

Third ESG Explanatory Meeting

Initiatives for Sustainability and Human Capital Management

February 17, 2023

Corporate Brand & Communications Group

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

Introduction

1

Value Creation Strategy of Hitachi Construction Machinery Group

Kotaro Hirano
Executive Officer, President & CEO



2

Initiatives for Sustainability

Atsushi Tamane
President of Sustainability Promotion Group



3

Human Capital Management: HR strategy for improving enterprise value

Seishi Toyoshima
**Vice President and Executive Officer, CHRO,
President of Human Capital Group**



1. Value Creation Strategy of Hitachi Construction Machinery Group

Formulation of group identity for Second Start-up

Reliable Solutions

We are a reliable solutions partner with/for our customers



Our mission is to meet customer expectations, co-create innovative products, services and solutions, and continue to create new value together.

Global social and environmental issues

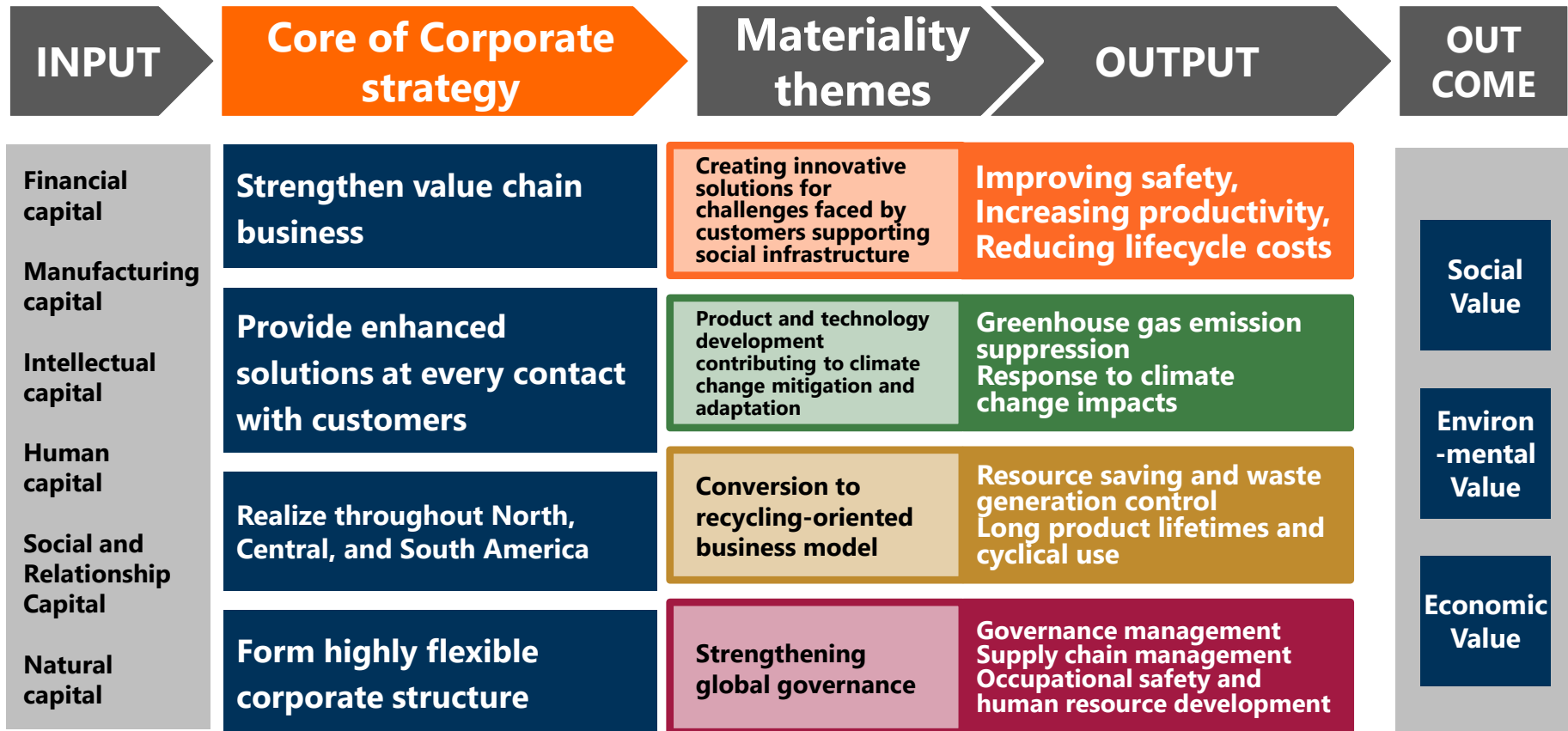
- **Progression of global warming**
- **Mass consumption and depletion of resources**
- **Development of infrastructure to withstand natural disasters**

Conversion to sustainable growth model

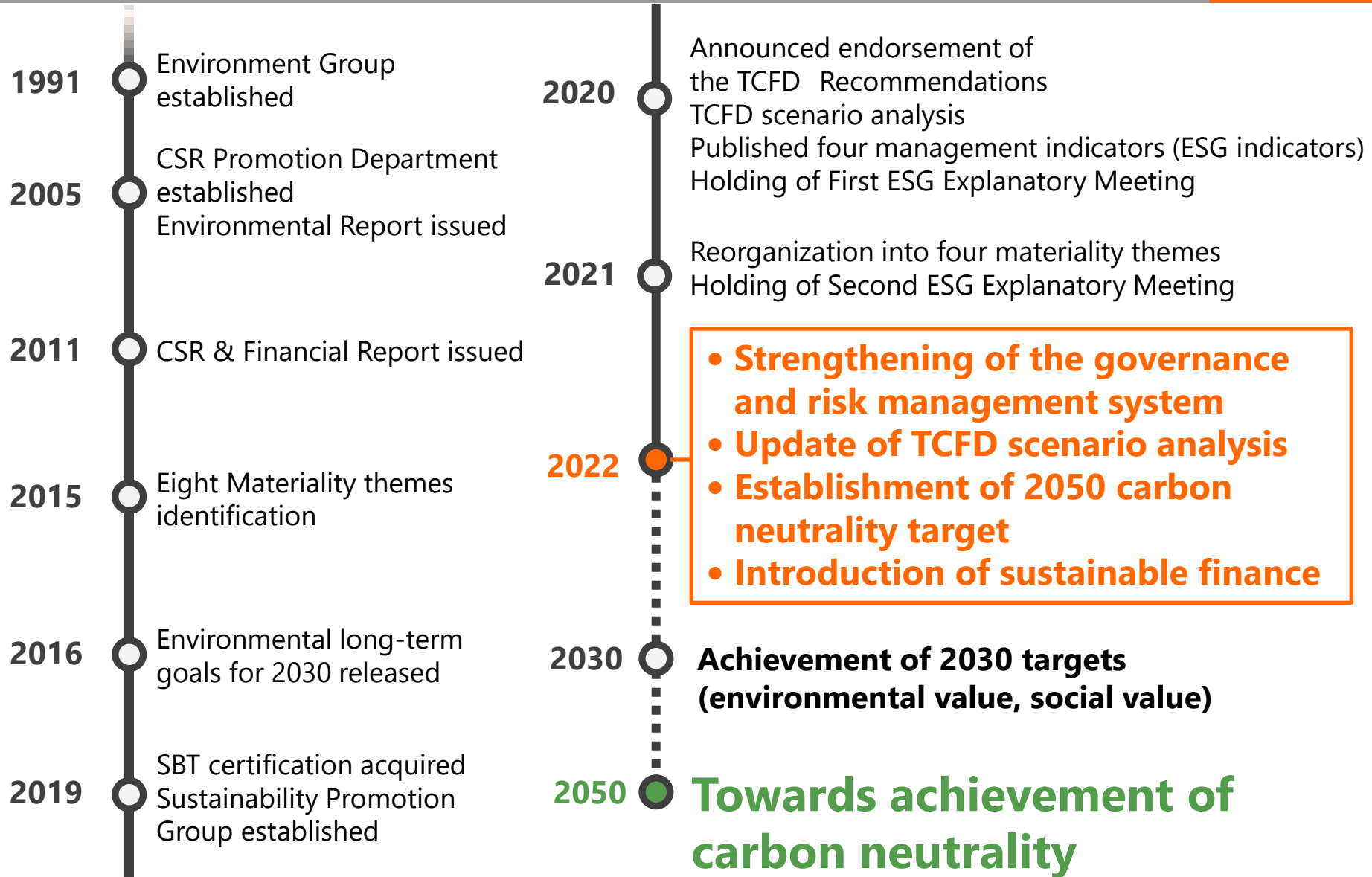
Issues at customers' site

- **Improving safety**
- **Increasing productivity**
- **Reducing lifecycle costs**

Conversion from hardware products to solutions



2. Initiatives for Sustainability



Strengthening of the governance and risk management system:

(1) Strengthening the Sustainability Promotion Committee system

HITACHI

Reliable solutions



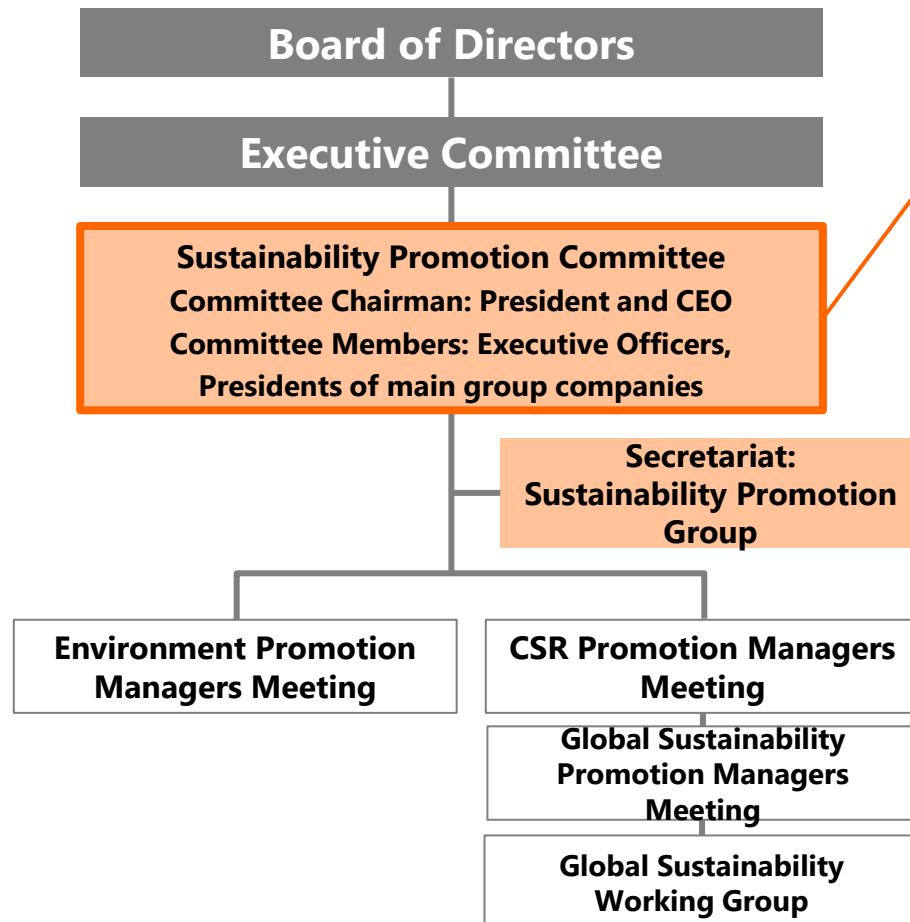
Governance

Strategy

Risk
management

Indicators and
targets

Participation by all CxO in the Sustainability Promotion Committee Review and approval of important items by the Executive Committee and Board of Directors



Includes CSO, COO, CFO, CHRO, CTO, CDIO, CPO, CMO



Review and approval are carried out for promotion policies, priority measures, and KPI (twice a year).



Governance

Strategy

**Risk
management**Indicators and
targets

Constructing a company-wide risk management system

Rapid action to address climate change, geopolitical risks, and other risks



*Enterprise Risk Management

Points discussed by the ERM Committee

- Deciding the order of priority for company-wide risks
- Geopolitical risks
- Russia-Ukraine situation (⇒ Addressed by launching a Risk Control Group.)

Update of TCFD scenario analysis:

(1) Strengthening scenario to 1.5°C and establishing the 2050 carbon neutrality target

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Reliable solutions



Governance

Strategy

Risk management

Indicators and targets

Promoting business expansion under both climate change mitigation and adaptation
Further strengthening our commitment by reviewing scenario preconditions and CO₂ reduction targets

Previously

Scenario preconditions	Mitigation: 2°C scenario
	Adaptation: 4°C scenario
CO ₂ reduction target	2030 target* ¹
	Products (Scope3): -33% Production (Scope1+2): -45%

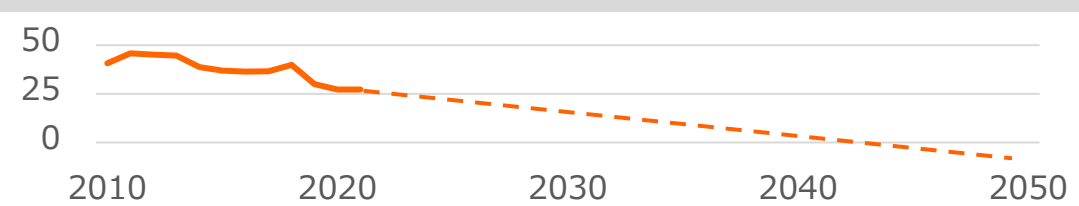


FY 2022 onward

Scenario preconditions	Mitigation: 1.5°C scenario
	Adaptation: 4°C scenario
CO ₂ reduction target	2030 target* ¹
	Products (Scope3): -33% Production (Scope1+2): -45%
	2050 target Towards achievement of carbon neutrality

Image of CO₂ emission reduction*² (Scope1+2)

(10,000s t-CO₂)



*1: Compared to FY 2010 *2: Results through FY 2021

Update of TCFD scenario analysis:

(2) Scope3 Initiative for Zero emission

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Reliable solutions



Governance

Strategy

Risk management

Indicators and targets

Strengthening the system to accelerate the market launch of electrified construction machinery and applied/ICT products.

Fulfilling the lineup of battery-powered mini and compact excavators for civil construction use

KTEG GmbH (49.9% investment by us)

Developing European market models, and quick launch



Collaborations

Hitachi Construction Machinery, Hitachi Construction Machinery Tierra

Developing a global model focusing on other regions



8-tonne class



5-tonne class



13-tonne class



2-tonne class

start taking orders

2020

June 2022

November 2022

January 2023

Further strengthening initiatives for achieving SDGs

Over
view

Contract date	Financing amount	Loan period
Dec. 2022	20.0 billion yen	9 years

Evaluation themes



Contribution to Carbon Neutrality



Electrified products



Solar power generation



Minimizing Environmental Impact,
Realizing a Recycling-Oriented Society



Rental and used equipment



Parts remanufacturing



Contribution to Improving Safety
and Productivity at Workplaces



Utilization of IoT



ICT construction machinery



Promotion of Global Human
Resource Management



Use of global human resources



Active roles for women

* Sustainable finance is a financing scheme in which the financing field provides direction for promoting solutions to environmental and social issues. HCM has concluded an agreement for "Positive Impact Finance (type of investment and lending for companies where the uses of the funds are not restricted)" with Sumitomo Mitsui Trust Bank.

3. Human Capital Management: HR strategy for improving enterprise value

HCM Group by the numbers

Number of consolidated subsidiaries	Number of employees	Ratio of overseas personnel	Ratio of management positions	Local personnel ratio for General Manager positions at overseas group companies
Japan: 7 companies Overseas: 73 companies	Japan: 9,893 Overseas: 15,094		Women: 10% Men: 15%	
80 companies	24,987	60%		71%

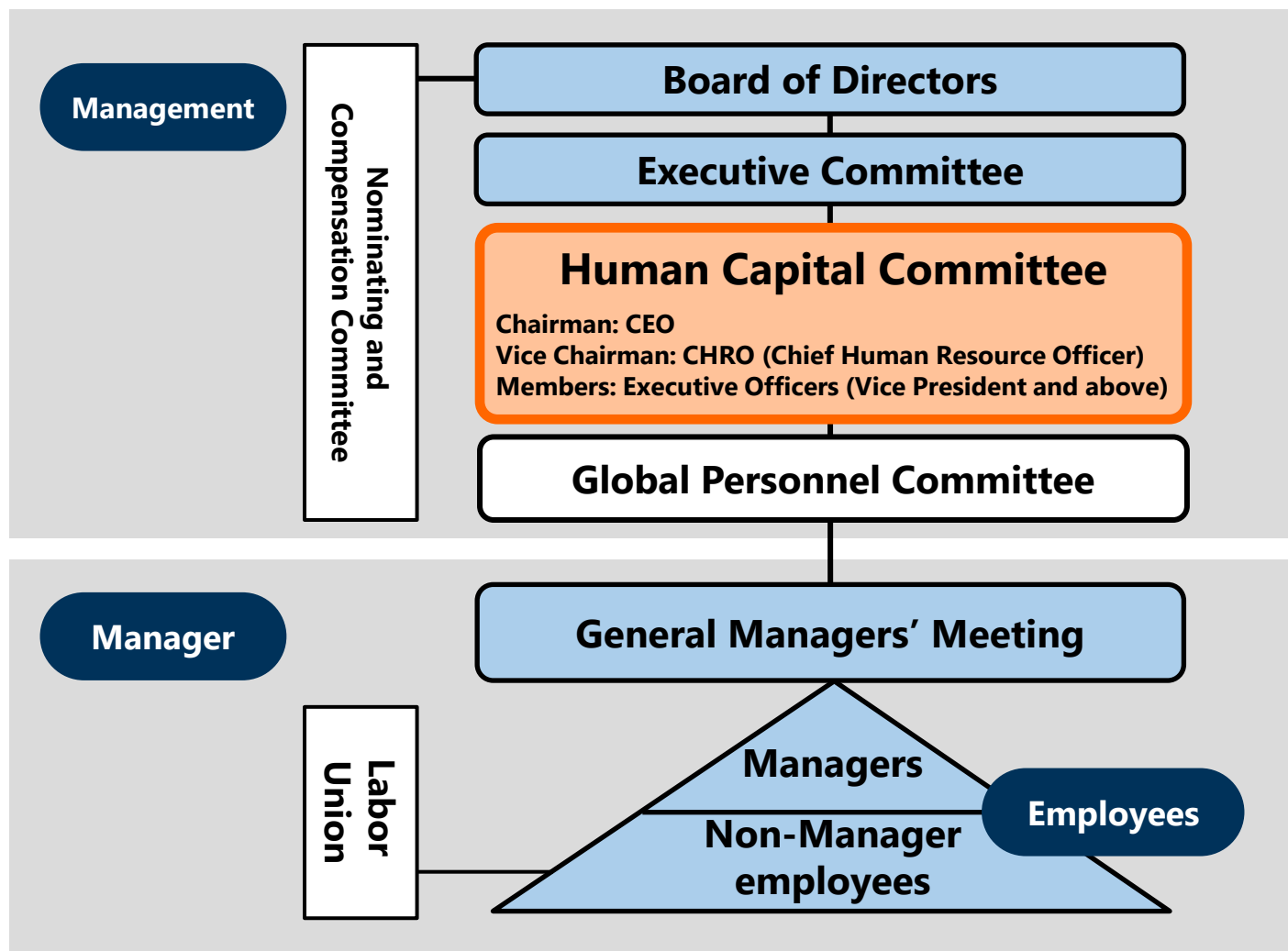
(As of March 31, 2022)

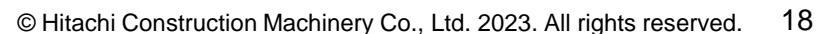
Globally active Kenkijin



Each employee is expressing their thoughts on 3C (Challenge/Customer/Communication) on the theme of "My Kenkijin Spirit."

Strategies and measures are decided and carried out by the Human Capital Committee.
Focusing on dialog with stakeholders from three perspectives





**Our employees are the foundation of our business.
Linking the growth and the challenges of each individual
to the advancement and development of the business.**

Mission

**To create new value through human capital and
our organization,
contributing to the creation and transformation
of our businesses.**

Vision

- **Organize a highly productive organization**
- **Each individual pursues their own goals, creates new value**
- **Prioritize safety and health, improve organizational health**

Strategy

Organization



**Human
Capital**



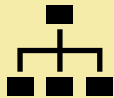
Culture

Aiming to achieve our corporate strategy by carrying out a human capital strategy from the perspectives of "organization," "human capital" and "culture"

Human resources strategy of the HCM Group

Organization

Constructing global- and customer-oriented business structure



Human Capital

Strengthening human capital who can adapt to changes in the business structure



Culture

Respecting individuality and diversity, and creating workplaces where everyone can contribute



Core of Corporate Strategy

Strengthen value chain business

Provide enhanced solutions at every contact with customers

Realize throughout North, Central and South America

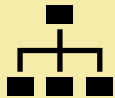
Form highly flexible corporate structure

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Core of Corporate Strategy

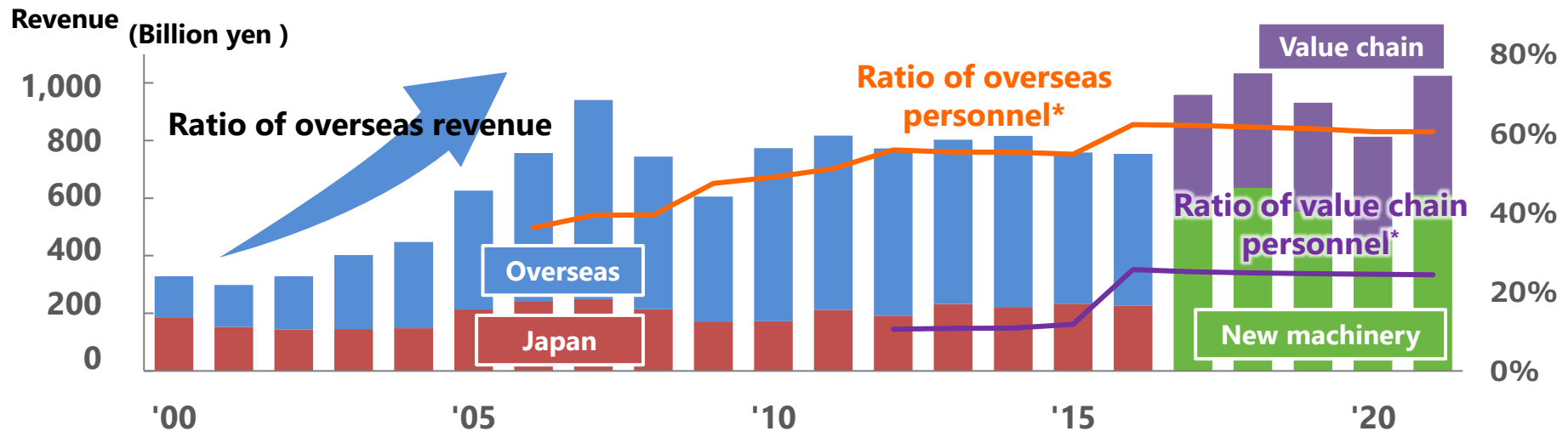
Strengthen value chain business

Provide enhanced solutions at every contact with customers

Realize throughout North, Central and South America

Form highly flexible corporate structure

Creating and optimizing a human capital portfolio that matches our corporate strategy
Strengthening human capital to address expanding overseas business and reinforcing the value chain business



[Initiatives]

Unification of value standards

Instilling of the Kenkijin spirit

Global personnel compensation

Construction and deployment of a global human capital management system

Strategic personnel placements

Strengthening of value chain business personnel

Customer-oriented organization

Introduction of a business unit system

Rapidly resolve customer issues through a customer-oriented business unit system, and accelerate continuing global growth.

**President and Chief
Executive Officer**

Construction Business Unit

Mining Business Unit

Compact Business Unit

Spare Parts & Service Business Unit

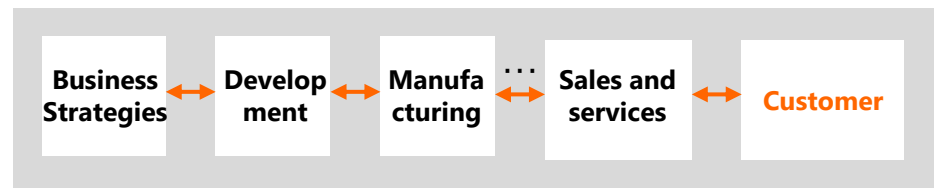
Rental & Used Equipment Business Unit

New Business Creation Unit

**Functional Control Division / Corporate
Division**

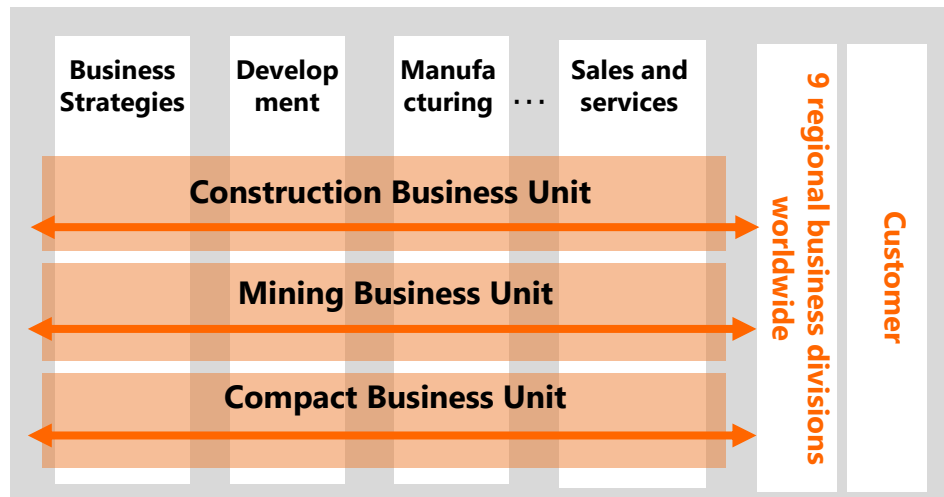
**Domestic and overseas group
companies**

Organizational structure to date



Customer-oriented business unit system

Quickly resolve customer issues across the organization.

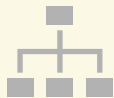


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Core of Corporate Strategy

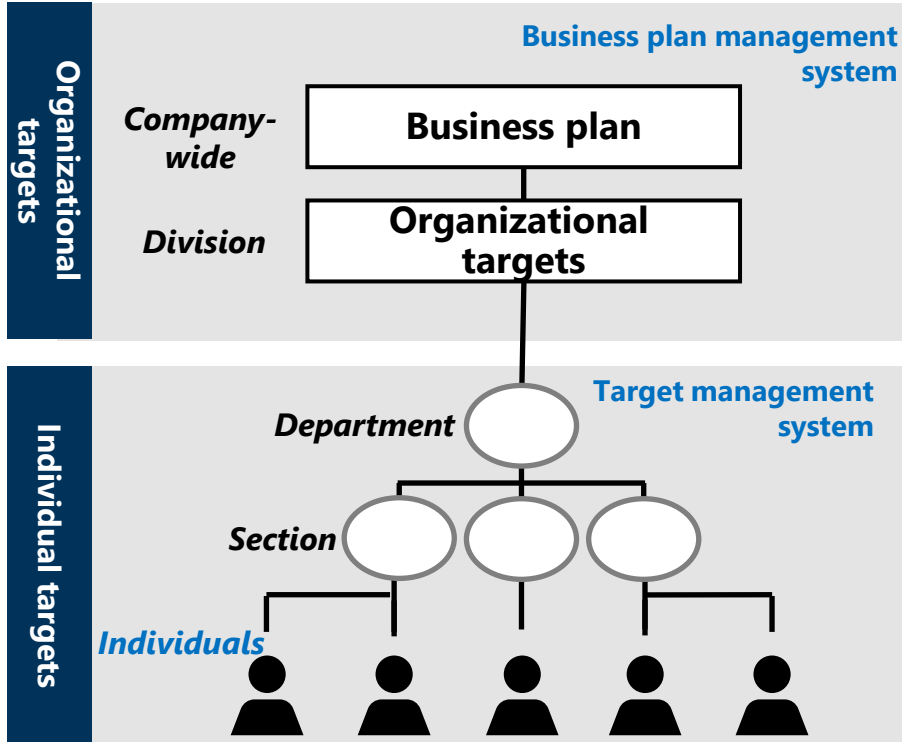
Strengthen value chain business

Provide enhanced solutions at every contact with customers

Realize throughout North, Central and South America

Form highly flexible corporate structure

Deploying and sharing organizational targets and individual targets for carrying out the company-wide business plans Conducting fair and transparent evaluations for personnel compensation

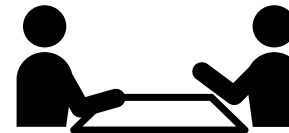
Organizational
targetsIndividual
targets

- Deployment of organizational targets, sharing of issues, and support for achieving targets



**Town hall meetings
Round-table discussions
(twice a year)**

- Checking the status of job performance



**1on1
Meetings
(once a month)**

**Fair and transparent evaluations for
personnel compensation**

(Revision of salaries / Evaluation for bonuses /
Personnel transfers)

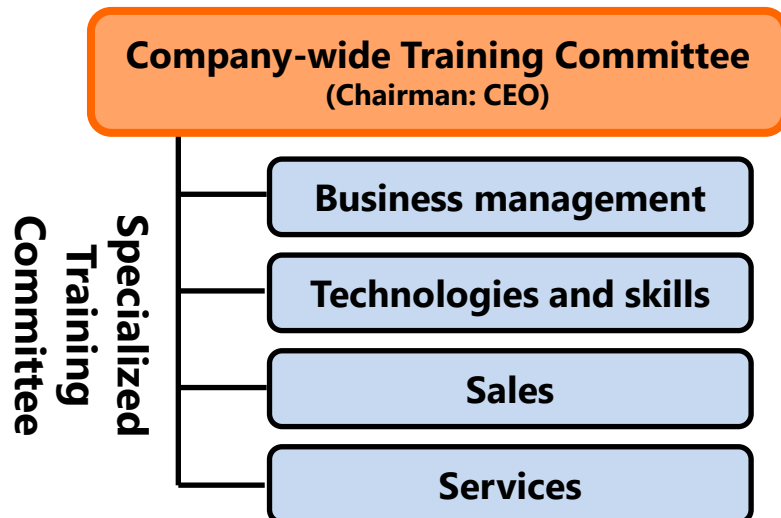
- Conduct evaluations based on the target achievement.

**Evaluation interviews
(twice a year)**

Basic policy for human capital development

Create an environment where each of employees learns and grows independently, lead them to human capital (Kenkijin) who can create new values, challenge revolutions and contribute to society.

Promotion system



Priority measures



Leader training



Digital human capital development



Self-transformation program

[KPI] Training hours per person

Per person	FY 2020	FY 2021	FY 2022 (planned)
Training hours	34.6	44.0	45.0
(Reference) Investment for training	79 thousand yen	99 thousand yen	133 thousand yen

Systematically selecting and training “innovative leaders” who can create new value

**President
Officers**

**Carry out business operations and
deliver results as business leaders.**

Division GMs

**Promote to higher positions and
give them the experience necessary as managers.**

General managers

Section managers

**Select global leaders and give them the opportunity
to learn management skills and mindsets.**



Participants tracing the roots of HCM
(Global Leaders 2022)



**Discussion of matters including the next medium-term
management plan and group identity**

Human capital development:

(2) Digital human capital development

Organization

Human
capital

Culture

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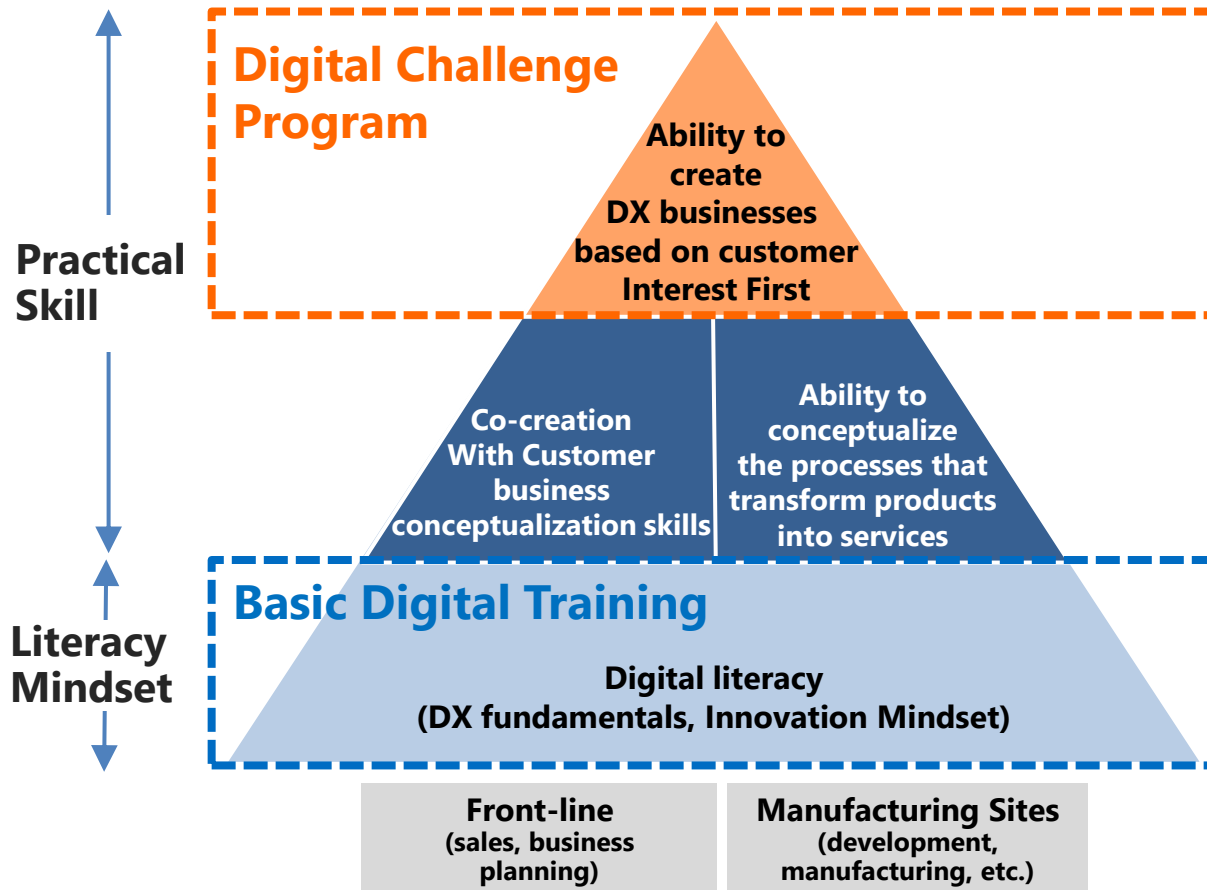
Reliable solutions

Working to develop digital human capital and improve literacy in order to carry out our corporate strategies

Introduction of a digital human capital development program

Planning to train around 1,000 persons by the end of 2023

Rapid steps for digitalization of products and the value chain



Human capital development:

(3) Self-transformation program

Organization

Human
capital

Culture

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Reliable solutions

Carry out self-transformation programs globally in order to develop the organizational climate and culture required to succeed in the changing times.
Developing Kenkijin capable of independently thinking and taking action

- Course where members ranging from top management to regular employees learn side-by-side

Increasing the vitality of flat communication



- Instructors are employees who have mastered the program.
- They explain interlaced with insights from their own work experience.

Contribute to the development of the corporate culture needed to succeed.

Subject	Progress: 23 companies (14 countries)				
	2019	2020	2021	2022	Through 2025
All employees *Including top management	▼ Japan Assistant manager and above				
	Below assistant manager				
	▼ Employees posted overseas				
	▼ Overseas local employees				

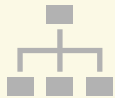


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Human resources strategy of the HCM Group

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Core of Corporate Strategy

Strengthen value chain business

Provide enhanced solutions at every contact with customers

Realize throughout North, Central and South America

Form highly flexible corporate structure

An employee survey is conducted each year, aiming for a vibrant organizational culture where everyone can contribute.

From the results, we identify the items required further improvement and implement specific initiatives to improve them.

Initiatives



Increasing awareness of company policies and expanding internal communication



Revising the personnel compensation system



Career support



Further improvements to workplace environments

* Positive response rate (%)

Employee survey results	Organizational health item	FY2017	FY2022	FY2025
Management leadership	Pride in the company	67	64	67
	Clear direction	53	58	61
Workplace management	Manager Effectiveness	63	61	64
	Teamwork	62	65	68
Personnel compensation	Recognition and Reward	49	57	60
Career development	Career Opportunities	53	56	59
Working environment	Continual improvements	52	50	53

Provide opportunities for global and diverse human capital to exercise their abilities and characteristics to the maximum, and work to improve enterprise value through the creation of new value.



Employee survey [DH&I] score

FY 2017	FY 2022	FY 2025 target
-	64	67

* Positive response rate(%)

Preparing comfortable workplaces regardless of nationality or gender



Recruiting and preparing comfortable workplaces at manufacturing plants



Working to create value and improve productivity in order to produce motivation and achieve comfortable work

Support for individual growth
and self-actualization

Motivation

Carrying out business targets and
performance-based compensation

Value creation and
improvement of productivity

Preparation of
working environments

Comfortable working

Preparation of
office environments

Fully incorporating employee opinions when deciding construction concepts and project goals

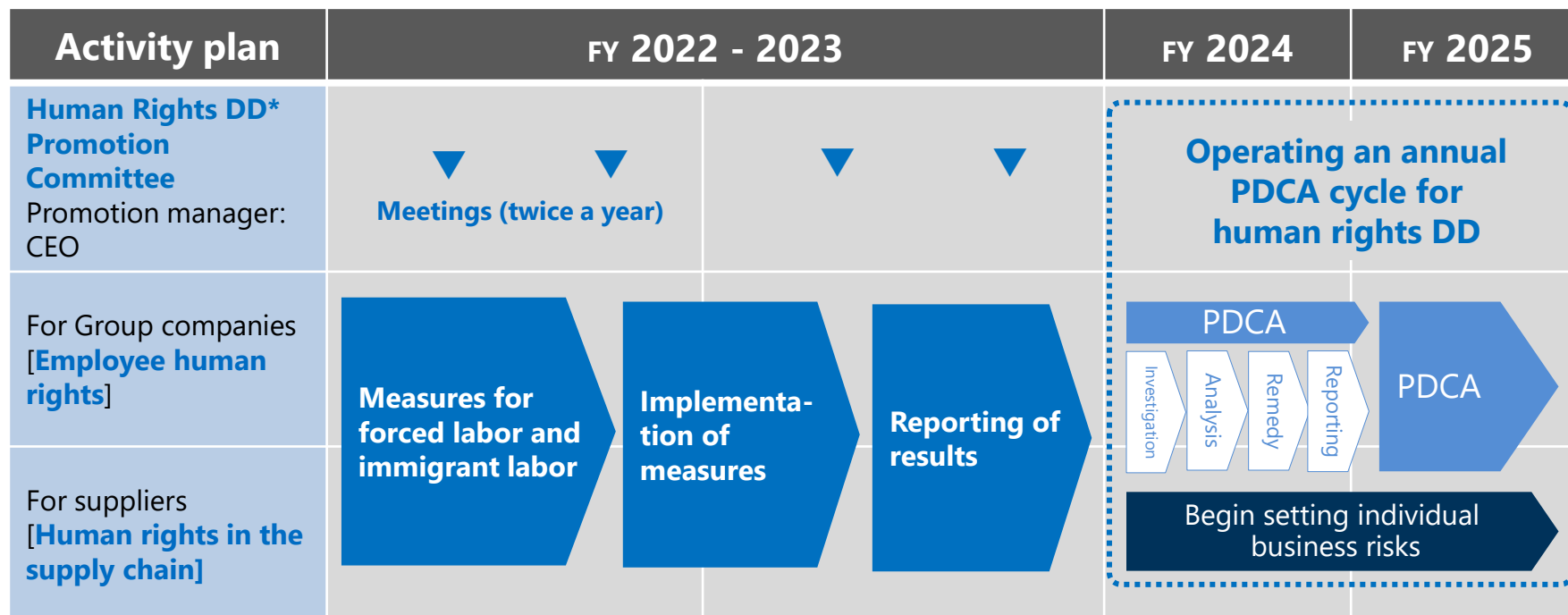


Promoting communication in open spaces



Working locations can be changed according to the
work contents, improving comfort and productivity.

Carrying out global human rights due diligence, with measures for forced labor and immigrant labor being top priority issues



* Due Diligence

Conducting continual training for employees

[KPI] Training enrollment rate (e-learning)

Promoting enrollment in the "Business and Human Rights" e-learning course

FY 2021	FY 2025 target
81.4%	100%

Organization

Construct global customer-oriented business structure, and **create a high-productivity organization.**

Human capital

Strengthen human capital who can adapt to changes in the business structure, and **create new value as each individual works to achieve targets.**

Culture

Respect individuality and diversity, create workplaces where everyone can contribute, **give top priority to safety and health, and improve organizational health.**



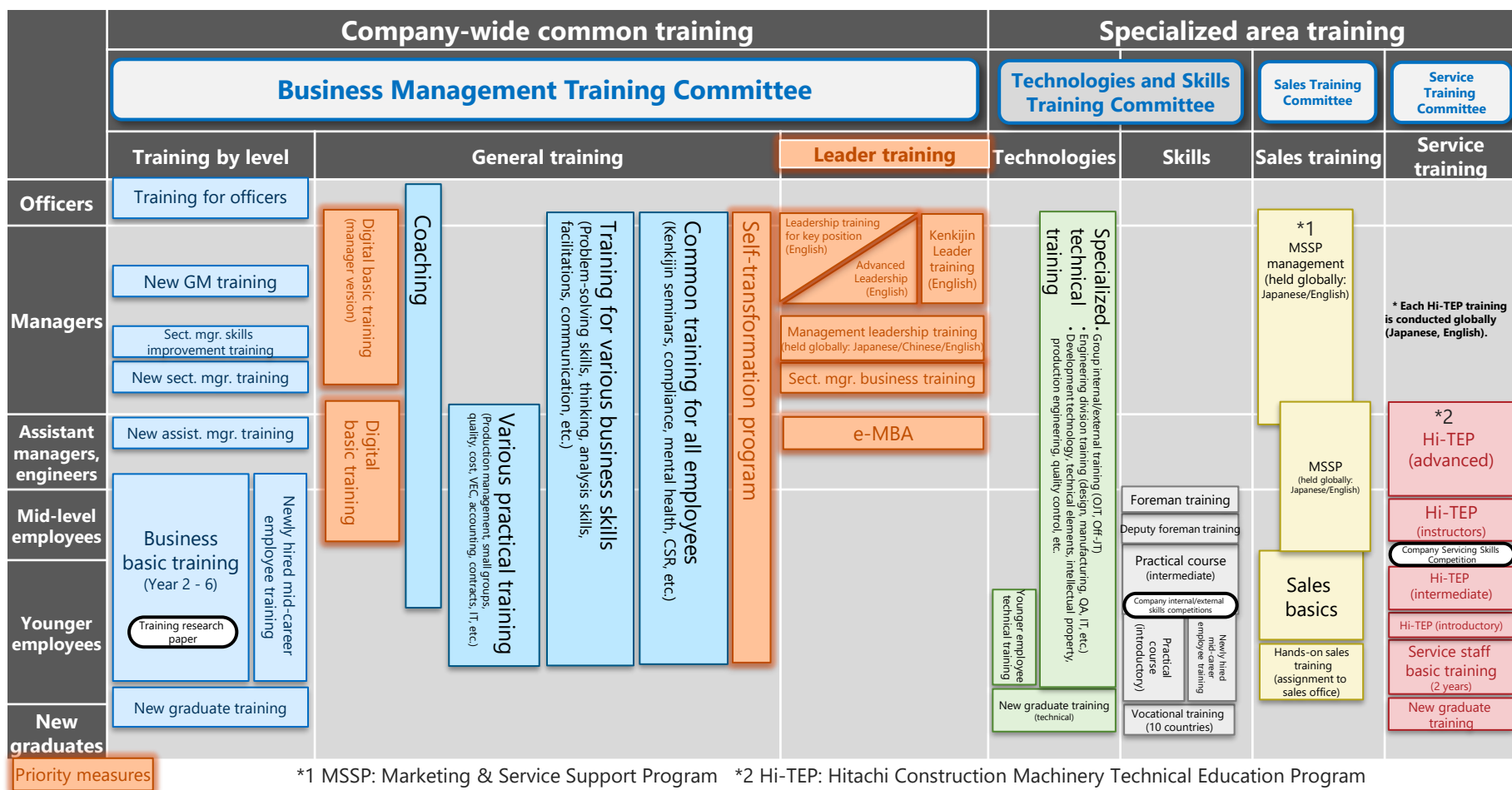
Contribute to business creation and transformation.

Reference materials

TCFD scenario analysis (overall image)

Points strengthened from before





Shift to a Risk-Sharing Corporate Pension Plan (Scheduled to be implemented on March 1, 2023)

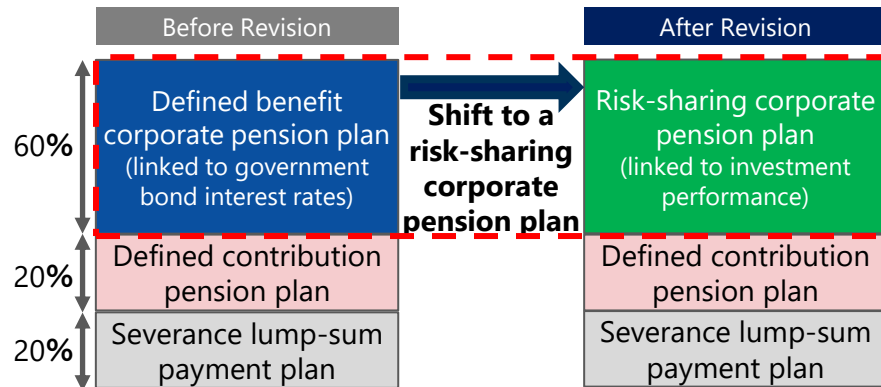
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Reliable solutions

1. Purpose of Pension Plan Revision (Shift to a Risk-Sharing Corporate Pension Plan)

To improve benefit levels while ensuring the sustainability of the system amid concerns that benefit levels will decline due to the continuing low-interest-rate environment

2. Summary of Pension Plan Revision



- Change in benefit amount from “Government bond interest rates-linked” to “Investment performance-linked”. This change increases employee benefits and the likelihood of contributing to the improvement of human capital.
- Shift from a defined benefit corporate pension plan to a risk-sharing corporate pension plan. This shift eliminates management risk due to unexpected increase in contribution burden and realizes a pension plan that is sustainable over the medium to long term.

3. Impact of Pension Plan Revision on Business Performance

- Since risk-sharing corporate pension plans are classified as defined contribution plans, the difference between the retirement benefit obligations related to the portion transferred to the revised plan and the amount of assets transferred to the revised plan corresponding to the decrease in retirement benefit obligations at the time of transition, ¥12 billion, is expected to be recognized as a settlement loss (expected to be recognized in financial results in 4Q FY22). There are no cash outflows due to this plan revision.
- The Company’s policy is not to take the above-mentioned temporary loss into account for the purpose of calculating the consolidated dividend payout ratio, since it will be a one-time treatment under the revised plan.
- The impact on consolidated results from FY23 onward is expected to be negligible, although there will be a risk reserve contribution.

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

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Reliable solutions

Item			Description	FY 2019 Results	FY 2020 Results	FY 2021 Result	FY 2022 Targets	FY 2030 Goals
Product and technology development contributing to climate change mitigation and adaptation	CO ₂ reduction	Products (Scope3)	CO ₂ reduction (absolute emissions) compared to fiscal 2010	-15.9%	-16.5%	-21.4%	-20%	-33%
		Production (Scope1+2)	CO ₂ reduction (absolute emissions) compared to fiscal 2010	-20.1%	-27.2%	-27.1%	-25%	-45%
		Value chain	Save CO ₂ through used equipment/parts remanufacturing	19,100 t	16,563 t	19,686 t	23,800 t	Minimize the environmental load across the entire value chain
	Disaster response, recovery, and reconstruction support		Emergency disaster and other forms of cooperation (Number of disaster agreements with local municipalities in Japan)	42 agreements	54 agreements	114 Agreements	83 Agreements	Partnerships and support for major municipalities and industry groups
Conversion to recycling-oriented business model	Resource recycling	Value chain	Waste reduction	7,700 t	6,630 t	7,868 t	9,500 t	Minimize the environmental load across the entire value chain
		Waste	Recycling rate (Japan)	89.6%	83.3%	83.9%	99.5%	Aiming for 99.5% or higher
		Water	Usage reduction (intensity) compared to fiscal 2010	-28.9%	-36.8%	-40.2%	-28%	Advanced water recycling usage / Minimization of regional impact
	Regional coexistence through the promotion of a circular economy		Expand the parts remanufacturing business sales revenue compared to fiscal 2010	296%	308%	402%	420%	Adoption of services that meet regional needs
			Expand the used equipment business sales revenue compared to fiscal 2010	87%	90%	104%	280%	Adoption of products that meet regional needs

Item		Description	FY 2019 Results	FY 2020 Results	FY 2021 Results	FY 2022 Targets	FY 2030 Goals
Creating innovative solutions for challenges faced by customers supporting social infrastructure	Improving safety	Functionality to reduce accidents caused by Hitachi Construction Machinery's products	Expanded the functionality of the "Aerial Angle" peripheral vision display system to detect objects and restrict movement	Development of System Platform "ZCORE" for Autonomous Construction Machinery	Develop operation support systems that contribute to reduced Accidents	Achieve cooperative control between people and machinery	Contribute to "zero" overturn and fatal accidents
	Increasing productivity	Number of ICT machines adopted (target work sites)	493 units (total) (1,675 total work sites)	699 units (total) (2,579 total work sites)	1,160 units (total) (3,704 total work site)	2,800 unit (total) (5,000 total work sites)	Aiming for the standardization of automated and labor saving construction machinery
	Reducing lifecycle costs	Adoption rate of machinery status management systems (ConSite)	73%	75%	72%	90%	Aiming for "zero" downtime
	R&D system	Ratio of R&D costs to sales revenue	2.5%	3.0%	2.5%	3.0%	3.0% or higher
	Technology transfer	"Kataribe" (Storytelling) sessions	Held: 41 sessions Participants: 918	Held: 52 sessions Participants: 891	Held: 46 session Participants: 906	Quality improvement	Quality improvement

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

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Reliable solutions

Item		Description	FY 2019 Results	FY 2020 Results	FY 2021 Results	FY 2022 targets	FY 2030 Goals
Strengthening global governance	Occupational hazards	Zero occupational hazards (compared to the previous FY, Japan)	-18%	-49%	157%	-50%	Aiming for zero
	Employee education	Number of e-learning participants	175% (Compared to FY2018, Total number by Hitachi Construction Machinery alone)	553% (Compared to FY2019, Japan, Hitachi Construction Machinery Group as a whole)	589% (Compared to FY2019, Japan, Hitachi Construction Machinery Group as a whole)	200% (Compared to FY2019)	500% (Compared to FY2019) Increase the total number of people by expanding enrollment opportunities
	Global leaders	Leadership training enrollment ratio (global)	60.4% (total)	78.0%(total)	88%(total)	100% (total)	100% (total)
	Diversity initiatives	Ratio of women in managerial positions (global)	Female 8.6% (Male 15.7%)	Female 8.7% (Male 16.2%)	Female 10.4% (Male 14.9%)	Female 9.4% (Male 13.3%)	Aim for an equal ratio of men and women
		Local ratio at overseas group companies (General Manager positions)	69%	67.3%	71%	72%	87%
	Fair procurement	Implement supplier of CSR surveys	83.5% (collection rate)	94%	66%	Standardized to improve the collection rate	100% Aim for a 100% collection rate by establishing the operation
	Eradicate corruption and bribery	Number of corruption and bribery legal violations	0 cases	0 cases	0 cases	0 cases	0 cases
	Corporate governance	Outside, female, and foreign national directors	Outside Directors: 3 out of 10 people Female Directors and Foreign national Directors: 1 person	Outside Director: 4 out of 10 Female and Foreign national Directors: 2 persons	Outside Director: 4 out of 10 Female and Foreign national Directors: 2 persons	Outside Director: Over 1/3 of all directors Female and Foreign national Directors: 2 or more in total	Shift to a system suitable for strengthening the business and improving governance
	Corporate ethics and behavior	Continue to provide examples and education to employees	Implement "compliance training" for roughly 10,000 employees	Conducted "Hitachi Group Corporate Ethics and Compliance Code Training" for 26,080 employees	Conducted "Hitachi Group Corporate Ethics and Compliance Code Training" for 26,783 employees	Zero compliance violations	Zero compliance violations
	Respect for human rights	Education enrollment rate in the "business and human rights" e-learning course	79%	78%	81.4%	100%	100%

END

[Trademark Notes]

"AERIAL ANGLE," "ConSite," and "ZCORE" are registered trademarks of Hitachi Construction Machinery Co., Ltd.

February 17, 2023

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Corporate Brand & Communications Group