Value Creation Process

The Hitachi Construction Machinery Group will utilize digital technology in the value chain businesses that it has focused on to date. We will also further enhance the solutions that we provide every time we have contact with our customers. By doing so, we aim to maximize our social and environmental value.

Hitachi Construction Machinery Group's External Environment

Progress of global warming	Development of infrastructure that is resistant to natural disasters	Mass consumption and depletion of resources	Acceleration of DX	Transformation to a circular economy	Human Rights Issues/Requirements for Supply Chain Management

INPUT (input capital)

Financial Capital (FY2021 Results)

- Equity attributable to owners of the parent (Shareholders' equity): 611.6 billion yen
- Net interest-bearing debt: 258.9 billion yen
- Consolidated dividend payout ratio: 30.9%

Manufacturing Capital

- Development and provision of ICT/IoT-based solutions
- To achieve uniform global quality
- Expand investment in global bases (50 billion yen by FY2027)
- Production sites: 14 in Japan, 11 overseas
- Developing a global parts remanufacturing business

Intellectual Capital

- Research and development investment: 25.5 billion yen (FY2021 results)
- Overseas patent application ratio: 30% or more
- Various patent rights, expertise in on-site operations

Human Capital

- Number of consolidated employees: 24,987 (as of March 31, 2022)
- Diverse geographic employee: Japan 39.5%, Overseas 60.5% (as of March 31, 2022)
- Four independent outside directors (including two females)
- Highly specialized and skilled human resources

Social and Relationship Capital

- Comprehensive strength and power of the brand
- Business operations in more than 100 countries and regions around the world

Natural Capital (FY2020 results)

- Material input: 340,989 tons
- Energy input
  Electricity: 330,123 MWh
  Fuel oil: 3,675 kl
  Gas: 33,374,000 m³
- Water usage: 1,131,521t
- Chemical inputs: 1,263t

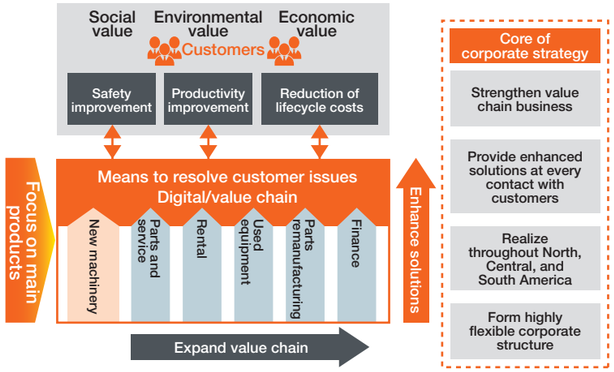
Business domains and business strategies

Corporate vision To pass on a productive environment and prosperous cities to future generations… Contribute to the creation of comfortable living spaces

Kenkijin Spirit Three Cs of the Kenkijin Spirit: Challenge, Customer, and Communication.

Core of corporate strategy

We aim to continue to win the unwavering trust of our customers and build a solid position in the global market by making full use of digital technology based on our four pillars.

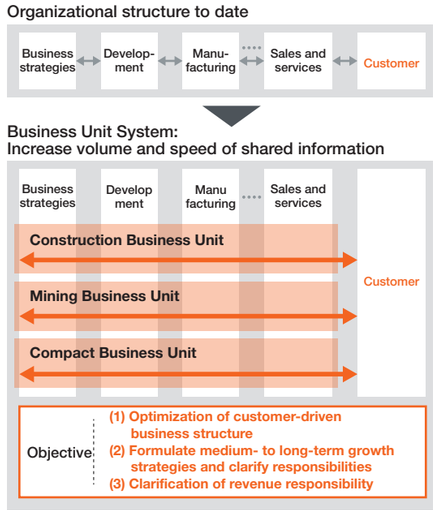


Adoption of a business unit system

Each business unit is responsible for driving and being accountable for its business in a single integrated manner. Reduce vertical divisions, speed up decision-making in business planning, and clarify performance responsibility.

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
- Development Supervision, Quality Assurance, General Affairs, Finance, Legal, and other departments
- Group companies (Hitachi Construction Machinery Japan, Hitachi Construction Machinery America, etc.)



Hitachi Construction Machinery Group's Materiality

OUTPUT (FY2021 results)

Product and technology development contributing to Climate Change Mitigation and Adaptation

- **Reduction of CO_2 emissions**
  - Reducing CO_2 emissions from products (Scope3)(total): -21.4% (Compared to fiscal 2010)
  - Reducing in CO_2 emissions from production (Scope1+2) (total amount): -27.1 (Compared to fiscal 2010)
- **Product development**
  - We began receiving orders for the 5-ton class ZX55U-6EB battery-powered mini excavator in the European market in June 2022
  - Increase production facility capacity for compact products by approximately 1.3 times by FY2025 (compared to FY2021, based on the number of complete machines)
  - Joint development of an engineless, fully electric rigid dump truck with ABB, a major heavy electrical equipment manufacturer.

Conversion to recycling-oriented business model

- **Rental and Used Equipment**
  - Sourcing our own rental equipment in the Southeast Asia region as high-quality used equipment. Development of certified used equipment.
- **Remanufactures entire machines**
  - Remanufacture a submerged hydraulic excavator to function as well as a new machine and sold as a PREMIUM USED, certified pre-owned machine with warranty.
  - Remanufacture of an ultra-large hydraulic excavator (EX1200) to its original condition and minor changes to the product are reflected in Hitachi Construction Machinery Zambia.
- **Parts remanufacturing, parts & service**
  - Establishment of second parts remanufacturing base in Indonesia.
  - Jackson Parts Warehouse, which stores parts to be supplied throughout the Americas, begins operations.
  - Establishment of Ami Parts Center specializing in service parts for mining equipment (started operation in July 2022)

Creating innovative solutions for challenges faced by customers supporting social infrastructure

- **Optimal relationship between people and machinery**
  - Launch of AERIAL ANGLE STEP IV, a driver assistance system that contributes to reducing damage from contact between aircraft and obstacles (April 2022)
  - Launch of Solution Linkage Work Viewer Cloud, a construction video sharing solution that supports construction progress management from the perspective of both workers and managers (April 2022)
- **Productivity improvement by DX**
  - Launch of ConSite Mine, which utilizes IoT and AI to contribute solve issues at mine sites
  - Launch of Solution Linkage Point Cloud, a service that converts photos taken by drones into 3D point on the cloud.
- **Localization**
  - Participation in a public-private partnership project to train construction machinery operators promoted by the Zambian government.

Strengthening global governance

- **Corporate Governance**
  - Five outside directors out of ten directors and two female directors out of ten directors (as of June 27, 2022)
  - Add ESG evaluation to the evaluation index of performance-based compensation for executive officers (April 2022)
  - Establishment of Enterprise Risk Management Committee responsible for company-wide risk management (April 2022)
- **Compliance**
  - Conducted Hitachi Group Code of Ethics and Compliance Training globally (26,783 trainees)
  - Global compliance reporting support in 200 languages (49 reports)
- **Risk Management**
  - Conducted a risk survey of suppliers in the Asia region (71% response rate)
- **Human Resource Development**
  - Implemented a self-improvement program for the entire domestic and overseas group including management executives (cumulative total of 3,343 participants from 2019 to March 2022)
  - Implement leadership training to develop global leaders (cumulative 88% of global target audience participation)

Financial results (FY2021 results)

Sales Revenue
1.025 trillion yen

Sales composition ratio of the value chain business
40%

Consolidated dividend payout ratio
30.9%

Total Shareholder Return (TSR)
128.6%

OUTCOME (created value)

Financial Capital

- Sales revenue: 1 trillion yen or more
- Return to double-digit operating income ratio on a stable basis

Manufacturing Capital

- Establishment of an integrated production system from parts to finished products
- Sophistication through factory IoT promotion

Intellectual Capital

- Transformation to Innovative research and development
- Leading the achievement of automated construction
- Nurture new businesses that are not bound by conventional businesses

Human Capital

- Diverse human resources working with the Kenkijin Spirit
- Share of global human resource policy
- Develop management leaders to drive growth
- Develop digital human resources to achieve solutions
- Develop MONOZUKURI specialists

Social and Relationship Capital

- Expand business scale through restructuring of business units and global network of 9 business in North, Central and South America
- Shifted from a consolidated subsidiary to an equity method affiliate of Hitachi, Ltd.
- Continued collaboration with the Hitachi Group in each R&D field

Natural Capital

- Contribution to carbon neutrality through value chain business
- Circular economy expansion contributes to CO_2 reduction

Pursuit of maximizing social, environmental and economic value