b>	<b>10,993</b>
Effect of exchange rate changes on cash and cash equivalents	△ 2,478	△ 4,108
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>△ 14,582</b>	<b>△ 5,182</b>
Cash and cash equivalents at beginning of year	81,929	67,347
Cash and cash equivalents at end of year	67,347	62,165

## Company Profile (As of March 31, 2020)

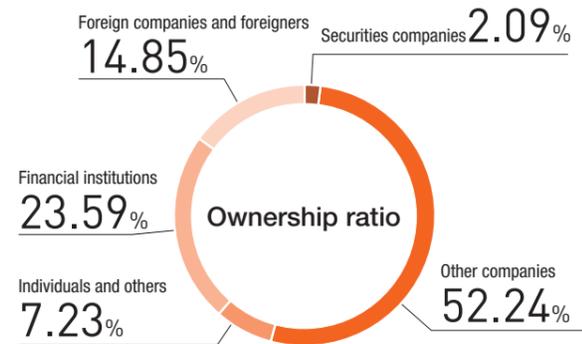
<b>Company Name</b>	Hitachi Construction Machinery Co., Ltd. (Hitachi Kenki Kabushiki Kaisha)
<b>Paid in Capital</b>	81,576 million yen
<b>Head Office</b>	16-1 Higashiueno 2-choume, Taito-ku, Tokyo, 110-0015, Japan
<b>Establishment</b>	October 1, 1970
<b>President</b>	Representative Executive Officer, President and Chief Executive Officer, CEO Kotaro Hirano
<b>Employees</b>	25,248 (Consolidated) 5,527 (Non-consolidated)
<b>Major Operations</b>	Manufacturing, sales, rental and service of construction machinery, transportation machin- ery, environmental related products and other machines and devices
<b>URL</b>	<a href="https://www.hitachicm.com/global/">https://www.hitachicm.com/global/</a>



## Investor Information (As of March 31, 2020)

<b>Stock Exchange of Listing</b>	First Section of the Tokyo Stock Exchange (#6305)*
* The cash equity market integration between Tokyo Stock Exchange (TSE) and Osaka Securities Exchange (OSE) was completed on July 16, 2013.	
<b>Accounting Auditor</b>	Ernst & Young ShinNihon LLC
<b>Stock Transfer Agent</b>	Tokyo Securities Transfer Agent Co., Ltd.
<b>Number of Shares Authorized</b>	700,000,000
<b>Number of Shares Issued</b>	215,115,038
<b>Number of Shareholders</b>	25,581
<b>Annual Meeting</b>	The annual meeting of shareholders is usually held before the end of June in Tokyo.

### Composition of HCM Shareholders



### Major Shareholders (Top 10 Largest Shareholders)

Shareholder	Number of shares held	Ownership ratio (%) (Third decimal place rounded off)
Hitachi, Ltd.	108,058	50.81
The Master Trust Bank of Japan, Ltd. (trust account)	25,807	12.14
Japan Trustee Services Bank, Ltd. (trust account)	10,795	5.08
State Street Bank and Trust Company (510312)	2,563	1.21
Trust & Custody Services Bank, Ltd. (securities investment trust account)	2,523	1.19
Japan Trustee Services Bank, Ltd. (trust account 9)	2,362	1.11
State Street Bank and Trust Company (510311)	2,215	1.04
Japan Trustee Services Bank, Ltd. (trust account 7)	2,152	1.01
GOLDMAN, SACKS & CO. REG	1,872	0.88
The Bank of NY Mellon International, Ltd. (131800)	1,858	0.87

\* Hitachi Construction Machinery holds 2,461,867 shares of treasury stock, but these have been excluded from the list of major shareholders above.  
\* Ownership ratio is calculated without the 2,461,867 shares of treasury stock.

## HCM's Disclosure Media



### CSR & Financial Report

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

This report comprehensively covers the HCM Group's management strategy as well as financial and non-financial (ESG) information.



Information for shareholders and investors (corporate website)

<https://www.hitachicm.com/global/investor-relations/>

HCM's corporate website publishes earnings information and IR news in a timely manner and features information for individual investors along with various IR documents.



### ESG Data Book

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

We report detailed ESG performance data for the HCM Group.



### Corporate Governance Report

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

This report provides information about the HCM Group's basic approach to corporate governance and capital structure, among other topics.



### Environment, CSR Information (Website)

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

HCM's corporate website features activities not appearing in this report along with more comprehensive performance data.



### TIERRA+ (magazine)

<https://www.hitachicm.com/global/corporate/publicity/magazine/>

This seasonal magazine is published to educate stakeholders about the HCM Group's activities both inside and outside Japan.

## External evaluation

SRI			
 <b>Dow Jones Sustainability Asia Pacific Index</b> We were selected for inclusion in the Asia Pacific Index of the Dow Jones Sustainability Indices (DJSI). (As of June 2020)	 <b>FTSE4Good Global Index Series</b> We were selected for inclusion in the Responsible Investment (RI) indices for global companies. (As of June, 2020)	 <b>FTSE Blossom Japan Index</b> We are recognized as a Japanese company engaging in excellent practices in terms of environment, social, and governance (ESG). (As of June, 2020)	
SRI		Investor Relations	Web
 <b>MSCI Japan ESG Select Leaders Index</b> We have been selected for inclusion in the MSCI Japan ESG Select Leaders Index as a company recognized for its ESG evaluation among companies in the MSCI Japan IMI Top 700 Index. (As of June, 2020)	 <b>SOMPO Sustainability Index</b> We were selected for inclusion in the active index created independently by SOMPO Asset Management that combines ESG evaluation and stock price evaluation. (As of June 2020)	 <b>IR Special Award at 2019 IR Award</b> We received IR Special Award at 2019 IR Award conducted by Japan Investor Relations Association. (November, 2019)	 <b>All Japanese Listed Companies' Website Ranking by Nikko Investor Relations Co., Ltd.</b> We received A Grade in overall ranking, based on the degree of fulfillment and functionality of listed company websites. (December 2019)

# **Hitachi Construction Machinery Co., Ltd.**

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**Contact for inquiries**

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