ESG Explanatory Meeting

December 15, 2020

Kotaro Hirano
Executive Officer, President & CEO

Atsushi Tamane
President, Sustainability Promotion Group

Hitachi Construction Machinery Co., Ltd.
Introduction: Main Points of Today's Presentation

1. The construction machinery industry is an essential business for supporting social infrastructure

2. Previous initiatives which are unique to HCM

3. Future initiatives aimed at solving social issues
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1. HCM Sustainability ~From the Past to the Future~

2. Governance and Human Resources Form the Basis of Everything


4. Summary
1. HCM Sustainability
~From the Past to the Future~
Seventy Years of Contributing to Building Fulfilling Land and Communities

National land development has been the objective of our business since its founding, and we have continuously contributed to post-war reconstruction and disaster recovery.

"To pass on a productive environment and prosperous cities to future generations..."

HCM Group helps to create comfortable living spaces.

Corporate philosophy

- We are active in the evolution of “machinery” and the synergy between “people” and “work” that combines to create rich living spaces, making them more comfortable, highly developed and efficient.

- We consistently develop and provide our customers with the technology, products and services that generate new value.

- While maintaining profitable operations, we act as a “corporate citizen having good judgment” by staying in harmony with the environment and participating in cultural activities, striving for a symbiotic coexistence with society.
Seventy Years of Contributing to Building Fulfilling Land and Communities

Japan: contributing to post-war reconstruction and national land development
Overseas: contributing to infrastructure improvement and economic development in developing countries

(Billions of yen)

- Overseas sales revenue
- Domestic sales revenue
- Ratio of overseas businesses

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Corporate Strategy

Core of Corporate Strategy

Strengthen value chain business

Provide enhanced solutions at every contact with customers

Form highly flexible corporate structure

Means to resolve customer issues

Social value
Environmental value
Economic value

Customers

Improving safety
Increasing productivity
Reducing lifecycle cost

Governance

Human Resources

Focus on main products*

*Main products: Hydraulic excavator, Wheel loader, Dump truck, etc
Other product group: Backhoe loader, Crawler crane, Bulldozer, Skid-steer loader

Means to resolve customer issues

Expand value chain

Digital/Value chain

Enhance solutions

New machinery
Parts and service
Rental
Used equipment
Parts remanufacturing
Finance

Improving safety
Increasing productivity
Reducing lifecycle cost

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Strengthening Organizational Frameworks

- Established the Sustainability Promotion Group in 2019 under the direct control of the President as a system to promote measures
- First disclosure of the ESG index and promotion involving each business division

**Executive Officer, President & CEO**

**Sustainability Promotion Committee**
- Chairman: Executive Officer, President & CEO
- Members: Executive officers and Presidents of main group companies

**Secretariat:**
- Sustainability Promotion Group

**Environment Promotion Managers Meeting**
- Domestic manufacturing
- Overseas manufacturing
- Domestic sales and services
- Overseas sales and services

**CSR Promotion Managers Meeting**
- Corporate divisions
- R&D divisions
- Production and procurement divisions
- Sales and service divisions
2. Governance and Human Resources Form the Basis of Everything
Governance Form the Basis of Everything

Core of Corporate Strategy
- Strengthen value chain business
- Provide enhanced solutions at every contact with customers
- Form highly flexible corporate structure

Customers
- Social value
- Environmental value
- Economic value
  - Improving safety
  - Increasing productivity
  - Reducing lifecycle cost

Means to resolve customer issues
- Digital/Value chain
- New machinery
- Parts and service
- Rental
- Used equipment
- Parts remanufacturing
- Finance

Expand value chain

Governance
- Human Resources

Focus on main products
- New machinery
- Parts and service
- Used equipment
- Parts remanufacturing
- Rental
- Used equipment
- Parts and service

Enhance solutions

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Basic Policies and System of Corporate Governance

- In order to enhance competitiveness as a company and enhance corporate value over the long term, it is important to accurately understand global trends and shifts in the management environment as well as establish a structure for decision making.
- The HCM Group is strengthening its governance system with the goal of establishing a structure for the prompt and reliable execution of management strategies as well as the realization of a fair and transparent management style.

Corporate governance system

As of July 20, 2020

- Each business division and HCM Group companies

- Audit Committee
  Six (6) Directors
  (of whom four (4) are Outside Directors)

- Compensation Committee
  Three (3) Directors
  (of whom two (2) are Outside Directors)

- Nominating Committee
  Five (5) Directors
  (of whom three (3) are Outside Directors)

- Eighteen (18) Executive Officers
  Representative Executive Officer
  President and Executive Officer

- Accounting Auditor (Ernst & Young ShinNihon LLC)

- Internal Auditing Office

- Executive Committee

- Shareholders Meeting
Changes in Corporate Governance

Initiatives to strengthen corporate governance

2003
Separation of management supervision and execution
Transitioned to becoming a company with a Nominating Committee

2006
Internal control system establishment
Introduced a compliance reporting system and opened a hotline

2009
Strengthening of compliance
Launched the Compliance and Risk Management Group

2011
Integrated Report
Created the CSR and Financial Report

2012
Strengthening of BCP measures
Launched the Great East Japan Earthquake Emergency Measures Team

2014
Creation of governance guidelines
Created corporate governance guidelines

2015
Strengthening of governance
Increased the number of Outside Directors (female)

2018
Acceleration of global management
Appointed a managing director of overseas locations (foreign nationals) as Executive Officers

2019
Strengthening of sustainability
Established a new Sustainability Promotion Committee

2020
Further strengthening of governance
Increased the number of Outside Directors (female)
Four out of ten are outside directors, of whom two are women
Executive Committee Diversity

- Four out of ten are outside directors (of whom two are women)
- Discussions are carried out from a wide variety of perspectives by directors with extensive experience and knowledge of management, legal affairs, and accounting at global companies.

<table>
<thead>
<tr>
<th>Name</th>
<th>Affiliated committees</th>
<th>Independent Director</th>
<th>Attributes</th>
<th>Reasons for election, expertise</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Nominating</td>
<td>Compensation</td>
<td>Auditing</td>
<td></td>
</tr>
<tr>
<td>Hideaki Takahashi</td>
<td>Chairperson</td>
<td></td>
<td></td>
<td>From Hitachi, Ltd.</td>
</tr>
</tbody>
</table>
| Kazushige Okuhara           |            | O           |          | From another operating company | • Executive of an international company  
|                             |            |            | O        | • Human resources and labor policy |
| Maoko Kikuchi               |            |            | O        | Attorney | • Extensive experience and knowledge in the legal field  
|                             |            |            |          | | • Experience in deep insight as an executive and auditor |
| Haruyuki Toyama             |            | O           |          | From another operating company | • Extensive experience and knowledge in finance and financial affairs |
| Junko Hirakawa              |            | O           |          | Attorney | • Extensive experience and knowledge as a legal expert |
| Tetsuo Katsurayama          |            |            | O        | HCM | • Financial affairs |
| Michifumi Tabuchi           |            |            |          | HCM | • Production technology |
| Seishi Toyoshima            |            |            |          | HCM | • Human resources |
| Kotaro Hirano               |            | O           |          | HCM | • Production management and corporate planning |
| Kuniaki Minami              |            |            |          | From Hitachi, Ltd. | • System development and project management |

Outside, female, and foreign national directors

**FY2022**
Outside directors: more than one third overall  
Female and foreign national directors: total of two or more

**FY2030**
Shift to a system suitable for strengthening the business and improving governance
Methods for Evaluating the Effectiveness of the Executive Committee

Since FY 2015, we have been evaluating the effectiveness of the executive committee and checking that the effectiveness is improving year by year through evaluations and by repeatedly examining and putting measures for improvement into practice.

Evaluation methods

Survey results are collected and analyzed by the Executive Committee Secretariat in two stages
(1) Survey of ten people: all Directors (February 19 to March 6, 2020)
(2) Interview of five people: Outside directors and personnel from Hitachi Ltd. (March 24, 26, and 31)
*Implemented based on the survey results

Survey items
1. Executive Committee composition
2. Executive Committee management condition
3. Composition and role of various committees (Nominating, Auditing, and Compensation)
4. Management condition of various committees (Nominating, Auditing, and Compensation)
5. Support system for Directors
6. Relationship with investors and shareholders
7. Topics (ESG and SDG initiatives)
8. Other freely entered statements
   ⋅ Formulation of management strategy, deliberation, and the decision-making process within the Executive Committee and the state of the strategy execution supervision process
   ⋅ Supervision of risk management and compliance within the Executive Committee
**Analysis and evaluation**

- During the previous fiscal year, many items continue to be evaluated as "functioning" and "generally functioning."
- Issues (1) through (5) below were also raised during the previous fiscal year.
- While each item has been improved, it was confirmed that further initiatives are required in order to further enable discussion within the Executive Committee.

**Evaluation methods**

<table>
<thead>
<tr>
<th>Evaluation methods</th>
<th>Future initiatives</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Executive Committee composition</td>
<td>Continue to verify the scale and composition of the Executive Committee</td>
</tr>
<tr>
<td>2. Executive Committee discussion methods</td>
<td>Provide information and ensure time for deliberation to engage in a more constructive discussion and exchange of views within the Executive Committee</td>
</tr>
<tr>
<td>3. Discussions about the medium to long-term business strategy and corporate value enhancement in the Executive Committee or at other opportunities</td>
<td>Formulate a medium to long-term business strategy to enhance corporate value and improve the discussion concerning progress management</td>
</tr>
<tr>
<td>4. Discussions regarding the successor plan and ensuring further opportunities to evaluate successor candidates</td>
<td>Ensure further opportunities to evaluate successor candidates based on the succession plan</td>
</tr>
<tr>
<td>5. Activities and operation of the Audit Committee</td>
<td>Reevaluate the activities and operation of the Audit Committee to strengthen global governance</td>
</tr>
</tbody>
</table>
Understand and analyze the business environment during ordinary times to carry out risk management by balancing the risks that the company should prepare for with further growth opportunities and apply that to the management strategy.

Risk management for strengthening the business and business continuity.
The goal of this policy is to standardize and improve the level of quality across the entire Group to achieve a globally uniform "Made by Hitachi" quality.

- In 2019, the Corporate Quality Assurance Group was changed to an organization under the direct control of the president
- Digitization initiatives
  - Prevent the shipping of machinery which does not comply with legal regulations by linking quality data using IT tools
    - Link the data (commercial test failure information, legal certification expiration information, qualification authentication QR codes that identify an individual, etc.) and track automatically sent alerts when a defect occurs
  - Eliminate the risk of poor quality through the automatic evaluation of commercial tests (vehicle bodies and components)
Risk Management and BCP During and After COVID-19

Establish an organization to handle risks concerning legal compliance, natural disasters, and accidents
Strengthen the risk management system across the entire Group

Handled by the Compliance and Risk Management Group
Date established
2002 Compliance Group
2008 Compliance and Risk Management Group

Natural disasters in recent years
- Great East Japan Earthquake (2011)
- COVID-19 (2020)
- Typhoon Hagibis (2019)
- Great East Japan Earthquake (2011)

Business Continuity Plan (BCP)

Response to COVID-19
- Top management released the policies to respond to the COVID-19 crisis during the financial statement announcement at the end of May
- Appropriate information concerning emergency measures aimed at strengthening profitability and promotion of inventory optimization to immediately respond to market trends will be disclosed on a timely basis

Received the Japan Investor Relations Association 2020 "Most Liked!" IR Award
In addition to the disclosure of the appropriate information by top management on a timely basis, the group was favorably evaluated for establishing a "special COVID-19 site" to rapidly respond to stakeholder concerns and the uniquely empathetic approach of the disclosed documents based on researching other companies
Human Resources Form the Basis of Everything

Core of Corporate Strategy

- Strengthen value chain business
- Provide enhanced solutions at every contact with customers
- Form highly flexible corporate structure

Governance

Human Resources

Focus on main products*

Means to resolve customer issues

- Social value
- Environmental value
- Economic value

Customers

- Customers

Digital/Value chain

- Improving safety
- Increasing productivity
- Reducing lifecycle cost

Expand value chain

- New machinery
- Parts and service
- Rental
- Used equipment
- Parts remanufacturing
- Finance

Enhance solutions

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This has been embraced as the most important topic for management, and we are promoting the expansion of education opportunities and the improvement of education programs. The employees of the HCM Group aim to be a "close and reliable partner anywhere on the earth with best solutions through Kenkijin Spirit." To realize that goal, we nurture human resources that create new forms of value and contribute to business creation and transformation through a culture of "learning" and "development."

### Basic education system

<table>
<thead>
<tr>
<th>Position</th>
<th>Training Focus</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Manager and above</td>
<td>Management fundamentals training</td>
</tr>
<tr>
<td>Manager</td>
<td>Business fundamentals training</td>
</tr>
<tr>
<td>Assistant Manager</td>
<td>Job based education</td>
</tr>
<tr>
<td>New hire</td>
<td>Group training, post-assignment training</td>
</tr>
</tbody>
</table>

#### Training focus aimed at achieving the medium-term business plan

**Personal transformation**

- Students learn the mindset and skill set for cultivating the organizational culture required in an era of transformation
- Cumulative number of students: more than 1,000 people (from the start in 2019 until November 2020)
- Participants: assistant managers and above, also including executives
### SELECTION AND DEVELOPMENT OF EXECUTIVE CANDIDATES

Early-stage development of "change and transformation leaders" who can respond to changes in the business environment and create new forms of value.

#### 1. Select global leaders
- Choose human resources with a high degree of strategic insight.

#### 2. Appoint to higher positions and accumulate the experience required as an executive
- Broaden their horizons and develop the ability to lead transformation that raises the perspective [experience and study].

#### 3. Practice business management and produce results as management leaders
- Ability to enact change and transformation [strengthen].

#### (1) Succession plan
1. Early selection and systematic development of a successor
2. Systematic rotation to fulfill the necessary requirements

#### (2) Specialized training for potential global leaders

---

#### Percentage of global human resources who have taken the leadership training

<table>
<thead>
<tr>
<th></th>
<th>FY2022</th>
<th>FY2030</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

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## Promoting Diversity

### BASIC POLICIES ON DIVERSITY

In order to survive as a truly global company, we need business development based on new strategies and novel ideas. We recognize the values and individuality of each and every person who supports the business regardless of ethnicity, nationality, gender, or age and will continue to respect diversity.

<table>
<thead>
<tr>
<th>BASIC POLICIES ON DIVERSITY</th>
</tr>
</thead>
</table>

### (1) Supporting the employment of female employees

1. Construct a foundation for the active participation of women
   (Executive commitment announcements, cultivate the workplace culture through holding exchanges, etc.)
2. Career development support
   (Active appointment of women to managerial positions, ensure women in technical positions, and awareness-raising for women)
3. Support for continuous employment and reinstatement
   (Support to return from maternity and childcare leave, work-life balance KPI management, etc.)

### (2) Promote the localization of General Manager posts at overseas group companies

Create succession plans for General Manager posts

### Ratio of women in managerial positions (global)

<table>
<thead>
<tr>
<th>FY22</th>
<th>FY2030</th>
</tr>
</thead>
<tbody>
<tr>
<td>9.4%</td>
<td>(Men: 13.3%)</td>
</tr>
</tbody>
</table>

Aim for an equal ratio of men and women

### Local ratio at overseas group companies (General Manager positions)

<table>
<thead>
<tr>
<th>FY22</th>
<th>FY2030</th>
</tr>
</thead>
<tbody>
<tr>
<td>72%</td>
<td>87%</td>
</tr>
</tbody>
</table>
Important Issues for a Sustainable Society

Identify the three CSV themes to meet the expectations of society through business. In addition, incorporate the five themes which form the foundation of this initiative into daily business activities.

Three CSV* themes
Three themes having high social expectations and high level of correlation with our business operations

- Resolving global environmental issues
- Enhancing initiatives to increase social infrastructure workforce
- Contributing to community development

Five Base themes
Five themes that provide the foundation for our three CSV themes

- Pursuing safe, effective, and sophisticated products and working environments
- Occupational safety and work style reform
- Developing human resources globally and locally
- Creating better business transactions and value chains
- Governance

CSV*: Creating Shared Value - balancing social problem-solving and enhanced corporate value through business activities
# Values Beyond the Important Issues for a Sustainable Society (Targets)

<table>
<thead>
<tr>
<th>Major stakeholders</th>
<th>Suppliers, employees</th>
<th>Customers</th>
<th>People in new regions and domains</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CSV1</strong> Global environment</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Manufacturing of Construction Machinery</td>
<td>Reduce CO₂ in production (absolute emissions)</td>
<td>Reduce CO₂ from products (absolute emissions)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Reduce water usage (intensity)</td>
<td>Save CO₂ through used equipment/parts remanufacturing</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Recycling rate</td>
<td>Waste reduction</td>
<td></td>
</tr>
<tr>
<td><strong>CSV2</strong> Strengthen on-site capabilities</td>
<td></td>
<td>Productivity improvement</td>
<td>Reduce accidents caused by construction machinery</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Machinery status management systems</td>
</tr>
<tr>
<td><strong>CSV3</strong> Community development</td>
<td>Human resource development and labor reform</td>
<td>Expand the sales revenue of the used equipment and parts remanufacturing business</td>
<td>Emergency disaster and other forms of cooperation (Number of disaster agreements with local municipalities)</td>
</tr>
</tbody>
</table>
CSV Theme 1: Resolving Global Environmental Issues

CSV 1: Global environment

Manufacturing of Construction Machinery

Reduce CO₂ in production

FY2022

▲25%

Compared to FY2010

FY2030

▲45%

*FY2018 "Energy Conservation Grand Prize" and "Chairman Prize of ECCJ" in the Energy Conservation Case Division
### CSV Theme 1: Resolving Global Environmental Issues

#### Manufacturing of Construction Machinery

<table>
<thead>
<tr>
<th>Reduce water usage (intensity)</th>
<th>Circulation type water storage tank and VOC*1 processing equipment (both at the China Works)</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY2022</td>
<td>FY2030</td>
</tr>
<tr>
<td>▲28% Advanced water recycling usage Minimization of regional impact</td>
<td></td>
</tr>
</tbody>
</table>

Compared to FY2010

<table>
<thead>
<tr>
<th>Recycling rate*2</th>
<th>Separate collection and recycling boxes</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY2022</td>
<td>FY2030</td>
</tr>
<tr>
<td>99.5% Aiming for 99.5% or higher</td>
<td></td>
</tr>
</tbody>
</table>

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*1: Volatile organic compounds contained in paint solvent
*2: Promoting the recycling of business related waste at six production sites in Japan and three production sites overseas
CSV Theme 1: Resolving Global Environmental Issues

Using of Construction Machinery

Hybrid construction machinery
Battery-powered excavators
Wired electric excavators
Trolley-type dump trucks

Reduce CO₂ from products

FY2022
▲ 20%

FY2030
▲ 33%

Compared to FY2010
**CSV Theme 1: Resolving Global Environmental Issues**

**Using of Construction Machinery**

![Diagram](image)

- Stock remanufactured parts
- Collect and remanufacture parts
- Apply remanufactured parts

**Save CO₂ through used equipment/parts remanufacturing**

<table>
<thead>
<tr>
<th>FY2022</th>
<th>FY2030</th>
</tr>
</thead>
<tbody>
<tr>
<td>23,800t</td>
<td></td>
</tr>
</tbody>
</table>

Minimize the environmental load across the entire value chain

**Waste reduction**

<table>
<thead>
<tr>
<th>FY2022</th>
<th>FY2030</th>
</tr>
</thead>
<tbody>
<tr>
<td>9,500t</td>
<td></td>
</tr>
</tbody>
</table>

Minimize the environmental load across the entire value chain

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*FY2018 Award for Resource Recirculation Technologies and Systems and Award of the Director-General of the Industrial Science and Technology Policy and Environment Bureau, METI Minister’s Prize in the FY2018 3Rs (Reduce, Reuse, and Recycle) Promotion Merit Awards

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CSV Theme 2: Enhancing Initiatives to Increase Social Infrastructure Workforce

Global e-Service®

Big data analysis

Failure prediction

Periodic reports

Emergency alarms

Reduce lifecycle costs

FY2022
ConSite® Adoption rate 90%

FY2030
Aiming for "zero" downtime

Machinery operating information

Parts

Servicing

Using of Construction Machinery

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CSV Theme 2: Enhancing Initiatives to Increase Social Infrastructure Workforce

**CSV 2: Increase Social Infrastructure Workforce**

Using of Construction Machinery → Challenge with and through Construction Machinery

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**Functionality to reduce accidents caused by HCM products**

**FY2022**  
Achieve cooperative control between people and machinery

**FY2030**  
Contribute to "zero" overturn and fatal accidents

---

**Number of ICT machines adopted**

**FY2022**  
Adoption of ICT construction machinery 2,800 units (cumulative) (5,000 work sites)

**FY2030**  
Aiming for the standardization of automated and labor saving construction machinery

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CSV Theme 3: Contributing to Community Development

Using of Construction Machinery

- Used equipment needs
- Parts remanufacturing business

Growth of developing countries

- Job creation
- Community development

Expand the used equipment and parts remanufacturing business sales revenue

**FY2022**
- Parts remanufacturing: 420%
- Used equipment: 280%

**FY2030**
- Adoption of products and services that meet regional needs

Parts remanufacturing plant (Zambia)

Recognized by METI "Institute for Manufacturing" (India Works)
CSV Theme 3: Contributing to Community Development

CSV 3: Community development
Challenge with and through Construction Machinery

Recovery efforts in disaster-stricken areas

Small sized mobile crane specification machine for radioactive waste sandbags

Emergency disaster and other forms of cooperation (number of disaster agreements with local municipalities)

FY2022
83 agreements

Partnerships and support for major municipalities and industry groups

FY2030
# Values Beyond the Important Issues for a Sustainable Society (Targets)

## Major stakeholders

<table>
<thead>
<tr>
<th>CSV1 Global environment</th>
<th>Suppliers, employees</th>
<th>Customers</th>
<th>People in new regions and domains</th>
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<tbody>
<tr>
<td>Reduce CO₂ in production (absolute emissions)</td>
<td>Reduce CO₂ from products (absolute emissions)</td>
<td>Reduce accidents caused by construction machinery</td>
<td></td>
</tr>
<tr>
<td>▲25% -&gt; ▲45% Compared to FY2010</td>
<td>▲20% -&gt; ▲33% Compared to FY2010</td>
<td>Contribute to &quot;zero&quot; overturn and fatal accidents</td>
<td></td>
</tr>
<tr>
<td>Reduce water usage (intensity)</td>
<td>Save CO₂ through used equipment/parts remanufacturing</td>
<td>Machinery status management systems</td>
<td></td>
</tr>
<tr>
<td>▲28% -&gt; Advanced water recycling usage, Minimization of regional impact Compared to FY2010</td>
<td>23,800t -&gt; Minimize the environmental load across the entire value chain</td>
<td>Aiming for &quot;zero&quot; downtime</td>
<td></td>
</tr>
<tr>
<td>Recycling rate</td>
<td>Waste reduction</td>
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<td></td>
</tr>
<tr>
<td>99.5% -&gt; Aiming for 99.5% or higher</td>
<td>9,500t -&gt; Minimize the environmental load across the entire value chain</td>
<td>ConSite® Adoption rate 90%</td>
<td></td>
</tr>
</tbody>
</table>

## CSV2 Strengthen on-site capabilities

<table>
<thead>
<tr>
<th>Productivity improvement</th>
<th></th>
<th>Reduce accidents caused by construction machinery</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adoption of ICT construction machinery 2,800 units (5,000 work sites)</td>
<td>Achievement of cooperative control between people and machinery</td>
<td>Contribute to &quot;zero&quot; overturn and fatal accidents</td>
</tr>
<tr>
<td>Aiming for the standardization of automated and labor saving construction machinery</td>
<td>Machinery status management systems</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Aiming for &quot;zero&quot; downtime</td>
<td></td>
</tr>
</tbody>
</table>

## CSV3 Community development

<table>
<thead>
<tr>
<th>Human resource development and labor reform</th>
<th>Used equipment and parts remanufacturing businesses</th>
<th>Emergency disaster and other forms of cooperation (Number of disaster agreements with local municipalities)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Adoptions of products and services that meet regional needs</td>
<td>Partnerships and support for major municipalities and industry groups</td>
</tr>
<tr>
<td>Parts remanufacturing 420% -&gt;</td>
<td>Used equipment 280%</td>
<td>83 agreements</td>
</tr>
<tr>
<td>Compared to FY2010</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
HCM’s mining strategy

• Help reduce the volume of CO₂ emissions at mining sites by providing environmentally-friendly products (trolley-type dump trucks/electric hydraulic excavators) and overall optimization solutions for mining operation (ConSite® Mine/operation management systems)

• Focus efforts on iron ore, copper, nickel, and other hard rocks by capturing important strategic areas (CIS, South America, Africa, etc.)

• Further strengthen our solution business which has many projects for hard rock mining (Ref.) Ratio of coal related business in the FY2019 consolidated sales revenue: 10%
CSV Themes 1 - 3: Realizing a Circular Economy

Use the services, parts remanufacturing, used equipment, and rental value chain businesses to:

- Contribute to the construction of a recycling society that reuses resources and jointly uses assets, etc.
- Support the independence of developing countries and contribute to their development through job creation

Figure notes: created by HCM based on the "circular economy" definition in the "METI Circular Economy Vision 2020 (Summary)"
CSV Themes 1 - 3: Targets for Greenhouse Gas Emission Reduction, Support and Disclosure for TCFD

**Targets for greenhouse gas emission reduction were approved by SBT\(^*\) (May 2019)**

\(^*\)Science Based Targets initiative (SBTi): approved as targets based on science

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Target for absolute emissions reduction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduction in greenhouse gas emissions</td>
<td><strong>Scope1,2</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Scope3</strong></td>
</tr>
</tbody>
</table>

Scope 1: Direct emissions of greenhouse gases from emission sources owned or managed by companies or households
Scope 2: Indirect emission of greenhouse gases associated with the use of electricity, steam, and heat
Scope 3: Other indirect emissions excluding Scope 2

**HCM expresses its support for TCFD**

(registered on October 12, 2020)

Extract risks and opportunities by referring to TCFD.
Internal task force organized to undertake across the entire company
(See the following page for the risks and opportunities)
### CSV Themes 1 - 3: Scenario Analysis Aimed at Climate Change Measures

<table>
<thead>
<tr>
<th>Scenarios</th>
<th>Analysis results</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2°C scenario</strong>&lt;br&gt;Business environment and major risks and opportunities</td>
<td><strong>Business environment</strong>&lt;br&gt;Strengthening of regulations for fossil fuel usage. Growing demand for construction machinery that runs on electricity/low or decarbonized fuels.</td>
</tr>
<tr>
<td><strong>Risks</strong></td>
<td><strong>[Risks to HCM]</strong>&lt;br&gt;(1) Development cost burden&lt;br&gt;(2) Loss of market opportunities due to late response&lt;br&gt;(3) Cost burden to establish a customer support system for electrification and low/decarbonized fuels&lt;br&gt;<strong>[Social environment risks]</strong>&lt;br&gt;(1) Achieving the appropriate sales price through cost reductions of the necessary equipment&lt;br&gt;(2) Late development by parts manufacturers&lt;br&gt;(3) Customer reluctance to purchase due to poor usability&lt;br&gt;(Restrictions on continuous operating time, new fuel supply and storage infrastructure maintenance delays, etc.)&lt;br&gt;(4) Uncertainty in customer advantages/formation of usage demand&lt;br&gt;(Delay in decarbonized society legal reforms/delay in establishing a scheme for the enjoyment of incentives)</td>
</tr>
<tr>
<td><strong>Opportunities</strong></td>
<td>Construction machinery electrification, fuel diversity, ICT application and the introduction of new technologies, and the expansion of sales through measures for work site environment (revenue increase), and an increase in sales opportunities.</td>
</tr>
<tr>
<td><strong>4°C scenario</strong>&lt;br&gt;Business environment and major risks and opportunities</td>
<td><strong>Business environment</strong>&lt;br&gt;Extreme increase in typhoons, heavy rain and flooding, and other natural disasters caused by climate change&lt;br&gt;Increased demand for construction machinery to support faster and safer recovery activities</td>
</tr>
<tr>
<td><strong>Risks</strong></td>
<td>Increased damage to production facilities due to natural disasters and a deteriorating labor environment&lt;br&gt;Increase in parts procurement and delivery delays due to supply chain disruptions</td>
</tr>
<tr>
<td><strong>Opportunities</strong></td>
<td>Increase in infrastructure construction for disaster prevention, disaster mitigation, and disaster recovery (recovery construction will also increase)</td>
</tr>
</tbody>
</table>
4. Summary
To be a company needed by society

Corporate vision
To pass on a productive environment and prosperous cities to future generations

2030 social value
Provide solutions that offer safety, productivity, and life cycle cost reductions to the global infrastructure development

Improving safety
Contribute to zero fatalities due to falls or contact accidents

Increasing productivity
Standardize automation and labor-saving construction machinery

Reducing lifecycle costs
Aim for zero downtime

2030 environmental value
Provide low-carbon technology to the global infrastructure development

Preventing global warming
Product lifecycle CO2 reductions: Aim for Products -33%, Production -45%

2022 management goals (social value)

Improving safety
Achieve contact prevention technology
Commercialize human-machine cooperative control technology

Increasing productivity
Promote ICT Machinery 2800 units*

Reducing lifecycle costs
Operating status management system dissemination rate: 90%

*Applicable worksites: Over 5,000 sites

(Environmenal value)

Preventing global warming
Reduce CO₂ emissions

Products CO₂ -20%
Production CO₂ -25%

Applicable units: 500,000 units

Note: We have chosen to align our activities with 10 of the 17 SDG's.
# Values Beyond the Important Issues for a Sustainable Society (Targets)

<table>
<thead>
<tr>
<th>Items</th>
<th>Description</th>
<th>FY2019 Results</th>
<th>FY2022 KPIs</th>
<th>FY2030 KPIs</th>
</tr>
</thead>
<tbody>
<tr>
<td>CSV1</td>
<td><strong>Global environment</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CO₂ reduction</td>
<td><strong>Products</strong></td>
<td>CO₂ reduction (absolute emissions)</td>
<td>▲15.9% (Compared to FY2010)</td>
<td>▲20% (Compared to FY2010)</td>
</tr>
<tr>
<td></td>
<td><strong>Production</strong></td>
<td>CO₂ reduction (absolute emissions)</td>
<td>▲25.1% (Compared to FY2010)</td>
<td>▲25% (Compared to FY2010)</td>
</tr>
<tr>
<td>Value chain</td>
<td>Save CO₂ through used equipment/parts remanufacturing</td>
<td>19,100t</td>
<td>23,800t</td>
<td>Minimize the environmental load across the entire value chain</td>
</tr>
<tr>
<td>CSV2</td>
<td><strong>Increase Social Infrastructure Workforce</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Improving safety</td>
<td>Functionality to reduce accidents caused by HCM products</td>
<td>Expanded the functionality of the &quot;Aerial Angle™&quot; peripheral vision display system to detect objects and restrict movement (released in June 2020)</td>
<td>Achieve cooperative control between people and machinery</td>
<td>Contribute to &quot;zero&quot; overturn and fatal accidents</td>
</tr>
<tr>
<td>Increasing productivity</td>
<td>Number of ICT machines adopted (Target work sites)</td>
<td>493 units (total) (1,675 total work sites)</td>
<td>2,800 units (total) (5,000 total work sites)</td>
<td>Aiming for the standardization of automated and labor saving construction machinery</td>
</tr>
<tr>
<td>Reducing lifecycle costs</td>
<td>Adoption rate of machinery status management systems (ConSite®)</td>
<td>73%</td>
<td>90%</td>
<td>Aiming for &quot;zero&quot; downtime</td>
</tr>
<tr>
<td>CSV3</td>
<td><strong>Community development</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Regional coexistence through the promotion of a circular economy</td>
<td>Expand the parts remanufacturing business sales revenue</td>
<td>296% (Compared to FY2010)</td>
<td>420% (Compared to FY2010)</td>
<td>Aiming for &quot;zero&quot; downtime</td>
</tr>
<tr>
<td></td>
<td>Expand the used equipment business sales revenue</td>
<td>87% (Compared to FY2010)</td>
<td>280% (Compared to FY2010)</td>
<td>Aiming for &quot;zero&quot; downtime</td>
</tr>
<tr>
<td>Disaster response, recovery, and reconstruction support</td>
<td>Emergency disaster and other forms of cooperation (Number of disaster agreements with local municipalities in Japan)</td>
<td>42 agreements</td>
<td>83 agreements</td>
<td>Partnerships and support for major municipalities and industry groups</td>
</tr>
</tbody>
</table>

*1: FY2018 Award for Resource Recirculation Technologies and Systems and Award of the Director-General of the Industrial Science and Technology Policy and Environment Bureau, METI Minister’s Prize in the FY2018 3Rs (Reduce, Reuse, and Recycle) Promotion Merit Awards

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# Values Beyond the Important Issues for a Sustainable Society (Targets)

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</thead>
<tbody>
<tr>
<td><strong>Base 1</strong>&lt;br&gt;Safe efficiency</td>
<td>R&amp;D system</td>
<td>Ratio of R&amp;D costs to sales revenue</td>
<td>2.5%</td>
<td>3.0%</td>
</tr>
<tr>
<td><strong>Technology transfer</strong>&lt;br&gt;&quot;Kataribe&quot; (Storytelling) sessions*2</td>
<td>Held: 41 sessions Students: 918</td>
<td>Quality improvement</td>
<td>Quality improvement</td>
<td></td>
</tr>
<tr>
<td><strong>Base 2</strong>&lt;br&gt;Occupational safety</td>
<td>Occupational hazards</td>
<td>Zero occupational hazards (compared to the previous FY)</td>
<td>▲18% (Compared to FY2018, Japan)</td>
<td>▲50% (Compared to FY2021)</td>
</tr>
<tr>
<td><strong>Base 3</strong>&lt;br&gt;Human resource development</td>
<td>Employee education</td>
<td>Number of e-learning participants</td>
<td>175% (Compared to FY2018. Total number by HCM alone)</td>
<td>200% (Compared to FY2019)</td>
</tr>
<tr>
<td>Global leaders</td>
<td>Leadership training*3 enrollment ratio (global)</td>
<td>60.4% (total)</td>
<td>100% (total)</td>
<td>100% (total)</td>
</tr>
<tr>
<td>Diversity initiatives</td>
<td>Ratio of women in managerial positions (global)</td>
<td>Women 8.6% (Men 15.7%)</td>
<td>Women 9.4% (Men 13.3%)</td>
<td>Aim for an equal ratio of men and women</td>
</tr>
<tr>
<td>Local ratio at overseas group companies (General Manager positions)</td>
<td>69%</td>
<td>72%</td>
<td>87%</td>
<td></td>
</tr>
</tbody>
</table>

*2: Sessions in which senior experts in various fields discuss their approach to executing tasks, past failure experiences, and technical know-how to current technicians working on the front lines

*3: Training to acquire the skills required of a leader
## Values Beyond the Important Issues for a Sustainable Society (Targets)

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<tr>
<td><strong>Base 4 Transactions</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fair procurement</td>
<td>Implement supplier of CSR surveys</td>
<td>83.5% (collection rate*4)</td>
<td>Standardized to improve the collection rate</td>
<td>100% Aim for a 100% collection rate by establishing the operation</td>
</tr>
<tr>
<td>Eradicate corruption</td>
<td>Number of corruption and bribery legal violations</td>
<td>0 cases</td>
<td>0 cases</td>
<td>0 cases</td>
</tr>
<tr>
<td>and bribery</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Base 5 Governance</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corporate governance</td>
<td>Outside, female, and foreign national directors</td>
<td>Outside Directors: Three out of ten people</td>
<td>Outside Directors: More than one third overall</td>
<td>Shift to a system suitable for strengthening the business and improving governance</td>
</tr>
<tr>
<td>Corporate ethics and</td>
<td>Continue to provide examples and education to</td>
<td>Implement &quot;compliance training&quot; for roughly 10,000 employees</td>
<td>Zero compliance violations</td>
<td>Zero compliance violations</td>
</tr>
<tr>
<td>behavior</td>
<td>employees</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Respect for human</td>
<td>Education enrollment rate</td>
<td>Enrollment rate of 79% in the &quot;business and human rights&quot; e-learning course</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>rights</td>
<td></td>
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</tbody>
</table>

*4: Survey covering suppliers who account for roughly 90% of purchases at HCM alone
Conclusion: Main Points of Today's Presentation

1. The construction machinery industry is an essential business for supporting social infrastructure
   Accelerate the promotion of future-oriented transformation as we now face unprecedented global issues.

2. Previous initiatives which are unique to HCM
   Evolve construction machinery by using our outstanding technical capabilities (including production processes) as a foundation while also continuing to provide a wide variety of services to support the stable operation of machinery (value chain).

3. Future initiatives aimed at solving social issues
   Even during situations of significant change, our employees across the globe will mutually cooperate based on the shared values of the "Kenkijin spirit" and continue to challenge their work on a daily basis from the perspective of the customers.
[Cautionary Statement]
This material contains forward-looking statements that reflect management's views and assumptions in the light of information currently available with respect to certain future events, including expected financial position, operating results, and business strategies. Actual results may differ materially from those projected, and the events and results of such forward-looking assumptions cannot be assured.
Factors that may cause actual results to differ materially from those predicted by such forward-looking statements include, but are not limited to, changes in the economic conditions in the Company's principal markets; changes in demand for the Company's products, changes in exchange rates, and the impact of regulatory changes and accounting principles and practices.

[Trademark notes]
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END

ESG Explanatory Meeting

December 15, 2020

Hitachi Construction Machinery Co., Ltd.

CSR & Financial Report 2020