

HITACHI

Hitachi Construction Machinery Group

Integrated Report 2022

Reliable solutions



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

At Hitachi Construction Machinery America headquarters

Editorial Policy

The Hitachi Construction Machinery Group publishes an Integrated Report to provide stakeholders with a deeper understanding of our medium- to long-term value creation strategy and ESG (Environmental, Social, and Governance) initiatives. The 2022 edition is structured around the CEO Message, with an awareness of sustainable corporate value creation from both financial and non-financial perspectives, including future developments in the North, Central, and South America business and the outlook due to the organizational change to a business unit system.

Target Period
April 1, 2021~ March 31, 2022
(Includes certain information from April 1, 2022 and later)

Organizations Covered
Hitachi Construction Machinery Group consolidated subsidiaries
·Scope of performance data
[Financial Reports]
Hitachi Construction Machinery Group consolidated subsidiaries
[Non-Financial Reporting (Environment)]
Hitachi Construction Machinery Co., Ltd. and its consolidated subsidiaries
[Non-financial reporting (society)]
Hitachi Construction Machinery Co., Ltd. and certain consolidated subsidiaries

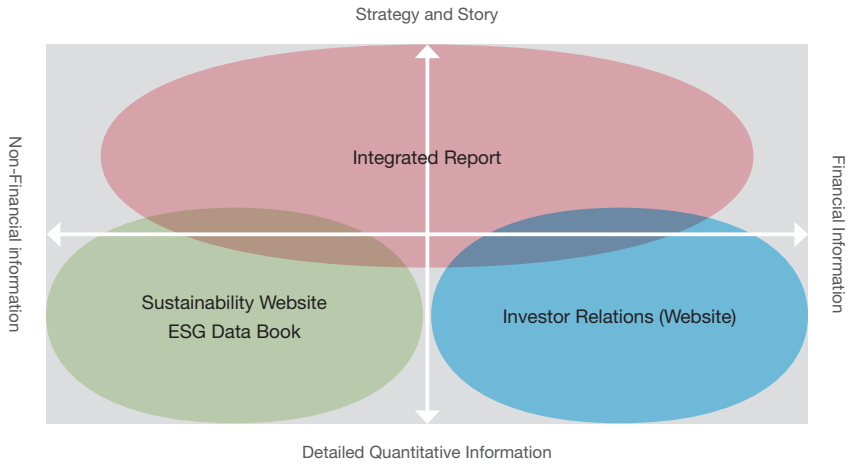
Referenced Guidelines
We prepared the Hitachi Construction Machinery Group Integrated Report and Sustainability Website in accordance with the Core option of the GRI Standards and referencing the International Integrated Reported Framework of the International Integrated Reporting Council (IIRC) and the Guidance for Integrated Corporate Disclosure and Company-Investor Dialogues for Collaborative Value Creation of the Ministry of Economy, Trade and Industry.

Cautionary Statement Regarding Forward-Looking Statements
The forward-looking statements contained in this Integrated Report are based on management’s assumptions and beliefs in light of the information available at the time. Actual business results and performance may differ materially due to future economic conditions, market trends, demand, exchange rate fluctuations, and other factors.

Publication Date
October 2022
Previous Issue: September 2021
Next Issue: October 2023 (tentative)

Our Communication Map

In addition to publishing this Integrated Report, the Hitachi Construction Machinery Group fulfills our accountability and engages in more meaningful communications with stakeholders through media that include our ESG Data Book and Sustainability Web site.



ESG Data Book
We publish detailed information related to the ESG performance of the Hitachi Construction Machinery Group in our ESG Data Book.



Sustainability Website
This site provides a comprehensive report on the sustainability activities of the Hitachi Construction Machinery Group.



Investor Relations (Website)
This website provides information on financial results and IR news in a timely manner. This website also provides information for individual investors and various IR materials.



Corporate Governance Report
Our Corporate Governance Report describes the basic approach of the Hitachi Construction Machinery Group to corporate governance and capital structure.



TIERRA+ (Information Magazine)
TIERRA+ is a quarterly magazine published to inform a wide range of stakeholders about Hitachi Construction Machinery Group activities in Japan and overseas.

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CEO Message

Strengthening Total Support Capabilities by Asking, “How Far Can We Go With the Construction Machinery in Operation Around the World?”

Hitachi Construction Machinery Co., Ltd.
Representative Executive Officer, President, Executive Officer and Director, CEO
Kotaro Hirano

[Our Business Environment]

Agile Management in a Turbulent World

Amidst the turmoil caused by the COVID-19 pandemic, the invasion of Ukraine by Russia has only added to the complexity of the world. The effects of the Russian-Ukrainian crisis have had a major impact not only on the countries concerned, but also on our business, with repercussions spilling over into a variety of other areas, including energy price hikes, financial market instability and food insecurity.

Looking at these changes from the short- medium-, and long-term perspectives, we must carefully consider and execute our next moves. In other words, we must operate our businesses with *agility*. Agility, however, requires a well-balanced combination of brains, heart, and physical strength. To lack any of these

elements, means we will be swallowed up in the great whirlpool of social change. We feel a strong sense of urgency.

And we have a long history of overcoming such difficulties. For example, looking back to the 1990s, when our group was focused on the domestic business, we were impacted negatively by the Asian economic crisis. However, driven by the desire to be proactive in controlling the damage caused by the economic crisis, we expanded our business overseas, building a network of distributors and factories across Asia.

I am proud to say that the spirit of taking on challenges, turning adversity into opportunity, has taken root in our organizational culture.

[North, Central and South America Businesses]

Taking on the Challenges of the World's Largest Construction Equipment Market

One of the major changes in our group is the start of full-scale independent expansion into the North, Central, and South American markets in fiscal 2021. As is well known, the North, Central, and South America market is the world's largest for construction machinery, accounting for about 40% of global demand. This market is also the world's largest for mining machinery in operation. For example, the European market is dominated by construction and small construction machinery used in public works projects, as well as in the construction of buildings, homes and other structures. The region only has a limited number of mining machines in operation. Australia, on the contrary, is a market for large mining machines used in resource mining and other applications. In comparison, North, Central, and South America rep-

resents a large-scale market active for all types of construction and mining machinery.

However, we have not performed well in North, Central, and South America historically. Under our business alliance with major U.S. agricultural machinery manufacturer Deere & Company (Deere) in 1988, we were responsible for product development and production. Deere was responsible for sales and service, which prevented us from providing our own sales and service operations. In the beginning, customers were satisfied as long as their equipment performed well and was of good quality. But as customer needs shifted dramatically from products to services, we were faced with the increasing requirement to identify customer needs on our own, providing products,

technologies and services directly and in a timely manner using machine operating information. After repeated discussions with Deere, we decided to dissolve the joint venture agreement.

We began the full-scale expansion of our own business into North and South America in March 2022. This independent

expansion has been a long-held dream of ours. We opened a new door, but now the real work begins. It will be important for us to listen to customer issues and work as a team to find solutions. But I believe that Hitachi Construction Machinery employees can meet this task.

[Shared Group Value Standards]

The Three Cs Supporting the *Kenkijin Spirit*

The *Kenkijin Spirit* is a value standard and code of conduct shared by the Hitachi Construction Machinery Group. The *Kenkijin Spirit* was born in 2004, when overseas sales began to rise, as did the ratio of foreign nationals among our employees. When Japan was our main market and our group consisted mostly of Japanese employees, we relied on tacit communication in which details were understood without being spoken. But as overseas sales exceeded half of total sales, and the ratio of overseas employees also increased, we found it difficult to achieve consensus in meetings and other occasions based solely on the Japanese approach. We felt the need for a common key phrase that would overcome the language barrier and serve as a grounding point to improve strained relationships.

Many employees in Japan and overseas discussed their opinions over a period of months, after which we came up with a clear statement of a shared global mindset in the form of the *Kenkijin Spirit*. The three Cs of the *Kenkijin Spirit* are defined as: “Challenge (pioneering spirit),” “Customer (being individual cus-

tomers oriented)”, and “Communication (openness)”. Just as there are 100 different issues faced by 100 different customers, we must listen carefully to what our customers want, communicate and take on the challenge of solving their problems. As you see, the three Cs do not exist in isolation. Rather, the *Kenkijin Spirit* exists as the interrelation of these elements.

Each employee must always ask whether they are truly putting themselves in the customer's shoes, putting the three Cs into concrete actions. Without practicing this idea on a daily basis, it would be a challenge to achieve a *Kenkijin Spirit* organizational culture. For example, we sponsor an activity called the Kenkijin Seminar. An employee once mentioned to me that they worked in procurement, so they never spoke directly with customers. My response was that the end customer is not the only customer. All the people we interact with on a daily basis are also customers. I believe it is important to communicate this message through opportunities like this.



Meeting With Employees of the Hitachi Construction Machinery Australia Gunnedah Branch



[Organizational Structure Reform]

Business Unit Structure Strengthens Individual Customer Orientation

As we began our independent development in the Americas in April 2022, we reorganized into a business unit system that embodies the *Kenkijin Spirit*. Prior to this, our organizational structure was divided into functions under development, production, procurement, sales, and service. While this organization was effective in terms of efficiency, we felt unsure whether customer needs were being conveyed to development and production, and whether we explained our intentions to customers in a timely manner. Therefore, we changed to a system based on business units. Here, each unit head makes decisions regarding everything from development to sales and services, listening to and incorporating customer input.

As customer needs diversify today, we must become a par-

ticipating member of their businesses, or we will not be able to understand their vision. For this reason, our new organizational structure is more focused on the individual customer, from the aspect of each of their needs.

At the same time, this structure also has a tendency to pursue short-term goals. Therefore, our directors must be sure to lead the company based on a medium- to long-term perspective. I believe this is the role of the board members. We intend to keep a close eye on whether the approach and direction of each department is well-balanced, whether funds are being used efficiently and whether the right personnel are being assigned to the right jobs.

[Change in Capital Structure]

Painting a Picture in North, Central, and South America Through New Alliances

Another major development in fiscal 2021 was a change in our capital structure. Much like our progress in North, Central, and South America business, this is a story we have been working on in parallel for about three years. Naturally, we talked with Hitachi, Ltd. about taking control of our own sales and services in North, Central, and South America. But to make this plan a reality would require a considerable amount of capital. A certain amount of inventory is required to build sales volume, so financing is also important. We also had to consider building a factory. We exchanged opinions with Hitachi, Ltd. about the best capital structure to facilitate quick decision-making to meet the expectations of our distributors and customers.

After these discussions, Hitachi, Ltd. announced its intention to sell 26% of its 51% stake in our company to HCJI Holdings G.K., a joint venture company between ITOCHU Corporation and Japan Industrial Partners, Inc. One of the main reasons HCJI Holdings expressed interest in Hitachi Construction Machinery was our ambition to independently tackle the North, Central, and South America businesses. The picture that Hitachi Construction

Machinery is painting on a blank canvas is what drew so much interest. For the Hitachi Construction Machinery Group, the ability to collaborate with ITOCHU in North America and other regions in areas such as finance will be a major advantage. Finance plays an important role in growing sales of construction and mining equipment. We see this change in capital structure as a positive development as we aim to increase our presence in the North, Central, and South American markets.

The dissolution of the alliance with Deere and the change in capital structure are two separate events that happened to coincide, but in my mind, they have always been linked. And behind this series of changes has been our goal to transform our business model to one focused on the value chain business, which includes not only new equipment sales, but also service, rental, used equipment, refurbishing and financing. And the reason we aim to strengthen our value chain business is to solve the problems faced by our customers. Everything is connected to this goal.

[Value Chain Business]

Aiming to Generate 50% or More of Revenue From the Value Chain Business

Since fiscal 2016, we have pursued a policy of strengthening our value chain business. Our goal is to increase the share of revenue from the value chain business to 50% or more by the end of fiscal 2022. And expanding our business in North, Central, and South America will be a critical part of achieving this goal. For example, we offer a service solution, ConSite, to customers in Japan, Europe, Asia and other regions to monitor the operating status of machinery. If this solution becomes widespread in North, Central, and South America, we can obtain even further operating data. And we can create a virtuous cycle by applying this data to evolve ConSite further. This evolution will also lead to the growth of other services, including rentals, used equipment and parts remanufacturing.

What I hope to achieve is to extend the life cycle of machinery to maintain them in good condition. For example, we will buy used machinery that has been offered on rental in Japan for five years, and then sell it as used equipment in the United States. After another five years, including the installation of refurbished parts, we will then sell the equipment as remanufactured machines to customers in emerging economies such as those in Central and South America. Leveraging our strengths as a manufacturer, we not only repair the equipment but also improve functionality. In this way, construction machinery that would otherwise be discarded after 10 years can be used for 15 years. And we will have the opportunity to continue providing services to our customers during that time.

In addition to the parts remanufacturing we performed in the

past, in fiscal 2021, we began a new initiative to take hydraulic excavators submerged in typhoon-related floods back from customers and refurbish the entire chassis of the machines. This is a very interesting idea, but such ideas can only arise if we keep our ears to the ground and in close proximity to the front lines of our business. These activities will lead to more value chains, allowing us to continue providing a wide range of solutions and services to our customers.

Today, Hitachi Construction Machinery has approximately 300,000 units of construction machinery in operation in more than 100 countries around the world. Extending service lives will enable many of these machines to remain in active use. There are also benefits to be had when considering the environmental issues with respect to circular economies. Customers can enjoy the use of new, used, and rental equipment, while making more efficient use of construction machinery for a longer period of time. For us, this is also a point of differentiation from competing manufacturers.

We believe the sales composition ratio of the value chain business in terms of circular economies is not simply an indicator of performance, but also proof that our customers and society recognize the efforts of the Hitachi Construction Machinery Group. At 40% in fiscal 2021, we feel we still have more work ahead of us. By developing our business firmly in North, Central, and South America, we will bring this ratio closer to 50%. The important point for us is to work together with our customers to solve not only their problems, but also issues in society.



[Human Capital]

Openness Makes the Most of Diversity in Human Capital

We must also consider diversity and inclusion in terms of organizational issues. At first glance, it may seem that our base of human resources is becoming more diverse. We employ people from more than 30 different countries, and the number of women in management roles is increasing. However, it is also true that we have many areas to review to determine if we are making the highest use of our diverse human resources.

Specifically, we believe that individuals must become more capable and responsible. Ideas that die on the vine will never lead to organizational growth. Rather than pursuing short-term numbers and the percentages for ostensible diversity, we must

foster human interaction to stimulate growth, or in other words, we must pursue essential communications.

To this end, we implemented an annual meeting beginning this year with each regional manager to provide an avenue for communications. The Hitachi Construction Machinery Group employees nearly 30,000 people. I want to reaffirm my commitment here to communicating my thoughts to the very front lines of our businesses and to learn what is happening on the ground. In this way, I hope to establish openness in the truest sense of the word, making the most of our diverse base of human resources.

[To Our Stakeholders]

Working Together With Customers to Create Sustainable Societies

We have never changed our basic recognition that our Hitachi Construction Machinery Group businesses are essential businesses*. Customers who use our construction and mining machinery are also involved in essential businesses. Therefore, it is of utmost importance for us to be diligent in selling, renting and repairing customer equipment to ensure smooth business operations for our customers.

Our banner mission is to watch over construction machinery. But the more a machine is used, the more likely it is to break down. The older a machine, the more likely mechanical issues arise. To maintain a close watch on these machines, we must develop systems to obtain information, to train people and to build a support mechanism — all treated as a comprehensive

set of services. This is a big challenge. But we have no intention to quit and will continue to pursue this ideal. Because this is our mission.

We must go even further in strengthening our total support capabilities, asking, “how far can we go with the construction and mining machinery in operation around the world?” To this end, we will communicate with customers and take on the challenge of working together to create sustainable societies. And, through trial and error, we will continue to make steady progress.

*Businesses that are indispensable to daily living



We Are Kenkijin!

We asked all of our global offices to make a *My Kenkijin Spirit* declaration.

The *Kenkijin Spirit* is the shared values and code of conduct for the Hitachi Construction Machinery Group. Employees in Japan and overseas gathered together to voice their opinions and state clearly that this spirit is a shared global mindset. Laziness, complacency, and lack of openness—these are reasons for a company's decline. The Three Cs are the opposite of these negative elements. For me, the *Kenkijin Spirit* is both a source of pride and a reminder.

The Three Cs of the *Kenkijin Spirit*

3C

Challenge
Customer
Communication

The *Kenkijin Spirit* is the mindset of a *Kenkijin* who understands the vision of Hitachi Construction Machinery and acts on his or her own to achieve that ideal.

We aim to foster a corporate culture in which every employee around the world takes on the challenge of creating valuable technologies, products, services, and solutions from the customer's perspective.



History of the Hitachi Construction Machinery Group

In 1949, the U05 cable-operated shovel was unveiled in the Hitachi Ltd. Kameari Works as a purely Japanese machine, designed for postwar reconstruction and social capital improvement. The full-scale production of the U06, a remodeled version of the U05, began in 1950, marking the beginning of Hitachi Construction Machinery Co., Ltd.

Over the following 70 years, the Hitachi Construction Machinery Group produced the latest advancements in construction machinery to meet the needs of the construction industry. At the same time, the group developed a sales and service network in every corner of the world, built on an integrated system of rental, sales, and service (RSS) to meet the needs of our customers. The Hitachi Construction Machinery Group will continue to deliver products, services, and solutions that contribute to on-site operations for customers around the world under the slogan, *to pass on a productive environment and prosperous cities to future generations*.

Keys for Understanding the Hitachi Construction Machinery Group of Today

Re-entry into North, Central, and South America

We dissolved a 30-year business alliance with Deere. Now, we are working to reestablish our own sales and service network throughout the Americas.

Adoption of a business unit system

We are reviewing our existing organizational structure by function, adopting a business unit system that integrates design, manufacturing, sales, and service functions. We plan to transform our organization into a customer-driven business structure.

Strengthen value chain business

Focus on businesses other than new machinery sales (parts and service, rental, used machinery, and parts remanufacturing). In FY2021, we expanded the sales composition ratio of our value chain business to 40%.

Partner expansion

In January 2022, Hitachi, Ltd. announced the sale of about half of its shareholding in Hitachi Construction Machinery to a new Hitachi Construction Machinery collaborative partner. The share transfer was completed in August. We will soon begin collaborations with this new partner in earnest.

Provide reliable solutions

We provide various solutions through the full use of digital technologies to solve customer challenges in improving safety, improving productivity, and reducing life-cycle costs.

ESG management

We have recently identified materialities for the group. Based on these materialities, we will contribute solutions to social issues and achieve sustainable group growth through our business activities.



1950

Development of the U06 cable-operated shovel is completed and the mass production starts.



1997

Development of the EX5500, the world's largest class ultra-large hydraulic excavator, is completed.



2000

The ZAXIS Series, hydraulic excavators incorporating the world's first satellite communication function, is introduced.



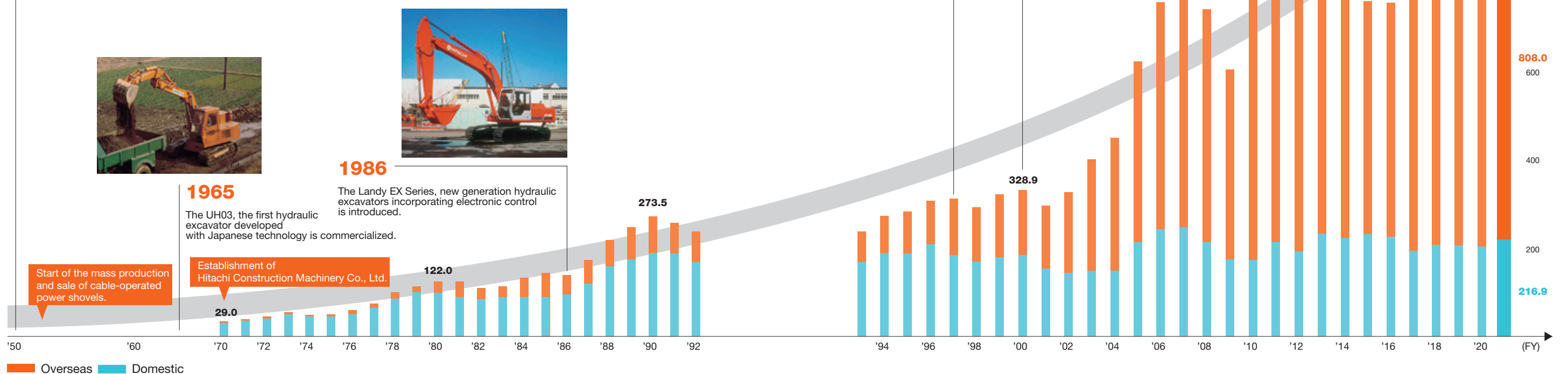
2013

The ConSite service solutions that ensure optimal operations of machines used by individual customers is introduced.



2016

The ZX200-5B, a hydraulic excavator and a core of the information-oriented construction (ICT) solutions, is introduced.

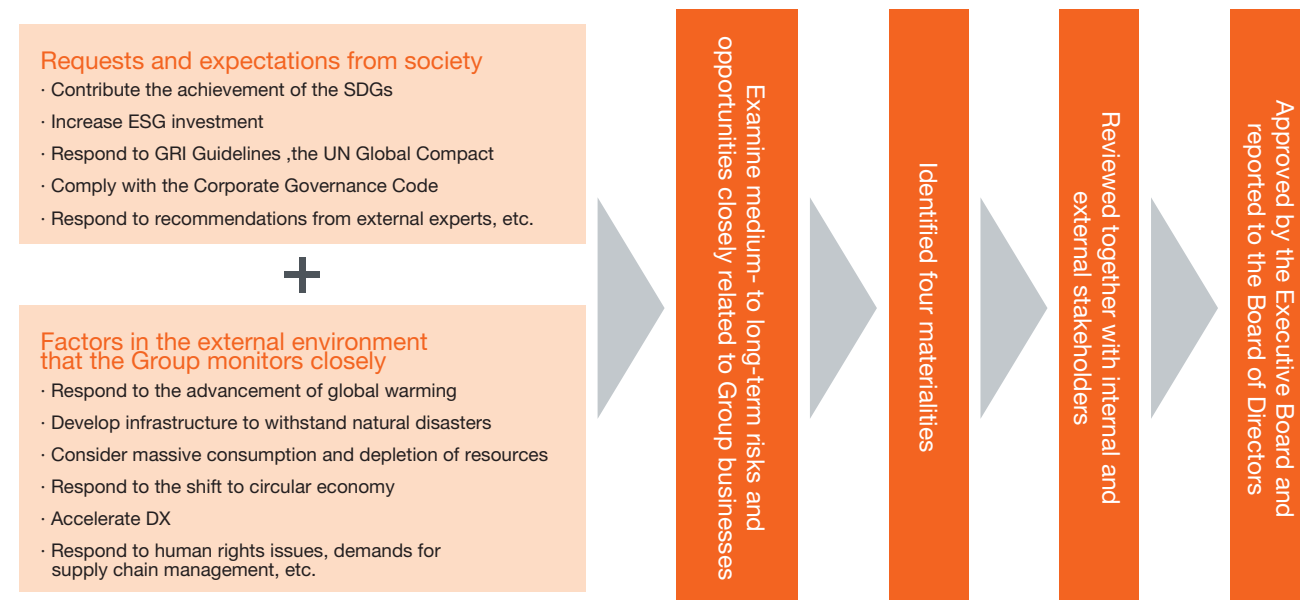


Hitachi Construction Machinery Group's Materiality

The Hitachi Construction Machinery Group reassessed materialities in fiscal 2021 in light of changes in social conditions, policies, and regulations in various countries. In the identification process, we examined medium- to long-term risks and opportunities from the perspectives of social issues, such as the SDGs and ESG, and the perspective of the external environment, which can enhance or damage corporate value. In this process, we identified four materialities. After repeated discussions, and tak-

ing into account the opinions of internal and external stakeholders, our Executive Board approved these four categories in July 2021, after which we reported the results in a Board of Directors meeting. We established key performance indicators (KPIs) for each materiality, managing progress a sustainability governance system. We will continue to reassess materialities as needed in light of changes in the external environment and other factors.






Materiality Identification Process



Major risks and opportunities associated with changes in the external environment

External Environment	Risks	Opportunities	Materialities
Respond to the advancement of global warming	<ul style="list-style-type: none"> Suspension of operations due to natural disasters Stricter environmental regulations in each country and region Changes in industrial structure due to the transition to low-carbon economies 	<ul style="list-style-type: none"> Increased demand for environmentally conscious products and services Attracting ESG investment 	Development of products and technology contributing to climate change mitigation and adaptation
Develop infrastructure to withstand natural disasters	<ul style="list-style-type: none"> Supply chain disruption due to lack of progress in infrastructure development Market contraction due to decline of local economies 	<ul style="list-style-type: none"> Increased demand for infrastructure maintenance and upgrades 	
Consider massive consumption and depletion of resources	<ul style="list-style-type: none"> Damage to corporate value due to delays in implementation of initiatives Increased costs for introducing resource-conserving machinery 	<ul style="list-style-type: none"> Expansion into new businesses Improvement of productivity via AI and IoT 	Conversion to recycling-oriented business model
Respond to the shift to circular economy	<ul style="list-style-type: none"> Increase in initial investment for conversion Increased product recovery and processing costs Increased procurement costs 	<ul style="list-style-type: none"> Increase in new business opportunities, markets, and demand Reduction of manufacturing costs 	
Accelerate DX	<ul style="list-style-type: none"> Expansion of competitors and new entrants 	<ul style="list-style-type: none"> Expansion of contacts with start-ups leading to deeper strategies 	Creating innovative solutions for challenges faced by customers supporting social infrastructure
Respond to human rights issues, demands for supply chain management, etc.	<ul style="list-style-type: none"> Loss of public trust due to human rights violations Loss of trust in business partners 	<ul style="list-style-type: none"> Gain social credibility through appropriate human rights initiatives 	Strengthening global governance

Materialities and KPIs

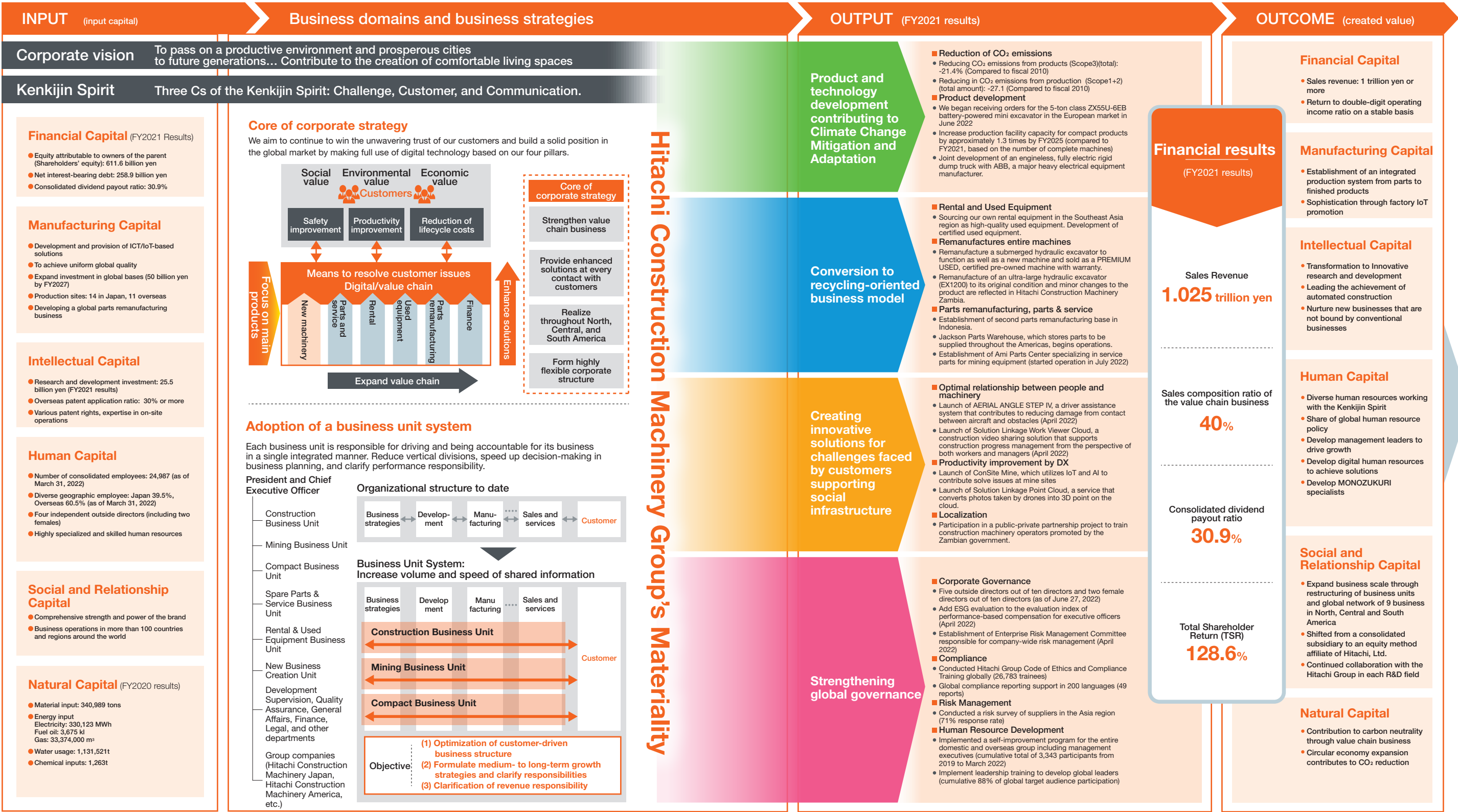
Materialities	Key Initiatives	KPIs		FY2021 Results	FY2022 Targets	FY2030 Goals	
<div>Development of products and technology contributing to climate change mitigation and adaptation</div> <div></div>	<ul style="list-style-type: none">Expand the development of decarbonization technologies such as electrification of machinery and hydrogen enginesDevelop highly efficient Fleet Management SystemReduce CO₂ across the entire value chainIntroduce renewable energy and systematically invest in high-efficiency facilitiesProvide optimal solutions for disaster prevention and mitigation, emergency response, and recovery and reconstruction	CO ₂ Reduction	Products (Scope 3)	CO ₂ Reduction (total): Compared toFY2010	-21.4%	-20.0%	-33.0%
			Production (Scope 1 + 2)	CO ₂ Reduction (total): Compared toFY2010	-27.1%	-25.0%	-45.0%
			Value Chain	Reduce CO ₂ via used equipment, parts remanufacturing	19,686t	23,800t	Minimize environmental load across the entire value chain
		Disaster-response, recovery, reconstruction support	Convert to a recycling-oriented business model	114	155	Partnerships and support for major municipalities and industry groups	
<div>Convert to a recycling-oriented business model</div> <div></div>	<ul style="list-style-type: none">Expand parts remanufacturing business that performs on par with new productsDevelop branded used equipment that is well-maintained and include warrantiesUtilize data to differentiate in high-quality rental equipment	Resource recycling	Waste reduction	7,868t	9,500t	Minimize environmental load across the entire value chain	
			Recycling rate (Japan)	83.9%	99.5%	Aiming for 99.5% or higher	
		Parts remanufacturing business, used equipment business	Water usage reduction (intensity): Compared to FY2010	-40.2%	-28.0%	Water reclamation advancements and minimization of impact on communities	
			Expand parts reclamation business sales revenue: Compared to FY2010	402%	420%	Spread the adoption of services that meet local needs	
<div>Create innovative solutions for challenges faced by customers, supporting social infrastructure</div> <div></div>	<ul style="list-style-type: none">Contribute to cooperative construction machinery, operation support systems, and site safetyExpand machines, systems and solutions that improve construction efficiencyDevelop and provide labor-saving machines using unattended and robotized technologyReduce life cycle costs through stable machine operations	Improve safety		Functions to reduce accidents caused by Hitachi Construction Machinery products	Develop operation support systems that contribute to reduced accidents	Create human-machine cooperative control technology	Contribute to zero overturns and fatal accidents
		Increase productivity		Number of ICT machines adopted at target work sites)	1,160 units (total; 3,704 work sites)	2,800 units (total; 5,000 worksites)	Standardize autonomous and labor-saving construction machinery
		Reducing life cycle costs		Adoption rate of machinery status management systems (ConSite)	72%	90%	Aim for zero downtime
		Research and development system		Research and development cost to sales ratio	2.5%	3.0%	3.0% or higher
<div>Strengthen global governance</div> <div></div> <div></div>	<ul style="list-style-type: none">Respect human rightsGlobal occupational safety and health managementDevelop diverse human resources locally and globallyEstablish fair sales partnershipsEnsure management transparencyCompliance	Respect for Human Rights		Business and Human Rights e-learning course attendance	81.4%	100%	100%
		Occupational Accidents		0 incidents (vs. prior year)	157% (vs. FY2020; Japan)	-50% (vs. FY2021; Japan)	Aim for 0 accidents
		Global Leadership		Leadership training attendance (global)	88% (cumulative)	100% (cumulative)	100% (cumulative)
		Diversity	Ratio of women in managerial positions (global)	10.4% (male 14.9%)	9.4% (male 13.3%)	Aim for gender parity	
			Ratio of local managers in general managerial positions at overseas group companies (global)	71%	72%	87%	
		Fair procurement		Conduct supplier sustainability survey	66%	Standardize to improve collection rates	Aim for 100% recovery through stable operations
		Eradicate corruption and bribery		Number of violations of corruption and bribery laws -	0	0	0
		Corporate governance		Outside directors, female directors, non-Japanese directors	Outside directors: 4 out of 10 Women, non-Japanese: 2	Outside directors: More than one-third of all directors Women, non-Japanese directors: 2 or more in total	Toward a structure suitable for strengthening business and improving governance

Value Creation Process

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
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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.



10-Year Consolidated Financial Highlights

Hitachi Construction Machinery Co., Ltd. and Consolidated Subsidiaries (March Year-End)

*Beginning with the fiscal year ended March 2015, we have prepared our financial statements in accordance with International Financial Reporting Standards (IFRS).

Financial Indicator	Units	2013/3 (Japanese GAAP)	2014/3 (Japanese GAAP)	2015/3 (IFRS)	2016/3 (IFRS)	2017/3 (IFRS)	2018/3 (IFRS)	2019/3 (IFRS)	2020/3 (IFRS)	2021/3 (IFRS)	2022/3 (IFRS)
Financial Information											
Earnings											
Revenue [Net sales]	Millions of yen	772,355	802,988	815,792	758,331	753,947	959,153	1,033,703	931,347	813,331	1,024,961
Overseas revenue [Overseas net sales]	Millions of yen	580,440	571,142	594,036	525,531	527,961	765,933	827,628	725,743	609,995	808,037
Overseas sales ratio	%	75.2	71.1	72.8	69.3	70.0	79.9	80.1	77.9	75.0	78.8
Solutions business	Millions of yen	-	-	-	-	6,691	92,287	95,976	90,596	79,140	94,822
Adjusted operating income	Millions of yen	-	-	-	23,364	28,265	93,582	116,841	76,618	32,710	93,518
Income (loss) before income taxes [income before income taxes and other adjustments]	Millions of yen	45,763	52,775	58,953	24,517	23,859	95,612	102,702	67,103	25,578	110,869
Net income (loss) attributable to owners of the parent [Net income attributable to owners of the parent]	Millions of yen	23,464	28,939	26,023	8,804	8,022	60,004	68,542	41,171	10,340	75,826
Financial Condition											
Total assets [Total assets]	Millions of yen	1,099,901	1,087,191	1,064,673	926,628	1,012,208	1,089,796	1,185,256	1,167,567	1,219,882	1,409,560
Equity attributable to owners of the parent [Shareholders' equity]	Millions of yen	361,163	388,381	431,227	395,963	399,619	448,502	486,407	473,537	513,602	611,608
Net interest-bearing debt*1	Millions of yen	325,050	308,909	236,240	138,785	183,246	148,736	237,461	276,778	249,158	258,850
Net debt-to-equity ratio (net D/E ratio)	Times	0.90	0.80	0.55	0.35	0.46	0.33	0.49	0.58	0.49	0.42
Return on equity attributable to the parent [Return on equity] (ROE)	%	6.9	7.7	6.3	2.1	2.0	14.1	14.7	8.6	2.1	13.5
Return on assets attributable to the parent [Return on assets] (ROA)	%	3.3	4.9	2.4	0.9	0.8	5.7	6.0	3.5	0.9	5.8
Equity ratio attributable to owners of the parent [Shareholders' equity ratio]	%	32.8	35.7	40.5	42.7	39.5	41.2	41.0	40.6	42.1	43.4
Price-earnings ratio	Times	18.31	14.59	17.17	43.18	73.57	14.55	9.11	11.31	72.91	8.96
Per-Share Indicators											
Earnings per share attributable to owners of the parent [Earnings per share attributable to owners of the parent]	JPY	110.77	136.24	122.44	41.41	37.72	282.16	322.31	193.61	48.62	356.57
Diluted earnings per share attributable to owners of the parent [Diluted earnings per share attributable to owners of the parent]	JPY	110.75	136.20	122.42	41.41	37.72	282.16	322.31	193.61	48.62	356.57
Equity per share attributable to owners of the parent [Net assets]	JPY	1,704.34	1,827.59	2,028.57	1,861.93	1,879.14	2,109.04	2,287.31	2,226.80	2,415.22	2,876.11
Dividends per share	JPY	40	50	60	40	12	85	100	60	20	110
Consolidated dividend payout ratio	%	36.1	36.7	49.0	96.6	31.8	30.1	31.0	31.0	41.1	30.9
Capital Investment, Etc.											
Capital investment (construction basis)	Millions of yen	58,452	30,291	16,525	21,028	14,127	18,736	30,440	47,197	34,747	45,279
Research and development investment	Millions of yen	18,109	18,809	17,843	18,834	19,304	24,571	24,774	23,720	24,764	25,462
Ratio of R&D investment to revenues	%	2.3	2.3	2.2	2.5	2.6	2.6	2.4	2.5	3.0	2.5
Foreign Currency Exchange Rates*2											
JPY/USD	JPY	82.4	100.3	110.5	120.1	108.7	110.9	111.0	108.7	106.0	112.6
JPY/EUR	JPY	107.5	134.8	138.3	132.4	118.9	130.1	127.9	120.8	124.6	130.6
JPY/RMB	JPY	13.5	16.5	17.6	18.6	16.2	16.8	16.6	15.7	15.7	17.5

*1 Net interest-bearing debt = Interest-bearing debt - Cash and cash equivalents at end of period
*2 Average exchange rate during the period

*Some data for the fiscal year ended March 2021 have been changed to figures after retrospective application of the consolidated financial statements due to a change in accounting policies.

FY2020-2022 Medium-term Management Plan

Positioning of the Medium-term Management Plan

The Hitachi Construction Machinery Group has formulated a medium-term management plan, “Realizing Tomorrow’s Opportunities 2022”, which will end in FY2022. This plan serves as an intermediate step toward 2030. During the previous medi-

um-term management plan, we shifted from a business model focused on new machines sales to a value chain business targeting machines operating worldwide. In this medium-term plan, we will solve customer challenges by leveraging digital technologies to deepen the value chain business which was our focus during the previous medium-term plan.

CONNECT TOGETHER 2019

Deepening the Value Chain

- Parts and Service
 - ConSite
- Acquired Bradken and H-E Parts
- Launched rental businesses in the US and UK
- Developed certified used equipment business

Rebuilding Global Structures
Improved efficiency of overseas sites

Realizing Tomorrow’s Opportunities 2022

Deepening the Value Chain & Digital Solutions

- Parts and services
 - ConSite
 - Parts remanufacturing
 - Bradken/H-E Parts
- Digital Mining
- Global expansion of rental and used equipment

Greater Efficiency in Development Marketing and Production
Global collaboration





Quantitative Goals and Achievements

Even with the outbreak of COVID-19 in FY2020, we shifted to a system supporting production increases as global demand recovered. By the second half of FY2021, our production and sales cycle had recovered to pre-pandemic levels. Now, new challeng-

es have emerged, including geopolitical risks such as the situation in Russia and Ukraine, and supply chain disruptions, mainly in China due to the re-emergence of infections. Despite uncertainties due to rising materials prices and transportation costs, we will continue to take on new challenges throughout FY2021, including expansion in the North, Central, and South American markets.

Management indicators	Previous Plan: CONNECT TOGETHER 2019	Current Plan: Realizing Tomorrow's Opportunities 2022			
	FY2019 Results	FY2020 Results	FY2021 Results	FY2022 Forecast (As of July 2022)	FY2022 targets
Sales Revenue	931.3 billion yen	813.3 billion yen	1.025 trillion yen	1.040 trillion yen	1 trillion yen
Value Chain Ratio	41%	43%	40%	47%	50%
Adjusted operating income ratio	8.2%	4.0%	9.1%	9.0%	10% or more
Net D/E ratio	0.58	0.49	0.42	0.5 or less	0.5 or less
ROE	8.6%	2.1%	13.5%	9% or more	10% or more
Social value ConSite adoption rate	73%	75%	72%	90%	90%
Economic value Parts remanufacturing business sales revenue * Vs. FY2010	296%	308%	402%	420%	420%
Environmental Value Reducing CO ₂ emissions from products (Total) * Vs. FY2010	-15.9%	-16.5%	-21.4%	-20.0%	-20.0%
Consolidated Dividend Payout Ratio	31.0%	41.1%	30.9%	30% or more	30% or more

Key Strategies and Directions

Pillars of business strategy	Key Initiatives	Targets
<div>Strengthen value chain business</div> 	<ul style="list-style-type: none">Strengthen rental, and used equipment, and remanufacturing businesses; expand ConSiteExpand environmentally friendly products<ul style="list-style-type: none">Electric excavators, fully electric dump trucks, etc.Invest in advanced development fields<ul style="list-style-type: none">More advanced construction machinery and improved safety (automatic/autonomous, driver-assistance)	<div>Expand the used equipment business sales revenue</div> <div><div>FY2022</div><div>Used equipment 280% vs. FY2010</div><div>FY2030</div><div>Adoption of products and services that meet regional needs</div></div>
<div>Provide enhanced solutions at every contact with customers</div> 		<div>Expand parts remanufacturing business sales revenue</div> <div><div>FY2022</div><div>Parts remanufacturing 420% vs. FY2010</div><div>FY2030</div><div>Adoption of products and services that meet regional needs</div></div>
		<div>Life cycle cost reductions</div> <div><div>FY2022</div><div>ConSite adoption rate 90%</div><div>FY2030</div><div>Aiming for zero downtime</div></div>
<div>Achieve strategies across North, Central, and South America</div> 	<ul style="list-style-type: none">Rebuild our distributor network by establishing a control structure, and launch full-scale efforts to grow our presence in the marketExpand the value chain business and provide solutions by introducing ConSite in North AmericaStrengthen sales and service structure for mining in Latin America	<div>Stabilize earnings by expanding proprietary businesses</div> <div><div>FY2022 -</div><div>Establish a stable profit structure by increasing the ratio of proprietary businesses significantly, excluding OEM supply operations (new machinery sales, parts and service, rental, used equipment sales, etc.).</div></div>
<div>Form highly flexible corporate structure</div> 	<ul style="list-style-type: none">Reorganize locations to improve production efficiency	<div>Strengthen corporate structure further</div> <div><div>FY2022 -</div><div>Pursue cost reductions, lead-time reductions, fixed cost reductions, and other initiatives to create a structure that secures profits regardless of demand fluctuations</div></div>

Chief Financial Officer

CFO Message

We will take a new step forward, ensuring a balanced allocation among high-growth potential, financial stability, and shareholder returns.

Vice President and Executive Officer, Director
CFO, President of Financial Strategy Group
Hitachi Construction Machinery Co., Ltd.
Keiichiro Shiojima

[Key Strategies for Capital Allocation]

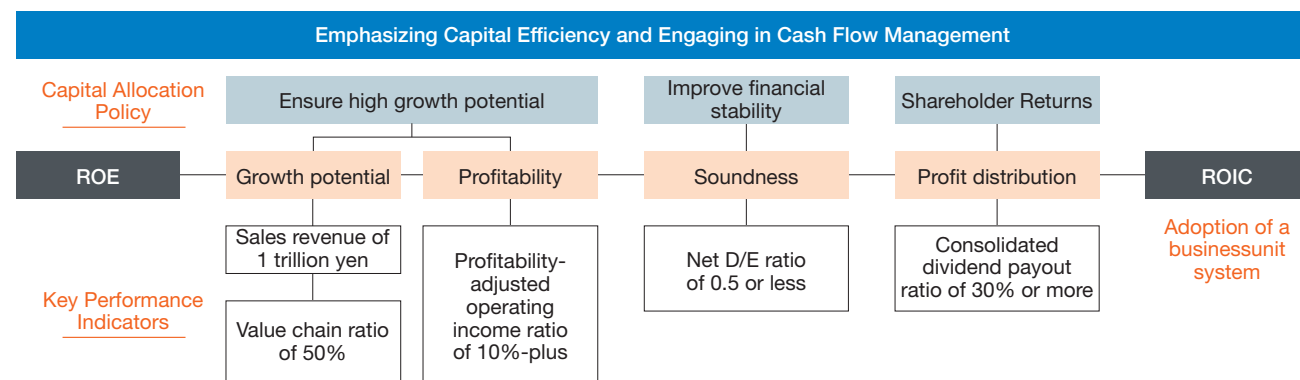
Aiming to Increase Corporate Value Through Balanced Allocation to Growth Potential, Financial Stability, and Shareholder Returns

In fiscal 2021, two major events impacted group management. The first was the dissolution of our long-standing joint venture with Deere & Company of the U.S., and the start of restructuring and independent development of our business throughout North, Central, and South America. In conjunction with this development, we intend to invest aggressively over the next three years to expand our product lineup and engage in new research and development. The second event was the reduced shareholding of Hitachi, Ltd. in our company and our welcoming new partners. We recognize that we are now in a situation in which we should maintain and improve our credit rating by executing a well-balanced allocation of funds in line with our basic policy of securing high growth potential, improving financial stability, and returning profits to shareholders.

No changes have been made to the KPIs defined in our medium-term management plan, Realizing Tomorrow's Oppor-

tunities 2022, which began in fiscal 2020. However, in fiscal 2022, we began a review of our existing organizational structure by function and introduced a business unit system that integrates design, manufacturing, sales, and services by product. In transitioning to this structure, we evaluated the profitability, soundness, and stability of each business unit. As well, we have recently implemented ROIC management, which considers the fixed assets and working capital of each business unit to be invested capital.

Our guideline for R&D investment has been 3% of sales revenues, and we invested 2.5% of sales revenues in R&D in fiscal 2021. We expect this level to increase in the future. But as we plan to increase top-line revenues, R&D investment is likely to be slightly above 3% for the time being. We also believe there is room to consider revising the guidelines and indicators in the next medium-term management plan.



[Financial Activities for Fiscal 2021 and the Challenges Ahead]

Cash Flow Management Emphasizing Capital Efficiency

In terms of financial performance in fiscal 2021, we achieved group revenue of 1 trillion yen, and we believe market conditions have clearly recovered from the impact of COVID-19. In terms of earnings, we recorded an extraordinary gain from the dissolution of the joint venture with Deere in the second quarter. Since then, we improved profit margins in real terms, including gains from plant operations. As a result, we achieved a double-digit adjusted operating income ratio in the fourth quarter. With respect to cash flow, working capital, largely compressed in the previous fiscal year, expanded due to increased production for the North, Central, and South American markets.

As we seek to expand markets in fiscal 2022, we will again focus on cash flow. Controlling working capital in a stable manner will be an important issue. Since financing is the mainstream method of sales in the North, Central, and South American markets, we intend to use off-balance sheet arrangements for asset

growth. Our efforts here will include collaboration with ITOCHU Corporation as a financing partner to avoid a large financial impact as sales expand.

Current issues include increased procurement risk due to the Shanghai lockdowns and other factors. In addition, logistics disruptions have resulted in a significant increase in balances related to inventory in progress and inventory awaiting shipment. Controlling these intermediate inventories has been an issue for the group for some time, and this issue will become even more important during our market expansion phase. Here, we intend to increase the precision of our order projection system and engage in detailed inventory optimization. The dissolution of the parent-subsidiary public listing relationship with Hitachi, Ltd. has also increased the importance of cash management, and we will focus our efforts on cash-efficient management.

[Business Unit System and ESG Management]

Expanding ESG Investment From a Medium- to Long-Term Perspective and Measures to Stabilize Earnings Further

Currently, we are transitioning to a business unit system. There are several objectives for this transition, but from a financial perspective, we believe it will contribute to improving profits. Two important factors in improving profits are raising the marginal profit ratio and controlling fixed costs. We are already working on controlling fixed costs, and when market conditions faltered during the COVID-19 pandemic in fiscal 2020, we applied the brakes sharply to fixed costs, saving about 17 billion yen on a consolidated basis and about 12 billion yen on a non-consolidated basis. At the same time, we believe there is still room for improvement in marginal profit ratio. As products become more diversified and multifunctional, costs tend to balloon. However, by adopting a business unit system, we can examine the marginal profit ratio closely and take measures as appropriate, such as product consolidation. We also believe that this transition will

strengthen our marketing function, while we expect a positive impact on profits as we develop high-margin products that incorporate customer needs to a higher degree than ever before.

Since fiscal 2020, we have been assessing risks and opportunities related to climate change, attempting to quantify financial impacts. If we do not reduce CO₂ emissions, costs such as the depreciation of renewable energy facilities or carbon tax burdens will increase. These amounts will not be minor, and we have assessed several items as having an impact exceeding 0.5% of revenue. Based on these results, the Capex Committee established an investment framework for carbon neutrality. The committee is currently reviewing capital and R&D investment projects, prioritizing these projects over others. We are also considering the issuance of Green Bonds to finance these investments.

[Shareholder Returns]

The Future of Our Group With New Partners and a Unique Growth Strategy

We paid a 110-yen dividend for fiscal 2021, which was a record-high for the company. Our dividend payout ratio returned 31%. For the time being, it is essential that we invest aggressively in growth and maintain financial soundness. In this way, we will continue aiming for a consolidated dividend payout ratio of 30% or more for the foreseeable future. Eventually, we hope to find opportunities for higher levels of shareholder returns.

We believe that one of the main concerns of shareholders and investors who invest in our company is weighted average cost of capital (WACC*). As stock prices in the construction machinery industry fluctuate widely, WACC values are inevitably high. Therefore, we established a consolidated ROIC target of

9% or higher.

Going forward, we will continue to uphold the Hitachi brand, even as we begin working with new partners, Japan Industrial Partners, Inc. and ITOCHU Corporation. We will accelerate our management strategy, including the independent development of North, Central and South America businesses. At the same time, we will strengthen our value chain business, aiming for even greater growth.

I ask you, our shareholders, to look forward to the future of the Hitachi Construction Machinery Group.

*WACC: Weighted Average Cost of Capital. Ratio of cost required to raise funds.

REPUTATIONS ARE BUILT ON IT

Hitachi Construction Machinery Re-enters the North, Central, and South American Markets

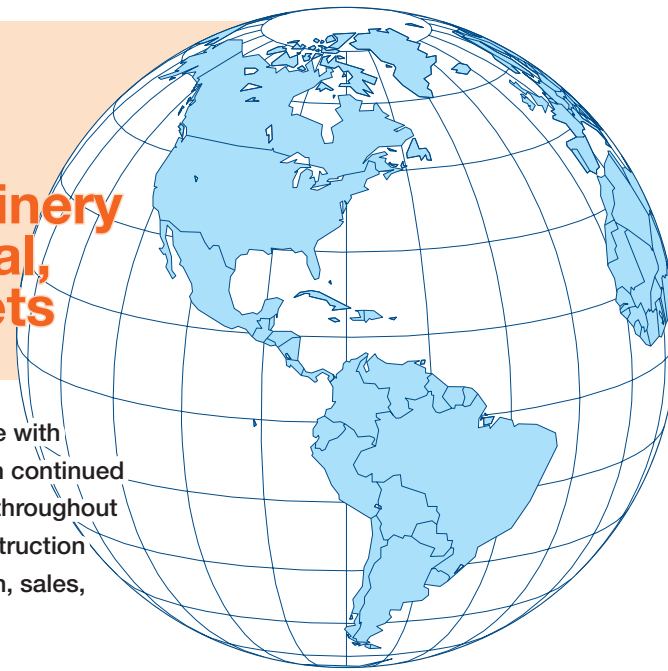
Hitachi Construction Machinery has dissolved our joint venture with Deere & Company in North, Central, and South America, which continued for over 30 years. We are working to restructure our business throughout the North, Central, and South American markets. Hitachi Construction Machinery Group established our own independent production, sales, and service system in March 2022.

The Groups All-Out Effort to Rebuild A New Business Structure to Connect All of North, Central, and South America

Hitachi Construction Machinery established Deere-Hitachi Construction Machinery Corporation, a joint venture for manufacture and sales, in 1988 in North Carolina, America. Since then, we have developed through our partnership with Deere. However, the organizational structures and construction of both companies are changing due to significant differences in today's market environment versus when the joint venture was first established. We decided it was best for both companies to focus on our own independent business strategies going forward and agreed to dissolve the alliance in a developmental manner.

Due to this agreement, as of March 2022, it is possible for Hitachi Construction Machinery to directly provide customers with our latest products, technologies, and services throughout

North, Central, and South America. Just over six months after the agreement made in August 2021, we began rapidly producing globally renowned highly efficient, high-quality, and powerful hydraulic excavators and ultra-large mining machinery, for North, Central, and South America. We are also reconstructing new sales and service networks. We have put a system in place to provide everything from marketing to sales throughout North, Central, and South America. This system utilizes group companies centered around Hitachi Construction Machinery Americas Inc. and the network of dealers that have handled hydraulic excavators, dump trucks, and wheel loaders developed under the Hitachi brand.



Our slogan for Japan and the U.S- "EMPOWERING THE AMERICAS -THE LINEUP GROWS MORE POWERFUL"

The Americas Compact & Construction Equipment Strategy



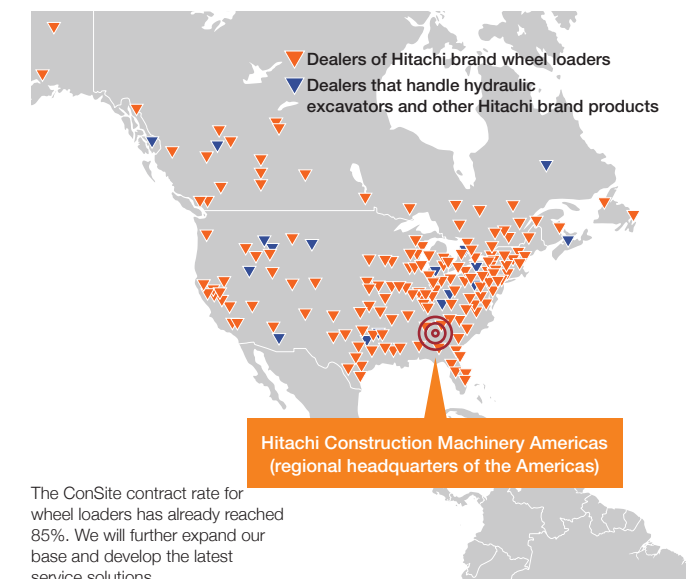
The Compact & Construction Business Will Specialize in and Focus Resources on North America.

Hitachi Construction Machinery Loaders America, located in Georgia, was renamed Hitachi Construction Machinery Americas Inc. They now assume the function and authority to oversee the sales of Hitachi brand construction machinery as well as the parts and services business. They expanded their product lineup, focusing on the latest machines including ICT construction machinery produced in Japan. They implemented training and made new hires to account for the fact that their employees had only previously worked with wheel loaders, and that dealers will now handle nearly all products. Hydraulic excavator models provided by Compact & Construction have the latest, highly efficient hydraulic system that responds to the advanced needs of the North American market, AERIAL ANGLE, to improve safety at worksites, as well as the worldwide highly renowned service solution ConSite OIL, as a standard feature. They will additionally establish a regional marketing structure.

We launched a re-entry campaign in March 2022 to promote the high value of our total solution under our slogan "REPUTATIONS ARE BUILT ON IT" which we have had since we began

wheel loader sales in North America.

● New Sales and Service Networks in North America



Providing Finance Solutions and Strengthening the Value Provided by Used Equipment, Rentals, and Parts and Service

The Group also started providing finance solutions through co-operation with ITOCHU Corporation and its affiliated companies in our re-entry to the market. Our group has now prepared an environment for accelerated development of our used equipment sales and rental business, which is a particularly important segment of Hitachi Construction Machinery's management strategy for our essential value chain business. Furthermore, we were able to start a highly profitable parts and service business by expanding our logistical structure for parts and inventory management. We will greatly expand the value chain benefits offered to our

customers in the North American construction machinery market going forward, which is said to be the largest in the world. This includes rental, used equipment, and parts and service.

● Details on Our New Partners and Main Collaborations

- (1) Collaborations in finance
- (2) Collaborations in maritime transport and North American logistics networks
- (3) Strengthening the mid-term management foundation

● Image of Our Collaboration with New Partners



The Americas Mining Strategy



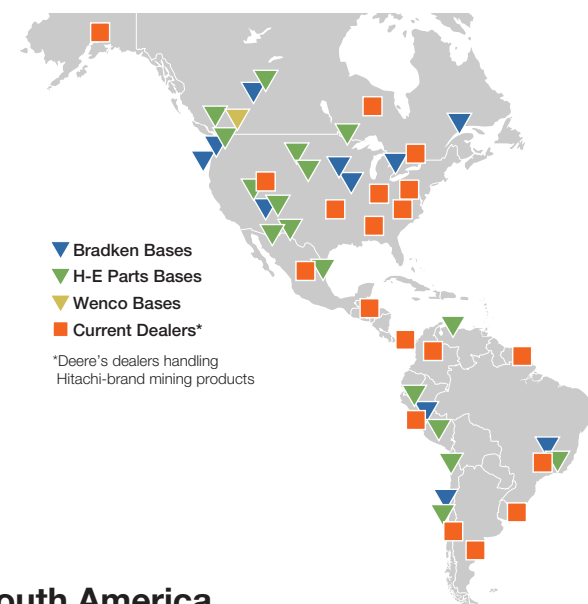
Fully Utilizing Our Network to Provide New Value to the Mining Industry

The mining business aims to fully utilize our network of Group companies that have been active in mining fields worldwide to capture the North, Central, and South American market. First, we will introduce Bradken products to the market. Bradken manufactures and sells hydraulic excavator suspension systems and excavating buckets. We will then enhance the mining machinery remanufacturing business at H-E Parts International LLC, which performs parts remanufacturing. We are rapidly developing an Autonomous Haulage System (AHS) at Wenco International Mining Systems Ltd., which provides advanced solutions, such as the Fleet Management System (FMS) to mines worldwide. AHS is currently undergoing verification testing, the final stage of commercialization, in Australia and will expand to North, Central, and South American markets.

In addition, as environmental concerns are growing rapidly and 24 hour-a-day operation and reliability are required at mining sites, zero CO₂ emission mining is in more demand than simple CO₂ reductions. In addition to maximizing the strengths of the environmental technologies for construction equipment that we have built up over the years, we will also aim to meet high expectations promptly through open innovation with Switzerland's

ABB and the research team of Hitachi Ltd. We will provide total solutions that combine cutting-edge technologies to achieve zero emissions in machinery, as well as provide ConSite Mine, which allows for the visualization of the operations of an entire mine.

● New Sales and Service Network for the Mining Business

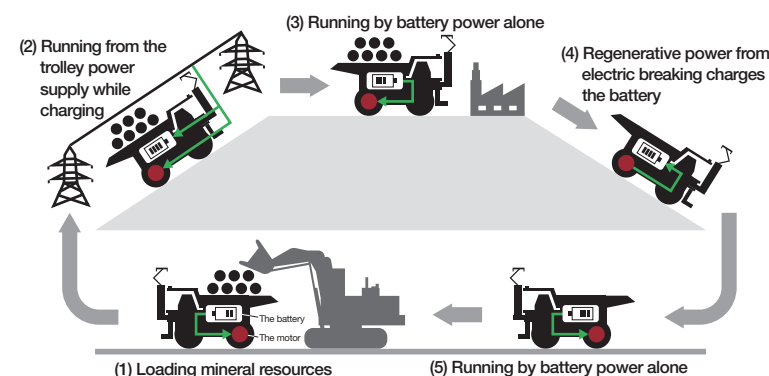


To Achieve Zero CO₂ Emission Mining in the Hard-Rock Enriched Central and South America

Dump trucks emit the most CO₂ of all the equipment and machinery used in mines, and they have a particularly heavy impact in Central and South America, where mines have many long uphill slopes. By using the revolutionary energy storage technology of ABB, a company with a history in the mining industry of over 130 years, Hitachi Construction Machinery focused on the possibility of converting from diesel engines to fully electric-driven trucks, and we began the joint development of Full Battery Rigid Dump Trucks.

Markets in Peru and Chile, South America, have a concentration of hard-rock copper mines. Successful Zero CO₂ Emission Mining in Central and South America has significant social implications, as copper is the core mineral in the development of IoT, AI, and battery technologies. Going forward, we will concentrate the Group's technological skills and solutions, while continuing to develop for the future.

● Full Battery Rigid Dump Trucks



Message from the North, Central, and South America Business

Forming Bonds of Trust with Our Customers in North, Central, and South America

Hitachi Construction Machinery Co., Ltd.
Senior Vice President and Executive Officer
President of Mining Business Unit and General
Manager of America Business Division
(Chairman of Hitachi Construction Machinery
Americas Inc.)

Sonosuke Ishii



It is said that the scale of the North, Central, and South American market occupies 30-40% of the world's construction machinery and mining market. I am thrilled that we can take on the great challenge of full-fledged business development in the largest market in the world. We will take on this challenge with group companies such as Hitachi Construction Machinery Americas, Bradken, H-E Parts, Wenco, as well as ABB and the research team of Hitachi Ltd. I hold great pride that these organizations are working together to achieve our goal of providing solutions for customers with the irreplaceable technologies and values they each provide. Customers should have high expectations for these solutions, and I pride myself on the fact that we are the only company that can deliver them.

I see this latest business development as a re-entry into North, Central, and South America. However, I believe that through our Group's direct entry, our customers will see great

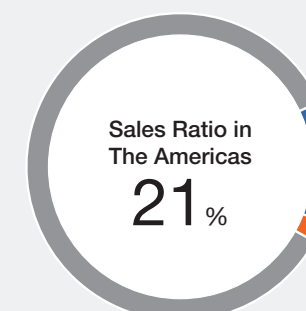
increases in both their options and the value they receive. Customers will be able to solve their key issues by choosing the item that fits their issues from a wide range of services. These include not only new equipment but also service, rental, used equipment, parts remanufacturing, and financing.

Going forward, we will grasp the real issues at every point of contact with our customers and provide enhanced products and solutions. To do this, we will begin initiatives to send not only sales and service staff but also development and quality assurance staff, to the ground to directly listen to and provide feedback. It is extremely rewarding for our employees and myself to form new bonds of trust with our customers in North, Central, and South America.

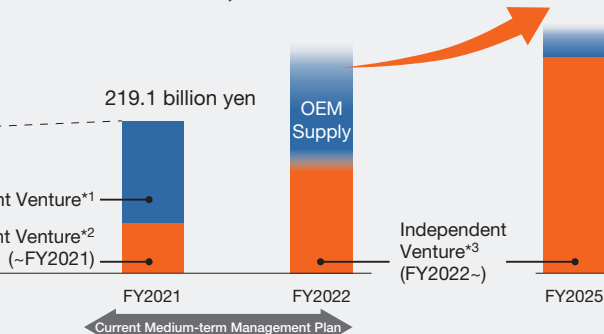
The Group also intends to invest 30 billion yen in our re-entry into the market. I hope to expand the business and stabilize revenue under the new business structure.

Expand business in the medium & long term to stabilize revenue

Sales composition of North, Central, and South America in Total Sales in FY2021



Revenues in North, Central and South America



*1 Joint venture business with Deere & Co.
Supply of components to joint ventures manufacturing medium-sized hydraulic excavators in the United States and Brazil.
Supply of completed products such as mini excavators, some medium-sized and extra-large hydraulic excavators, and mining trucks to the joint venture.
Deere & Co. has been responsible for sales and service in the Americas, and Hitachi Construction Machinery has received profits in an agreed-upon ratio from sales of both brands.

*2 ~FY2021 Independent Venture
Wheel Loaders, Bradken, H-E Parts
*3 FY2022~ Independent Venture
All products, Parts & Service, Rental, Bradken, H-E Parts



Construction Business Unit

Hitachi Construction Machinery started off with the development of the first cable-operated shovel made from Japanese technology in 1949, as a part of Hitachi Ltd. For over 70 years, we have provided products that boast high reliability and durability on the foundation of our unique research and development, and advanced production technologies. In addition, we continue to produce highly functional and high value-added products adapted to social changes, such as electric construction machinery and ICT construction machinery.

Aiming to Build a Supply System Able to Respond 100% to an Expanding Global Demand

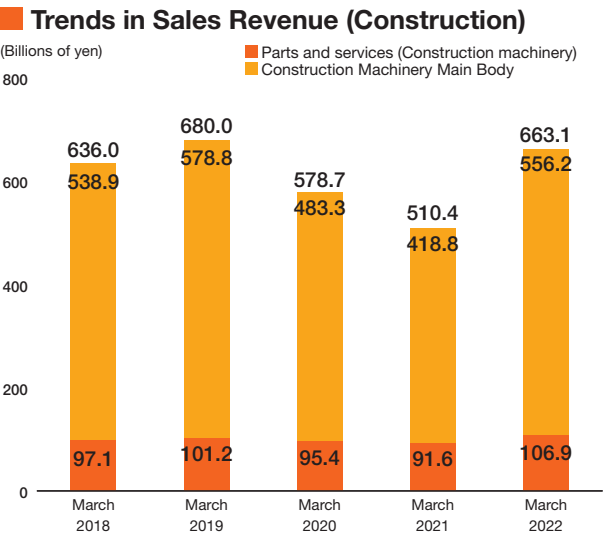
Construction machinery is the first requirement for any industry, whether it is urban infrastructure such as roads and rivers, housing, farming, or forestry. As the urbanization of emerging countries progresses on a global scale, and as carbon neutrality movements are progressing rapidly in developed countries, the demand for construction machinery is predicted to continue to extend greatly.

Hitachi Construction Machinery has development bases in Europe, China, India, Southeast Asia, etc., and we have worked on product development based on local market trends and customer needs. In recent years, we have been building a structure to raise awareness and focus on local demand. To do this, we are establishing development bases with marketing functions, like the European Application Center GmbH (EAC), which is responsible for the development of electric products in Germany. In April 2022, our organization transferred into a business unit system, which is a system where we have a complete understanding and view of the business from marketing to research and development, and even manufacturing, sales, and services. Through the transition, we are now able to increase transparency and reflect the voices of those on the ground more quickly. Under this system, we will provide the added value that customers desire, including services on the value chain.

In addition, we will improve our global supply capabilities to eliminate lost opportunities in sales. We aim to create a system where we can supply products of identical quality anywhere, regardless of whether in developed or emerging countries, by utilizing the Hitachi Construction Machinery Group's global production sites to their fullest. This also includes our current reor-

ganization promotions for major domestic production sites.

70 years of experience and achievements, overseas developments bases, and strong distribution networks	Strengths	Weaknesses (Issues)
	Opportunities	Risks
Urbanization of emerging counties, large investments in infrastructure development, and expectations for zero-emissions		Price hikes from geopolitical risks occurrences and the emergence of Chinese manufacturers



Focus on India

Promote Research and Development in Light of the Growing Needs for a Zero-Emissions Future.

India has overcome the spread of COVID-19, and as their economy gradually recovers, Prime Minister Modi announced an approximately 150 trillion-yen National Master Plan for multi-modal connectivity called Gati Shakti (Speed Power). The plan aims to create jobs for the young people and lay a foundation for India's development by establishing the next generations infrastructure. This enables the acceleration of the spread of EVs. On the other hand, fuel prices in India are of a globally high standard due to costs and taxation. This is because India is one of the biggest fuel-importing countries in the world, in addition to being affected by world affairs and exchange rate influences. However, in response to this situation, the government began searching for alternative electric supply mechanisms and fuels, and some companies began to consider introducing electric drive hydraulic excavators.

In April 2022, Hitachi Construction Machinery newly estab-

lished the Electric products development center in Tsuchiura Works, Ibaraki Prefecture, to advance research and development on electrification-focused zero emission construction machinery. There are approximately 40 employees in the Electric Products Development Department for compact to medium-sized class machinery. We also collaborated with the development base in India, and we are working in preparation for the decarbonization of construction machinery.

India is different from other developed countries, in the sense that the demand to reduce CO₂ emissions and improve fuel consumption is less triggered by CSR or ESG, and more for economic reasons. However, we can assume without a doubt that demand will eventually grow for electric-driven shovels. We will focus on trends in the Indian market in preparation for expansions in future demand.



Tata Hitachi Dharwad Works



Machines operating in India

Voice

Transforming to Become a Highly Maneuverable Organization that is Capable of Making Prompt Decisions and Executions

The organizational change to a business unit system is a large transformation we have never experienced. This change will allow us to promptly correspond to movements drastically changing in the world, such as resolution of customers issues, eco-friendly, America Business Strategy, DX, etc. Under this new system, we will first execute our current medium-term management plan, and then launch into creating the next medium-term management plan, beginning from fiscal 2023. As our business structure greatly changes, in the Americas unique development, capital structure, etc., we will progress to a higher stage, on the basis of our *Kenkijin Spirit*. We will transform into a highly maneuverable organization that is capable of making prompt decisions and executions to adhere to rapid changes happening globally as well. So, we hope you will look forward to it.



Hitachi Construction Machinery Co., Ltd.
Vice President and Executive Officer
Unit President, Construction Business Unit
Yusuke Kajita



Focus on Latin America

Expanding the Supply Chain Structure for Mining Components in South America

The Hitachi Construction Machinery Group is expanding its business structure for supplying mining components in cooperation with H-E Parts and Bradken, both of which joined our group in 2016 and 2017. For example, in Zambia, which is known for its largest copper mine in Africa, we have already been operating a remanufacturing facility and are establishing a business scheme that enables quick and reliable supplies of mining components.

South America is a region with abundant mining resources. In particular, Chile is a top-ranked country in terms of both copper reserves and production and has the highest concentration of copper mines in the world. Copper is an indispensable resource for the development of the AI/IoT society and it is widely used as a material for batteries and electronic devices because among metals, it has excellent electrical and thermal conductiv-

ity, as well as high workability and heat resistance. Non-ferrous metals such as copper are generally referred to as hard rocks and are harder than coal and other materials, which causes mining machinery used to excavate it from deep underground to wear out quickly. All subsequent downstream processes come to a halt if hydraulic excavators break down and stop at mining sites. Thus, it is extremely important that the excavators can be highly relied on to continue to operate 24 hours a day, 365 days a year. At the same time, the proper timing of replacing parts is important for stable operation.

The Group aims to establish a similar system for supplying mining parts in South America as soon as possible.



Voice

Taking News on Decarbonization as Business Chances to Expand Market Shares

Even though the demand for coal is expected to stagnate in the future, we believe that South America, where a large amount of copper ore is mined, is an extremely important market for the Hitachi Construction Machinery Group. Until now, we have relied on Deere's sales distribution network, but we are excited to create a new network with our customers with a concrete solution of zero emissions from fiscal 2022. Demand for decarbonization at mining sites is rising in not only South America but all over the world. We take a positive view of the movements of society as a whole as tailwinds for our group.



Hitachi Construction Machinery Co., Ltd.
Senior Vice President and Executive Officer
President, Mining Business Unit, General
Manager, America Business Division
Chairman of the Hitachi Construction
Machinery Americas Board of Directors
Sonosuke Ishii

Mining Business Unit

It requires a high degree of safety, durability, and maintainability to operate ultra-large hydraulic excavators and dump trucks, which operate in harsh environments such as mining sites. The Hitachi Construction Machinery Group offers high-performing, reliable products in addition to widely supporting mining operations for customers through our Fleet Management System and parts service.

Achieving Zero-emission Mining Operations Through Coordination with Our Group Companies.

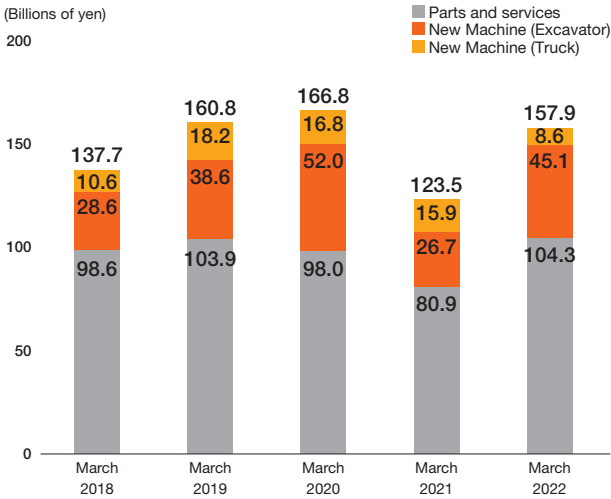
Many of the world's mining operations remain energy-intensive, consuming a large amount of electricity and emitting large amounts of greenhouse gases during operation. Electric power procurement and CO₂ reduction have both become important issues to customers operating mines. Therefore, the Group has set a vision of Net Zero Emission Mining, which aims to achieve virtually zero greenhouse gas emissions from mining equipment, and we are implementing a variety of measures to achieve this.

In our work processing Zero emissions for Dump trucks, which emit the most CO₂ of all mining equipment, we have been collaborating with ABB Inc., a major Swiss heavy electric equipment company, to develop an engineless, fully electric rigid dump truck that has trolley-powered battery charging. This joint development aims to achieve the full conversion from diesel engines to electric drive as the first step following the Memorandum of Understanding for Accelerating Energy Transitions toward a Carbon-Neutral Future in Mining signed in March 2021. Currently, we are trying to develop them in preparation for POC at the end of fiscal 2023.

In our mine operation support service, we aim to achieve autonomous operation of dump trucks in the North, Central, and South American markets by utilizing the Fleet Management System (FMS) provided by Wenco. In addition, we aim to expand the remanufacturing of mining parts that utilize the expertise that H-E Parts possesses.

Coordination with Group Companies with Strengths in Mining, such as Bradken, H-E Parts, and Wenco.		Establishing a sales structure, such as a distribution network, in the North, Central, and South American market.	
	Strengths	Weaknesses (Issues)	
	Opportunities	Risks	
Increasing need for zero-emissions mining		Decrease in coal demand and the entrance of Chinese manufacturers to the mining industry	

Trends in Sales Revenue (Mining)





Compact Business Unit

Compact products such as mini excavators and mini wheel loaders are becoming highly anticipated futuristic products that possess even more potential, especially in developed countries. This is due to their wide range of uses and high performance. Demand for these products is also increasing along with the development of infrastructure in emerging countries as well.

Corresponding to Strong Domestic and International Demand while Aiming for Future-Oriented Development

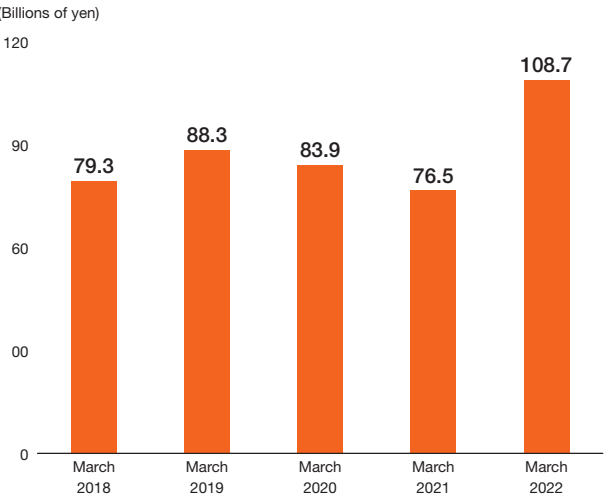
Our consolidated subsidiary Hitachi Construction Machinery Tierra Co., Ltd. (Koka, Shiga Prefecture) wholly manages our compact products from development and production to sales. Hitachi Construction Machinery Tierra has aimed to construct a highly effective production system through the automation and rationalization of production processes as well as strengthen their development capabilities for the global market. They are moving along with the expansion of production lines under their current plan to increase the capabilities of compact product production facilities 1.3 times by fiscal 2025. The company expects to meet the demand for product supply in North American markets through this plan, in which they started full-scale business developments in March 2022.

They also collaborated with European Application Center GmbH (EAC), the development base in Germany, to expand the line-up of battery-powered products to respond to the demand for electric construction machinery central to Europe. The company began taking orders in June 2022 for the 5-ton class ZX55U-6EB battery-powered mini excavator in addition to the 8-ton class ZE85 that was released in 2020. Furthermore, they are currently developing a 2.6-ton mini excavator.

Technical collaborations with the Construction Business Unit and Mining Business Unit became smoother through the Hitachi Construction Machinery Group's transfer to a business unit system. We additionally began collaborations on electrification. The Group will utilize the product testing facility from fiscal 2024 in accordance with the increase in production line-up to aim to upgrade the development of compact products, including their electrification. The facility will relocate to a neighboring location and expand functionality.

Speed of information disclosure and decision-making through an integrated development, production, and sales system	Strengths	Weaknesses (Issues)
	Opportunities	Risks
Expansion of increasingly urbanized areas and increased demand for products with advanced features		Aggression between specialty compact product manufacturers and manufacturers in emerging countries

Trends in Sales Revenue of Hitachi Construction Machinery Tierra.



Focus on Germany

Further Evolving Mini Excavators in the Environmentally Advanced Germany

Under the EU's 2035 policy to effectively prohibit new sales of gasoline-powered cars, we see rapid advances towards switches to EVs, especially in Germany, and the trend towards EVs in construction machinery has also become pronounced. Given that by switching from engine to battery-powered mini excavators for use in construction of over-crowded urban areas, we also benefit from the reduction of noise levels, leading to greater anticipation of electrification.

At Hitachi Construction Machinery, we have worked on electrification developments to meet customer needs while utilizing EAC and current machinery components with the intention of responding to market trends such as these. Our electric products attract attention from attendees from every country at the bauma international construction machinery trade fair held in Munich, Germany once every three years.

Mini excavators have recently come to be called tool carriers in Germany and customer needs are becoming more diverse. For example, highly functional and versatile products are in demand, such as ones that can: take a battery-powered hydraulic excavator as the base machine and add an attachment instead of a bucket, change the boom or arm itself and use it for new work, or ones that make it possible to interchange attachments from the drivers seat, etc. We will also listen carefully to these

types of latent demands and work to upgrade base machines as well as develop new functions.



Machinery exhibited at the bauma international construction machinery trade fair



ZX55U-6EB battery-powered mini excavator (5-ton class)

Voice

We will Continue to Provide Attentive Solutions for Our Customers Challenges

Demand for compact products mainly comes from urban areas in Europe, North America, and Japan. However, in recent years, urbanization is rapidly progressing in Asian countries, such as India, Indonesia, etc. As so, we believe that global demand will continue to grow in the future. Hitachi Construction Machinery Group envision a future where we will aim to become the best in the industry with compact products by 2030. To achieve this big goal we must approach it from selling both products and solutions in response to the three challenges our customers face: safety improvement, productivity improvement, and reducing life-cycle costs. We want to continue to provide solutions that suit our customers every need.



Hitachi Construction Machinery Tierra Co., Ltd.
President and Executive Officer
President, Compact Business Unit
Kazuhiro Ichimura



Spare Parts & Service Business Unit

An extremely important factor in construction machinery is to keep the site operating at all times. The Hitachi Construction Machinery Group contributes to reducing lifecycle costs by enabling our customers to choose the right parts for their business through providing a line-up of genuine parts, SELECTED PARTS, and remanufactured parts. Additionally, we are improving the accuracy of solutions that remotely detect predictions of machinery failure.

Meeting Our Customer Needs by Enforcing a Global Parts Supply System

It takes a vast number of parts to build construction machinery. More than 13 thousand parts are used to build a single hydraulic excavator. In addition, it is important to provide a variety of choices, as the performance and costs of parts needed by customers vary depending on the period of machine use, etc. Since 2006, the Group has made ICT technology-run support systems a standard feature in hydraulic excavators and has committed to monitoring the operating status of construction machinery. We have approximately 170 thousand contracts worldwide through our service menu ConSite, which we have provided since 2013. We boost the failure prediction detection rate based on aggregate data and strengthen our correspondence in the event of malfunctions, sales promotions, etc.

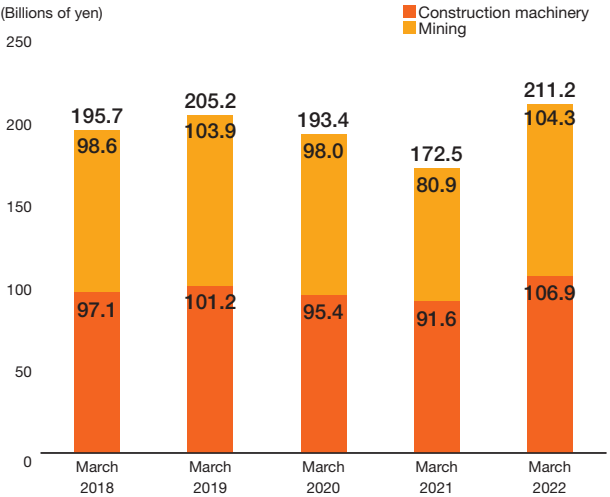
Under our fiscal 2021 plan to accelerate the development of e-commerce, we launched the Parts Online Store EC website, intended for domestic markets. Going forward, we are working to develop a global platform for parts sales. To strengthen the parts supply system, we launched the Ami Parts Center in Ibaraki Prefecture Inashiki-gun Ami-machi, which specializes in mining parts and began operations in July 2022, in addition to Tsukuba Parts Center, our global parts control base. We began operating a parts warehouse in Atlanta in March 2022 for the Americas, where we have started full-scale proprietary development. In addition, we plan to launch a few new parts warehouses within two to three years time.

Currently, we hold parts remanufacturing factories in Japan, Australia, America, India, Indonesia, Zambia, and South Africa, and we plan to construct new factories in Central and South America as well. Through parts remanufacturing network expansions such as these, we have set our target sales revenue for

fiscal 2022 to 35 billion yen (9% compared to the previous year).

Data-driven support based on ConSite, collaborations with regional headquarters in major regions	Strengths	Weaknesses (Issues)
	Opportunities	Risks
Market expansions through business development in North, Central, and South America		Disruptions to our supply chain due to infection and geopolitical risks, increases in steel prices
		Approaching used vehicle users, improving price competitiveness

Trends in Sales Revenue (Parts and Services)



Focus on Indonesia

New Parts Remanufacturing Factory for Mid- to Large-Sized Hydraulic Excavators Now in Operation

Due to geographical restrictions in Indonesia, an archipelago stretching approximately 5,000 km to the east and west, the timely supply of maintenance parts is in exceptionally high demand. The Hitachi Construction Machinery Group has supplied remanufactured parts mainly for mining machinery. However, the needs of customers in forestry and farming industries for high working machinery are on the rise, too. To respond to the voices of these customers, we established a new parts remanufacturing factory for mid-to-large-sized hydraulic excavators on the premises of the production base Hitachi Construction Machinery Indonesia's Factory No. 1 (Jakarta). This new factory began operations in June 2022.

The key to success in the parts remanufacturing industry lies in constructing a system that focuses on how quickly the used parts (cores) are collected, repaired, and shipped after being ordered. The adjacent location of the new parts manufacturing factory to the production base allows for smooth technological collaborations. This factory became a supply base for not only Indonesia, but also for the entirety of Southeast Asia, such as Malaysia, Thailand, the Philippines, and Vietnam. It also allows for the purchase of short-notice and low-cost remanufactured products. Another strength lies in the widespread use of ConSite: a system that allows for the constant monitoring of machinery in operation. We wish to utilize these strengths to contribute to our

customers safe machinery operations, as well as to reduce life-cycle costs.



Factory No. 1, Hitachi Construction Machinery Indonesia



In June 2021, Hitachi Construction Machinery Indonesia reached 40 thousand cumulative shipments of medium-sized hydraulic excavators

Voice

Aiming to Deepen Our Value Chain Business While Being Flexible to Changes in Customers and Society

In 2021, resource prices remained steady, allowing the parts and service business to finish with record high sales revenue and operating income. Parts and service business plays a major role in supporting Hitachi Construction Machinery's wide range of products while committing to revenue. Through our recent transfer to a business unit system, cross-divisional activities are more possible than ever. Taking advantage of this opportunity, we will further enhance our ability to make proposals to customers and promote initiatives to allow for flexible correspondence of their troubles. Simultaneously, we wish to firmly respond to societal demands to effectively use limited resources and reduce waste.



Hitachi Construction Machinery Co., Ltd.
Executive Officer
President, Spare Parts & Service Business Unit
Eiji Fukunishi



Rental & Used Equipment Business Unit

Hitachi Construction Machinery's rental business has an extensive line-up only an OEM could provide, so our customers can choose the best option for the scale and duration of their construction needs. Our used equipment business provides reliable used equipment to customers around the globe with certified used equipment under warranty as well as via parade auctions and online sales.

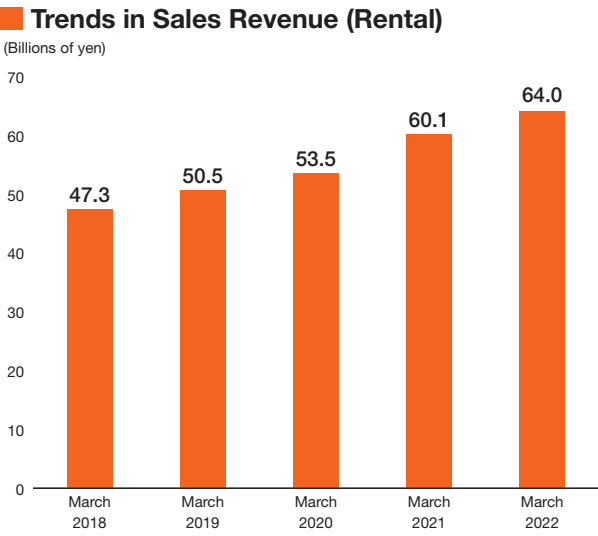
Striving to Enhance the Value Chain with Rental and Used Equipment

The idea of the sharing economy is based upon the sharing of goods, spaces, skills, etc., with many people. As this idea becomes more popular, mainly in developed countries, we can see a shift from ownership to rentals progressing within construction machinery as well. Over the past 30 years, the percentage of rentals in all construction machinery rose by approximately 50% in advanced countries, and it is forecasted that we will see the same trend in the future in emerging countries, such as India and Southeast Asia.

Hitachi Construction Machinery has continued to grow and steadily expand our service areas to Europe, North America, China, Australia, India, and Russia since we first started our rental business in 1996. Our rental equipment receives especially high evaluations from customers, as they can test the effectiveness of advanced technologies, such as ICT and electric excavators, onsite. We started developing the PREMIUM RENTAL brand overseas in 2017. This brand was formed when the Hitachi Construction Machinery Group and authorized new equipment dealers became rental asset holders and it provides customers with meticulously maintained equipment. Once the rental equipment is returned, they are resold as PREMIUM USED (certified used equipment under warranty). We can continue to provide services in the value chain such as parts remanufacturing and finance, for used equipment we sell, which receives proper maintenance. This leads to longer product life, which allows us to contribute to not only reducing life-cycle costs for our customers but also to global environmental conservation.

Moving forward, we wish to improve internet auctions of used equipment and the use of SNS to share information, as well as to further expand sales channels for quality used equipment.

High-quality product line-up only an OEM can provide. Enhanced support through collaboration with our parts & service division.	Strengths	Weaknesses (Issues)
	Opportunities	Risks
Spreading awareness of the sharing economy, fostering expectations for ICT and other advanced technologies		Price competitiveness with competing companies such as Chinese manufacturers, reduction of sales channels through engine regulations, etc.



Focus on United Kingdom

Meeting Region Specific Demands with a Line-up Only an OEM Can Provide

Rental use at construction sites in the UK is quite high. Currently, their rental ratio has reached 57% (according to our research). In 2019, the Hitachi Construction Machinery Group established Synergy Hire, a new company to conduct rental business in the U.K. market, and we have developed five bases focused in urban areas. In most cases, we rent out our latest model as a 1–2-year short term rental, and then resell it as excellent used equipment on the U.K. market after the rental is returned.

On the other hand, in recent years we have seen rentals of special applications for use with standard hydraulic excavators

on the rise as well. (Clamshell telescopic arms, short reach fronts, super long fronts, etc.) Synergy Hire was established by teaming up with the owner of a U.K. construction equipment rental company that had over 100 years of experience and possesses marketing skills suited to the region. For this reason, we can meet region-specific demand with our OEM line-up, and we believe it gives us an upper hand over our competitors.

Currently, Synergy Hire does business with approximately 300 companies. We will strengthen the development of special applications and expand market share within the U.K.



Clamshell telescopic arm excavators



Short reach excavators

Voice

We Want to be Actively Involved in Product Development with Reuse in Mind

We would like to raise the value of the company by providing a diverse offering and valuable goods for our customers that is not limited to rentals or used equipment but covers the entire value chain. Specifically, we are aiming for our rental business and used equipment business to meet a combined total of 180 billion yen in sales by 2025. In addition, through our change to a business unit structure this year, we created a system that allows for our deep involvement in the development and production of construction machinery by collaborating with the construction business unit. Moving forward, we must think about the value that equipment holds after it becomes used. Keeping this in mind, we would like to actively contribute to the development of products that are made on the premise of Reuse.



Hitachi Construction Machinery Co., Ltd.
Executive Officer and CMO, President,
Global Marketing Group President, Rental
& Used Equipment Business Unit
Hidehiko Matsui



New Business Creation Unit

Due to climate change, geopolitical risks, and the COVID-19 pandemic, VUCA* is becoming a reality, and the Hitachi Construction Machinery Group is being exposed to waves of tremendous changes. To survive in these times of change, we will challenge new value creation and seize every opportunity for growth, without getting caught up in existing business definitions and previous successful experiences.

*VUCA stands for Volatility, Uncertainty, Complexity, and Ambiguity

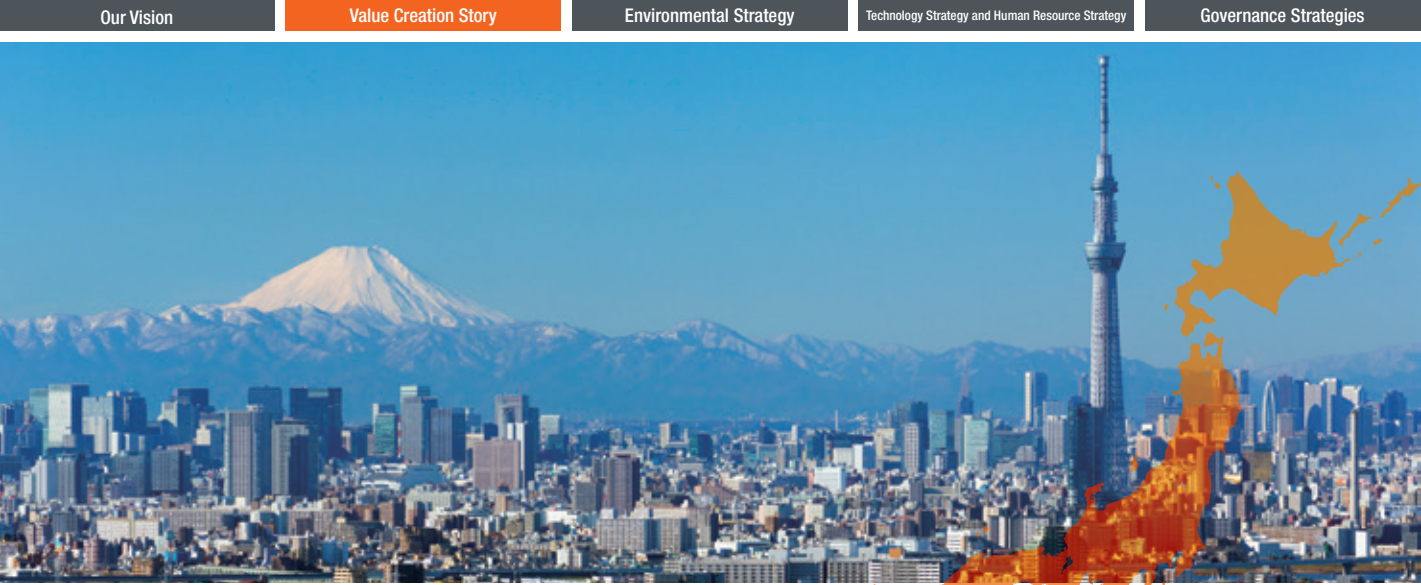
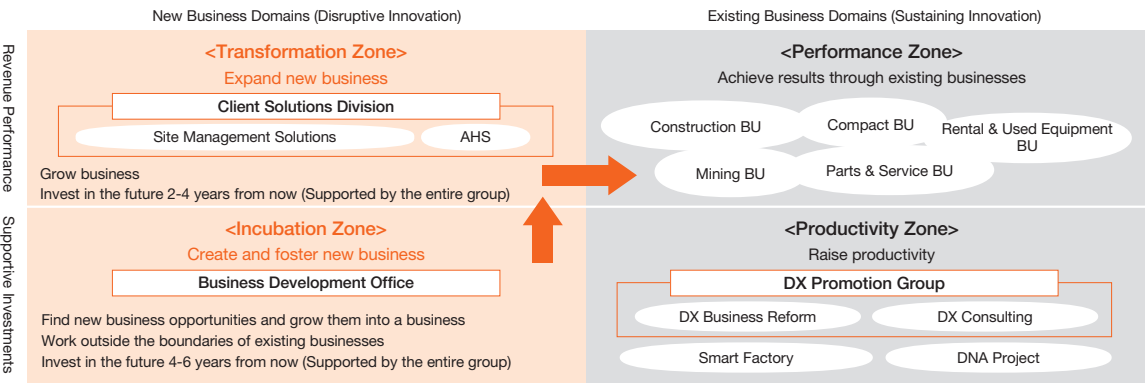
Promoting Foundation Building to Produce Disruptive Innovation

The New Business Creation Unit, established in April 2022, is composed of two main organizations. The first is the Business Development Office. This office will manage the incubation zone of the business. It serves to explore new businesses, collect business ideas, and shape and commercialize these ideas. The second is the Client Solutions Division. This division was established in 2016 to move away from traditional product sales to provide customer experiences. We identify the division as the transformation zone for business. The New Business Creation Unit will manage this division from its growing phase to its independent business phase by applying the appropriate KPIs. The New Business Creation Unit will manage this division from its growing phase to its independent business phase by applying the appropriate KPIs. The New Business Creation Unit will manage this division from its growing phase to its independent business phase by applying the appropriate KPIs.

ness phase by applying the appropriate KPIs. Hereafter, we will continuously incubate and transform new businesses from their early phase to their performance phase by establishing a risk-taking culture and process.

Two important initiatives in the New Business Creation Unit are DEI (Diversity, Equity and Inclusion) and Open Innovation. Diversity especially matters when it comes to creating brand-new ideas to bring new value to the markets. We are recruiting a wide range of members with different genders, nationalities, and experiences to construct an organizational foundation for active design thinking. Regarding open innovation, we already invested in two venture and capital funds, and we are rapidly increasing collaborations with start-ups. For example, in fiscal 2021, we invested in Baraja, an Australian start-up company that offers LiDAR technology essential for advanced autonomous driving.

The New Business Creation Unit Coverage Domains



Focus on Japan

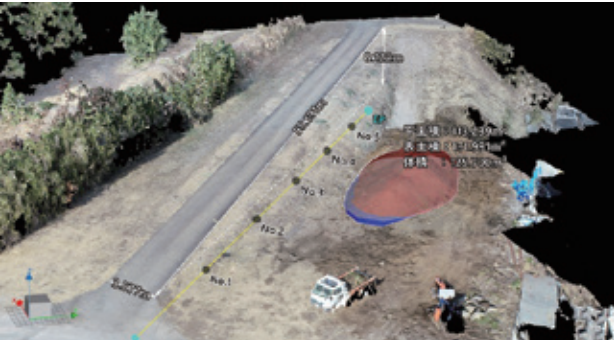
Transcending Conventional Framework to Contribute to Solving Customer Issues

To improve productivity at construction sites, the Ministry of Land, Infrastructure, Transport, and Tourism (MLIT) began the i-Construction initiative in 2016, a project aimed to increase productivity through the full use of ICT and 3D data. Over the course of seven years, ICT construction spread in public works under the jurisdiction of MLIT, and we expect to see further expansions in private construction and small-scale construction.

At on-site construction, there is a series of processes that include initial surveying, design and construction planning, construction, inspection, and delivery, etc. The Hitachi Construction Machinery Group proposes solutions through Solution Linkage Series for each individual process in this series, tailored to customer needs. For example, our new service Solution Linkage Point Cloud allows for the creation of point cloud data by simply uploading Unmanned Aerial Vehicle (UAV) photography to the cloud system. With general aerial photogrammetry, it was necessary to use expensive point cloud-creating software for analysis. However, it became easy to create. This service has been highly commended since we began offering the service in July 2022, and the number of customers adopting it are rising.

Both Solution Linkage Work Viewer Cloud and Solution Linkage Alert Viewer, which we began offering in April 2022, deal with safety-related solutions. With these services, it is possible to share real-time working conditions remotely by using in-vehicle cameras. These services will help increase operational safety.

Hereafter, we will expand the solution coverage to entire construction sites, and we will contribute to the customers' excellent experiences by improving safety and productivity.



3-D point cloud data created on the Solution Linkage Point Cloud (displayed on point cloud processing software)

Voice

Seizing New Business Opportunities and Taking on Challenges It is Our Mission to Restore that Culture Once Again

The New Business Creation Unit's mission is to create and grow new businesses. To make this a reality, we must create an organization and culture for change. By nature, Hitachi Construction Machinery has strong DNA for challenges. This is what has driven our company's growth since the beginning. Creating a new business cannot be done simply by forming an organization to create new businesses. Rather, there are things you cannot grasp without challenging yourself. Through this organization, we hope to continue to challenge ourselves in this rapidly changing world by demonstrating our Kenkijin Spirit to meet our customers' expectations.



Hitachi Construction Machinery Co., Ltd.
Vice President and Executive Officer
President, New Business Creation Unit
Hideshi Fukumoto

Environmental Strategy



We will pursue decarbonization and resource recycling, and contribute to the creation of a society that can adapt to climate change.

Our Approach to Climate Change

The Hitachi Construction Machinery Group has been a pioneer in addressing environmental issues and published the Environmental Report in 2005. In 2021, we reorganized materialities (key issues) from the viewpoints of relevance to our business and the expectations of society, and identified development of products and technologies to tackle climate change as one of our mate-

riality. By conducting risk assessments and scenario analyses of future forecasts and impacts on the business environment going forward, we seek to avoid or mitigate losses caused by possible future climate change, as well as to explore potential opportunities to create new businesses.

Achieving Carbon Neutrality

Development of products and technologies to tackle climate change is one of the Group's materialities. The Group is working to reduce CO₂ emissions in both product development and production processes with the aim of achieving carbon neutrality throughout the entire value chain by 2050.

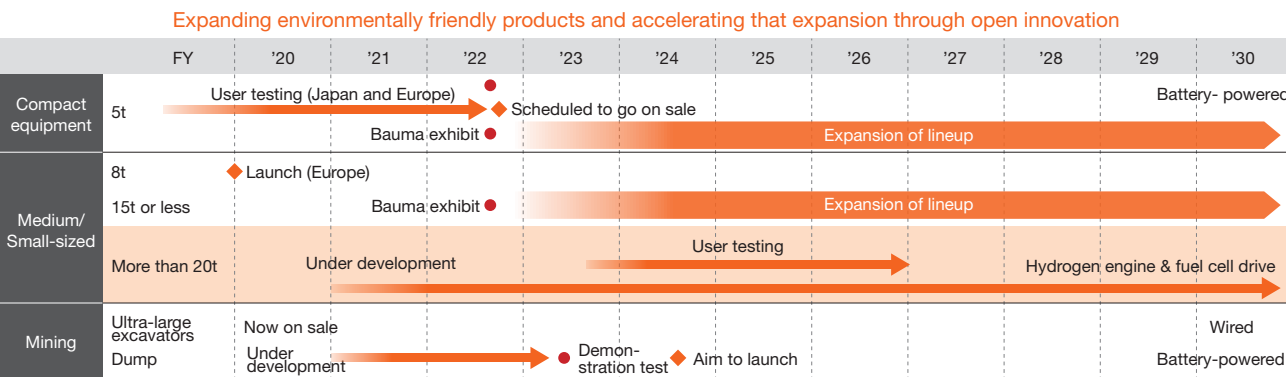
Looking at CO₂ emissions over the entire life cycle of construction equipment, 90% of the emissions are generated during product operation, which constitute direct emissions by our customers (Scope 1). Lowering these emissions is important for reducing CO₂ emissions over the entire life cycle. With an eye on achieving carbon neutrality, we have set and are promoting the goal of reducing CO₂ emissions by 33% from the FY2010 level by FY2030. This will serve as an indicator of our ability to provide environmentally friendly products that emit less CO₂ to our customers and society.

To achieve this goal, we are promoting to develop the entire product range—from compact equipment to ultra-large mining machines. In addition to reducing fuel consumption, we are also working on the early market launch of electrified construction equipment and identifying hydrogen-fueled products from a technological perspective. Furthermore, we are striving to provide solutions that enable our customers to reduce CO₂ while equipment is in use. In addition, major mining customers have set a goal of achieving net-zero emissions by 2050. As part of

this effort, there is a particularly strong demand to reduce the emissions of dump trucks, of which there are a large number, to zero. To meet this demand, we are working with ABB of Switzerland to make our dump trucks fully electric, and aiming to achieve net zero emissions for the entire mining site. By replacing the engine of our current trolley-type dump trucks, which can run on electric power, with a battery, we will be able to use both the trolley electric supply and battery electric supply to achieve a fully electric machine. When our EH3500AC-3 rigid dump truck is fully electric, operating 20 hours a day will result in a reduction of 6.8 tons of CO₂ emissions.

Meanwhile, in the production process, we are promoting reduction of CO₂ emissions from the perspective of energy conservation, conversion to renewable energy (in-house power generation through capital investment, introduction of renewable energy electricity), electrification, and fuel conversion. Energy conservation will be particularly effective in reducing energy costs, the cost of purchasing renewable energy credits, and the carbon tax that is expected in the future. In addition, we will introduce new capital investment standards that utilize Internal Carbon Pricing (ICP) and give priority to investment in facilities that achieve significant CO₂ reductions. We are promoting this standard by applying it to all domestic and overseas production sites and group companies.

Roadmap for the Development of Environmentally Friendly Products by FY2030

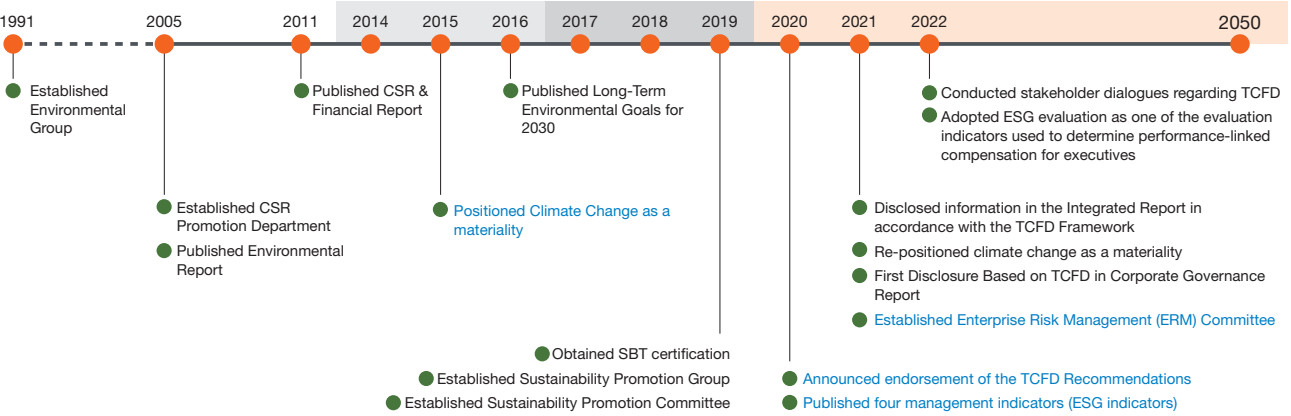


Response to TCFD Recommendations

In July 2020, we established an internal task force consisting of group managers and key personnel from corporate and business groups across the company. In October of the same year, we expressed our support for the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). In 2022, we are conducting scenario analyses for both 1.5°C and 4°C

increases in temperature, as well as an assessment of the likelihood of climate change risks and financial impacts. Based on the TCFD Framework, we disclose the risks and opportunities posed by climate change and our corresponding strategies. We strive to strengthen our initiatives in accordance with these recommendations for sustainable business development.

History of Climate-Related Activities



TCFD Disclosure Requirements

	TCFD Recommended Disclosure Items	Hitachi Construction Machinery Response Status
Governance	•Board of Directors' oversight of climate-related risks and opportunities •Management's role in assessing and managing climate-related risks and opportunities	•Executive Committee/Board of Directors' deliberation and approval •Hold Sustainability Promotion Committee chaired by CEO
Strategy	•Short-, medium-, and long-term climate-related risks and opportunities •Impact of climate-related risks and opportunities on business, strategic, and financial planning •Resilience of strategies based on different climate-related scenarios	•Identify short-, medium-, and long-term climate-related risks and opportunities •Quantify the financial impact of climate-related risks and opportunities •Identify priority measures and confirm resilience of strategies
Risk Management	•Process for identifying and assessing climate-related risks •Process for managing climate-related risks •Integration of climate-related risks into enterprise-wide risk management	•Identify, assess, and prioritize risks •Establish ERM Committee
Indicators and Targets	•Evaluation Indicators for Climate-related Strategies and Risk Management •Scope 1-3 GHG emissions and associated risks •Climate-related risk and opportunity management targets and performance	•Goal to achieve carbon neutrality throughout the value chain by 2050 •Report CO ₂ emissions performance

TOPICS

Conduct TCFD Stakeholder Dialogue (June 2022)

To deepen the TCFD, the Group held a dialogue with the aim of delving deeper into challenges and issues we face and learning from the best practices of other companies. The facilitator was Mr. Masahiko Kawamura, Director of Sun Messe Innovative Network Center. Panelists TODA CORPORATION and Honda Motor Co., Ltd. presented information from the perspective of decarbonization, and Sompo Japan Insurance Inc. presented information from the perspective of disaster prevention and disaster mitigation. Active discussions were held on climate change countermeasures, such as how to perceive management risks and business opportunities that may arise from 1.5°C and 4°C scenarios. Participants were able to learn about advanced case studies from various companies through these dialogues. We will continue to organize dialogues in order to resolve our own issues and strengthen TCFD promotion.



Governance

Important issues related to climate change are discussed at the CSR Promotion Managers Meeting and the Environmental Promotion Managers Meeting. After the discussion, they are reported to the Sustainability Promotion Committee (held twice a year), which consists of executive officers and the Presidents of main Group companies. The President and CEO, who has the highest responsibility and authority for climate-related issues, chairs the Sustainability Promotion Committee, which deliberates and approves important management matters, including responses to climate change. Important matters are deliberated and approved by the Executive Committee and the Board of Directors, and are appropriately monitored and supervised. The deliberations and approvals are also shared with the Global Sustainability Promotion Managers' Meeting, which consists of overseas Group companies, and its subordinate organization, the Global Sustainability Working Group.

Sustainability Promotion System



Meeting Committee Structure and Deliberations regarding Sustainability

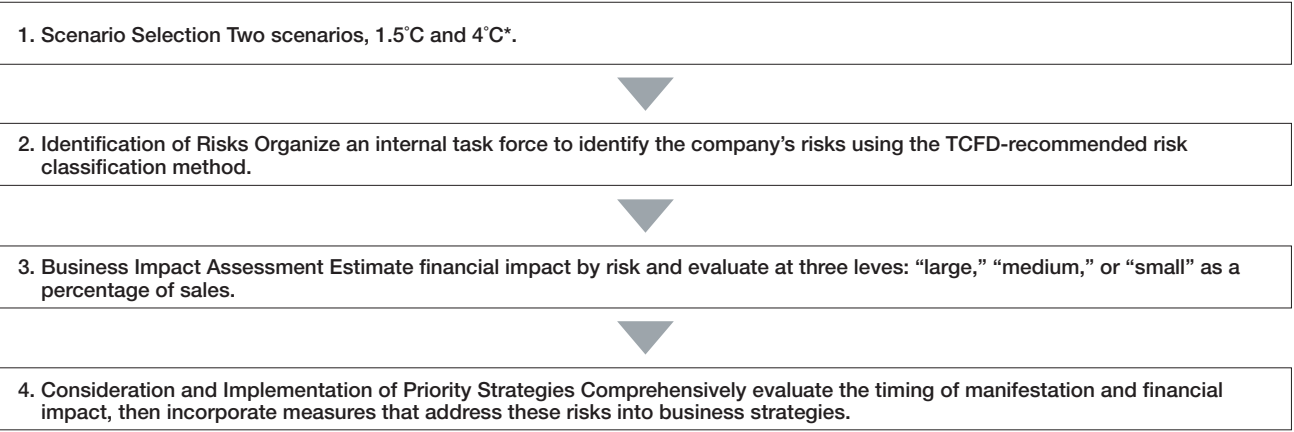
Meeting Committee Structure	Chairman	Members	Main Role	Main Agenda Items for FY2021
Sustainability Promotion Committee	President and Chief Executive Officer	Executive Officers including CEO, CSO, COO, CFO, CHRO, CTO, CDIO, CPO, CMO, Presidents of main Group companies	Deliberation and approval of the Group's sustainability promotion policy, including climate change, as well as key measures and KPIs	Deliberation and approval of policies to promote overall sustainability, including carbon neutrality, circular economy, TCFD, and ESG assessment
Environmental Promotion Managers Meeting	General Manager, Sustainability Promotion Group	Presidents of domestic and overseas group companies, General Managers of Business Group	Deliberation and approval of environmental policies in accordance with the Action Guidelines for Environmental Conservation, management of KPI progress toward maintaining and enhancing environmental conservation initiatives, sharing of key measures and requests for cooperation	Examining our course of action with regard to promoting a carbon neutral and circular economy
CSR Promotion Managers Meeting	General Manager, Sustainability Promotion Group	General Manager of Corporate Group, General Manager of Business Group, Presidents of domestic group companies	Group's efforts to promote sustainability, manage the progress of non-financial mid-term targets, and share and request cooperation on priority measures	Sharing of our approach, challenges we face, and a roadmap for TCFD promotion
Global Sustainability Promotion Managers Meeting	General Manager of Sustainability Promotion Group	Presidents of overseas group companies	Sharing deliberations and decisions of the Sustainability Promotion Committee and CSR Promotion Managers Meeting	Sharing the Group's global sustainability promotion approach
Global Sustainability Working Group	General Manager of Sustainability Promotion Group	Sustainability officers from overseas group companies	Sharing of the Group's global sustainability policies and measures	Sharing case studies from overseas group companies and formulating social contribution policy

Strategy

Looking ahead to an uncertain future with regard to climate change, which is a key management issue, companies must conduct scenario analyses to estimate the risks and opportunities they pose to the companies, and to formulate their own response measures and strategies based on these scenarios.

We have restructured the internal task force we organized in 2020 to analyze climate-related scenarios under an assumed 1.5°C and 4°C rise in global temperature in the following four processes.

Scenario Analysis Process



* References are made to reports of the Intergovernmental Panel on Climate Change (IPCC), established in 1988 by the World Meteorological Organization (WMO) and the United Nations Environment Program (UNEP), as well as information from the International Energy Agency (IEA).
* Under the 1.5°C scenario, environmental regulations and laws aimed at mitigating climate change are strengthened to advance decarbonizing technologies and innovations, leading to a society that achieves zero emissions globally by 2050. For the transition to a decarbonized society based, risks were identified from four categories: policy and legal risk, technological risk, market risk, and reputational risk (changes in customer behavior and investor judgment).
Under the 4°C scenario, as a result of prioritizing economic activities, global warming will increase, and businesses will be subject to physical impacts due to the growing intensity of extreme weather events. Risk items were identified from two categories of physical risks: chronic risks (average temperature rise and sea level rise) and acute risks (intensification of extreme weather events such as typhoons and floods).

Scenario Analysis Results

In order to further promote the TCFD, we have listed the climate-related risks and opportunities we face in terms of products, services, solutions, and supply chain under the 1.5°C and 4°C scenarios, and grouped them according to the following four key themes.

- <1.5°C Scenario> Expand development of products, services, and solutions for decarbonization
- <1.5°C Scenario> Build supply chains aimed at decarbonization
- <4°C Scenario> Provide products/services that contribute to disaster prevention and mitigation
- <4°C Scenario> Building a Supply Chain that is Resilient to Extreme Weather Conditions

These climate-related risks and opportunities were evaluated at three levels in terms of timing of manifestation and financial impact, and a comprehensive assessment of overall significance was then carried out.

Within each grouping, we are working with internal task force members to reorganize climate-related business strategies for items that we believe are of high importance.

The scenario analyses revealed that both the 1.5°C and 4°C climate change scenarios offer great potential for expanding future business opportunities. Based on these considerations, we will strengthen the resilience of the Hitachi Construction Machinery Group by closely monitoring market trends and developing flexible and strategic businesses with the aim of maximizing opportunities and minimizing risks.

Financial Impact and Key Measures

Time of manifestation : **Short-term:** Medium-term management plan (2020-2022) **Medium-term:** Medium-term management plan by 2030
Long-term: beyond2030 to 2050
Financial Impact : **Small:** 1 billion yen or less **Medium:** 1-10 billion yen **Large:** Over 10 billion yen

<1.5°C Scenario> Expanding Development of Products, Services,andSolutions for Decarbonization

(1) Impact of the transition to decarbonization on products, services, and solutions

[Risks] Risk of a possible changes in investment and lending behavior due to tighter decarbonization regulations and increased decarbonization awareness
[Opportunities] Establish competitive advantages and differentiate from competitors by developing decarbonization technologies ahead of others

Strategies for Turning Risk into Business Growth

Strategies for reducing CO₂ emissions

The Group has set a goal of achieving carbon neutrality throughout its entire value chain (from materials procurement to disposal) by 2050, and is accelerating its advance toward decarbonization.

Research and development strategies to encourage the development of decarbonization technology

In order to achieve sustainable growth, we aim to accelerate development by increasing R&D investment in advanced development areas of decarbonization and productivity improvement (automation/autonomous function, driver assistance, etc.): nearly tripling the FY2017 level by FY2025. In particular, to respond to Europe's high level of environmental awareness and strict regulations, we established a joint venture in Germany in 2018 to develop electrified products in collaboration with a German distributor. We promote the development of environmentally-conscious products focusing on the development of clean technology.

Strategies to expand the lineup of decarbonization products and increase their market penetration

By 2030, we aim to expand our lineup of decarbonization products, services, and solutions and increase their market penetration.

	Classification	Strategies to Increase the Diffusion of Technologies for Decarbonization
Decarbonated Product	Development of battery-powered electrified mini to small excavators	<ul style="list-style-type: none">Following the launch of the 8-ton class in the European market, we began receiving orders for the 5-ton class battery-powered mini excavator in June 2022Hitachi Construction Machinery Tierra has expanded the functions of its development and testing facility to accommodate more sophisticated testing of electrified construction machinery and other equipmentIncrease production capacity to approximately 1.3 times the current level by FY2025 to meet growing demand for compact products in the North American and European marketsScheduled to be released as a mass-produced machine with profitability secured by 2050
	Support for hydrogen engine & fuel cell drive in medium and large excavators	<ul style="list-style-type: none">Conduct user testing of hydrogen engine & fuel cell drive technology to be realized by 2030Accelerate the pace of development through collaboration with research institutes, universities, and partner companies
	Support for wired electric or battery power in mining	<ul style="list-style-type: none">Signed a joint development agreement with ABB for an engine-less, fully electric rigid dump truck for achieving net-zero emissions from mining machinery in 2021. PoC (Proof of Concept) is scheduled to start in December 2023.Expand sales of trolley-powered dump trucksConsider development of stationary rechargeable EVs and fuel cell EVs/hydrogen batteries to improve dump truck user-friendliness
Service	Increase market penetra-tion of ICT construction equipment	<ul style="list-style-type: none">Set ICT construction equipment market penetration as a management goal (social value) related to productivity improvement, and aim to have 2,800 units operating at a cumulative total of more than 5,000 work sites by 2022
Solution	SolutionLinkage*	<ul style="list-style-type: none">Optimize CO₂ emissions throughout the value chain by implementing Hitachi Construction Machinery's ICT and IoT solutions, which improve safety and productivity, and reduce lifecycle costs—key issues for our customers

*Composed of ICT Construction Solution/Solution Linkage Mobile/Fleet Management System (FMS)/ConSite

Expansion of used machine and parts remanufacturing business

- The Group has long been engaged in the used machine business. We contribute to the longevity of our products by sending used machines back into the world as PREMIUM USED machines that have been serviced and given a warranty. In servicing and replacing parts for PREMIUM USED machines, only genuine Hitachi Construction Machinery parts are used, and these parts meet the standards set by the Group. Since construction equipment weighs between 0.8 and 800 tons, this contributes significantly to the reduction of raw materials. It can also contribute to the reduction of CO₂ associated with the procurement of materials and parts, as well as the reduction of CO₂ associated with product manufacturing.
- The machine body regeneration process, which began in FY2021, aims to further extend the service life of products by repairing and rebuilding the entire body to the same level of functionality as a new machine. A 20-ton class, medium-sized hydraulic excavator submerged in the torrential rains of July 2018, which caused extensive damage mainly in western Japan, was rebuilt to the equivalent of a new machine and sold as a PREMIUM USED, certified pre-owned machine with warranty.
- In the global market, Hitachi Construction Machinery Zambia has been rebuilding ultra-large hydraulic excavators (EX1200, 120-ton class). It is not just a simple restoration to its original condition as a new machine, but reflects even minor changes to the product, resulting in a more valuable product.
- In order to promote the reuse of parts in addition to the reuse of products, we have been developing a global business to recycle parts for hydraulic pumps, hydraulic cylinders, and travel devices, etc. since 1998. In FY2021, we were able to reuse approximately 77% of the parts collected (7,868 tons in total). This will contribute to the reduction of raw materials and CO₂ emissions associated with the procurement of materials and parts as well as the manufacturing of products.

Resilience Assessment

We have established a carbon neutrality goal for 2050 and we are actively advancing towards it.
If things proceed as planned, we consider the risk of the transition toward decarbonization to be small.

(2) Impact of the transition to decarbonization on the mining machinery business

[Risks] Risk of decline in coal demand
[Opportunities] Increased demand for hard rock, establish a competitive advantage and differentiate from competitors by developing decarbonization technologies for net zero emissions mining ahead of competitors

Strategies for Turning Risk into Business Growth

- The sales revenue component of the mining machinery business related to fuel coal comprises only about 5% of the Group's total business. The Group's dependence on this business is low, as it has been on a declining trend. Due to the fact that accelerated development of EVs in the automotive industry will expand opportunities for sales of mining machinery for hard rock (iron ore, copper, nickel, etc.), we also have a strategy to grow our mining machinery business. Mining sales revenue in FY2021 was 28% higher than the previous year.
- The all-electric power system is an indispensable technological element for our customers to achieve net-zero emissions by 2050. We will expand our solutions business and deploy decarbonization technologies and other new technologies, including electric-powered ultra-large hydraulic excavators, trolley-powered dump trucks, the Autonomous Haulage System (AHS), an autonomous driving system for dump trucks used in mining and the Fleet Management System (FMS), a mine operation management system.
- In Latin America, we will strengthen our mining sales and service system in cooperation with the Marubeni Group, and promote the strengthening of ties with the ITOCHU Corporation Group in North America.

Resilience Assessment

We consider the business risk to be medium given the very low dependence on fuel coal in the mining machinery business and the prospect that demand for hard rock will expand in the future due to the accelerated development of EVs in the automobile industry and other sectors.

<1.5°C Scenario> Building Supply Chains Aimed at Decarbonization

Impact of the Transition to Decarbonization on Supply Chains

[Risks] Increased external pressure to decarbonize, risk of reputational damage
[Opportunities] Carbon tax savings

Strategies for Turning Risk into Business Growth

The Group has set a goal of achieving carbon neutrality throughout its entire value chain by 2050, and is working globally to reduce CO₂. To realize this goal, we are promoting initiatives from the two perspectives; development of thorough energy conservation and CO₂ reduction activities, and active use of renewable energy.

Measures to support the development of thorough energy conservation and CO₂ reduction activities

- Since FY2019, we have incorporated an internal carbon pricing system to consider the carbon price in investment decisions. In the last fiscal year, we raised our carbon price from 5,000 yen/t-CO₂ at the time of introduction to 14,000 yen/t-CO₂. We plan to accelerate the pace of investment in energy-saving facilities and the introduction of renewable energy.
- Hitachi Construction Machinery Energy Management System, an integrated energy and facilities management system that utilizes advanced IoT technology, has been introduced at six plants in Japan. The system reduces peak power consumption and standby power consumption based on the visualized data. In addition, we are promoting the use of IoT for factory production equipment to monitor equipment operating conditions, thereby helping to improve productivity and reduce CO₂.

Measures to support active use of renewable energy

- Renewable power is being introduced at Tsuchiura Plant, Hitachinaka Rinko Plant, Banshu Plant, Hitachi Construction Machinery Tierra, Shin Tohoku Metal, Tada Kiko, Hitachi Construction Machinery (China), Tata Hitachi, Hitachi Construction Machinery Indonesia, and Bradken. In FY2022, Bradken's India site will also install new renewable electricity to the extent that it will cover approximately 20% of the power needs of its operations.
- We promote optimization of global production and procurement, including optimization of product inventory and transportation.
- We provide support for main suppliers so that they can save electricity and improve energy productivity at their production facilities.

Resilience Assessment

We have established a carbon neutrality goal for 2050 and we are actively promoting it.
If things proceed as planned, we consider the risk of a Scope 1+2 transition toward decarbonization to be medium. We need to actively promote initiatives to strengthen the entire supply chain.

<4°C Scenario> Providing Products/Services that Contribute toDisaster Prevention and Mitigation

Impact of Disasters on Society

- [Risks] Increase and intensification of natural disasters such as typhoons and floods due to climate change
- [Opportunities] Increased demand for products and services that can contribute to disaster prevention and mitigation, supported by programs such as the Three-Year Emergency Measures for Disaster Prevention and Mitigation and Building National Resilience

Strategies for Transforming Climate Change Risks into Business Opportunities

- By providing construction machinery products, rental products (light dump trucks, small general-purpose products, and attachments such as fork grapples, etc.), and technologies such as the Solution Linkage series that can contribute to infrastructure resilient measures related to disaster prevention and disaster mitigation, we strive to provide the best solutions to meet the demands of disaster sites.
- Hitachi Construction Machinery Japan has concluded 114 disaster agreements (as of March 2022) with local governments, etc. We will place priority on providing construction equipment and materials to disaster-stricken areas, contributing to rapid recovery when disasters occur. We plan to expand the number of disaster agreements to 155 in FY2022 and 195 in FY2023.
- In the field of disaster prevention and mitigation, we will contribute to the stable operation of our customers' machines through condition monitoring and machine maintenance using ConSite.

Resilience Assessment

The scope of our ability to meet the demand for products/services that can contribute to infrastructure resilience for the purpose of disaster prevention and mitigation is still limited. However, we will continue to contribute to the realization of a resilient society that can withstand disasters.

<4°C Scenario> Building a Supply Chain that is Resilient to Extreme Weather Conditions

(1) Impact of natural disasters on supply chains

- [Risks] Risk of suspension of parts supply due to rapid increase in natural disasters and intensification of disasters /increasing temperatures, risk of production stoppage due to disruption of transportation infrastructure, and risk of inability to report for work
- [Opportunities] Build a stable production system through immediate measures

Risk-Response Strategies

The group must engage in risk response measures from various perspectives. These perspectives include maintaining business continuity and the rapid resumption of business activities in the event of an accident or disaster.

■ Reinforcement of risk countermeasures in our company

- To identify areas of high water stress levels, we used the AQUEDUCT tool published by the World Resources Institute (WRI) to quantify water stress levels at all domestic and international production sites and identify areas of high water stress.
- Typhoon 19 in 2019 flooded the Group's suppliers and required some production adjustments at some plants. However, timely restoration support provided to suppliers and production adjustment flexibility within the Group enabled us to avoid shipment delays, and the impact on consolidated results was minimal.
- We need to establish a system to ensure that any factory in the world can continue to produce products of the same quality and that we can cover the production of the affected factories. We need to be prepared not only for disasters which impact our company, but also for the risk of suspension of parts supply and the risk of production stoppage due to disruption of the transportation infrastructure. To this end, we are pursuing initiatives to diversify risks by building a global production and procurement system to prepare for disasters. These include thorough earthquake resistance measures, optimization of inventories in consideration of disasters, establishment of a system that allows products to be transferred between bases, purchasing of critical parts from multiple suppliers, and establishment of production planning processes and optimized allocation processes that will enable the early resumption of production. We plan to investigate the risk of natural disasters, including climate change, when building/relocating new factories and offices.
- In non-production sites, we will respond to disasters by continuing business activities through the widespread use of telework and by providing multiple means of transportation.

■ Strengthening risk countermeasures in the supply chain

- We are working to build disaster-resistant global production and procurement by optimizing product inventories.
- We conducted the BCP checklist analysis for the Tokiwa-kai, a cooperative association comprised of major suppliers. For suppliers identified as requiring enhanced measures, we assessed the risk of flooding against municipal hazard maps and quantitatively determined the financial impact

on production. In the future, we will incorporate these results into production planning simulation software to further strengthen our countermeasures. We will assist suppliers who need our support, in order that they can consider their BCPs (Business Continuity Plans) independently and develop measures on their own.

Resilience Assessment

We consider natural disaster risk to be large. We will prioritize the highest risk areas and take appropriate measures to ensure stable business activities throughout the supply chain. In addition, we will conduct periodic reviews to keep abreast of the latest climate change risks, which will be useful for disaster prevention and mitigation.

(2) Impact of the increase in extreme heat days on the company

- [Risks] Risk of heat stroke due to rising temperatures
- [Opportunities] Establish a stable production system through emergency measures

Strategies to Address Risk

- We aim to avoid the risk of infectious diseases, reduce human damage, and improve work efficiency by improving the work environment through automation and robotization of production.
- WBGT (heat index) meters have been installed at manufacturing sites to evaluate the level of heat stress in hot environments. When dangerously hot weather is expected, early alerts for heat stroke alerts promote awareness of the heat and help workers manage their physical condition by calling for heat stroke precautions. We plan to take into account the risk of heat stroke when we build/relocate new factories and offices in the future.

Resilience Assessment

We consider the risk of heat stroke to be small. We will protect the health of our employees and ensure stable business activities by strengthening employee health management and heat stroke countermeasures.

Risk Management

New risks have emerged that could shake the very foundations of our business, such as climate change, geopolitical risks, and human rights issues in the supply chain. Managing these risks is becoming increasingly important. Against this backdrop, we have designated new risks that require company-wide response policies and management decisions as company-wide risks. We established the ERM (Enterprise Risk Management) Committee

in April 2022 as a forum to manage these risks. Under the leadership of the CSO (Chief Strategy Officer) and other members of management, we have established a system for overall management of and prompt responses to company-wide risks. The ERM Committee reports important matters, such as company-wide risk management policies, to the Executive Committee and the Board of Directors.

Indicators and Targets

In setting decarbonization targets, we use backcasting from ideal conditions that should exist in 2050 to establish targets for 2030 as well as three-year medium-term management goals. In 2019, we have set a target of 45% reduction in Scope 1+2 and a 33% reduction in Scope 3 (compared to FY2010) by 2030. This target has been certified as a SBT2°C-level target by SBTi (Science Based Targets initiative), an international initiative for climate

change. Since climate-related risks are a key management issue for the Group, we have shifted to the highest standard, the 1.5°C scenario. So our goal of carbon neutrality throughout the value chain by 2050 was formally approved at the Sustainability Promotion Committee, which is chaired by the CEO. We plan to formulate our 2030 target, which marks the mid-point of this period, this fiscal year in order to achieve this long-term goal.

Shifting to a Resource-recycling Business

One of the Group's materialities is to shift to a resource-recycling business. The unsustainable business model of mining, using, and then disposing of resources will eventually reach its limits. The Group contributes to resource recycling through its value-chain business, which consists of businesses such as remanufacturing, used equipment, rentals, and service.

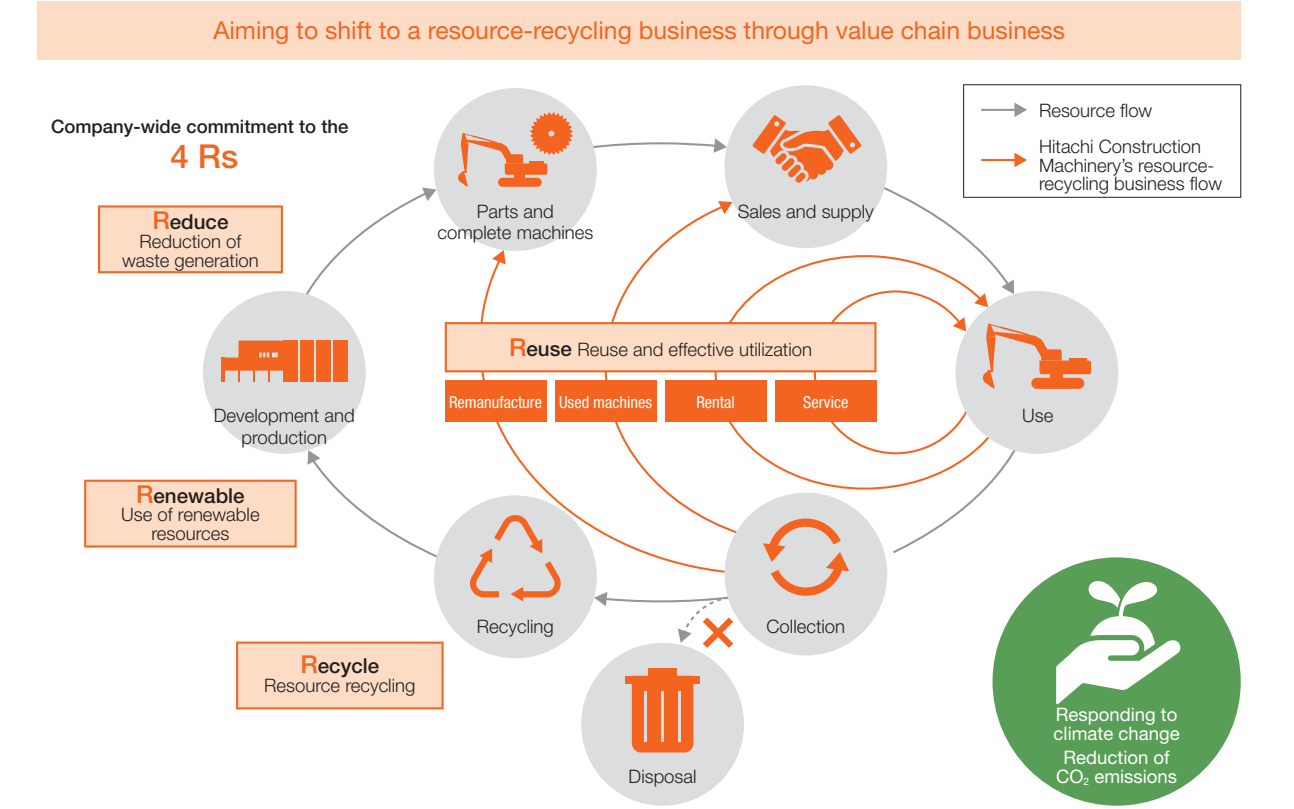
In the parts remanufacturing business, we manufacture refurbished parts that guarantee the same functionality and performance as new parts. Parts collected from customers are disassembled, serviced, and inspected, and consumable parts are replaced as needed. Advanced remanufacturing technologies can help reduce resource inputs by extending the life of components. In addition, we utilize our accumulated expertise to recondition discarded aircraft so that they are again the equivalent of new machines, which are then sold as used machines. This reduces the use of new materials and contributes to a new resource-recycling business model. Hitachi Construction Machinery Zambia is refurbishing ultra-large hydraulic excavators (EX1200) to make them as good as new. In addition, they are also working to remanufacture them as high-value products that reflect even minor changes in the product.

In the rental and used equipment business, Hitachi Construction Machinery provides advanced maintenance services through ConSite during the usage period of PREMIUM RENTAL machines that are certified by Hitachi Construction Machinery. We extend the operational life of the machines and distribute them to emerging countries as PREMIUM USED, high-quality used machines with a manufacturer's warranty. This contributes to reducing the number of discarded machines.

In the parts and service business, through the ConSite menu, we are working to extend the service life of machinery through appropriate maintenance using IoT. At the same time, we monitor the operation of each machine and make proposals to reduce fuel consumption through work improvement proposals, thereby contributing to the reduction of CO₂. We extended ConSite services to our hydraulic excavators for North and South America starting in March 2022.

In this way, the Group's value chain business is a sustainable business that contributes to the circular economy by simultaneously helping to solve the problems of customers, society, and the environment, thereby creating a resource-recycling business.

Hitachi Construction Machinery Group's Goal of Shifting to a Resource-recycling Business



Technology Strategy

The Hitachi Construction Machinery Group is working to develop unique technologies, products, and solutions with the aim of realizing future construction sites where people and machines cooperate.

Promoting DX (Digital Transformation)

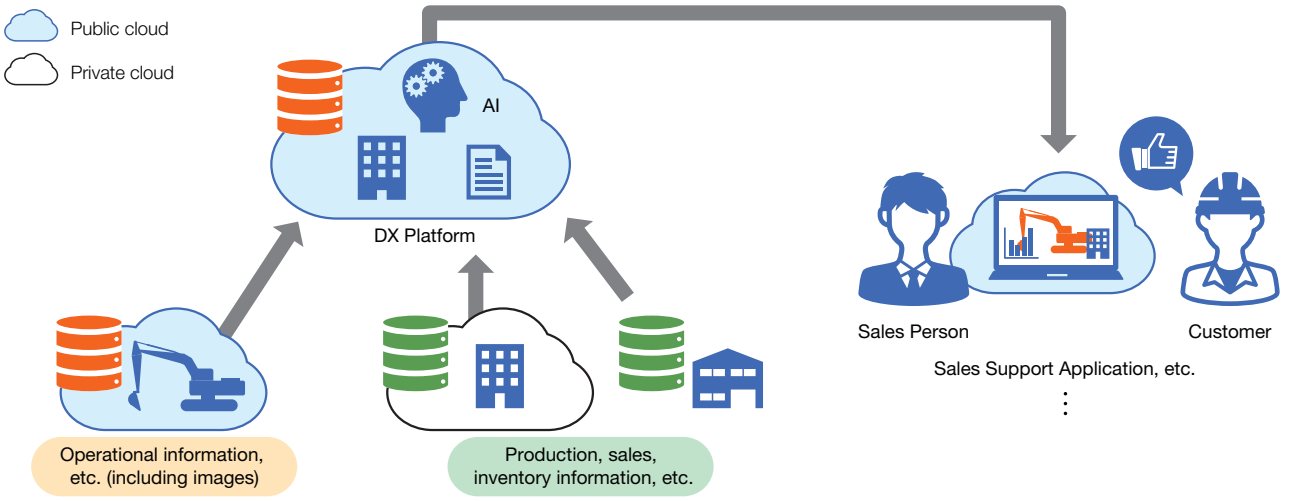
Establishment of DX Platform

The Group aims to help provide solutions to our customers' issues by deepening the value chain and utilizing digital technology. In April 2020, the DX Promotion Group was established as an organization to lead company-wide DX and is developing various initiatives.

In January 2022, in collaboration with Hitachi, Ltd., we established the DX Platform, a platform for utilizing data on construction machinery operational information, production, sales, and inventory. In the past, systems to utilize this data were built separately, but by utilizing the DX Platform, the collection, analysis, and utilization of data will become much more efficient.

For the first initiative using the DX Platform, we began operating a Sales Support Application in Japan in fiscal 2022. This application is provide to all Hitachi Construction Machinery Japan personnel (approximately 1,000 people at 243 locations nationwide) who are in charge of construction machinery sales, parts and service business in Japan. It allows users to collectively view information such as the operational information of their machines, maintenance plans, and transaction histories. Then, based on this big data, it can instantly display proposals determined by AI that utilize multiple patterns. We will utilize this application to create new value.

Overview of Data Utilization Platform "DX Platform" and Sales Support Application



Selected as a Noteworthy DX Company

In June 2022, Hitachi Construction Machinery was jointly selected by the Ministry of Economy, Trade and Industry and the Tokyo Stock Exchange as a Noteworthy DX Company, and was included on the list of Digital Transformation Stocks 2022 (DX Stocks). DX Stocks are selected by industry from among companies listed on the Tokyo Stock Exchange. The selected companies have established internal mechanisms to promote DX that have led to increased corporate value, and have demonstrated outstanding achievements in the use of digital technology. In addition to DX Stocks, companies that are implementing initiatives that deserve attention are selected as Noteworthy DX Companies.

In our medium-term management plan, we are shifting our business model from a focus on new machinery sales to a value chain business that utilizes DX and targets machines in operation worldwide. Furthermore, we are promoting the provision of digital solutions to improve safety and productivity and reduce lifecycle costs—issues faced by our customers. These initiatives received positive recognition. 15 companies have been selected for 2022, including Hitachi Construction Machinery.



Strengthen R&D Platform

Construction of the New Engineering Building

The Group has six development and production bases in Japan: the Tsuchiura Works, Kasumigaura Works, Hitachinaka-Rinko Works, Hitachinaka Works, Ryugasaki Works (Ibaraki Prefecture), and Banshu Works (Hyogo Prefecture). We are currently reorganizing our major development and production bases in Japan to strengthen our global competitiveness. We plan to relocate and consolidate our R&D base to the Tsuchiura Works.

As part of this effort, we are constructing the new Engineering Building on the grounds of the Tsuchiura Works. It is currently under construction and is scheduled to begin operation in May 2023. It is a six-story building totaling approximately 26,000 square meters and work space for 2,700 employees. We expect to create synergy by bringing together engineers from development departments that were previously divided between various locations. With the construction of the new Engineering Building, the Tsuchiura Plant will assume an important role not only as a production plant for construction products, but also as a development base for mining machinery: such as medium-sized hydraulic excavators, medium and large wheel loaders, and ultra-large hydraulic excavators and dump trucks. In addition to adapting to emission regulations, improving operability, and pursuing reduced fuel consumption, we plan to promote advanced development, including further improvements in safety, more sophisticated control functions for future automation and

autonomy, and linkage with ICT and IoT.

The Engineering Building has been approved for Ibaraki Prefecture's Subsidy for Promoting the Relocation and Enhancement of Head Office Functions.



Rendering of the Engineering Building



Rendering of the interior of the Engineering Building

Construction of One of the Largest Anechoic Chambers in Japan

In August 2021, we constructed a new Anechoic Chamber for machines EMC testing on the premises of the Tsuchiura Works in Ibaraki Prefecture in order to test the effects of electromagnetic waves from construction machinery. Until now, we have conducted Electromagnetic Compatibility (EMC) testing outdoors at the Urahoro Test Site in Hokkaido or at a third-party facility. EMC tests are conducted to confirm the effects of electromagnetic waves emitted by construction machinery on other electronic equipment (electromagnetic interference) and the resistance to electromagnetic waves from other electronic equipment (electromagnetic immunity). The new anechoic chamber makes it possible to conduct the testing at the Tsuchiura Works, which is the development and production base for hydraulic excavators and other products. It is one of the largest* anechoic chambers in Japan with the capacity to conduct testing on construction machinery. Since the tests are conducted indoors, they can be carried out in a stable environment unaffected by weather and climatic conditions.

This will accelerate the speed of product development, including the automation, autonomous function development, and electrification of construction machinery, for which demand has been increasing in recent years, as well as the incorporation of

safety devices and ICT construction initiatives.

*As of July 8, 2021.Surveyed by Hitachi Construction Machinery.



EMC testing of a hydraulic excavator (30-ton class) (image)



Initiatives for Automation and Development of Autonomous Function of Construction Machinery

In the construction industry, the decline in the productive labor force and the aging of skilled workers have made it a challenge to improve productivity through labor savings. In particular, mining sites are required to operate 24 hours a day, 365 days a year, placing a heavy physical burden on operators. As one solution to this problem, there are high expectations for the development of construction machinery that can operate autonomously.

A remote-controlled demonstration of an ultra-large hydraulic excavator was conducted at the Group's exhibition booth at the 4th Construction and Surveying Productivity Improvement Expo (CSPI-EXPO) held at Makuhari Messe in Chiba Prefecture from May 25 to 27, 2022. This possible thanks to a system that was created to systematically advance the development of autonomous-functioning ultra-large hydraulic excavators. We connected the exhibition site (Chiba City, Chiba Prefecture) to the Urahoro Laboratory (Urahoro-cho, Tokachi-gun, Hokkaido), 870 km away from the site, via a communication network, and operated the excavators from the exhibition. The demonstration used a

high-speed wireless network with wireless antennas and cameras set up on the EX2500-6, an ultra-large hydraulic excavator. In addition to remote control, the monitor displays information that improves productivity, such as the load status on the cylinder and load determination, which enabled highly fuel-efficient excavation.



An operator remotely controls an excavator while watching images projected on monitors.

Intellectual Property Strategy

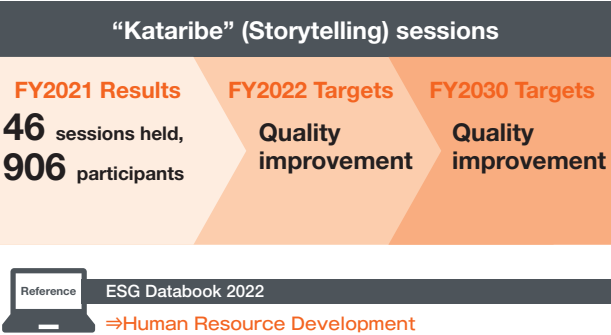
The Group emphasizes intellectual property activities in its business. The Hitachi Construction Machinery Group Code of Conduct sets forth our basic policy for protecting our own intellectual property and respecting the intellectual property of others. We conduct intellectual property activities based on this policy.

At the same time, the Group has a high percentage of over-

seas sales, so it is important to build a global patent network. Hitachi Construction Machinery has maintained an overseas patent application ratio of 30% or more since fiscal 2011. Going forward, we will increase and enhance our applications for value chain-related technologies and establish a first-class, global intellectual property portfolio.

Technology Transmission

With the aim of ensuring uniform quality assurance levels at group companies around the world, we implement a variety of technical improvement programs. For example, there are "Kataribe", (Storytelling) sessions in which senior and active experts in various fields pass on their ideas on business execution, experiences of failure, and technical know-how to active front-line engineers. In FY2021, 46 sessions, including those at the head office and group companies, were held with 906 participants (including web-based participation). In FY2022, we plan to offer approximately 50 sessions with new instructors and new sessions.



Hitachi Construction Machinery Co., Ltd.
Vice President and Executive Officer
CTO and General Manager,
Research & Development Group,
Development Strategy Office,
and Power & Info Control Platform Division
Kazunori Nakamura

Chief
Technology
Officer

CTO Message

Establishing a position as a
prime vendor capable of
providing everything from
hardware to software.

[Enhanced Development System]

Strengthen Internal Resources and Increase Development Speed Through Open Innovation

I served as president of Hitachi Construction Machinery Tierra until March 2022, after which I was named CTO and general manager, Research & Development Group, being responsible for Hitachi Construction Machinery Group / HCM Group development. The Hitachi Construction Machinery Group has been transitioning to a business unit system since April. The role of the Research & Development Group is to first identify changes among our customers, society, infrastructure technology, and product technology as quickly as possible. This allows us to set the overall direction of development, after which we obtain the buy-in of each business as part of our cross-disciplinary functions. The objective of each business unit is to grow its own business. The objective of the Research & Development Group Division is to support the value creation of each business unit. The Power & Info Control Platform Division is an organization with central responsible for technology development related to all products, including hydraulic components, electronic control, transmissions, software, and machine chassis systems. The division is responsible for key technologies that differentiate the performance and functionality of our chassis, and is responsible for the integrated development of components. Many specialized manufacturers of these technologies exist outside the company, as do start-ups working in new fields. We intend to collaborate actively with these entities to accelerate development.

The engineering building currently under construction at the Tsuchiura Works will serve as a central base for engineers who will share the same floor space with our ubiquitous development hubs. As of April 2022, I have been working in several develop-

*Connected: Permanently connected to the internet.

ment offices scattered throughout the vast grounds of the Tsuchiura Works. I have been moving from one office to another, including hydraulic components, electronic controls, machine chassis, and production technology. I believe our engineers have much to gain by gathering in the same workspace. The new building will serve as a creative space, and we look forward to its opening in May 2023.

Our overseas development centers are located in Europe, China, India, Southeast Asia, and other areas. The European Application Center GmbH (EAC), which we established two years ago in Germany, develops electric construction machinery, advanced operator assistance technology, and applied attachment products that meet European needs. We plan to deepen cooperation between Japan and these overseas centers and development teams. North, Central and South America represents the world's largest market. Having begun independent expansion in this market in fiscal 2021, we expect great potential not only in production and sales, but also in development. The U.S. is home to many cutting-edge connected* companies with whom we would like to work in building an innovative development system.



STEP to 2030: Our Vision for 2030

As of 2019	Current Medium-Term Management Plan	Our Vision for 2030
<ul style="list-style-type: none">■ Responding to Individual Changes<ul style="list-style-type: none">• Strengthen Solutions Development (Chassis/Non-Chassis Products)• Strengthen Development of Advanced Products (Human Resources Development, Electronification, Platform Construction)• Contribute to increased Earnings Throughout the Value Chain (In-House Production of Key Components, ConSite Collaboration)• Diversify Development Styles (Agile Development, Open Innovation, Etc.)• Strengthen Front-Loading* <small>*A development method that incorporates customer needs and technical issues in the early stages of development. Our objective is to develop highly complete products over shorter development periods.</small>	<ul style="list-style-type: none">■ Establish and Implement Responsiveness to Change<ul style="list-style-type: none">• Respond to Changing Customer Values<ul style="list-style-type: none">· Introduce differentiated, cutting-edge products and solutions in a timely manner to the market· Respond to global customer needs (strengthen applied products business and respond to bipolarization between emerging and developed markets)• Deepen Product Development to Generate Profits Throughout the Value Chain<ul style="list-style-type: none">· Leverage ConSite machinery chassis data• Conduct Ground-Up Review Development Capabilities (Build and Implement Development Structure)<ul style="list-style-type: none">· Establish development processes and foster a new development style to eliminate rework and waste· Create a human resources and structure responsive to change· Build a global development system• Prevent Global Warming<ul style="list-style-type: none">· Reduce CO₂ emissions from products development.	<ul style="list-style-type: none">■ Establish Industry-Leading R&D Capabilities<ul style="list-style-type: none">• Establish a position as a prime vendor capable of providing everything from hardware to software(1) Improve safety<ul style="list-style-type: none">· Contribute to zero accidents involving fatalities due to falls and accidents(2) Improve productivity<ul style="list-style-type: none">· Standardize automation and labor-saving machinery(3) Reduce life-cycle costs<ul style="list-style-type: none">· Strive for zero downtime(4) Prevent global warming<ul style="list-style-type: none">· Reduce CO₂ emissions throughout the product life cycle· Achieve decarbonization(5) Respond to globalization (bipolarization)<ul style="list-style-type: none">· Increase market share of hydraulic excavators and wheel loaders in emerging and developed countries

[Areas of Advanced Development]

Accelerating Technological Development in Five Priority Areas Based on Our Vision for 2030

The R&D policy of the Research & Development Group is to maximize social and environmental value through the pursuit of reliable solutions. And our Vision for 2030 is to establish the top R&D capabilities in our industry. To achieve this vision, we established five priority areas and a roadmap, created through back-casting from our ideal.

Among the five priorities, we consider (5) Respond to globalization (bipolarization) to be particularly important. The developed economies such as Europe and the U.S. have demand for advanced operator assistance technology and robot technology for advanced safety and productivity functions. To win in these markets, the Hitachi Construction Machinery Group must develop a model for developed economies that integrates reliable solutions and connected technologies. At the same time, the markets for civil engineering are expected to grow in countries and regions where demand for infrastructure development is increasing. Here, we must develop a high-productivity model for emerging economies. This productivity is the single-most important factor for construction machinery. If we are to make a significant contribution to customer value chains, it is essential that we provide construction machinery that offers superior performance. With respect to (4) Prevent global warming, which includes decarbonization, we are seeing more customers around the world who demand mini excavators, medium and large hy-

draulic excavators, and dump trucks. In Europe, where demand for electric excavators has always been very high, we are already selling an electric 8-ton class excavator. In April 2022, we opened the Electric Products Development Center to strengthen development in this area further. The bottleneck to decarbonization technology is the development and procurement of batteries for construction machinery. The key here is how to develop a battery module specifically for construction machinery without increasing costs. While the battery itself is the same for automobiles and construction machinery, each power supply module requires a different technology. We are looking to collaborate with battery manufacturers not only in Japan, but also in China and Europe, aiming to develop products in physical proximity to each market.

A platform will be just as important as the performance of the construction machinery itself. We intend to develop and market hydraulic excavators linked to communications infrastructure through software on a highly functional platform that allows humans and machinery to work in harmony. Conventional construction machinery is sold to customers as a finished product. In the future, however, we believe construction machinery will function like smartphones, connected to a network. And digital technology will allow us to provide products and services that enhance customer value under all circumstances.

[Investments in Research and Development]

Aggressive Expansion of Investments to Stay Ahead of Global Change

Our goal in these various priority technology developments is to anticipate and “attack” medium- and long-term market changes. To this end, we must transform our R&D and value creation, and we intend to invest more aggressively than ever in human resources for R&D. We will also invest more aggressively in partners who will collaborate with us toward the same vision.

I have been involved in construction machinery technology and business development for many years, but I have never experienced an environment like the one we are in today. Change

is coming rapidly from all directions, including digitalization, decarbonization, AI, and IoT. To anticipate these changes accurately and continue to provide value to our customers, we must visit our customers personally on the front lines of their businesses, and rely on our own ingenuity for change. The shift to a business unit system will allow us to become even closer to our customers. And I hope we will create new value and evolve quickly into a construction machinery development group that leads the next generation.

Human Resource Strategy



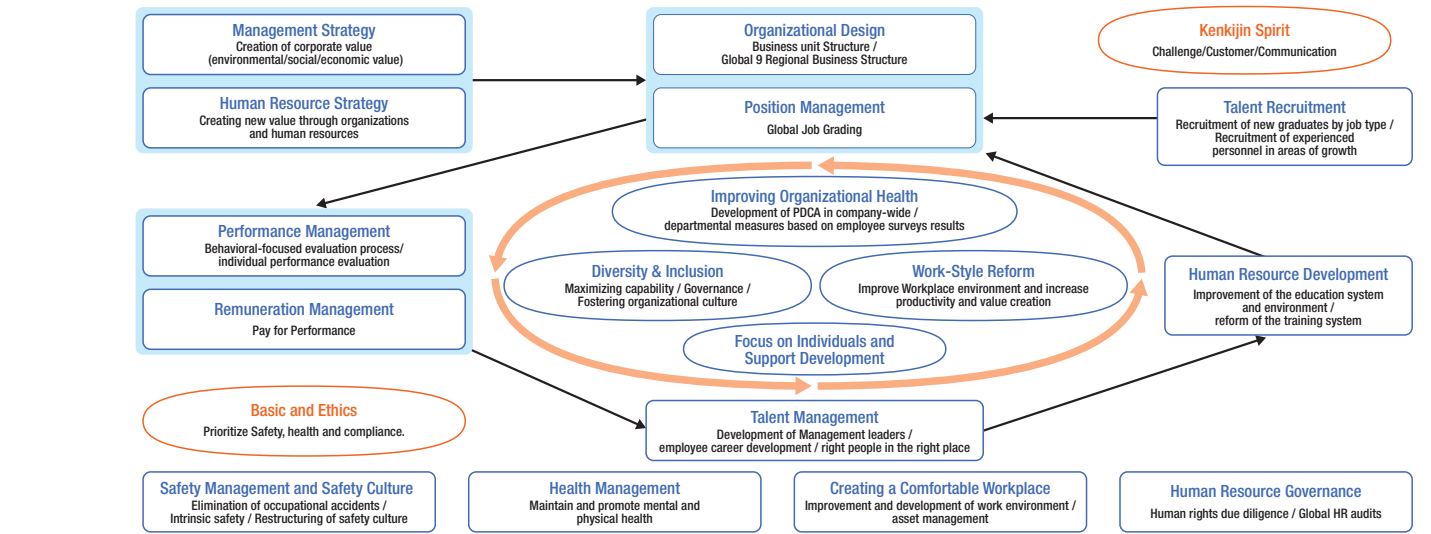
A company is its people. Human resources is the true source of value creation. The Hitachi Construction Machinery Group will promote global human capital management by developing and utilizing a diverse human resource, improving organizational health, and thoroughly implementing human capital governance.

Global Human Resource Management

The strength of Hitachi Construction Machinery comes from the fact that the individuals who make up our diverse global workforce share the same vision, mission, strategies, and plans, and execute them with the Kenkijin spirit in order to achieve results and create corporate value. The mechanism for achieving this is a global human resource management system. The Group is

promoting human resource governance, including the advancement of diversity in our workforce and improvement of organizational health, as well as health, safety, and human rights, by deploying and sharing the Global Human Resource Management Policy among the Group companies.

Human Resource Management System Chart



Diversity & Inclusion

We, Hitachi Construction Machinery Group seeks to enhance corporate value by providing opportunities for individuals in our workforce who come from diverse backgrounds and by maximizing their abilities and characteristics. With diversity and inclusion as a key management challenge, we will work to develop mechanisms and operations from the perspectives of governance, personnel systems, global, women's empowerment, and organizational culture. Specifically, we are promoting the (1)

strengthening of governance by diversifying the management team, (2) development of a personnel system that gives equal opportunity regardless of their attributes, (3) localization of the management team at overseas subsidiaries, (4) active promotion of female managers, and (5) fostering organizational culture by developing a PDCA cycle using diversity and inclusion KPIs from our employee survey.

Consolidated Targets

Category	KPI	Present	Consolidated Targets	
			FY2025	FY2030
Organizational culture Management System	Diversity & Inclusion score (percentage of favorable responses to employee survey)	65.8%	67.0%	70.0%
	share of global human resource management policy	share	—	—
Governance	Ratio of outside directors (independent outside directors)	40%	Compliance of Corporate Governance Code	
	Percentage of female and foreign directors	20%		
Global	Localization ratio of GM positions or higher in overseas group companies	71%	75%	80%
Women's empowerment	Ratio of management positions by gender	Female 10.4% Male 14.9%	12.9% 15.0%	Equalization of the ratio of men and women

Improve Organizational Health (Engagement)

Corporate performance and organizational health are both essential elements. Through the improvement of organizational health, we will build an organizational culture in which employees with diverse backgrounds can play an active role and achieve results, and promote the development of a workplace environment in which everyone can work with vitality and enthusiasm. We monitor our annual employee survey, and develop PDCA cycles for the entire company and individual divisions to improve

organizational health.

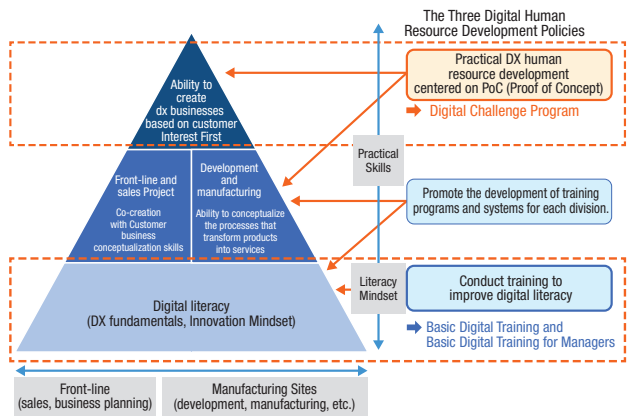
Employee Survey Results

		2017	2018	2019	2020	2021
Consolidated	Response rate (%)	69.9	66.3	79.7	85.2	91.2
	Favorable rate (%)	62.4	62.6	63.3	65.7	63.7
Individual	Response rate (%)	66.9	70.4	86.1	92.1	96.3
	Favorable rate (%)	56.2	56.0	58.1	60.3	58.2

Developing human resources to meet the challenges of transformation and digitalization

In times of change, the skills and mindsets required to accomplish goals are critical in enabling a diverse global workforce to execute strategies and plans and achieve results. The Self-Improvement Program is a human resource development program designed to transform the Group into an organization that consistently delivers results. The program has been implemented in Japan since fiscal 2019, with 3,500 employees participating in the training, and is currently being expanded overseas. Meanwhile, we are promoting the development of digital human resources with the aim of strengthening front-line and technical capabilities. From 2021, we started both the Digital Challenge Program and the Digital Basics Training Program to improve digital literacy. Approximately 1,000 people are expected to participate in the program by 2023.

Overview of Digital Human Resource Development Policies



Respecting Human Rights

The Hitachi Construction Machinery Group has clarified the Group Code of Conduct and the Group Human Rights Policy to promote respect for human rights. We also respect international human rights principles, including the UN Guiding Principles on Business and Human Rights. In May 2021, the Hitachi Construction Machinery Human Rights Due Diligence Promotion Council was established with the president as the person responsible.

The council focused on forced and migrant labor as priority issues, conducted human rights due diligence on consolidated companies and suppliers in priority regions, and reported the results and status of improvement measures at the February 2022 meeting. We will continue to develop the PDCA cycle of human rights due diligence to reduce business risks.

Thorough Safety Management

Under the basic policy of "Prioritize safety and health," the Group oversees group safety and health activities led by the Safety and Health Promotion Committee to (1) eliminate occupational accidents, (2) ensure that machinery and equipment are intrinsically safe, and (3) rebuild a safety culture. In addition, we are working to prevent accidents and injuries by developing a PDCA cycle based on an occupational health and safety management system and by engaging in a two-way safety dialogue through safety talk and safety time. Reduction of occupational accidents is an urgent issue, and we will strive to eliminate them with the goal of halving the number of accidents compared to the previous year.

Pursue Health Management

The Group pursues health management with the aim of establishing a vibrant work environment in which everyone can work with vitality. In both 2021 and 2022, Hitachi Construction Machinery was certified as a Health & Productivity Management Outstanding Organization. In the current fiscal year, we will further promote the strengthening of health management initiatives with the aim of maintaining and improving our employees' mental and physical health. Specifically, while strengthening the industrial health system, we will strive to expand mental health programs based on the results of stress check survey, with the goals of reducing overall health risks (2 points) and further enhancing health management.

Hitachi Construction Machinery Co., Ltd.
Vice President and Executive Officer
CHRO, President, Human Capital Group
Seishi Toyoshima

Chief Human Resources Officer

CHRO Message

Human capital is the true source of value creation.
To lead growth, we will continue to foster
happiness among our employees.

[My Role as CHRO]

Fostering Employee Happiness from Three Perspectives

At Hitachi Construction Machinery Group, we believe that our employees are the foundation of our business and are the true source of value creation. Based on the philosophy that an organization built from outstanding employees has the power to transform business; we are striving to reform our human capital management based on this belief. We are pursuing a vision for each aspect of human capital management, to achieve our medium-term management plan, “Create new value through human capital and our organization, and to contribute to the creation and transformation of our business.”

In this era of rapid change, raising the value of people is of the most importance among the four major management resources of people, goods, funds, and information. I believe that the key to improving the value of our human capital is the Organizational Health/Employee Satisfaction*. I also recognize that fostering employee happiness will lead to the growth of our business.

We approach fostering happiness from three perspectives.

The first is the management perspective, which is to implement human resource strategies in line with business strategies to produce results. The second is the manager’s perspective, which is to connect the goals of each individual to the goals of the company to achieve results as a team. The third is the employee perspective, which is to provide a company culture that encourages each employee to think and act on his or her own initiative, to support a vibrant career path that is uniquely his or her own, and to utilize their personal growth as the driving force for the company’s growth. As CHRO, I believe this is my role to balance and manage human capital from these perspectives.

In this age of volatility, uncertainty, complexity, and ambiguity (VUCA), we will recognize each employee as a unique individual, embracing their unique goals as much as possible, and utilize their growth potential to improve the ability to overcome challenges and adapt to change (resilience) of our company.

*Organizational Health Index: An index to evaluate the health of an organization from various perspectives, including employee engagement and Diversity & Inclusion.

Human Capital Group/Global Medium-Term Management Plan Policies

Mission	To create new value through human resources and our organization, contributing to the creation and transformation of our businesses.
Vision	[Human Capital] Each individual pursues their own goals, creates new value, and experiences growth and fulfillment [Organization] Organize a highly productive organization with diversity to create and transform businesses [Culture] Prioritize safety and health, improve organizational health, and foster a vibrant corporate culture [Human Capital Group] Promote transformation and become a global top-level human resources sector

[Hitachi Construction Machinery's Strengths in Human Capital]

Building a common foundation for global human resources management based on the core values of the *Kenkijin Spirit*

Of our 80 group companies, 73 are located overseas. Employees outside of Japan accounts for 60% of our total workforce. The greatest strength of Hitachi Construction Machinery Group lies in the fact that 24,987* employees from various cultural backgrounds have embraced the *Kenkijin Spirit* as a core value, embodying this spirit in their efforts around the world. Whenever I see the word *Kenkijin* used as common language among local employees at our overseas locations, I feel a renewed sense that the *Kenkijin Spirit* has truly become a core value of each employee.

We strive to draw on the strengths of diverse human capital and win over the competition as a team, amid differing business environments and challenges faced by each global company. To this end, in 2020, we began communicating a shared global

*As of March 2022

human capital policy, to develop a global human capital management system. In March 2022, Hitachi Construction Machinery America was given the function as a regional headquarters of North, Central and South America market. In conjunction with this organizational change, we have begun a review of employee compensation and benefits policies using our global human capital policy.

In the future, we plan to hire professionals from outside the company and review our human capital management system to accelerate global hiring of the right people for the right place and bring attention to individual employees. We also plan to create a training system that aligns with each employee’s individual career and development plans.

[Human Capital Challenges]

Develop talent with transformational leadership and achieve set goals

The Hitachi Construction Machinery Group has long been committed to Diversity & Inclusion. We established a global human capital management system that encourages people of all backgrounds to maximize their potential. In terms of women’s empowerment, we are proud of the many women in management positions globally, and we are working to increase the ratio of women in management positions to the same level as men.

And we continue to take on new challenges, including responses to capital changes, strengthening our business in the Americas, and introducing a business unit structure. The most important thing is for each of us to demonstrate leadership for change. In fiscal 2019, we began developing a Self-Transforma-

tion Program for all employees globally. This program is designed to build the foundational skills and mindset to effectively accomplish goals. We also provide ongoing training for global leaders to strengthen leadership for change. For the ever-important Digital transformation (DX), we are strengthening our training in this area.

Under the leadership of senior management during the COVID-19 pandemic, we will continue to work together as a team to enact a major transformation (capital change, strengthening business in the Americas, introducing a business unit structure, etc.)

[Vision of Ideal Organization]

Organization with the culture in which the dreams and aspirations of employees lead to value creation

We recognize the rising importance of human rights-related risks in our business activities over the past few years. We are conducting human rights due diligence to understand human rights risks and prioritize actions. Specific activities include human rights training and increasing employee awareness, as well as conducting surveys to our suppliers to ascertain risks in order to prevent human rights violations in our supply chain as well. And to create workspaces where diverse employees can gather and enjoy their work, we strive to create safe, healthy, and rewarding workplace. It is also important to create a company culture that eliminates unconscious bias.

Methods to quantify an ideal organization include organizational health indexes and employee satisfaction, but the most important thing is that every employee works with dreams and aspirations. My desire is that every employee feels that their work is connected to the company and society. Our goal should have each employees aspiration, company goals, and society aligned together, in other words, a state in which every one of us is achieving happiness. I envision this as the ideal organization. As

a company, we believe diverse human capital who accept each other and feel fulfillment in their work will lead to the creation of new value. We will continue to promote work-style reforms and diversity initiatives, to create an organization culture, and where anyone can work feeling safe, vibrant and filled with vitality.





Outside Director Roundtable Discussion

Expecting Further Proof of the Power to Change and Stronger Global Governance Toward its Second Founding

On June 20, 2022, four Hitachi Construction Machinery Co., Ltd. Outside Directors gathered for a roundtable discussion. The directors candidly discussed their assessments of group initiatives, challenges, and their expectations for the sustainable improvement of corporate value.

Outside Director

Toshiko Oka

In 1986, Ms. Oka joined Tohmatsu Touche Ross Consulting Ltd., After working at Asahi Arthur Andersen Ltd., Ms. Oka served as President and Representative Director of ABeam M&A Consulting Ltd. She also served as Partner at PwC Advisory LLC. Currently, she is an Outside Director at Sony Group Corporation, Outside Director at Happinet Corporation, Outside Director at ENEOS Holdings, Inc., and full-time Professor at Meiji University Graduate School of Global Business. She was named Outside Director of Hitachi Construction Machinery Co., Ltd. in June 2021.

Outside Director

Kazushige Okuhara

In 1970, Mr. Okuhara joined Fuji Heavy Industries Ltd. (now Subaru Corporation). Mr. Okuhara has served as the Director, Corporate Executive Vice President, and General Manager of the Human Resources department at Fuji Heavy Industries. Other posts have included President and Chair of the Business Reforms Promotion Committee at Subaru System Service Co., Ltd., Representative Director and Deputy President of Fuji Heavy Industries Ltd., and Representative Director and President of Subaru Kohsan Co., Ltd. He joined Hitachi Construction Machinery Co., Ltd. as an Outside Director in June 2016.

Outside Director

Maoko Kikuchi

In 1992, Ms. Kikuchi was appointed as a prosecutor in the Public Prosecutor's Office of the Ministry of Justice. She later joined the Los Angeles office of Paul Hastings LLP and, later, the law offices of Nagashima Ohno & Tsunematsu. Other posts have included the General Secretariat of the Fair Trade Commission, Chief Compliance Officer of Softbank Corp., Executive Officer in Charge of legal and public Affair at Microsoft Japan Co., Ltd., and a full-time member of the Audit and Supervisory Board Mitsui-Soko Holdings Co., Ltd., and an outside member of the Audit and Supervisory Board of KADOKAWA Corporation. Currently, she has served as Outside Director for Mitsui-Soko Holdings and Outside Director of Hitachi Construction Machinery Co., Ltd. since July 2020.

Outside Director

Haruyuki Toyama

Mr. Toyama joined the Bank of Japan in 1982. After serving as Director General of the Financial Markets Department, General Manager for the Americas, and Director General of the International Department. Mr. Toyama retired from the Bank of Japan in 2014. He became registered as an attorney at law in 2015. Since January 2019, he has served as Special Counsel at IWATA GODO (current position). In March 2021, he was named Non-Executive Director of Horiba, Ltd. (current position). He has served as Outside Director of Hitachi Construction Machinery Co., Ltd. since June 2015.

Integration of Materiality Initiatives and Business Strategy

Toshiko Oka : Since being appointed an outside director of Hitachi Construction Machinery approximately one year ago, I have seen the company focus its efforts on strengthening its value chain business, which I believe is a key initiative for the future. We understand that this strategy is the result of serious consideration as to how Hitachi Construction Machinery responds in the future to matters such as trends in sustainability and changes to the business environment. Generally, when we talk about climate change and resource recycling, the discussion tends to focus on how to meet rules and guidelines. In the case of Hitachi Construction Machinery, however, the company has focused on the idea of protecting the earth, addressing ESG in a serious manner. I think this is meaningful. The reason the company has come to this conclusion is because it deals with construction machinery – products that impact the earth.

Haruyuki Toyama : The company has made considerable progress in its sustainability efforts over the past year or two, especially in its Materiality Theme: “Product and technology development contributing to Climate Change Mitigation and Adaptation. Hitachi Construction Machinery set specific targets to reduce CO₂ emissions from their products by 33% by the year 2030 (compared to 2010). The company is also committed to becoming carbon-neutral by the year 2050. We are seeing a rising awareness of this materiality amongst our employees. One thing that concerns me, however, is that these numerical targets are representative of new product sales. But we understand that the service life of construction machinery is longer than that of automobiles – parts can be stocked for up to 15 years. In other

words, new machines sold in a year represent only a small percentage of stock. In consideration of this, working on an emissions target for the “stock” portion of the business will be a challenge for the future. When new disruptive technologies emerge, changes to the customer base tend to occur as a result, which offers an opportunity for Hitachi Construction Machinery to make an appeal to the entire world.

Oka : As you say, we must continue to keep tabs on where and what kind of disruptive technological changes are taking place.

Kazushige Okuhara : Hitachi Construction Machinery operates and conducts business in complex regions, many of which have differing values on such matters as politics and religion. For this reason, it is imperative to be abreast of matters from the front lines of the business. Two types of technological change exists: change that arises from the needs of the business front lines and change that’s driven by Hitachi Construction Machinery. It is important to have a good mix of both. To this end, I believe care is required to ensure management do not lose sight of the front lines.

Maoko Kikuchi : In this sense, we have seen opinions of major overseas distributors, such as Kiesel in Europe, etc., incorporated into product manufacturing and development. I believe Hitachi Construction Machinery has always had a strong inclination for innovation and change. In its earliest days, the company revolutionized mechanical excavators and produced Japan’s first hydraulic excavators. The current situation must be a good opportunity for the company to once again demonstrate its capacity for transformation.

The Speed of Response to Changes in Society: Assessments and Issues

Oka : The world is moving at an ever-increasing pace, and this has a significant impact on the purchasing users. We must pay attention to several risks closely as the Hitachi Construction Machinery management structure, including its capital structure, is likely to undergo major change in the future. One example is cyber security risk. In the future, I expect an increase in co-creation utilizing outside assistance, in addition to the company’s own management resources. At the same time, while the company must maintain connections to external networks, outside connections and information retention can be risk factors for management. I think the company should discuss again what information will be required, how to acquire it, and what to do if the information cannot be acquired.

Toyama : We have seen the emergence of pandemics, wars, and other events for which past rules of thumb are no longer suitable. I think it would be pertinent to consider whether the Japanese decision-making system of carefully laying the groundwork before making decisions is sufficient to deal with such events.

For example, we could consider changing product development to a process of releasing products after completion to a certain extent. After receiving customer feedback, the company could identify areas for improvement, in order to make our prod-

ucts even better. This process might allow for responding to a wider range of risks. It is often said that DX development is a transition from a waterfall style to an agile style of development. I think the issue now is how to build management across the entire organization based on the same concept.

Okuhara : The organization as a whole is strategically orientated in several ways, but I am also worried that agile decision-making may be difficult unless the organization itself is simplified further.

Another issue is that there are surprisingly few opportunities for a management review of products and technologies that form the core of the business. In the case of automobiles, product planning meetings are very important. In the case of this company, however, I think management should have more discussions, particularly around decisions for electrification and other areas that cannot be achieved iteratively.

Kikuchi : It has been said for some time that Japan’s manufacturing industry must shift from products to services and solutions. At the same time, Japan is under pressure to change attitudes away from the era of growth based on mass production and mass consumption; the country is unable to respond to this change adequately. As Mr. Toyama pointed out, Hitachi Construction Machinery is in the process of switching from a strategy

of preparing and releasing products in a very carefully conservative manner to an agile strategy of making changes based on



What contributions do you make to the Board of Directors as an Outside Director?

Okuhara : Looking back at our history, I believe the company had a strong connection and identity as a member of the Hitachi Ltd. group. However, the capital structure will change considerably this year due to recent business changes, and the upcoming year will be a kind of second Founding of the company. We will see a new Hitachi Construction Machinery, but one that still retains the best historical aspects of the company. In this sense, I believe that the *Kenkijin Spirit* will be important as the watchword for the future of the Hitachi Construction Machinery Group. In any case, this year will be a year of new beginnings, let's call it, second founding. And I hope the company will be bold in taking up the challenge. In this context, I hope the outside directors will also be of some help in the management of the new version of Hitachi Construction Machinery. As for myself, I tend to think in more conventional ways, but I am aware that I am a newly appointed outside director of a company that has made a leap forward in independence. So I want to do my part in learning the perspective of those on the front lines, while providing support and assistance to everyone in the company.

Kikuchi : I want to pay particular attention to human resources. I have seen diverse cultures across a variety of organizations, including government agencies, law firms, and Japanese and foreign-owned companies. In the shift from membership-based employment to job-based employment in Japan, we hope to support an environment in which human resources play a more active role. I would like to bring my experience here and help further improve the employee engagement index further.

Oka : At the timing of the second founding, I would like to make it an even more wonderful company in terms of corporate culture. Since my days as a consultant, I have observed many companies in how they operate. Currently, I teach at a business school, so there are many things I can see from my experience. What has caught my attention recently is the attitude of today's young people toward work. They tend to leave a company when they can't see the future direction of their company. They even leave when they see role models and their own likely career path take a direction that they do not agree with, and become disappoint-

customer feedback.

In the two years alone since I was named director, I have gained a very good sense that the company is striving move forward in that direction. For example, over the past two years, I believe that communication between Hitachi Construction Machinery Japan, the sales company, and the manufacturing division at headquarters has become more lively and the company's relationship with its customers has get closer. In the past, there was a certain distance between the front lines and the Board of Directors regarding investments. Now, the front lines have primary responsibility, including submission of investment proposals to the Board of Directors. I think things are moving in the right direction here.

ed. The younger generation will be the future of Hitachi Construction Machinery. So I hope to contribute towards making the company a place where young people become inspired, where they have high expectations and hopes, and where the company can improve corporate value by mobilizing its human resources.

Toyama : The neoliberalism that began in the 1980s is coming to an end, and I believe that the relationship between the state and the market will change dramatically. Recently, we are seeing a movement toward what is called an economic security guarantee, in which the state imposes certain restrictions on corporate activities. But whatever new order emerges, I imagine the concept of corporate social responsibility will be increasingly emphasized. Of course, making a solid profit and paying taxes are the basics, but I think it will become increasingly important to think about how to meet society's expectations and put those ideas into practice.

Hitachi Construction Machinery has developed governance as a publicly listed subsidiary of Hitachi Ltd. Now, the company must execute governance independently. The company needs to concentrate on creating this structure, particularly during this first year. In so doing, the company must make sure that it understands and reflects the expectations of society and shareholders. That sums up my thoughts.



What initiatives are required in exercising global governance?

Kikuchi : Japanese companies have come to be known as "international," but not "global." Since almost 80% of Hitachi Construction Machinery sales come from overseas, it has become a major issue how to manage the entire group in the future. For example, there is a case that a Japanese company has established a subsidiary overseas that audits group companies on a global basis in very efficient manner. Rather than trying to manage everything from the head office, Hitachi Construction Machinery could, for example, utilize its European locations to lead climate change measures since Europe is leading the way in terms of regulations. Also, local managers manage companies which Hitachi Construction Machinery Group acquired overseas, many other locations are headed by Japanese expatriates, and it seems there is no clear path for local employees to participate in management. As Ms. Oka mentioned, exceptional people might leave from a company overseas as well, because they cannot see the future of the company. In the future, the development and promotion of global human resources will be important as well as organizing a global organization.

Oka : Global governance is a big issue, and there are two major forms of governance here. One is operational governance and the other is corporate governance. Japanese companies began their overseas expansion through functional subsidiaries overseas, such as production and sales subsidiaries. The head office would provide detailed instructions to the overseas functional subsidiaries on what to produce, where to ship, what to sell, etc. In this way, the head office controlled the operational level of overseas subsidiaries to a certain extent. This is what I mean by operational governance, and Japanese companies are good at this. On the other hand, we are seeing more corporate acquisitions in which complete value chains already established within the acquired company. In this case, there is no need for the head office in Japan to issue operational instructions to run the operation. This means, the head office cannot affect operational governance. If so, functioning corporate governance becomes more important. In this form of governance, as a shareholder, parent company tell its subsidiaries what to do and have them do what they need to do. Japanese companies, however, do not respond to this governance. As in the past, sometimes, compa-



nies tend to exert pressure, interfering in every detail of operations, or, conversely, tend to be reluctant and neglectful of the details of management. When operating globally, companies must understand the diversity and the different levels of compliance awareness in each country. Conducting effective corporate governance in this context will be a great challenge in the future. This second founding of the company may be a good opportunity to revisit this topic.

Okuhara : I agree. I believe that mergers and acquisitions (M&A) will become more necessary in the future. But from what I have seen, there are still many issues to be addressed in this area, such as post-acquisition Post Merger Integration. I have a feeling that global governance may present some real business challenges.

The other challenge for a company like Hitachi Construction Machinery, which is primarily engaged in direct sales and direct service, is the great deal of risk, including compliance. We have seen several cases in point. This is something very difficult to keep under control. However, Hitachi Construction Machinery is not the only company expanding globally. I think the company can conduct wide-ranging benchmarking to find out what fits its needs.

Toyama : Even with roughly 80% of sales from overseas, this company essentially makes and sells the same products made for Japan in the same way to global markets. We recognize that the powerful term, *Made by Hitachi*, stems from this practice. However, the shift from product sales to services and solutions will be more difficult to expand overseas in the same way as in Japan. It will be important for the company to develop business practices globally in a way that reflects local expectations. One of the challenges will be changing to a decentralized organization model.

At the same time, global control will still be necessary. This will be a very difficult balance to achieve. And it will be a corporate imperative to explore this balance carefully for each market. Even if the company doesn't reach its ideal vision in one step, it will reflect the best aspects of each location and office to the whole, fostering a sense of cohesiveness. I hope to help Hitachi Construction Machinery achieve this ideal.

Governance Strategies



Corporate Governance System (As of August 31, 2022)

Basic Policies

The Hitachi Construction Machinery Group recognizes that sustainability is an important management issue, and that, in addition to improving business performance, the purpose of corporate governance is to deeply acknowledge that a company is a member of society which must devote itself to fair and transparent corporate behavior. By extension, it is our belief that this will lead to an increase in corporate value and a further increase in shareholder value. Therefore, in order to construct an execution system that will enable the development of management strategies both powerfully and swiftly, and to realize fair and transparent management, we aim to strengthen our corporate governance by separating the management supervision functions and the business execution functions, and have adopted the organizational structure of a company with committees, such as a nominating committee, etc., as stipulated in Article 2, Item 12 of the Companies Act.

In addition, the Hitachi Construction Machinery Group Code of Conduct is positioned as the basis of the brand and our sustainability promotion activities, and we work to share an understanding of the social responsibilities that companies must fulfill.

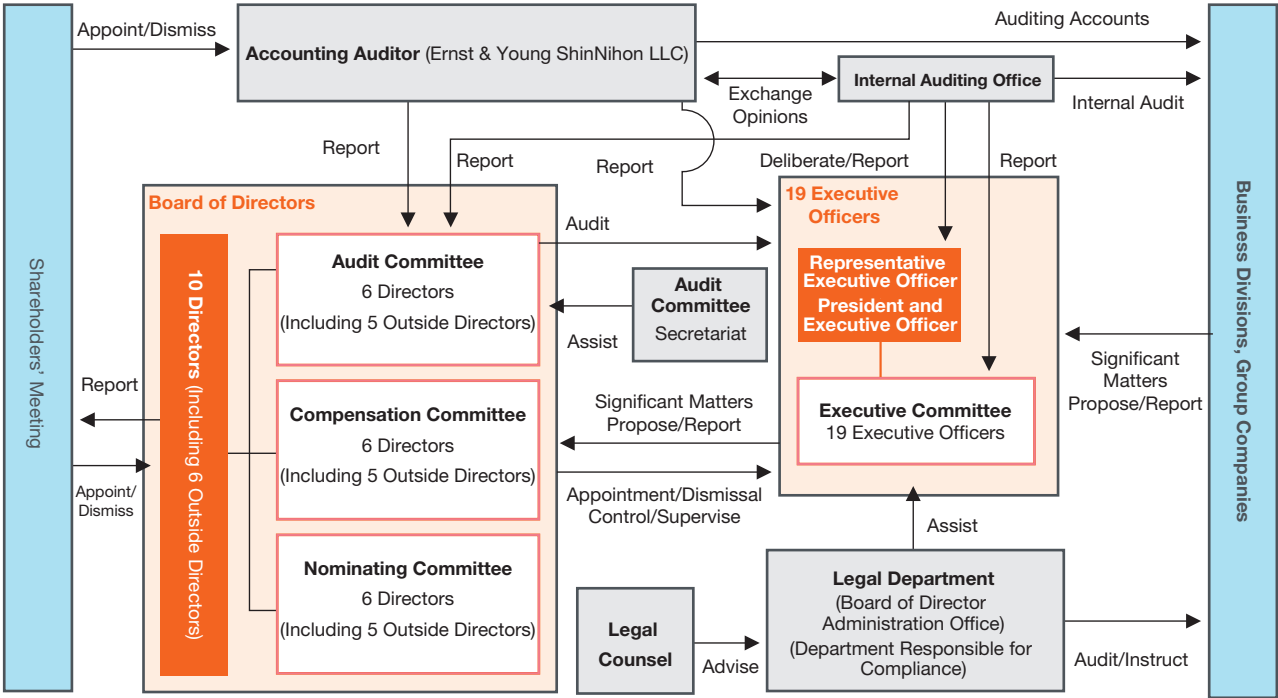
Corporate Governance System

The Group has developed an execution system that can ensure the prompt and exact performance of our business strategies, and has also adopted the structure of a company with committees, as provided for in the Companies Act, thereby separating the management supervisory function from the business execution function in order to strengthen corporate governance.

The Board of Directors comprises 10 Directors including 6 Outside Directors (4 male and 2 female). In accordance with the basic management policy established by the Board of Directors, the Representative Executive Officers and Executive Officers, having been thus authorized, make decisions on the execution of business and execute business based on these decisions. The Board of Directors stipulates duties of Executive Officers and makes decisions on matters concerning the relationship between the order and instruction relationship and other mutual relationships between Executive Officers.

The Group holds an Executive Committee (twice a month in principle) comprising all Executive Officers, as an advisory body for deciding the business executions of Representative Executive Officers and the President.

Corporate Governance System



Directors and Executive Officers

Directors

Director Chairman of the Board of Directors
Kotaro Hirano

Outside Director
Toshiko Oka

Outside Director
Kazunari Okuhara

Outside Director
Maoko Kikuchi

Outside Director
Haruyuki Toyama

Outside Director
Yoshinori Hosoya

Outside Director
Hidemi Moue

Director
Tetsuo Katsurayama

Director
Keiichiro Shiojima

Director
Michifumi Tabuchi

Name	Nominating Committee	Compensation Committee	Audit Committee	Independent Officer	Affiliation	Reasons for Appointment (Experience and Knowledge)
Kotaro Hirano	○	○			Hitachi Construction Machinery Co., Ltd.	He has been involved in the management of the Company and the Group, and has knowledge and advanced business capabilities supported by his extensive experience in production, procurement and a wide range of other business areas.
Toshiko Oka	○	○	○	○	From other company	She has extensive experience as a top executive of consulting firm, knowledge on M&A and deep insight.
Kazunari Okuhara	○ Chairman	○ Chairman	○	○	From other company	He has extensive experience as a business manager of an international company, knowledge and deep insight regarding personnel affairs and labor policies.
Maoko Kikuchi	○	○	○	○	Lawyer	She has extensive experience and knowledge in legal matters, and experience and deep insight as a top executive and auditor.
Haruyuki Toyama	○	○	○	○	From other company	He has extensive experience and knowledge in the fields of monetary affairs and finance.
Yoshinori Hosoya			○		From other company	He has experience in information and communication systems in Hitachi Group, and has extensive experience and deep insight as a top executive.
Hidemi Moue	○	○			From other company	He has extensive experience as a manager at fund management companies, knowledge of the financial and mergers and acquisitions sector, and a high degree of insight.
Tetsuo Katsurayama			○ Chairman		Hitachi Construction Machinery Co., Ltd.	He has been involved in accounting, financial business and management of the Company and the Group and accumulated experience, achievements, and deep insight.
Keiichiro Shiojima					Hitachi Construction Machinery Co., Ltd.	He has been involved in accounting, financial business and management of the Company and the Group and accumulated experience, achievements, and deep insight.
Michifumi Tabuchi					Hitachi Construction Machinery Co., Ltd.	He has experience in "MONOZUKURI" (manufacturing) both at home and abroad at the Company and the Group, and has extensive experience and deep insight regarding corporate management.

Executive Officer

Representative Executive Officer, President and Executive Officer	Kotaro Hirano
Representative Executive officer, Executive Vice President and Executive Officer	Michifumi Tabuchi
Executive Vice President and Executive Officer	Naoyoshi Yamada
Senior Vice President and Executive Officer	Sonosuke Ishii
Senior Vice President and Executive Officer	Masafumi Senzaki
Vice President and Executive Officer	Yusuke Kajita
Vice President and Executive Officer	Keiichiro Shiojima
Vice President and Executive Officer	Seishi Toyoshima
Vice President and Executive Officer	Kazunori Nakamura
Vice President and Executive Officer	Hideshi Fukumoto

Executive Officer	Hiroshi Kanezawa
Executive Officer	Tooru Sugiyama
Executive Officer	Seimei Toonishi
Executive Officer	Yoshihiro Narukawa
Executive Officer	Masaaki Hirose
Executive Officer	Eiji Fukunishi
Executive Officer	Hidehiko Matsui
Executive Officer	Satoshi Yamanobe
Executive Officer	Sandeep Singh

Note: Members of each category are listed in the order of the Japanese syllabary.

Policies on Determining the Amount of Compensation, etc. for Directors and Executive Officers

1. How to determine the policies

The Company's Compensation Committee sets forth the policy on the determination of the amount of compensation for individual Directors and Executive Officers pursuant to the provision of the Companies Act applicable to companies with a nominating committee, etc.

2. Overview of the policy

(1) Matters related to both Directors and Executive Officers

Compensation will be commensurate with the scope and range of the Company's business, the ability required of, and the responsibilities and risks to be borne by, the Company's Directors and Executive Officers, taking into consideration compensation packages at other companies.

(2) Matters related to Directors

The compensation of Directors consists of only monthly salary.

- A monthly salary shall be set as a fixed amount in light of the duty that is the supervisory function. The level of payment is determined in accordance with a full-time or part-time basis, basic salary, allowance for committee members for committees to which the Director belongs and his or her position.

In case of Directors who also serve as Executive Officers, compensation as a Director is not paid.

(3) Matters 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 the 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 amount for performance linked compensation is roughly 40% of standard yearly compensation for the President. For other Executive Officers it is roughly 30% of standard yearly compensation. It is determined within a certain range depending on the degree of achievement of standard performance targets and achievement of individual roles. The fluctuation range is about 0 to 200 %. The evaluation method will be carried out at the following ratio. Please refer to the website to learn more about the evaluation method.

WEB

Corporate Governance

<https://www.hitachicm.com/global/en/sustainability/governance/corpgovernance/>

Risk Management

The business environment surrounding society, including the development of information communication technology, geopolitical risks, and changes in economic conditions, have continued to change daily. The Group understands and analyzes the current business environment, endeavors to control future risks while protecting opportunities for further growth, considering social issues, the competitive advantages and management resources of the Company, and reflects these to management strategies.

In April 2022, we established the ERM (Enterprise Risk Management) Committee, which is responsible for company-wide risk management. Under the leadership of the CSO (Chief Strategy Officer) and other members of management, we have a

Evaluation of the Effectiveness of the Board of Directors

The Company has conducted evaluations of the effectiveness of the Board of Directors since FY2015. Continuing discussions of evaluations, practices and improvement measures have gradually improved their effectiveness. We surveyed all 10 Directors using a questionnaire between February 2022 regarding the following items. In addition, based on the results of the questionnaire, we had interviews with 6 Directors, including Outside Directors.

<Questionnaire Areas>

- (1) Composition of the Board of Directors
- (2) Management of the Board of Directors
- (3) Composition and roles of committees (nominating, audit, and compensation)
- (4) Support system for Directors
- (5) Relationship with investors and shareholders
- (6) Topics (Skills that the Board of Directors should focus on with respect to ESG and SDG initiatives)
- (7) Other (Describe freely) (Ideal process of creating, discussing, and determining management strategies at the Board of Directors' Meeting and ideal process of supervising the execution of strategies/ Supervision of risk management and compliance by the level of Board of Directors)

<Analyses & Evaluations>

In FY2021, as in the previous year, many items were rated as "functioning" or "generally functioning." At the same time, based on the opinions expressed in interviews with directors, new issues were raised this year regarding (1) clarification of ESG and SDG-positioning and policies, (2) further enhancement of materials for board meetings and other meetings, and (3) more proactive disclosure to investors and other stakeholders. We understand that it is necessary to take further steps to make discussions at the Board of Directors' Meetings more effective.

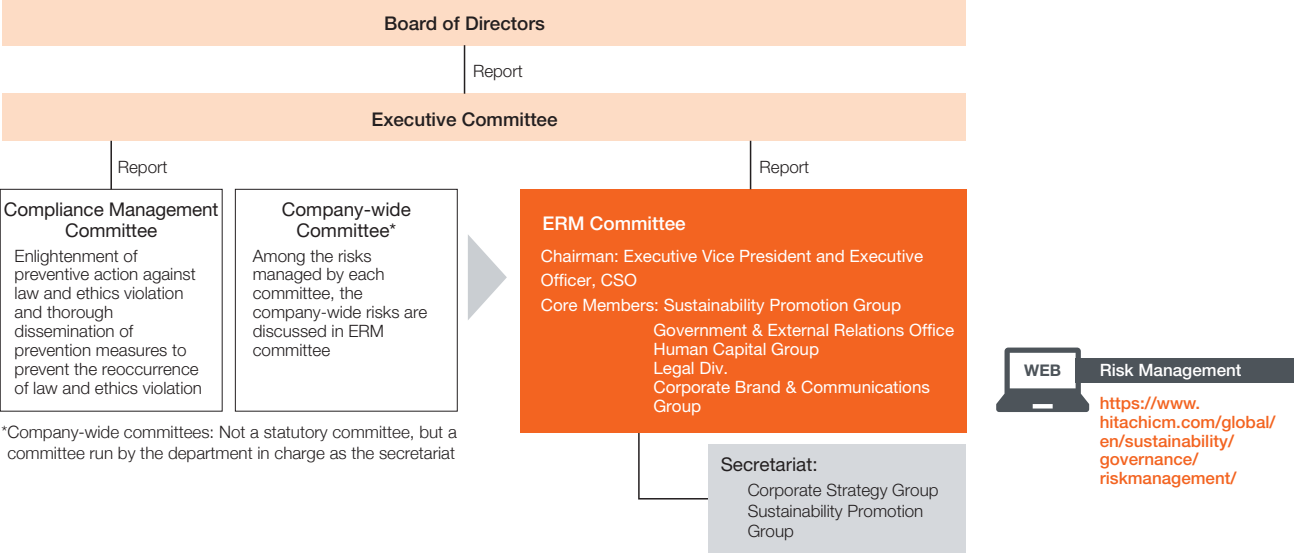
<Future Approaches>

Based on the results of analysis and evaluation, the Board of Directors of the Company discussed each issue and decided to work on the following matters for the continual improvement of effectiveness.

- (i) Clarify the position of ESG and SDGs with the Board of Directors, and review the criteria for supplementary agenda items.
- (ii) Guidance to departments that prepare meeting materials
- (iii) Improve disclosure content and methods to ensure that investors understand our philosophy and vision and how they relate to our initiatives.

system in place that enables us, when faced with risks that require company-wide response policies and management decisions based on business operations, and risks that could shake the very foundations of our global operations, to quickly respond with overall management and countermeasures to. In principle, the committee meets once a term, and extraordinary meetings are held in response to requests for unexpected company-wide risk responses, or at the request of the chairperson, committees, or related departments. Ethical and legal violations are discussed by the Compliance Management Committee, which raises awareness to prevent incidents from occurring and implements measures to prevent recurrence.

ERM Committee system diagram



Supply Chain Sustainable Management

Amidst growing interest in corporate social responsibility in the international community, the Hitachi Construction Machinery Group is promoting sustainability initiatives throughout the entire supply chain, including our procurement partners. As part of this effort, every year we conduct a "Supply Chain Sustainable Survey" that targets, from among the suppliers with whom we have direct transactions (primary suppliers), major suppliers that have large transaction volumes and provide important parts and raw materials for our products. Suppliers whose evaluation results do not meet the minimum score set by the Group are identified as suppliers with high potential sustainability risks and are requested to make improvements.

In FY2021, a sustainable survey was conducted with suppliers accounting for approximately 90% of Hitachi Construction Machinery's non-consolidated purchase volume, with a collec-

tion rate of 66%. The percentage of suppliers that did not meet the minimum score was 3.7%, but improvement plans were implemented for all such suppliers.



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Dialogue with suppliers

<https://www.hitachicm.com/global/en/sustainability/social/fairbusiness/supplier/>

Compliance

The Hitachi Construction Machinery Group places the highest priority on integrity in conducting its business activities and values the trust of all stakeholders, including customers, shareholders, and employees. To maintain and strengthen this trust, we comply with high ethical standards and all applicable laws and regulations in the countries and regions in which the Group operates, and respect appropriate business practices.

In addition, we conduct the "Hitachi Group Code of Ethics and Compliance Training" every year to ensure that the Code of Ethics and Compliance is well understood. The total number of trainees in fiscal 2021 was 26,783 for the entire Hitachi Construction Machinery Group.



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Compliance

<https://www.hitachicm.com/global/en/sustainability/governance/compliance/>

Company Profile (As of March 31, 2022)

Company Name	Hitachi Construction Machinery Co., Ltd.
Paid-in Capital	81,577 million yen
Head Office	16-1 Higashiueno 2-choume, Taito-ku, Tokyo, 110-0015, Japan
Established	October 1, 1970
Representative	Kotaro Hirano, Representative Executive Officer, President and CEO
Number of Employees	24,987 (Consolidated), 5,496 (Non-consolidated)
Major Operations	Manufacturing, sales, rental and service of construction machinery, transportation machinery, environmental related products and other machines and devices
Major Operations	Tsuchiura Works, Kasumigaura Works, Hitachinaka-Rinko Works, Hitachinaka Works, Ryugasaki Works, Banshu Works
URL	https://www.hitachicm.com/global/en/



Ueno East Tower

Major Shareholders (Top 10 Largest Shareholders) (As of March 31, 2022)

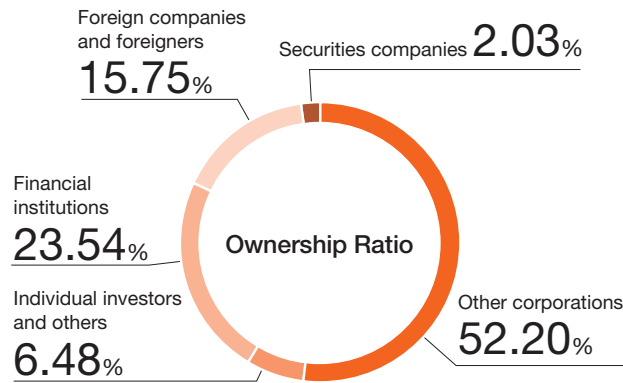
Shareholder	Number of shares held ('000)	Ownership ratio (%)
Hitachi, Ltd.	109,352	51.42
The Master Trust Bank of Japan, Ltd. (trust account)	35,214	16.56
Custody Bank of Japan, Ltd. (trust account)	10,348	4.87
Custody Bank of Japan, Ltd. (securities investment trust account)	2,690	1.26
State Street Bank West Client - Treaty 505234	1,989	0.94
The Bank of NY Mellon (International,) Ltd. 131800	1,635	0.77
JP Morgan Chase Bank 385781	1,356	0.64
HSBC Hong Kong Treasury Services Account Asian Equities Derivatives	1,323	0.62
BNYM SA/NV FOR BNYM FOR BNY GCM CLIENT ACCOUNTS M LSCB RD	1,076	0.51
Goldman Sachs Japan BNYM	971	0.46

* Hitachi Construction Machinery holds 2,464,315 shares of treasury stock, but these have been excluded from the list of major shareholders above.
 * Ownership ratio is calculated without the 2,464,315 shares of treasury stock.

Investor Information (As of March 31, 2022)

Stock Exchange of Listing	Prime Market (First Section) of the Tokyo Stock Exchange
Accounting Auditor	Ernst & Young ShinNihon LLC
Shareholder Registry Administrator	Tokyo Securities Transfer Agent Co., Ltd.
Number of Shares Authorized	700,000,000 shares
Number of Shares Issued	215,115,038 shares
Number of Shareholders	22,694
Annual Shareholders Meeting	The annual meeting of shareholders is held in June in Tokyo.

Composition of Hitachi Construction Machinery Shareholders



External Evaluation

SRI Index

Member of
Dow Jones Sustainability Indices
Powered by the S&P Global CSA

Dow Jones Sustainability Asia Pacific Index

We were selected for inclusion in the Asia Pacific Index of the Dow Jones Sustainability Indices (DJSI). The DJSI was developed by S&P Global Inc. with the aim of comprehensively analyzing listed companies around the world in terms of economy, environment, and society, and to select companies that excel in sustainability. (as of November 2021)

FTSE Blossom Japan Sector Relative Index

We are recognized as a Japanese company engaging in excellent practices in ESG within the sector. (as of April 2022)

FTSE4Good Global Index Series

We were selected for inclusion in the "FTSE4Good Global Index Series" Responsible Investment (RI) indices for global companies. (as of August 2022)

SOMPO Sustainability Index

We were selected for inclusion in the active index created independently by SOMPO Asset Management that combines ESG evaluation and stock price evaluation (fundamental value). (as of June 2022)

FTSE Blossom Japan Index

We are recognized as a Japanese company engaging in excellent practices in ESG. (as of August 2022)

2022 CONSTITUENT MSCI JAPAN ESG SELECT LEADERS INDEX

MSCI Japan ESG Select Leaders Index

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. (as of June 2022)

Assessment of Sustainability and Management Strategy

Carbon Disclosure Project (CDP)

The CDP is a non-profit organization in the UK that globally surveys, discloses, and evaluates corporate initiatives regarding climate change and water. In 2021, we received a climate change score of A- and a water score of B, as we did in 2020.

	2018	2019	2020	2021
CDP Climate Change	B	A-	A-	A-
CDP Water	B-	B	B	B

All Japanese Listed Companies' Website Ranking

The site was selected as Site of Excellence in the 2021 Overall Awards. This ranking is based on objective evaluation items set by Nikko Investor Relations Co., Ltd. from the three perspectives of ease of understanding, ease of use, and amount of information. This ranking evaluates the websites of all listed companies. (December 2021)

Digital Transformation Stocks 2022: Noteworthy DX Company

We were jointly selected by the Ministry of Economy, Trade and Industry and the Tokyo Stock Exchange as a Noteworthy DX Company, and was included on the list of Digital Transformation Stocks 2022(DX Stocks). (June 2022)

Gomez IR Site Overall Ranking

Received Gomez IR Site Overall Ranking Bronze Award (2021). This ranking survey is conducted by BroadBand Security, Inc. to evaluate the usability and information quality of IR websites provided by listed companies in Japan. (December 2021)

Health and Productivity 2022

In both 2021 and 2022, Hitachi Construction Machinery was certified as a Health & Productivity Management Outstanding Organization by Nippon Kenko Kaigi. (March 2022)

*Health & Productivity Management is a registered trademark of the Nonprofit Organaization Kenkokeiei.

Internet IR Awards

The company received an Award of Excellence in the 2021 awards. Daiwa Investor Relations Co. Ltd. evaluates and scores IR websites of listed companies based on its own criteria, and awards a prize to a company that has built a particularly excellent IR website and effectively utilizes it for information disclosure and communication activities. (December 2021)

Endorsement of Initiatives

Task Force on Climate-related Financial Disclosures (TCFD)

TCFD is an initiative established by the Financial Stability Board (FSB) in June 2017 that requires companies to disclose climate-related information that may impact their finances from the four perspectives of corporate governance, strategy, risk management, and indicators and targets. We announced our endorsement of TCFD in October 2020.



Hitachi Construction Machinery Co., Ltd.

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