

## Integrated Report 2023

### Contents

Our Vision		Sustainab
Greetings CEO Message COO Message	2 3 6	Our Approach Hitachi Constr Group's Mater Environmental
Value Creation Story		CHRO Messag
Special Feature Building the Future through Independent	9	Human Resoul
Business Expansion in the Americas		Directors and
CTO Message	14	Outside Direct
Aiming to Accelerate DX and	16	Messages fron
Grow as a True Solutions Provider Group Identity of the Hitachi Construction Machinery Group	17	Financial :
Overview of the New Medium-term Management Plan	18	11-Year Consol CFO Message
Strategies by Business	23	Non-Financial
Construction Business Unit	23	External Evalua
Mining Business Unit	25	History of the Machinery Gro
Compact Business Unit	27	Company Prof
Spare Parts & Service Business Unit	29	
Rental & Used Equipment Business Unit     Power & Info Control Platform Business Unit	31 33	
New Business Creation Unit	34	
Acceleration of Research and Development	37	
Value Creation Process	38	

## Sustainability Initiatives

Our Approach to Sustainability	39
Hitachi Construction Machinery Group's Materiality	40
Environmental Strategy	42
CHRO Message	47
Human Resource Strategy	49
Governance Strategies	52
Directors and Executive Officers	55
Outside Director Roundtable Discussion	56
Messages from New Outside Directors	60

## Financial Strategy/Corporate Data

1-Year Consolidated Financial Highlights	61
CFO Message	63
Non-Financial Highlights	65
External Evaluation	66
History of the Hitachi Construction Machinery Group	67
Company Profile/Investor Information	68

## **Editorial Policy**

The Hitachi Construction Machinery Group publishes an *Integrated Report* to provide stakeholders with a deeper understanding of its medium- to long-term value creation strategy and ESG (Environmental, Social, and Governance) initiatives. The 2023 edition is structured around messages from the CEO and the COO, with an awareness of sustainable corporate value creation from both financial and non-financial perspectives, including descriptions on the Group's independent business expansion in the Americas, an overview of the new medium-term management plan, and strategies undertaken by each business.

#### Target Period

April 1, 2022~ March 31, 2023 (Includes certain information from April 1, 2023 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 GRI Standards and referencing the International Integrated Reported Framework of the International Financial Reporting Standards (IFRS) Foundation 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 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**

November 2023

Previous Issue: October 2022
Next Issue: October 2024 (tentative)

## **Our Communication Map**

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



**Detailed Quantitative Information** 

#### 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.



## **Committed to Maximizing Corporate Value and Strengthening Business** Foundations under a New Structure for the Hitachi **Construction Machinery Group**

Effective April 1, 2023, Kotaro Hirano has been appointed as Chairman of the Executive Committee and CEO, while Masafumi Senzaki has been appointed as President and COO. In terms of role distribution, Chairman Hirano will primarily be responsible for strategy formulation, the establishment of corporate culture and resource optimization. President Senzaki will focus mainly on maximizing earnings and evolving the company into a solutions provider.

Under its vision: "ensure a prosperous land and society for the future. We contribute toward realizing a safe and sustainable society," the Hitachi Construction Machinery Group will address management issues its customers face, such as the need to improve safety and productivity, reduce life cycle costs, and address environmental issues.

This aligns with our mission of "meet expectations from customers, co-create innovative products, services, solutions and together, we continue to create new values." We kindly ask for your continued support in the future.



Our 25,000 employees are firmly united in their commitment to working with all stakeholders to ensure a prosperous land and society for the future.

Hitachi Construction Machinery Co., Ltd. Representative Executive Officer Chairman and Executive Officer, Director, CEO

**Kotaro Hirano** 

## **Two Major Accomplishments Marking** the End of My Tenure as President

In the six years since assuming the role of president in 2017, I would say that our most significant achievements have undoubtedly been our independent business expansion in the Americas and the change in our capital structure. Independent business expansion in the Americas was a challenge I had been eager to tackle from the very beginning of my tenure as president. I had also considered the change in our capital structure, although a completely separate initiative, a move in the same strategic direction. That both opportunities to advance our business presented themselves within the same year was extremely fortuitous timing.

Our previous business setup in the Americas involved us handling product development and manufacturing while our partner, the American agricultural machinery major Deere & Company, handled sales and services. The partnership was long-standing, dating all the way back to 1983, but we had become keenly aware of the need to re-examine our relationship in light of changing market conditions and customer needs. We could see that it would be a challenge to advance business any further without a change in the status quo and felt a sense of crisis.

The needs of customers have changed considerably over the years and today manufacturers are increasingly being required to provide solutions that improve safety and productivity at construction sites, lower costs through better fuel efficiency and improve environmental performance. Finding optimal solutions that address these issues requires that we dig into the operational data of the machinery itself to then find ways to provide optimal proposals to the customer. In other words, we found that possessing and utilizing operational data is vital to discovering solutions to the issues our customers face. But in order to obtain this data. we needed to establish direct connections with dealers and customers, which we could not do while depending on Deere & Company for sales

### **CEO** Message

and services in the Americas, the world's largest market. We therefore concluded that it would be best for us both to separate so that we could each target growth in line with our unique business strategies. Even so, determining the best way to dissolve our business partnership entailed considerable effort. From the start of negotiations, a handful of staff have been working practically every day, devoting their time to deliberations and negotiations.

Our relationship with Deere & Company began as an OEM supply relationship and it has lasted for over 30 years. It therefore took time for Deere & Company to realize that we were serious about ending our partnership and not merely using the threat of pulling out as a bargaining chip. The negotiations were indeed tough at times. If we could not reach an agreement, there was the risk the partnership would have to continue with lingering resentment on both sides. Through repeated discussions, we came to a mutual understanding that to grow globally, both of us needed to terminate this relationship.

Once we agreed that we would not cause any inconvenience to the dealers and customers who have been using products developed by Hitachi Construction Machinery and sold and serviced by Deere & Company after our partnership ended, discussions progressed at a more rapid pace. Of course, negotiations are bound to have sticking points. When these arose, it was helpful to return to this basic point and make compromises. Ultimately, we were able to reach a final agreement in August 2021 and the joint venture was dissolved as of February 28, 2022. Now that these difficult negotiations have finished, we are free to pursue our long-standing ambitions in the world's largest market for construction and mining machinery.

On the other hand, the change in our capital structure entailed Hitachi Ltd. transferring 26% of its 51% stake in our company to HCJI Holdings G.K.\*1, a joint venture set up by ITOCHU Corporation and Japan Industrial Partners, Inc., making it a principal shareholder. As Hitachi Ltd. proceeded with group restructuring, we had numerous discussions with its representatives about the growth strategy of our construction and mining

machinery businesses. A major challenge for Hitachi Construction Machinery has been to build an independent framework in the Americas capable of directly providing products, technologies, and services to customers in a timely manner, as well as utilizing the operational data of machinery. Hitachi Ltd. also supported this endeavor, recognizing it as part of our growth strategy.

From the perspective of the Hitachi Group, although sales and profits in the construction and mining machinery businesses had been exceeding the Group's overall targets for some time, these businesses also heavily impacted the balance sheet. This is attributable to the high unit prices of machinery and advances in our value-chain businesses (services, parts, rentals, used vehicles, remanufacturing, etc.), which require us to hold assets that inevitably weigh down the balance sheet.

To undertake independent business expansion in the Americas, the world's largest market, Hitachi Construction Machinery needs a considerable number of service bases to cover the vast continent, sufficient inventories of products and parts and its own sales financing arm. All of this requires funds for growth. Considering Hitachi Ltd.'s desire to lighten its balance sheet and our desire for more freedom and flexibility to invest in growth, an agreement was reached to change the shareholding ratios. Meanwhile, our ConSite remote monitoring solution for construction and mining machinery—which is based on Hitachi Ltd.'s Lumada platform and uses digital technology to create value from data—is a perfect example of a service solution that contributes to problem-solving and business growth. Due to this and other strong technological relationships, as an equity-method affiliate of Hitachi Ltd., Hitachi Construction Machinery will continue to rely on the Hitachi Brand.

We commenced our independent business expansion in the Americas in March 2022, and, at an exceptionally opportune moment, were able to announce the change in capital structure in August of the same year.

## Embarking on a Second Founding with a **New Structure**

Whenever the opportunity arises, we say that Hitachi Construction Machinery has embarked on a second founding. The mountain we have to climb is clearly in sight and the real challenge begins now.

Reaching the summit will not be easy, but President Senzaki and I have decided to take the lead on this journey. With Hitachi Construction Machinery having just launched its new medium-term management plan, President Senzaki is committed to diligently fulfilling his responsibility for earnings by reviewing the plan on a monthly and annual basis over



<sup>\*1:</sup> HCJI Holdings G.K. is now HCJI Holdings Ltd.

<sup>\*2</sup> Lumada is Hitachi Ltd.'s platform for providing solutions, services and technologies that employ advanced digital technology.

#### **CEO Message**

the next three years. I will tackle issues concerning the allocation of resources like human capital and funds, as well as what to prioritize in terms of ESG, with an eye on 2030.

Through this second founding, Hitachi Construction Machinery will achieve true globalization. The massive market in the Americas represents approximately 40% of the global market for construction machinery and 30% for mining equipment. Now that we are positioned to do things not possible before, we are confident that our business will expand as the addition of new customers, dealers and employees in the Americas will have ripple effects on our presence and operations in other markets around the world.



Shortly after the launch of our independent business expansion in the Americas, I was on a business trip to Australia when a very encouraging event occurred. Soon after arriving, I received an email from a local employee stating that this independent expansion in the Americas is really exciting and will expand our business in Australia.

Australia is a major market for mining equipment. If our mining equipment business expands in the Americas, the production numbers for mining equipment will increase, improving overall profitability. Opportunities for exporting used equipment and remanufactured parts from Australia to the Americas will also increase. This is an example of why we think business success in the Americas will have a positive consequence on our operations in other countries and regions. Even our employees in Australia are excited about the possibility of us thriving in the Americas. This potential for true global expansion has clearly resonated with our local staff, which is heartening to see.

## Towards the Realization of "Ensure a **Prosperous Land and Society for the Future**"

Currently, more than 300,000 of our construction and mining equipment units are in operation in over 100 countries worldwide. One might wonder whether simply producing and selling more new machinery to increase this operational number aligns with our vision of ensuring a prosperous land and society for the future. I do not believe it does.

For example, if we can extend the operational lifespan of these 300,000 units by just five more years, the work that they perform may make them effectively equivalent to 450,000 units. During those five

extra years, we wouldn't lose out on business as we would continue to provide services to the customer. For customers, being able to use their machinery for a longer period is certainly welcome and it brings us joy to see our customers running our machinery trouble-free. In other words, what matters more is how reliably the construction and mining equipment that we have sold is operating. By understanding the operational status of the equipment and offering detailed on-site repairs and maintenance through the value chain business, one of our major priorities, we can contribute to stable customer operations. While our production numbers may not increase, this approach benefits the customer and contributes to the realization of a circular economy.

Even when producing or selling products globally, we recognize that Hitachi Construction Machinery cannot achieve everything solely by itself. We must deeply acknowledge that everything we do is done in conjunction with all of our stakeholders. With this in mind, we not only aim to grow our business, but also firmly commit to upholding safety, compliance and quality. We also feel obliged to convey the status of our initiatives on these fronts to everyone.

Within the Hitachi Construction Machinery Group, we have a code of conduct called the Kenkijin Spirit, which consists of Three Cs: Challenge, Customer and Communication. If we keep these words in mind as we work, I am confident that we will attain our vision of ensuring a prosperous land and society for the future. The Hitachi Construction Machinery Group's 25,000 employees are firmly united in striving toward realizing a safe and sustainable society together with all stakeholders. I hope you have high expectations for the future development of the Hitachi Construction Machinery Group and sincerely ask for your unwavering support.

## **COO** Message

## **Thoroughly Examining On-Site Operations**

My name is Masafumi Senzaki and, as of April 1, 2023, I have assumed the role of Representative Executive Officer and President. Hitachi Construction Machinery is currently in the midst of what can be described as its *second founding*, marked by changes in capital relationships since last year and the resumption of independent business expansion in the Americas.

Against this backdrop, we are strongly committed to shaping our future with our own hands.

In the previous fiscal year, as the Senior Executive COO, I led the formulation of the Group identity and the medium-term management plan. During this time, I also provided direction for the company's efforts in sustainability and CO<sub>2</sub> reduction. When the offer to become the president came, I was mentally prepared to accept it.

I have extensive experience in the manufacturing division and have always placed emphasis on on-site operations. Even in a single assembly process, it is crucial that all parts are in place and of good quality. Visiting production sites reveals not only the positives but also the challenges in operations, as well as risks related to quality and safety.

Since moving to the sales division, I have visited almost all of our more than 50 sales bases worldwide. In the field of sales, it is essential to accurately propose our services to the customer, and only when they are satisfied, can a contract be signed. Conversations with various individuals often reveal that there are many areas where we have not yet gained customer approval or have caused dissatisfaction. These issues can become challenges for our staff. What is most important is that we must never betray the trust of our customers, or our dealers.

In this manner, I will continue to visit the sites of a wide range of operations, so much so that the local operators might exclaim, "He came

With "On-Site Operations" and "Trust" as our mottos, we will ensure a prosperous land and society for the future.

Hitachi Construction Machinery Co., Ltd. Representative Executive Officer, President and Executive Officer, Director, COO

Masafumi Senzaki



here all the way from Japan!" I do not want to rely solely on information that comes up through the hierarchy or organization; I want to hear the voices of those on the front lines, rather than managers, especially at manufacturing sites where I have extensive experience. I plan to continue visiting our customers and dealers on a frequent basis.

The essence of everything we do lies in our on-site operations. I believe it is the duty of each of us, including myself, in indirect departments to provide full support for each and every effort made to maximize the efficiency of our sites and to gain the trust and approval of our customers.

I believe that the best management style is one that encourages all employees to dedicate their full energy to on-site operations, the heart of our company. As such, my personal mottos are "on-site operations" and "trust."

## Formulating a Unique Group Identity at the Starting Line of Our Second Founding

Through its independent business expansion in the Americas and changes in its capital structure, Hitachi Construction Machinery has significantly changed course towards a second founding.

We took this as an opportunity to delve deeper into the question of what kind of company Hitachi Construction Machinery wants to be. To clarify our raison d'être, we formulated our group identity in December 2022, informed by discussions at all levels within the company. Let me explain our vision in terms of two keywords: "continuation" and "evolution."

Our vision, "ensure a prosperous land and society for the future" remains unchanged. The key concept here is "continuation." For more than 70 years, Hitachi Construction Machinery's strengths have been honed from carefully manufacturing construction machinery designed to align with the ongoing needs of customers. We will, without a doubt, pass this strength down to future generations. On the other hand,

customer requirements go beyond the provision of the machinery itself; rather they encompass the needed function of the machinery within the wider context of construction sites. We have therefore redefined our mission as becoming a solutions provider that offers proper solutions for customer needs and are deeply committed to improving customer output and productivity by helping customers reduce costs over the machinery life cycle and improve safety. In addition to providing hardware, Hitachi Construction Machinery is keen to become a manufacturer that also offers solutions.

For us to be capable of evolving in the current business environment, we not only need to upgrade our technical capabilities but also to promote DX and agile development,\* including software technologies. By building a system that can provide all of these features, we will also transform ourselves.

Through the initiatives of "continuation" of our legacy and "evolution," Hitachi Construction Machinery will create new value and contribute to the realization of a safe and sustainable society.

## Refreshing the Kenkijin Spirit for the First Time in 15 Years

To ensure that the concepts of "continuation" and "evolution" will be adopted globally across the Group, we believe that a new human resource model is necessary.

Accordingly, we have reviewed the Kenkijin Spirit, which was established in 2008 as a code of conduct shared across the Group.

This process entailed a close examination of the mindset of all our employees, and to do so we divided our effort into seven groups—sales, manufacturing, development, indirect departments, etc.—engaging in dialogue with each group to determine the values intrinsic to each of their operations. We then made summaries of each group's conclusions.

Interestingly, as the discussions progressed, all seven groups eventually converged on three key words: Challenge, Customer and Communication. This showed us that the mindset defined as the Kenkijin Spirit is being continued while continuing to evolve. We have formally positioned this refreshed Kenkijin Spirit as our code of conduct (spirit) within our Group identity.

The future is, of course, unknown. When it is necessary, we will need the ability to speedily respond to changes in the social environment, the flexibility to support that speed, and an unwavering commitment to doing what needs to be done. The Three Cs form the foundation for this. We believe that if this mindset can be more deeply ingrained in our employees, both our speed and flexibility will undoubtedly increase.

## **Support for Two Turning Points**

Hitachi Construction Machinery's independent business expansion in the Americas is going exceptionally well, benefiting from strong tailwinds. With local customers having greater expectations for our operations than estimated, we have been challenged to fully meet demand with our current production capacity or fulfill all required specifications, but I feel that this pressure is good for the company.

This reminds me of my experience in Europe over 20 years ago.

Back then, Hitachi Construction Machinery was operating under a threepronged structure in Japan, the United States and Europe. In Europe, we were conducting business through a joint venture with CNH Global, the agricultural machinery and construction equipment division of the Italian manufacturer Fiat. However, due to differences in business strategy, we dissolved the joint venture in 2002 and decided to operate independently. I was a frequent visitor to the Netherlands as we worked to launch the Amsterdam factory, which became the production base for our independent business expansion in Europe after the dissolution of the joint venture.

<sup>\*</sup> Agile development: A methodology that involves conducting tests in short cycles to speed up the development

### COO Message

Although I had significant concerns about the future of the European business, the situation improved as major dealers offered contracts, trusting in our manufacturing and quality. I still vividly remember the tailwinds propelling the business forward back then.

Our expansion in the Americas with the transfer of sales rights to Deere & Company in 2001 went similarly and facilitated our current independent expansion. We have been receiving comments from customers along the lines of "we have been waiting for this opportunity for 20 years," which gives me an indescribable sense of reassurance about the trust customers have in our orange construction machinery.

A common thread running through these experiences is the trust we have built over the years in our manufacturing and brand, supported by the Kenkijin Spirit. From this foundation, we aim to ensure a prosperous land and society for the future and achieve sustainable growth.

Considering that more than 80% of the Company's sales are overseas, we cannot accomplish anything unless we are well-versed in local markets. For that, we need a work environment where local members can play an increasingly active role. In this context, I would like to significantly lower the high walls within the head office.

## **Hitachi Construction Machinery's Unique Approach to Carbon Neutrality and a Circular Economy**

We understand that the recycling rate for construction machinery has reached around 95%. Construction machinery is made mainly of steel. I feel that there is still room for further refinement, for example, altering structures and using materials that facilitate recycling.

On the other hand, in addition to recycling after scrapping, we are focusing on prolonging the service life of machinery. By utilizing our ConSite remote monitoring solution for construction machinery, as well as by remanufacturing parts and bodies, we are able to extend the operational years of our construction machinery. This leads to a reduction in waste and the amount of resources used, ultimately contributing to CO<sub>2</sub> reduction. We believe this, combining initiatives promoting a circular economy and carbon neutrality, is a unique approach to reducing CO<sub>2</sub> and one open only to a manufacturer.

Another initiative related to carbon neutrality is the full electrification of mining equipment. We aim to accomplish a world first through our system in which large electrically powered dump trucks at mines draw power from overhead trolley lines through a pantograph mounted on top of the vehicle body on uphill roads and run on batteries in areas where overhead lines are unavailable. We take pride in this being an initiative that embodies our vision: ensure a prosperous land and society for the future.

## Creation of Value through the Mediumterm Management Plan

To provide a concrete path for value creation with the intention of achieving our vision: ensure a prosperous land and society for the future, we have newly formulated a medium-term management plan.

In this new medium-term management plan, we aim to offer innovative solutions that are closely aligned with the needs of our customers, refine the value chain business that serves as a tool enabling these solutions and expand globally, with a focus on the Americas. We will strengthen the human resources and corporate capabilities that will help make this possible.

We also aim to elevate the level of ESG management under the new medium-term management plan. For example, we have set numerical targets for extending the operational years of vehicles from 10 to 15 years in order to further reduce CO<sub>2</sub>. As a responsible manufacturer, we will continue to work on initiatives aimed at carbon neutrality and the

circular economy, in line with the demands of society.

As the President and COO, I will ensure the successful execution of the medium-term management plan that I had a hand in creating and make Hitachi Construction Machinery a company that continues to be respected by all of our stakeholders. To achieve this, I am strongly determined to improve our outfacing communication and clearly convey to our stakeholders what we are working on and what we aim to achieve.

Maintaining an open stance, we will listen carefully to others' opinions, even to critical ones like "shouldn't Hitachi Construction Machinery be more like this?" We aim to become a better company by receiving the "power to grow" from all our stakeholders.



## Special Feature

## Building the Future through Independent **Business Expansion in the Americas**

## Hitachi Construction Machinery's History of Business

## **Development in the Americas**

August 1978 US regional office opened

Formed a business tie-up on the supply of hydraulic excavators with US-based Deere & Company

Entered into business partnership with Deere & Company

July 2009 Made Canada-based Wenco International Mining Systems Ltd., which is involved with fleet management systems,

a consolidated subsidiary.

December 2016 Made US-based H-E Parts International LLC a wholly owned

subsidiary.

March 2017 Made Australia-based mining parts manufacturer and solution provider Bradken Pty.Ltd. a consolidated subsidiary by way of

Began selling wheel loaders under the Hitachi Brand in

January 2018 Established Hitachi Construction Machinery Loaders America in Georgia

March 2021 Signed a memorandum of understanding with ABB Ltd. of Switzerland to build a cooperative relationship for realizing net zero emission mining

August 2021 Announced the dissolution of the joint venture with

Deere & Company

October 2021 US consolidated subsidiary Hitachi Construction Machinery

Loaders America to be renamed Hitachi Construction

Machinery Americas

March 2022 Hitachi Construction Machinery's agreement with Deere ends; Americas begins independent business

activity throughout the Americas

March 2022 Opened parts warehouse in Jackson, Georgia

October 2022 Opened parts warehouse in McDonough, Georgia

Under the joint venture with Deere & Company in the United States, Hitachi Construction Machinery took charge of exporting hydraulic excavators produced in Japan to the Americas under the Deere brand as well as of developing and producing products at local joint ventures. Sales and after-sales services were the responsibility of Deere through its dealer network across the Americas. Consequently, Deere had control over the sales and operational data for the construction machinery. We were unable to sell our latest products equipped with our ConSite service solution under the Hitachi Construction Machinery brand.

After the dissolution of this partnership, Hitachi Construction Machinery now independently handles all aspects of the business in the Americas. This allows us to have direct knowledge of the dealer and market conditions, and we can obtain information on conditions at various construction sites and the parts that are needed there. We are now in a better position to provide the construction machinery that customers need in the Americas, dynamic markets with significant potential.

Current Since March 2022



Jntil Febru





Parts and Services



Customers

## Special Feature

## **Embarked on Development for Own Business with a Better Start**

Despite having only a six-month preparation period following the agreement to dissolve the joint venture with Deere & Company in August 2021, the Hitachi Construction Machinery Group's independent business expansion in the Americas has gotten off to a much better start than expected. The high level of demand for construction machinery in the wake of the pandemic also contributed to this success. What most surprised us was the high level of recognition for the Hitachi Brand. Since the establishment of our first American office in August 1978,

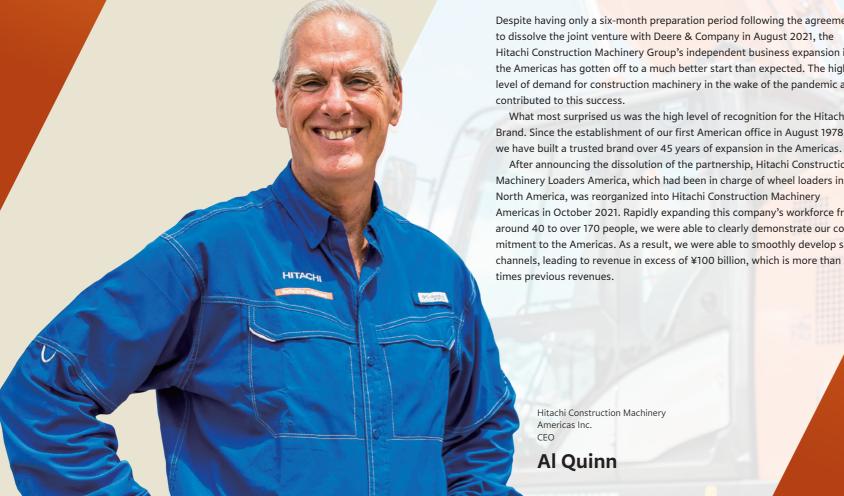
After announcing the dissolution of the partnership, Hitachi Construction Machinery Loaders America, which had been in charge of wheel loaders in North America, was reorganized into Hitachi Construction Machinery Americas in October 2021. Rapidly expanding this company's workforce from around 40 to over 170 people, we were able to clearly demonstrate our commitment to the Americas. As a result, we were able to smoothly develop sales channels, leading to revenue in excess of ¥100 billion, which is more than five times previous revenues.

Sonosuke Ishii

Machinery Americas Inc.

Hitachi Construction Machinery Americas Inc. CEO

Al Quinn



Our Vision Value Creation Story Sustainability Initiatives Financial Strategy/Corporate Data Hitachi Construction Machinery Group Integrated Report 2023

## **Special Feature**

Dealer network companies

companies

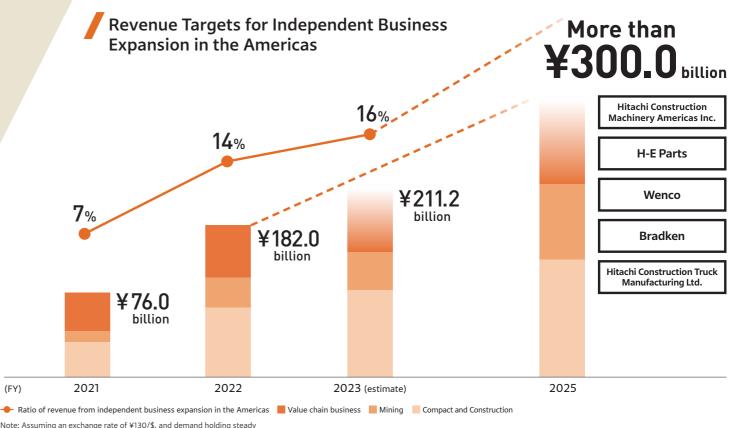
## Rapid Buildout of Sales Structure Covering Roughly 80% of North American Market

Through our sales and service network in the Americas, we were able to secure a number of capable and influential dealerships in a short time in each region, thanks to the favorable impression the Hitachi Brand has made. As of July 2023, the number of dealerships had risen to 29 companies. Additionally, we have collaborated with the ITOCHU Group to establish a joint venture in financing in order to provide more accessible sales and service arrangements for our customers.

Regarding parts supply, we have set up parts warehouses in Jackson and McDonough, Georgia, and are considering a warehouse on the western side of the American continent.

One of the greatest benefits of our independent business expansion is the ability to utilize machine operation and maintenance data collected by our service solution, ConSite. In alignment with customer needs for greater productivity at construction sites and continuous long-term operations, we share data with dealers on when maintenance or parts replacement will be required, prepare the necessary parts on an appropriate schedule, deliver them promptly and link these efforts to new proposals. In turn, this contributes to reducing life cycle costs and extending the lifespan of the machinery for the customer.

## Aiming for at least ¥300 billion in revenue from independent business expansion in the Americas



Note: Assuming an exchange rate of ¥130/\$, and demand holding steady

(FY)

**Providing comprehensive** solutions in the mining business

In mines where machinery and equipment operate 24 hours a day, 365 days a year, advanced technology is required to ensure safety, durability and productivity.

In the mining business, in addition to ultra-large hydraulic excavators, dump trucks and wheel loaders, the Hitachi Construction Machinery Group provides comprehensive solutions through Bradken, which produces cast machinery and parts for mining equipment; H-E Parts, which provides comprehensive solutions related to mining equipment; and Wenco, which offers a mining Fleet Management System (FMS) that monitors the location and driving conditions of multiple vehicles in real time to optimize vehicle allocation. Furthermore, Wenco's FMS has a track record in operating mixed fleets at various mines, and H-E Parts offers the option of parts remanufacturing and repair for equipment made by other companies. These services help differentiate our proposed solutions.











at H-E Parts



Bradken's excavation





24-hour remote monitoring of mining equipment with ConSite Mine









North

**America** 

Latin

America

teries results in lower operating rates.

The Hitachi Construction Machinery Group is progressing with plans to conduct a demonstration test of this battery dump truck at the Kansanshi copper-gold mine in the Republic of Zambia.

## **CTO Message**

## A Letter from the Chief Technology Officer



## >> Leading/Supporting Value Creation with Coordination of Business Units

At Hitachi Construction Machinery, we believe that the machinery we manufacture is a major source of value for customers. In our view, improvements in safety and productivity, the reduction of life cycle costs and responses to climate change are how we offer value to our customers. Co-creating with our customers, we aim to maximize social and environmental value with an eye to the realization of a sustainable society.

We are a construction machinery manufacturer with over 70 years of experience in mass production. Through the generations, our customers have consistently praised the durability and reliability of our products and

## With a Vision for 2030, We Are Accelerating Forward-Looking **Development in Five Thematic Areas.**

expressed appreciation for their ease of operation and user friendliness. Recently, in addition to meeting a certain baseline regarding machine performance and durability, customers have been looking to us to help them improve their productivity in the areas of construction site safety management and operational assistance and management through the provision of digital and network technologies.

Against this backdrop, the Research & Development Group is tasked with the mission of consolidating technical requirements from each business unit, and leading and supporting value creation for the entire Group. As our vision for 2030, we aim to establish industry-leading R&D capabilities. Accordingly, we have set up five advanced R&D themes: improvement of safety, improvement of productivity, reduction of life cycle costs, prevention of global warming and adapting to global polarization. We have created an R&D roadmap by backcasting from this envisioned future.

In the Research and Development Group, the Advanced Development Center is where we develop future technologies while considering medium- to long-term changes in markets, leveraging our basic technologies and common technologies like hydraulics and electronic control. To speed up development, we established the Open Innovation Promotion Office in April 2023 to facilitate collaboration with startups and specialized manufacturers in various fields. We will strengthen open innovation focused on acquiring technologies from partners around the world, especially in rapidly advancing digital fields.

Hitachi Construction Machinery has developed construction machinery by complementing its unique hydraulic technology with electronics technology from Hitachi Ltd. We are now advancing technology development by integrating cutting-edge IT from both sides, releasing products and services like electric drive systems for dump trucks and operations

management systems. While maintaining and building on our ongoing technical cooperation with Hitachi Ltd., we plan to accelerate the development of products and solutions.

## >>> Specific Initiatives for Advanced R&D Themes

The future of construction sites envisioned by Hitachi Construction Machinery is not one of complete automation devoid of human presence; rather, we see construction sites where humans and machines work together in harmony. Our aim is for worksites to generate more value than ever before in terms of improving safety and productivity, as places where people interact with people, machines with people, and machines with other machines. In order to stake out a lead in this domain, Hitachi Construction Machinery made an investment in and entered into a business partnership agreement with aptpod Inc. in May 2023. We are jointly working with aptpod to leverage its high-speed IoT platform and create digital twins\* with real-time features in order to develop systems for remotely operating and autonomously driving construction machinery.

Through collaboration, this initiative aims to realize construction sites where safety and productivity are optimally balanced through coordinated safety measures. Based on various data collected from machines and sensing systems, such as the location and operational status data of construction machinery, the location and biometric data of workers, changes in topography as work progresses, and weather forecasts, digital twin systems will guide entire construction sites in a safer direction while maintaining high levels of productivity, issuing cautionary warnings to workers and controlling autonomous construction machinery.

\* Digital twin: A technology that collects various data about the real world using IoT and other means for the purpose of replicating the real world in a virtual space. The information in the virtual space is then updated in realtime to reflect changes in the real world.

#### CTO Message

In addition, to address the problem of occupational accidents in the construction industry, which accounts for about 30% of overall industrial accidents, Hitachi Construction Machinery provides driving assistance systems that help reduce contact damage between the bodies of machines and obstacles.

Meanwhile, KTEG GmbH is taking on the challenge as a leading electric construction machinery maker in Europe of preventing global warming.

Hitachi Construction Machinery aims to expand globally, including in Japan and North America, through the development and mass production of cost-competitive electric construction machinery, incorporating the products and technologies developed by KTEG while meeting the high quality standards set by the Hitachi Construction Machinery Group.

Specifically, we sell electric excavators in the 2-ton, 8-ton and 13-ton classes in Europe based on Hitachi Construction Machinery's standard models. Furthermore, we have started accepting orders from 2023 for a 5-tonclass battery-powered mini excavator developed by Hitachi Construction Machinery Tierra, enriching our product lineup. One of the challenges regarding increasing the uptake of electric

construction machinery is the development and procurement of specialized batteries. Compared with automobiles, construction machinery is sold in smaller volumes and has different battery load factors. While automobiles do not experience high load under constant-speed conditions, construction machinery continuously operates under high loads, necessitating specialized batteries.

Regarding product lifespan, on average a unit of construction machinery is used for at least 10 years, which means that reliable local parts procurement is essential. Furthermore, it is necessary to have a structure in place for battery replacements. To address these challenges, we are exploring collaboration with battery manufacturers both in Japan and overseas, and we aim to develop products near markets.

Reducing lifecycle costs is also an important topic. Because a machine breakdown at the construction site can adversely affect customer productivity, we are advancing initiatives to detect failures before they happen.

ConSite OIL is our proprietary system that uses oil monitoring sensors installed in machinery to sense oil conditions 24 hours a day. A proprietary algorithm developed by Hitachi Construction Machinery enables the early detection of abnormalities in machine oil, which serves as a health barometer for construction machinery.

For mining sites, Hitachi Construction Machinery offers the ConSite Mine service solution, which remotely monitors ultra-large hydraulic excavators and rigid dump trucks 24 hours a day through IoT, contributing to solutions for mining site issues with Al-powered analysis of operational conditions.

Through these initiatives to address various social challenges, we will make steady progress toward achieving our vision for 2030 by establishing top-class R&D capabilities in the industry.



## Aiming to Accelerate DX and Grow as a True Solutions Provider

#### **Evolution of Global e-Service**

At Hitachi Construction Machinery, we offer Global e-Service (hereinafter, GeS), an integrated management system that allows our construction machinery customers to view their machinery's operational status and maintenance information over the internet. In addition, GeS provides such environmental data as CO<sub>2</sub> emissions volume, idling time and fuel consumption, offering a solution that can help customers with environmental management.

Since launching domestic services in 2000, we have developed around 90 GeS-based applications to support maintenance and after-sales service operations. Today, they are widely used by customers around the world.

GeS apps are installed in approximately 430,000 machines globally and handle the exchange of vast amounts of information daily. As the digitization of

business domains targeted by GeS expands and spreads, it has become a challenge to manage the growing complexity of GeS operations due to the diversification of features offered, the need to adapt to global production systems and customer demand for even more sophisticated solutions.

As an initiative under the current medium-term business plan, we aim to maximize added value and convenience across the entire value chain by promoting the modernization of GeS. In addition, we plan to evolve it into a digital platform for supporting machine maintenance and after-sales service by mutually linking and strengthening GeS and DX platforms, \*2 with the aim of improving usability, enhancing value through DX and creating open innovation.

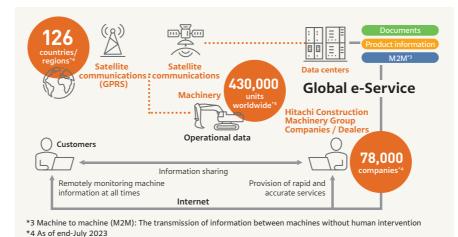
By doing so, we will accelerate the development of a framework that enables sales dealers to provide services to customers quickly while consolidating

various features and information that had been dispersed in GeS until now. As a result, we will be able to significantly reduce the number of screen operations and optimize business workflows, leading to a highly efficient digital platform and increased customer satisfaction. Furthermore, we will explore new value creation through collaborations and expansion into new markets, such as the remanufacturing business and used vehicle sales, as well as co-creation with partners from different industries.

- \*1 Modernization: The process of replacing outdated IT assets (both hardware and software) and development methods with the latest products and designs
- \*2 DX platform: A common development platform offered by Hitachi Construction Machinery, aimed at improving the efficiency of application development.



#### ■ How Global e-Service Works





The Sales Support Application in use

Hitachi Construction Machinery Group Integrated Report 2023

Our Vision Value Creation Story Sustainability Initiatives Financial Strategy/Corporate Data

## **Group Identity of the Hitachi Construction Machinery Group**

In 2022, the Hitachi Construction Machinery Group formulated a unique Group identity.

As stated in our mission, we strive to swiftly respond to the expectations of our customers and address the issues they are confronting. Based on outstanding technologies, we will thus deliver innovative products, services and solutions through co-creation with our customers and alliance partners. Through these endeavors, we will create new value to "ensure a prosperous land and society for the future" in line with our vision, thereby contributing to the realization of a safe and sustainable society.

**Corporate Statement** 

## **Reliable Solutions**

We are a reliable solutions partner with/for our customers



## Foundational Values: Basics and Ethics, Trust and Technology, Pride and Responsibility

## Kenkijin Spirit

The global Hitachi Construction Machinery Group shares a universal code of conduct we call the "Kenkijin Spirit." The people of Hitachi Construction Machinery ("Kenkijin") work individually and together to realize the goals and aspirations we share.

The underlying commitment behind this spirit can be expressed in three key words beginning with "C," words defining key concepts that surpass the boundaries of language: the spirit of rising to meet Challenges, serving Customers, and ensuring meaningful Communication.

Each person in the global Group develops their own ideas and initiatives through the *Kenkijin Spirit*, providing the products and services our customers deserve, and bringing them new value.

Hitachi Construction Machinery Group Integrated Report 2023

Our Vision | Value Creation Story | Sustainability Initiatives | Financial Strategy/Corporate Data | 18

## **Overview of the New Medium-term Management Plan**

The Hitachi Construction Machinery Group has formulated a new medium-term management plan, "BUILDING THE FUTURE 2025," which spans a period of three years, with the aim of achieving further growth and transformation into a true solutions provider.

# **BUILDING THE FUTURE 2025**

- Delivering Innovative Solutions for Customer Needs
- Enhancing the Value Chain Business
- Expanding Business in the Americas
- Strengthening Human Capital and Corporate Capabilities

Enhancing

solutions

## **Overview of the New Medium-term Management Plan**

## Our Goals under the New Medium-term **Management Plan**

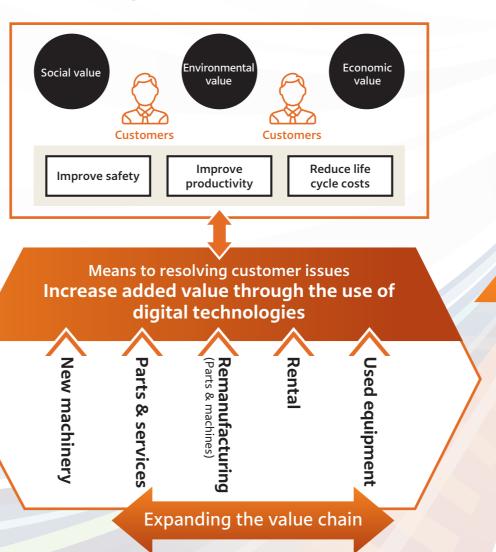
Our customers today typically confront three management challenges, namely, "improving safety and productivity," "reducing life cycle costs" and "implementing environmental measures." These challenges are expected to be as relevant 10 years from now as they are at present. At the same time, the details of these challenges and the specific solutions aimed at addressing them may evolve significantly due to technological innovation and other developments. For example, progress in the technological advancement and popularization of autonomous driving systems is expected to give rise to novel safety issues. Moreover, the electrification of vehicles could lead to the materialization of major issues regarding energy supply and

In line with the new medium-term management plan, we have identified a vision of "growing as a true solutions provider by delivering innovative solutions." This vision is designed to publicly express our determination to provide our customers with innovative solutions that help them resolve the constantly evolving issues they are confronting.

Through the promotion of the endeavors described above, we will strive to "meet expectations from customers, co-create innovative products, services, solutions and together, we continue to create new values." By doing so, we will fulfill our mission, a key component of our Group identity established in 2022.

Here, we introduce four strategic pillars supporting the new medium-term management plan.

## Growing as a true solutions provider by delivering innovative solutions



## Core Strategy

**Delivering Innovative** Solutions for **Customer Needs** 

**Enhancing the Value** Chain Business

**Expanding Business** in the Americas

Strengthening Human Capital and **Corporate Capabilities** 

## Overview of the New Medium-term Management Plan

## **Delivering Innovative Solutions for Customer Needs**

The first pillar of the new medium-term management plan is "delivering innovative solutions for customer needs."

For our customers, "improving safety and productivity," "reducing life cycle costs" and "implementing environmental measures" will remain ongoing challenges. On the other hand, rapidly advancing technological innovation is expected to result in customers confronting even more complex issues in the course of pursuing solutions to these challenges.

To help customers resolve these challenges, the Hitachi Construction Machinery

Group needs to promote the coordination of diverse data and the updating of its products via the use of digital technologies.

To this end, we have categorized our offerings into "Solution 1.0," "Solution 2.0" and "Solution 3.0." In the Solution 1.0 category, we will focus on delivering conventional data-driven services. At the same time, we have defined the Solution 2.0 category as the provision of upgraded products supported by more sophisticated modes of data utilization.

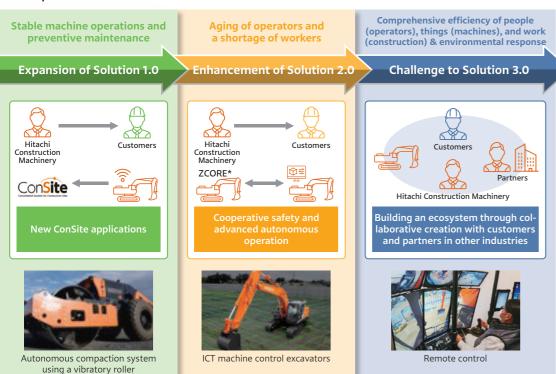
Specific examples of the latter include initiatives undertaken by the compact and the construction businesses. While striving to further expand the scope of Solution 1.0, we endeavor to deepen that of Solution 2.0 through the upgrading of products via the introduction of coordinated safety measures and highly sophisticated autonomous operating systems. In these and other ways, we will deliver innovative solutions for customer needs.

In the Solution 3.0 category, we will deliver added value via, for example, collaboration involving customers as well as partners from different sectors. The Hitachi Construction Machinery Group has been an industry forerunner in this area. Under the new medium-term management plan, we will further accelerate these initiatives.

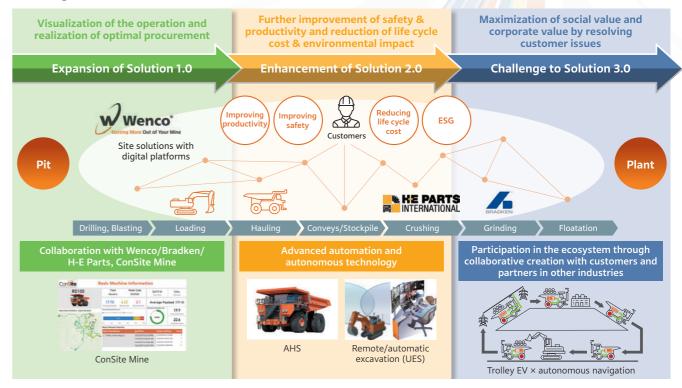
In the mining business, we will accelerate collaboration between Hitachi Construction Machinery Group members and partners from different sectors by leveraging a diverse range of touchpoints, from Pit to Plant, all of which are within the realm of our operations.

Through the upgrading of our products, we will thus promote efforts to help customers address the challenges of "improving safety and productivity," "reducing life cycle costs" and "implementing environmental measures."

#### ■ Compact and Construction Business



## Mining Business



<sup>\*</sup>ZCORE: A system platform designed to support autonomous construction machinery

## Overview of the New Medium-term Management Plan

## **Enhancing the Value Chain Business**

The second pillar is "enhancing the value chain business."

The Hitachi Construction Machinery Group has identified a vision of "ensuring a prosperous land and society for the future." In the value chain business, we will focus more than ever on helping create a sustainable society.

In fiscal 2022, sales revenue from the value chain business accounted for 40.6% of consolidated sales revenue. However, we will aim to raise this ratio to 50% or more in fiscal 2025. To achieve this aim, we will implement the initiatives described below.

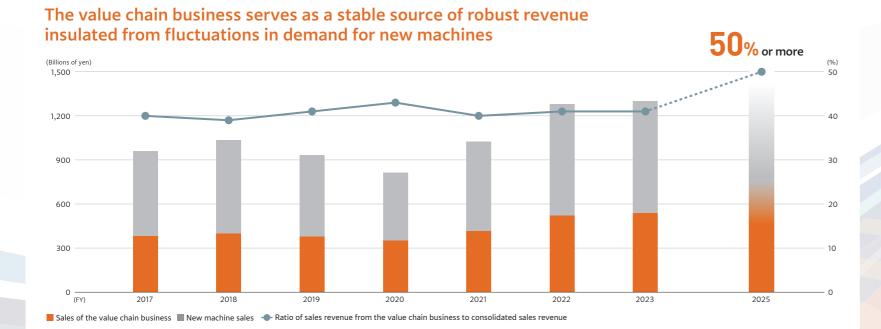
In the parts and service business, we will take advantage of ConSite, which is backed by cutting-edge ICT technologies, to deliver solution proposals aimed at lengthening the product life of construction machinery, maximizing its operating

hours, and improving operational efficiency. At the same time, we will expand the remanufacturing business and, to this end, boost the production capacities of our remanufacturing bases to contribute to the facilitation of resource recirculation across society. We will thus establish an optimal remanufacturing structure enabling us to serve markets around the globe, including those in North America, Africa and elsewhere. With regard to machine remanufacturing, which refreshes the used vehicle as a whole, we will roll out our know-how at each base, building on the track record we have accumulated thus far. By doing so, we will get this business on a track.

In the mining business, we will strengthen the value chain business for mining from Pit to Plant, including the mineral processing areas of Bradken and H-E Parts.

In the rental and used equipment business, we launched operations in France in fiscal 2023. Through these and other endeavors, we will expand the rental business

### Operating Results Trend of the Value Chain Business



in countries abroad in a way that aligns with differing market conditions. Moreover, we will provide PREMIUM USED, high-quality used machines with a manufacturer's warranty, and otherwise deliver used machines with greater value. We will thus help customers resolve a challenge of "reducing life cycle costs."

## **Expanding Business in the Americas**

Our business in the Americas has made a smoother-than-anticipated start and is expected to achieve considerable growth going forward.

Over the course of the new medium-term management plan period ending in fiscal 2025, we aim to achieve sales revenue of ¥300.0 billion or more solely from independent business expansion in the Americas. To achieve this target, we will expand sales of new machines as well as the value chain business to secure a more stable revenue volume.

In the compact and the construction businesses, we will push ahead with the development of an independent sales network in Latin America, building on progress made thus far in fiscal 2022 in the development of our network in North

In the mining business, we will expand sales of ultra-large hydraulic excavators for use at construction sites and stone crushing sites in North America. Meanwhile, in Latin America, we will reinforce our service and support structure. Furthermore, we will enhance our dump truck supply structure for the Americas as a whole.

In the value chain business, we will focus on expanding the rental business. Specifically, we will undertake a "Rental-To-Rental" business through which we lease the types of machines rarely owned by major dealers or rental companies. We will also support small local companies handling general rental services.

## Overview of the New Medium-term Management Plan

## **Strengthening Human Capital and Corporate Capabilities**

The final pillar is "strengthening human capital and corporate capabilities." As we have identified "delivering innovative solutions" as a banner under which we strive to upgrade the Hitachi Construction Machinery as a whole, we need to enhance human capital and corporate capabilities supporting this endeavor. As a solutions provider, we will nurture human resources and develop organizational strength, with the aim of ensuring that we fully realize our potential both as individuals and as a team.

To that end, we will enhance our global business structure, which ranges from research & development to manufacturing, supply and sales to the provision of services. Furthermore, we will continue striving to improve our profit structure in order to secure the ability to take on the radical changes currently affecting our operating environment.

Specifically, we will place utmost priority on strengthening human resources, upgrading the organizational structure and transforming our corporate culture.

With regard to the strengthening of human resources, we will provide our employees at home and abroad with robust training programs and opportunities so that they can earn success on the global stage.

As for upgrading the organizational structure, we will further upgrade the business unit system, which was introduced in 2022, in order to facilitate even closer horizontal collaboration based on the principle of Customer Interest First. In doing so, we will enhance the performance management of Group companies worldwide, facilitate even speedier decision making and improve our profit structure.

In terms of transforming our corporate culture, we will promote the use of a system for monitoring the status of management plan targets. This will, in turn, help us facilitate the entrenchment of a culture of making every effort to accomplish the goal of each management plan measure. We will also implement human resource management measures aimed at supporting the execution of business strategies and the strengthening of management foundations. In addition, we will push ahead with open innovation and agile development.

## **Targets of the Medium-term Management Plan**

As part of quantitative targets stipulated under the new medium-term management plan, we aim to raise the adjusted operating income ratio, which is a profitability

indicator, to 13% or more. We have also identified an additional target of achieving an EBITDA margin of 18% or more. The EBITDA margin is an indicator for measuring our capabilities to generate cash from sales.

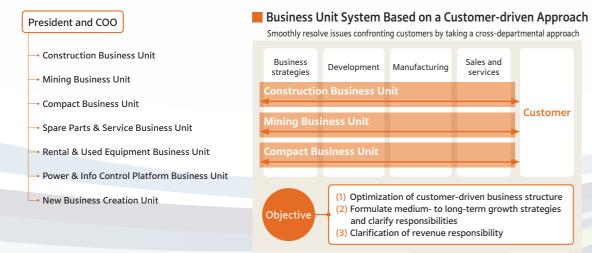
Moreover, we have incorporated the operating cash flow margin and ROIC as new indicators for measuring efficiency. With the assumed weighted average capital cost (WACC) set at the 7% level, we have defined the amount of spread required by investors as 2% or more while also identifying the ROIC target of 9% or more. Through the pursuit of these targets, we will stay conscious of the efficiency of allocated capital in the course of business management, with the aim of improving capital profitability.

With regard to shareholder returns, we will aim for a consolidated dividend payout ratio of around 30% to 40%, striving to maximize shareholders' interests through the maintenance of a stable and constant stream of dividends.

Simultaneously, in addition to formulating targets for the reduction of CO<sub>2</sub> emissions as environmental impact reduction, we will identify indicators for diversity, equity and inclusion and provide diverse human resources around the globe with robust opportunities to harness their competencies and unique strengths to the fullest. In these ways, we will strive to improve corporate value.

### Upgrading the Business Unit System

Each business unit is responsible and accountable for operating its business and expected to focus on meeting the needs of customers in an integrated manner through processes ranging from development and manufacturing to after-sales services. Reduce silo-based functional divisions, speed up decision-making in business planning, and clarify performance responsibility.



## Targets of the Medium-term Management Plan

КРІ		Medium-term Management Plan FY2025 targets	Reference FY2022 results	
Growth	Value chain ratio Own business revenue in the Americas R&D/Revenue ratio		50% or more 300.0 billion yen or more 3% or more	40.6% 182.0 billion yen 1.9%
Profitability	•Adjusted operating income ratio •EBITDA margin*1		13% or more 18% or more	10.6% 14.2%
Safety	•Net D/E ratio		0.40 or less	0.60
Efficiency	•Operating cash flow margin <sup>-1</sup> •ROE •ROIC <sup>-1, 3</sup>		10% or more 13% or more 9% or more	-2.0% 11.0% 8.4%
Shareholder return <sup>12</sup>	Consolidated dividend payout ratio		Stable and continuous implementation with a consolidated dividend payout ratio of 30%-40% as a guide	33.3%
ESG	Reducing environmental impact	Production (Scope 1+2)	-40%	-33.0%
	and CO <sub>2</sub> emissions (total; compared with the 2010 level)	Product (Scope 3)	-22%	-21.9%
	Diversity, equity & inclusion	Localization ratio of GM or higher in overseas group companies 12	75%	72%
	Diversity, equity & Iliciusion	Ratio of managers by gender (consolidated)*1	Women 13% Men 15%	Women 11.2% Men 16.0%

\*1: Newly established indicators in the new medium-term management plan

\*2: Dividing operating cash flow into thirds, we aim to allocate these thirds to maintenance and strengthening investment, prior investment and shareholder return & debt payment, based on our fund allocation policy.

\*3: The level of capital cost (WACC) to be compared in the ROIC target is recognized at about 7%.

New Medium-term Management Plan: Strategies by Business

# **Construction**Business Unit

Facing Customers with Sincerity as "One Team" and Pioneering New Horizons

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

Yusuke Kajita



## **Effect of Transitioning to the Business Unit System**

With the introduction of the business unit system, marketing, design, manufacturing, sales and services have become interconnected, enabling faster decision making while clarifying centers of responsibility. Fiscal 2022 was the first year under the business unit system, and I strongly felt that all of us have been inspired to moved forward together towards success.

Before this transition, the lines of responsibility were ambiguous, leading to situations where departments would take a wait-and-see stance while circumstances developed. Now that responsibilities are defined by business unit, I believe many employees have embraced a mindset of becoming a first-mover and proactively taking the initiative.

For instance, there used to be frequent clashes of opinions related to attempts to maximize the gross profit of each department. However, by visualizing and emphasizing how much consolidated profit is generated in the process of delivering products to customers, we are able to have more discussions that encompass the entire business, such as "this is profitable when viewed as a whole, but this is not" or "what should we do if it is not profitable?"

The business unit system has also proved effective in expanding global supply, one of our new initiatives this fiscal year. Collaboration with manufacturing subsidiaries worldwide, including those in China, Indonesia and Europe, was essential

in realizing our policy of supplying quality products when needed. The construction departments of each regional business have come under the jurisdiction of the business unit, making it easier to collaborate.

In product development, Hitachi Construction Machinery established the Electric Products Development Center in April 2022 with the aim of moving toward zero emissions. The support and encouragement from the marketing and sales departments as well as overseas bases, which came together under the same business unit, greatly contributed to the project launch of this center. I feel that we have become more receptive to market opinions and requirements through this center.

Hitachi Construction Machinery has concentrated management resources in fields where it can achieve differentiation through research and development in construction machinery, such as hydraulic systems other than engines or computer-based electronic control systems. With construction machinery having entered the era of electrification, this concentration of resources is proving beneficial. The company has been conducting open procurement for the power sources that drive hydraulic pumps, such as engines, while collaborating with various procurement partners, giving it the best options for electrification in the future.

Going forward, the Construction Business Unit will endeavor to achieve targets in the new medium-term management plan as "One Team."

## **Smooth Start to Independent Business Expansion in the Americas**

Hitachi Construction Machinery's independent business expansion in the Americas has got off to a smoother than anticipated start. Since there was only a short time to prepare, we were initially concerned about the possibility of devolving into chaos; however, no major problems arose. Sales have expanded thanks to efforts made under the new management system centered on Hitachi Construction Machinery Americas Inc. We have received high praise from both customers and dealers.

This fiscal year, Hitachi Construction Machinery is introducing seven series each for hydraulic excavators and wheel loaders. With tuning tailored to customer requirements, specifications set according to market needs, and a plethora of options, we have everything in place. To be successful, all departments must be operating at 100%, fulfilling their roles and responsibilities while working together to ensure production, shipping, sales and services are executed on time. Our goal is Customer Interest First (CIF)—everything we do is geared at customer satisfaction.

Along with solidifying our foothold in North America, we believe that expanding into Latin America is vital to our future. We must firmly plant our roots in order to grow in this region, which has significant potential for development. This fiscal year, we intend to take our first steps in this direction.

#### **Construction Business Unit**

In March, CONEXPO 2023, the largest construction machinery trade show in North America, was held in Las Vegas, U.S.A. At previous trade shows, Hitachi Construction Machinery and Deere & Company shared a booth. This year, however, Hitachi Construction Machinery had its own booth, reflecting our renewed spirit accompanying our second founding. During the exhibition, we had meetings with dealers in the United States and Canada, and our hearts were full of gratitude for the dealers who chose to handle Hitachi Construction Machinery products. As Deere & Company and other companies move to bring new models to the market, Hitachi Construction Machinery must focus more on the North American market. Together with our dealers, we aim to achieve significant growth in these new markets.



Our booth at the CONEXPO 2023 exhibition

## **Kev Focus Points for the Construction Business Unit** under the New Medium-term Management Plan

With our second founding, growth has become the most important aim of the Group. I believe the Construction Business Unit will play a vital role in achieving growth for the entire Group. Looking ahead to 2025, the Construction Business Unit is pursuing the following initiatives.

- 1 Promote research and development, manufacturing, sales and services aimed at a safe and sustainable society, especially towards carbon neutrality, as planned
- Establish platform technologies able to respond quickly and flexibly to changes in society, such as the declining birthrate and aging population, as well as the digital revolution, and carry out innovative business development
- 3 Follow our roadmap for advancing research and development with an eye on the future, such as next-generation models, electrification, automation, ZCORE, ConSite and open innovation
- 4 In addition to expanding our traditional product lineup, continuously introduce new products with enhanced digital functions, with the aim of expanding sales in both industrialized and emerging countries; on the supply side, fully and effectively utilizing our global production bases and meeting 100% of demand from sales departments with regard to supply volumes
- Achieve success in North America and steadily expand business in emerging countries, including Latin America
- 6 In the new vehicle business and value chain business, expand business opportunities by providing new value centered on digital solutions
- 7 Strengthen our manufacturing plants and improve competitiveness by advancing the plant reorganization project, turning plants into smart factories and steadily reducing total costs

## **Driving Force to Realizing Our Group Identity**

At the core of any company is its people. First and foremost, Hitachi Construction Machinery must create an environment where the safety and health of everyone involved in its operations are prioritized above all else. In addition, we have a vision to aspire to in creating a workplace in which employees are motivated in their work, have opportunities for growth and where diversity is valued. As a result of creating such an environment and workplace, we can give shape to our foundational values of Basics and Ethics, Trust and Technology, Pride and Responsibility, and our code of conduct, the Kenkijin Spirit (Challenge, Customer, Communication). The fulfillment, motivation and vitality of the people we work with are the fundamental driving forces in realizing our Group identity. We want to make the Construction Business Unit a place where everyone involved can feel that their own future is taking shape as the business grows.

## **DNA of the Hitachi Construction Machinery Group**

If asked, "What is the competitive strength of the Hitachi Construction Machinery Group?," I would confidently answer, "Our sincere commitment to our customers." From its dedication to manufacturing and enthusiasm for sales to its sense of responsibility in repairs, Hitachi Construction Machinery has a tradition, passed through its DNA, of all employees (Kenkijin) who interact with customers adopting an attitude of "always striving to support customers and be on the side of those on the front lines."

The Hitachi Construction Machinery Group's independent business expansion in the Americas is akin to turning a new page in its history book, like landing on a new continent. I believe that now, more than ever, is the best opportunity to fully harness this DNA and earn the trust of our customers.

Hitachi Construction Machinery Group Integrated Report 2023

Our Vision

Value Creation Story

Sustainability Initiatives

Financial Strategy/Corporate Data



New Medium-term Management Plan: Strategies by Business

# Mining Business Unit

Pioneering Net Zero Emissions through Unified Efforts in Development, Manufacturing, Sales and Services Hitachi Construction Machinery Co., Ltd.
Senior Vice President and Executive Officer,
President, Mining Business Unit and General
Manager of America Business Division (Chairman of
Hitachi Construction Machinery Americas Inc.)

Sonosuke Ishii



## Leveraging Merits of the Business Unit System to Swiftly Realize Independent Expansion in Americas

Ahead of the entire company, the Mining Business Unit had effectively transitioned as of 2017 to the business unit system.

The main advantage of the business unit system is that development, manufacturing and sales and services are integrated, allowing for a swift response to changes in market conditions and customer requirements. When our independent expansion in the Americas commenced in March 2022, we were somewhat behind on the development of dump trucks compliant with North American emissions regulations. However, by prioritizing the development of these dump trucks over that of other products, we successfully brought them up to compliance. Currently, our plant and sales sides are working together to develop fully electrified dump trucks.

## Significant Benefits from Business Unit System with Steady Improvements in the Quality of Overall Business Activities

In fiscal 2022, revenue in the mining business amounted to ¥246.6 billion, marking a significant increase of 56% compared to the previous fiscal year and setting a new

record high for revenue. The mining business's share of consolidated revenue increased by 4 percentage points from the previous year, to 19%.

Sales of ultra-large hydraulic excavators expanded significantly, particularly in the Americas, with unit sales increasing 39% from the previous year. Dump trucks also saw a significant surge in sales in Australia, with unit sales growing a substantial 167% compared with the previous fiscal year.

Sales of parts and services increased 38% year on year, thanks to firm demand in the specialized parts and services business supported by H-E Parts International LLC and Bradken, with the former responsible for the service business, parts development, processing and sales for mining equipment and mining facilities, and the latter tasked with the manufacture of parts for mining equipment.

While the reliability of the machinery itself is a fundamental prerequisite, our mining customers place significant importance on the continuous operation of mining equipment. Daily support in terms of services and the prompt supply of parts during emergencies are decisive factors in winning orders.

While lofty prices for mineral resources were also a tailwind, since transitioning to the business unit system in 2017, our commitment to improving the quality of our business activities in a consistent and continuous manner and the dedicated efforts of each department have translated into better evaluations from our customers. This has enabled Hitachi Construction Machinery to steadily tap into renewal demand.

## Competitive Advantages of the Hitachi Construction Machinery Group in the Highly Competitive Global Mining Industry

From an environmental perspective, one of our distinctive features is our agility, which has allowed us to easily pivot towards decarbonization through the procurement of diesel engines from external sources.

In mining operations, where high levels of safety and productivity are required, Hitachi Construction Machinery has been rolling out an Autonomous Haulage System (AHS) to enable the unmanned operation of mining dump trucks. Other companies with a wide range of products tend to group all the machinery used in mining under one AHS. In contrast, Hitachi Construction Machinery, having a product lineup that spans ultra-large hydraulic excavators, dump trucks and wheel loaders, is exploring ways to integrate its AHS with equipment made by other companies that is already being used in mines. We believe this capability to cater to a large number of customers who prefer operating a mix of products, rather than sticking to a single brand, provides us with a competitive advantage.

The AHS offered by Hitachi Construction Machinery is based on the Fleet Management System (FMS) developed by Wenco International Mining Systems. This system has a proven track record in managing mixed fleets (operational

#### Mining Business Unit

management of dump trucks from multiple manufacturers) at various mines. Through an open and flexible IoT platform, it organically connects various data, including from machinery, realizing integrated system management.

## The Expansion of Service Infrastructure That Supports **Dealers Is Key to Expanding Mining Business**

While the primary use of mining equipment is at copper, iron ore and coal mines, in North America, ultra-large hydraulic excavators that range from 120 to 200 tons are also actively used in quarries and construction sites. Hitachi Construction Machinery is focusing on this field, commonly referred to as light mining.

South America, like Africa, consists of many countries where different languages are spoken and regulations can vary considerably. With strong demand for dump trucks in these countries, these markets look promising from a growth perspective. For this reason, Hitachi Construction Machinery needs to enhance its service infrastructure, such as service centers and parts remanufacturing factories, for its eight dealers in South America. In Brazil's vast markets and others like it, high import duties have been placed on finished vehicles, requiring us to be innovative in developing the market, such as by securing footholds through involvement in the rental business. In terms of strengthening the value chain, the company is planning to expand the business by, for example, systematically importing well-maintained used equipment from Japan to South America.

Africa has many resource-rich nations, making it a crucial market for the Mining Business Unit. However, the level of development varies widely among countries, and many lack adequate infrastructure, posing challenges to establishing a stable business environment.

Within the Hitachi Construction Machinery Group, Hitachi Construction Machinery Africa (Pty.) Ltd., based in South Africa, oversees the southern Africa region, while Hitachi Construction Machinery (Europe) N.V. in Amsterdam is responsible for the northwestern Africa region.



A rigid dump truck with trolley driving at the Kansanshi copper-gold mine

## Differentiating with a World-Pioneering Approach to **Net-Zero Emission Mining**

In the southern African region Hitachi Construction Machinery has had a long-standing collaborative relationship with Canada's First Quantum Minerals Ltd. (hereafter, "First Quantum"). In Zambia's Copperbelt Province, countless mining equipment units made by Hitachi Construction Machinery are actively operating, including at First Quantum's Kansanshi copper-gold mine. Since 2012, we have been expanding our parts remanufacturing business in the capital city of Lusaka.

Hitachi Construction Machinery's trolley-powered dump trucks are in operation at the Kansanshi copper-gold mine. Leveraging this infrastructure, we are making preparations to launch a Proof of Concept (POC) project in 2024 for an engineless, fully electric rigid dump truck that we are co-developing with heavy electrical machinery major ABB in Switzerland. Currently, a prototype is being fabricated at the Hitachinaka-Rinko Works.

While competitors are also sparing no effort in developing electric-powered dump trucks for mines, we believe we are the first to undertake a POC in an actual mining setting.

Our proven technology in rigid dump trucks with trolleys is also being applied to the fully electric dump trucks. Since the system is designed with retrofitting in mind, currently operating diesel-powered dump trucks could be replaced by fully electric dump trucks in the future. Minimizing the impact on customers' mining operations and offering a viable phased transition to full electrification are the defining features of Hitachi Construction Machinery's initiatives in this field.

The mining industry is extremely close-knit, with mining companies actively exchanging information. We have seen an influx of inquiries from mining companies all over the world, not only about our fully electric dump trucks but also various other matters.

The Hitachi Construction Machinery Group aims to differentiate itself by being among the first to target Net Zero Emission Mining, aimed at net zero greenhouse gas emissions from mining equipment.

New Medium-term Management Plan: Strategies by Business

# **Compact**Business Unit

# Applying Our Ability, Passed down through the Generations, to Competitively Manufacture Compact Machinery to Electrification

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

Kazuhiro Ichimura



## Review of the First Year after the Transition to the Business Unit System

The Compact Business Unit is distinct from other business units in that it centers on the operations of one company, Hitachi Construction Machinery Tierra Co., Ltd. A year has passed since the transition to the business unit system, and we have undertaken the following two initiatives aimed at further growth.

At Hitachi Construction Machinery Tierra, we have strongly aspired to become self-reliant as a business unit. Because of this mindset, employees have become more spirited and action-oriented than before due to the transition to the business unit system, which has given them a sense that anything is possible. Not only in Japan, but in such key markets as Europe and North America as well as the promising growth market of India, where demand is likely to strengthen, we have incorporated the latest market requirements into our upgrades for the current line of products while also integrating these insights into future product strategies.

Meanwhile, we did encounter some problems, such as uncertainty regarding authority and responsibility and a lack of clarity on points of contact for collaboration and information sharing with other business units and corporate departments. In April 2023, we established the Business Strategy Department within the head office Hitachi Construction Machinery, which took over responsibilities for our product

strategy formulation, and strengthened collaboration. Together with the Business Strategy Department, we are united in their commitment to achieving targets.

## **History of the Compact Business Unit and Market Characteristics**

The history of Hitachi Construction Machinery Tierra began with the contracted production of mini excavators at the former tractor manufacturer Toyosha Co., Ltd. Toyosha Co., Ltd., which traces its origins to Denzo Tagami, the inventor of the long-furrow plow, has long been a manufacturer of products designed for digging soil. The management rights of Toyosha were eventually inherited by Hitachi Construction Machinery Tierra. Our mini excavators were originally developed as a mini excavator business division at the Tsuchiura Works before these development functions were consolidated at the Shiga Plant. Through the joint development of mini excavators with Hokuetsu Industries Co., Ltd., known for its excellent compressors, the Hitachi Construction Machinery Group honed its strength in producing highly cost competitive, compact machinery, leading us to where we are today.

Mini excavators are ideal for work in confined spaces, like residential areas and walkways. However, they also play a role at large construction sites, especially in final processes like external ditch construction and work performed near walls. In Europe, there are construction projects that preserve old building exteriors while

renovating the interiors, and mini excavators can be used to perform tasks like interior demolition.

The mini excavator market demands features like superior performance and ease of operation on these sites. Furthermore, a comprehensive retail network in which repairs can be promptly obtained upon request is essential to sales expansion. Under the current medium-term management plan, Hitachi Construction Machinery plans to expand its network of retail dealers and is working on the creation of a retailer network that uses digital technologies.

## Responding to Global Social Demands for Electric Construction Machinery

The uptake of electrification is likely to gain momentum as we head towards 2030 and 2040, with Europe leading the way. There is a considerable disparity among countries in Europe. Norway stands out with robust government policies that give preference to electric construction machinery, and the country has attained an electrification rate of 10%. Sweden and Germany are next on the list, but their adoption rates are not particularly high.

Some forecasts suggest that the electrification rate across Europe might exceed 15% by 2030, but in light of soaring electricity prices lately, the uptrend has regrettably stagnated.

#### **Compact Business Unit**

Despite these circumstances, Hitachi Construction Machinery Tierra is steadily progressing with the development of electric construction machinery and preparing for mixed production.

Hitachi Construction Machinery's lineup of battery-powered mini and small-size excavators consists of four models in the 2-ton, 5-ton, 8-ton and 13-ton classes. Although there is room for expansion, we are proud of our lineup, which is designed for urban civil engineering and easily comparable to competing brands' products that may have been released earlier than our models.

Hitachi Construction Machinery's battery-powered excavators achieve work performance equivalent to engine-powered excavators. Depending on battery capacity, there are some limits on operation times. However, our battery-powered excavators feature a dual system that allows for a cable connection to a commercial power supply, enabling longer hours of operation.

Except for the 5-ton class, Hitachi Construction Machinery's lineup was



Battery-powered excavator (8-ton class) working at a construction site

developed in collaboration with KTEG, a joint venture between Hitachi Construction Machinery and a subsidiary of European dealer Kiesel.

At worksites in Europe, it is fairly common to use a number of hydraulic excavator attachments, depending on the nature of the work. These attachments need to be changed without manual intervention by a person. KTEG has created a marketing team and reinforced its development team to provide solutions to solve our customers' challenges, including broadening the lineup of battery-powered excavators and attachments. We are also participating and collaborating in this endeavor, advancing with function and product development for deployment of this lineup in Japan and North America.

## **Challenges for Growing the Compact Business Unit**

We are keen to boost sales with an eye to achieving our fiscal 2030 target of a double-digit market share for the Compact Business Unit. Our primary goal is to establish a sales network and create a sales structure able to meet robust demand in the Americas.

Hitachi Construction Machinery's compact products are produced at the Hitachi Construction Machinery Tierra's Shiga Plant. However, current production capacity is not sufficient to fulfill global demand. The plant's production capacity for mini excavators is just under 30,000 units, but we are planning to increase production capacity by fiscal 2025 to 30% above the fiscal 2021 level. We will relocate and establish a new development testing site compatible with nextgeneration products, including electric construction machinery, and expand the plant's production capacity.

Another challenge is to further improve the productivity and profitability of Tata Hitachi in India, where demand is likely to grow. We will localize manufacturing, use locally produced components, and make design changes to align with the needs of Tata Hitachi's manufacturing plants. Additionally, we will create a portfolio of products suited to the domestic Indian market and cross develop these products to other regions within and outside Asia.

Compact products are used for various purposes, and around the world, there is strongly rooted demand for construction machinery that specializes in

excavation. We will conduct ample marketing and pursue measures that will lead to higher sales volume.

## **Diversity, Another Strength of Hitachi Construction Machinery Tierra**

Hitachi Construction Machinery Tierra has been committed to what is now known as diversity for the past 30 years, employing many people of Japanese descent from Brazil. Today, production sites are supported by a workforce where 70% are foreign employees. We have organized workers who speak the same language and are of the same nationality by process and positioned leaders who can interpret between different languages. We also strive for timely communication so that issues or problems do not arise due to language or cultural differences.

In operations, we take advantage of automation and labor-saving measures on production lines, such as installing robots in processes that handle heavy components, ensuring that employees with little experience or physical strength can play an active role in production. Even in processes where human labor is necessary, we have made improvements from a safety standpoint by, for example, adjusting the height of trolleys so a comfortable posture can be maintained, and widening belt conveyors.

In April 2023, we hired a woman for the first time for the welding worksite. New employees usually start by gaining experience in the tack welding process. However, given that this involves handling heavy materials, this woman was assigned to the finishing process, which mainly involves welding. The finishing process requires precise welding techniques, but with her dexterity, she quickly became proficient. She can perform this finishing process on a par with her male counterparts in terms of quality and work times.

Such diversity is a distinguishing feature and unique aspect of Hitachi Construction Machinery Tierra. We recognize that preserving these advantages is also an essential part of our sustainability activities.

To achieve further leaps forward, we aspire to make Hitachi Construction Machinery Tierra and the Compact Business Unit as bright and vibrant as possible.

New Medium-term Management Plan: Strategies by Business

# Spare Parts & Service Business Unit

Contributing to a Circular Economy by Tirelessly Working to Realize Solutions Aligned with Our Customers' Needs

Hitachi Construction Machinery Co., Ltd Vice President and Executive Officer, President, Spare Parts and Service Business Unit

Eiji Fukunishi



### **Review of Fiscal 2022**

In fiscal 2022, revenue in the spare parts and service business substantially increased to ¥267.8 billion, 127% of the previous fiscal year's results. Even excluding the effect of fluctuations in foreign exchange rates, this revenue was 113% of the previous fiscal year's results, contributing to expansion in value chain revenue beyond our expectations. We attribute this growth to the end of the global COVID-19 pandemic, an increase in machinery operating hours due to stable and high resource prices, and successful efforts to capture growing demand for spare parts and services.

We moved swiftly to independently expand in the Americas, getting our efforts under way on March 1, 2022. Establishing a spare parts warehouse usually takes one to two years, but, thanks to the dedicated efforts of local staff and our 3PL\* partners, we were able to bring it on line in just half a year. In addition to the Jackson Parts Warehouse in Georgia, which started operations in March 2022, the McDonough Parts Warehouse, also in Georgia, began operations in October. The parts shipment rate, one of our KPIs, exceeded 90% as of November 2022.

Our U.S. warehouses are currently located in the southeastern region of the United States. However, as a great deal of our mining equipment is being used in

western Canada and the western United States, we are planning to build a warehouse on the western side of the United States in this fiscal year.

\* An abbreviation for third party logistics, 3PL is a business model wherein a third party proposes an efficient logistics system encompassing the planning, design and operation of the entire logistics business on behalf of a shipper

## **Increasing Machine Service Life with ConSite**

The spare parts and service business is playing a crucial role in enhancing the value chain business, a core strategy of our new medium-term management plan.

In this key role, we deploy our service solution tool ConSite, which extends the service life of machinery, maximizes operational hours, and provides solutions that improve customer work efficiency.

For example, by making customers' machines usable for 15 years when they had previously been disposed of after 10 years, we can contribute to waste reduction, restrict the use of input resources, and reduce CO<sub>2</sub> emissions.

In the mining business, the price of each piece of equipment is high, so many units are used for much longer than 10 years. At mines, each ultra-large hydraulic excavator operates alongside four or five rigid dump trucks for 24 hours a day, 365 days a year. If

the hydraulic excavator stops, everything else stops, so companies are keen on preventive maintenance. Traditionally, service personnel perform regular maintenance and parts replacement based on actual machine hours. Hitachi Construction Machinery's ConSite Mine tool has a function called Load Index that predicts the onset of fractures in the booms and arms of ultra-large hydraulic excavators. With Hitachi Construction Machinery's proprietary stress analysis technology using AI, appropriate maintenance, inspection and repairs can be performed depending on the condition of the welded structure before cracks ever appear. We have provided ConSite Mine to customers and dealers since January 2022 and plan to enhance its functionalities in stages.

## Anticipating Significant Growth in Remanufacturing Business

The remanufacturing business is an indispensable component of our plans to expand the spare parts and service business.

Boasting a track record spanning more than 50 years, Hitachi Construction Machinery's remanufacturing business has been serving domestic customers since the 1970s. At present, the Tsuchiura Works and the Hitachinaka Works serve as our

#### Spare Parts & Service Business Unit

domestic parts remanufacturing bases. However, as we anticipate further growth in the remanufacturing business, preparations are under way to consolidate and integrate operations at Banshu Works. By positioning the Banshu Works as the mother plant for global remanufacturing operations and strengthening ties with overseas remanufacturing bases, we aim to expand production capacity for remanufactured products and establish a global production system.

We have two bases in Australia and Indonesia that are the among the world's most advanced mining equipment parts remanufacturers. In addition, Hitachi Construction Machinery has a parts remanufacturing base in the Republic of Zambia. Meanwhile, in Japan, India and elsewhere we operate parts remanufacturing bases for general construction machinery.

The company does not have a parts remanufacturing plant in the United States at present, and products are shipped from Japan. Since embarking on independent expansion in the Americas, we have become acutely aware of the importance of the remanufacturing business and are steadily making preparations for establishing a local parts remanufacturing base. Specifically, Hitachi Construction Truck Manufacturing Ltd., which produces rigid dump trucks in Canada, is enhancing its facilities and human resources in preparation for establishing this remanufacturing base.

Hitachi Construction Machinery will utilize H-E Parts' facilities for the rollout of a mining equipment parts remanufacturing business in Central and South America. H-E Parts' facilities will play a vital role in Central and South America.

In the African market, the company intends to further expand the remanufacturing business in 2023 and 2024. Hitachi Construction Machinery Zambia Co., Ltd. has been remanufacturing mining equipment parts since 2012, and will soon be delving into the engine remanufacturing business.

Furthermore, in March 2023, Hitachi Construction Machinery Southern Africa Co., (Pty) Ltd. commenced the production of remanufactured parts for construction equipment, such as mid-to-large-sized hydraulic excavators and mid-sized wheel loaders.

The commitment of Hitachi Construction Machinery to the circular economy does not stop at remanufacturing that transforms used parts into the equivalent of brand new ones. For example, we refurbished a 20-ton class mid-sized hydraulic excavator that had been submerged due to abnormally heavy rains in Western Japan, and sold it under warranty as PREMIUM USED equipment. While still in the trial phase, Hitachi Construction Machinery has recently started a business for machinery that has been similarly submerged as well as used equipment that it buys back for refurbishing using remanufactured parts and eventual sale.

In the Republic of Zambia, two used ultra-large hydraulic excavators (EX1200) that had been operational for an extended period were remanufactured. We have launched similar initiatives in countries such as Indonesia, South Africa and Turkey. We have also started an initiative to add equipment body remanufacturing to the lineup.



Remanufacturing work on a main pump (during training)

## **Offering Diverse Choices to Customers**

At Hitachi Construction Machinery, in response to our customers' needs to keep running costs down, we have been expanding our lineups of SELECTED PARTS (service-dedicated parts), along with the genuine parts and remanufactured parts that have traditionally played key roles in our operations. SELECTED PARTS in particular have earned high praise from customers worldwide for meeting Hitachi Construction Machinery's proprietary standards and offering distinct quality advantages in comparison to similar products while being competitively priced.

We are also promoting ConSite, a tool that enables the monitoring of equipment with regard to location, running times, and service and repair histories, with an eye to expanding spare parts and services for used equipment in such regions as Southeast Asia and Latin America.

The Spare Parts & Service Business Unit is committed to steadily implementing the measures of the medium-term management plan and working towards the realization of our vision. At the core of this endeavor is the Customer Interest First (CIF) approach, an integral part of the culture at Hitachi Construction Machinery. We believe it is vital to listen carefully to customer feedback and constantly move forward in providing solutions that align closely with their needs.

Hitachi Construction Machinery Group Integrated Report 2023

Our Vision

Value Creation Story

Sustainability Initiatives

Financial Strategy/Corporate Data



New Medium-term Management Plan: Strategies by Business

# Rental & Used Equipment Business Unit

## Aiming to Transition to a Recycling-Oriented Business Model in Which Customers Can Use Our Products without Worry Over the Long Term

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

### Hidehiko Matsui



## Review of Fiscal 2022 and the Successful Transition of Our Business Model

In the Rental & Used Equipment Business Unit, fiscal 2022 revenue was 112% and 133% of the previous fiscal year's results, for rentals and for used equipment, respectively.

Environmental factors that influenced this growth included semiconductor shortages that disrupted the production of new equipment during the pandemic amid brisk investments in infrastructure. This resulted in a shortage of used equipment, which led to higher prices. Currently, demand from customers is well in excess of our supply capacity.

Thus, one of the biggest business development initiatives we undertook during the year was establishing a route for used equipment headed to North America. The strong market conditions show us the genuine potential for business expansion that the combined strength of the Hitachi Construction Machinery Group is capable of.

Our successful transition to a new business model is behind these impressive results. Previously, rentals were treated as rentals, and used equipment as used equipment, in other words, as separate businesses. Used equipment was dealt with as either trade-in construction machinery or as a substitute for a down payment. Units were sold "as is," meaning the traded-in construction machinery was

simply resold without warranties. Breaking the mold, in fiscal 2017 Hitachi Construction Machinery Co., Ltd launched the PREMIUM RENTAL brand overseas, where rentals were beginning to really take off. The Hitachi Construction Machinery Group together with authorized new equipment dealers set themselves up as the owners of rental assets, offering customers finely maintained and certified construction machinery for rent. After a period of use as rental equipment, units are resold as PREMIUM USED equipment (used equipment with warranty). This approach allows us to maintain long-term relationships with customers while providing parts sales and services.

In this manner, the business model of "providing quality used equipment sourced from the rental business" has gained momentum within the Hitachi Construction Machinery Group. This is an achievement we are proud of from the previous midterm management plan.

## Starting a Rental and Used Equipment Business in North America from Scratch

Hitachi Construction Machinery Americas Inc. will establish a manufacturer rental operation in which it retains ownership of the rental assets in order to expand the scale of our business. Typically, when dealers that handle sales and services also engage in rental operations, they take ownership of the rental assets. However,

this requires significant expenditures. Hitachi Construction Machinery Americas aims to support such dealers by taking on the ownership of rental assets that dealers would normally be challenged to take on themselves. Additionally, we are moving ahead with similar initiatives with regional independent rental companies.

In the used equipment business for North America, construction machinery that is rent out to dealers and regional independent rental companies will be returned to Hitachi Construction Machinery Americas after two years and sold as PREMIUM USED equipment. We will also offer used equipment originating from Japan. This involves exporting rental or trade-in equipment, with engines bearing EPA-certified labels, from Hitachi Construction Machinery Japan Co., Ltd. to North America. This will help slim down the rental assets of Hitachi Construction Machinery Japan, which faces the problem of declining utilization rates as assets increase.

In the northern regions of the United States, we will cater to rental demand for snow removal equipment, specifically wheel loaders used for snow removal.

Hitachi Construction Machinery currently rents out over 16,000 pieces of construction machinery worldwide and plans to further increase this number. In North America, we aim to increase rentals by 500 units annually, for a total of 1,500 additional units of the course of the medium-term management plan. However, due to strong demand for new equipment, we are currently unable to allocate more equipment for rentals.

#### Rental & Used Equipment Business Unit

## **Key Focus Areas of the Rental & Used Equipment Business Unit in the Current Medium-term Management Plan**

Hitachi Construction Machinery is keen to optimally distribute used equipment within each region.

For example, construction machinery that is compliant with stricter emissions regulations in Japan, the United States and Europe can pose challenges when it is taken into Southeast Asia, where differences in fuel quality can hamper stable operation. Therefore, it is necessary for the marketing of used equipment to be based on its specifications to ensure that it conforms with the buyer's usage conditions. Optimal distribution within each region is essential.

Next, Hitachi Construction Machinery will expand its focus to facilitating the circulation of high-function used equipment and models originally marketed to customers in developed countries. Units that have been ICT-equipped in Japan must have all ICT-related devices removed before being exported overseas because this technology does not conform to foreign specifications. To market high-function equipment or models outside of Japan, we must establish a De-Tiering mechanism, where we downgrade equipment and enhance engine robustness so that it can handle the types of fuel available at the sales destination.

Pursuing business expansion in Latin America is a key maneuver in the context of ensuring the proper distribution of used equipment. While we have established a foothold in mining in Latin America, we have yet to penetrate the local

construction machinery market. Moving forward we will be focusing on expanding both new equipment and routes for circulating used equipment in Latin America.

During the previous medium-term management plan, Hitachi Construction Machinery made inroads into retail rental markets with the establishment of the rental company Synergy Hire Ltd. in the United Kingdom and the acquisition of a rental company in New Zealand. Under the current medium-term management plan, Hitachi Construction Machinery will continue to expand retail rental operations in Europe, Oceania and South America.

## **Challenges as a Solutions Provider**

Looking ahead, we believe that improving corporate value entails not only marketing, development, and sales of new equipment, but also exploring the kinds of solutions we can offer based on an understanding of local characteristics and customer needs for rentals and used equipment.

In rentals, for example, in addition to standard rental offerings, Hitachi Construction Machinery will offer options to purchase the equipment at the end of the rental term. For used equipment, the company will offer retrofitting with ICT functions and modifications for specific applications. Given the increasing rate at which electric construction machinery is being adopted, we are now facing a need to design machinery with its ongoing utility in mind, not just as a new product but as used equipment. For example, we need to consider making battery replacement easier and ensuring compatibility with locally procured batteries.

## **Transition to a Recycling-Oriented Business Model**

In the context of contributing to the circular economy, Hitachi Construction Machinery utilizes its proprietary service solution tool ConSite for preventive maintenance services. With ConSite, we can manage information for each piece of equipment and, based on that unit's history, properly maintain it for eventual repurposing as PREMIUM USED equipment. Furthermore, we aim to extend product service life through initiatives like remanufacturing used equipment for sale. By highlighting these advantages, we aim to contribute to our customers' businesses by offering products they can trust and use over the long term.



Rental wheel loader removing snow from a blocked road

Hitachi Construction Machinery Group Integrated Report 2023

Our Vision

Value Creation Story

Sustainability Initiatives

Financial Strategy/Corporate Data

33

New Medium-term Management Plan: Strategies by Business

# Power & Info Control Platform Business Unit

## Development of Next-Generation Products and Solutions in Close Collaboration with the Research & Development Group

Hitachi Construction Machinery Co., Ltd. Vice President and Executive Officer, CTO, President, Power & Info Control Platform Business Unit and Research & Development Group

### Kazunori Nakamura



## Collaborating with Research & Development Group to Forge Ahead in the Creation of Next-Generation Products and Solutions

The Power & Info Control (PIC) Platform Business Unit comprehensively oversees the technological development and manufacturing of products ranging from hydraulic components, electronic controls, vehicle transmissions and software to the vehicular systems that integrate and control them. Beyond the supply of hydraulic components and other components like controllers, the PIC Platform Business Unit was established in April 2023 for the purpose of system development, which, in turn, has become an area of strength. The business unit also includes a manufacturing division, which aids in the creation of more manufacturable and cost-competitive components by providing feedback to the development and engineering division. By integrating hydraulic component development, electronic control development and manufacturing, we are able to intricately design functions. We aim to be the industry leader as the business unit responsible for vehicular system development and manufacturing.

With about 500 engineers, the PIC Platform Business Unit has relocated to the newly operational Engineering Building, called the Orange Innovation Plaza (nicknamed the Orange Plaza), at Tsuchiura Works. This is a research and development hub where around 2,500 employees, including those from the Mining Business Unit

and the Construction Business Unit, gather to collaborate closely with other business units. This hub is developing next-generation products and solutions for the autonomous operation and electrification of construction machinery with ICT and IoT compatibility.

Functions traditionally created through hardware technologies are rapidly being replaced with digital solutions. Components and systems handled by the PIC Platform Business Unit need to be developed before the vehicle bodies and provided in a timely manner. The Research & Development Group is responsible for this advanced development. The reason I, as the CTO, concurrently serve as the President of the PIC Platform Business Unit is to ensure efforts are seamlessly coordinated between the PIC Platform Business Unit and the Research & Development Group.

## **Initiatives to Develop Next-Generation Products and Solutions**

As part of its contribution to the circular economy, Hitachi Construction Machinery is advancing initiatives to extend product service life by 1.5 times. To extend the operational years of a vehicle body from 10 to 15 years, we must extend the supply period for components, including electronic parts. As electrification progresses, for example, if the battery undergoes a model change, a design that allows easy

replacement or one that allows an easy switch to locally procured components is a requirement. The PIC Platform Business Unit not only pursues cutting-edge technologies but also places importance on the development and provision of systems and components that contribute to CO<sub>2</sub> reduction, the achievement of SDGs and more value for the customer.

Digital twin is one such next-generation technology. By connecting construction sites and construction machinery to a network and digitally monitoring all activities, we aim to provide products and systems that help customers manage their worksites. This contributes to resolving challenges faced by construction sites, such as improving safety, productivity and the work environment, while addressing labor shortages.

As outcomes of these efforts, we have developed the ZCORE system platform for cooperative construction machinery that enable humans and machines to work in harmony, and base models for hydraulic excavators that are compatible with remote operation and automated solutions.

To make these construction sites envisioned by Hitachi Construction Machinery a reality in the future, components and systems compatible with advanced digital technologies are essential. Collaboration with various companies and industries is also vital. With this in mind, we have been working in collaboration with the Open Innovation Promotion Office, which was newly established in the Research and Development Group in April.

Hitachi Construction Machinery Group Integrated Report 2023

Our Vision | Value Creation Story | Sustainability Initiatives | Financial Strategy/Corporate Data



New Medium-term Management Plan: Strategies by Business

# **New Business Creation**Unit

## **Creating New Businesses, Aiming for Operational Excellence**

Hitachi Construction Machinery Co., Ltd. Executive Officer, CDIO, President, New Business Creation Unit

Seimei Toonishi



## How is the Hitachi Construction Machinery Group's approach to DX unique?

Advancing DX is indispensable to the continuous creation of new value. Often perceived as the introduction of tools or systems, DX means changing processes through digitalization, i.e., a digital transformation. As the head of the DX Promotion Group until last fiscal year, my initial goal was to acquire a transformative capability at the ground level that competitors could not emulate, in other words, operational excellence. Notably, under the concept of CIF (Customer Interest First: a focus on solving customers' problems first), we worked with Hitachi Construction Machinery Japan to co-create the Sales Support Application, which was launched in fiscal 2022. This application has significantly transformed our domestic sales methods and service processes in Japan. In fact, "internal DX" has taken hold more than we expected, leading us to further accelerate "external DX" and efforts to create new businesses. Attitudes about DX have significantly changed, and I feel that a culture supportive of DX has been cultivated throughout the Hitachi Construction Machinery Group. I think that various transformations are in store for us in the future.

Internally, there is a growing momentum to venture into new businesses, and an entrepreneurial culture is taking shape. The business contest "KENKI  $\beta$ USINESS CHALLENGE" (K $\beta$ C) was launched for domestic employees of the Hitachi Construction Machinery Group in fiscal 2022, and we plan to develop this contest

into a full-blown event from fiscal 2023. Collaborating with various business units and working across departments, we aim to foster a culture of agility throughout the Hitachi Construction Machinery Group.

The CIF concept, which is also an aim of the business unit system, will be important as we progress on various fronts. Engaging in related activities as these ideas seep into the organization, we recognize this as a unique aspect of DX in the Hitachi

Construction Machinery Group. Although the New Business Creation Unit has been active for a year, it is still standing at the starting line. Going forward, we will coordinate with each business unit and advance team building. Eventually, the New Business Creation Unit's "Agile Team" will become members within each business unit and collaborate on the development of digital solutions. By pursuing such cross-organizational initiatives, we believe we can continually create new value.

## ■ Reforms in Sales and Service Processes (Sales Support Application)

#### Work-style reforms

#### Shorten time required to prepare proposals

#### Before

More than two hours to collect and analyze data and put together proposal documents; it is always the end of the work day when all this is finished

#### After

- Time to prepare proposals significantly reduced!
- Number of visits per day increased!
- Work hours reduced by one hour!

## Gain trust and increase opportunities to win orders

#### Win trust of customers by quickly replying

#### Befor

Unable to reply right away, requiring re-visiting the client, which sometimes takes up to four hours in total One reason why opportunity missed to win orders

#### After

- Able to reply right away to most inquiries!
- Travel time can be used for other negotiations!
- · Earn trust and win orders!

#### Advances in ways tools are used

#### Promote use of various sales support tools

#### Befor

Few people could truly understand and use all features of a tool
As a result, they were specialized tools only people in the know could use

#### After

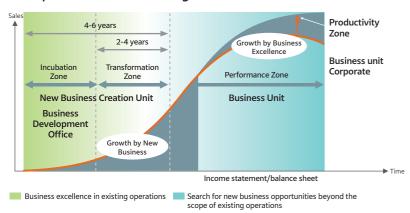
- The Sales Support Application can act as a portal to other existing apps
- Service operations also use app for sales!

#### **New Business Creation Unit**

## **New Business Creation Unit's Initiatives in** Three Zones

In the New Business Creation Unit, we are advancing initiatives in three zones: the Incubation Zone to create and nurture new businesses, the Transformation Zone to expand new businesses and the Productivity Zone to enhance the productivity of current businesses. The Productivity Zone is the area responsible for the previously mentioned operational excellence. The Performance Zone is the domain that produces results in existing businesses.

#### Scope of DX in Zone Management



In the Incubation Zone, we have launched the aforementioned K $\beta$ C and have been brushing up the business ideas that were submitted. In fiscal 2023, we will accelerate initiatives that aim to take on the challenge of business commercialization based on these ideas. Taking into account new employment systems, we will advance the transformation of our corporate culture into one that creates new businesses and then take these activities to the next level (see page 36 for details). In the Transformation Zone, aiming to reduce costs related to productivity, safety and product life cycles for our customers, we will continue to provide new value by developing customer problem-solving solutions on the ICT and IoT solution platform Solution Linkage.

In September 2022, we began offering for the domestic market the cloud-based compaction management solution called Solution Linkage Compactor, which enhances productivity at construction sites. This service enables the automatic

recording of compaction status in real-time, which helps increase work efficiency, shorten construction periods and reduce operator workload. Moreover, we are advancing the development of solutions that address labor shortages and disasters, which are increasing in frequency.

At disaster sites, for example, the use of remotely controlled construction machinery is expected to serve as a solution to ensure the safety of operators. The Ministry of Land, Infrastructure, Transport and Tourism aims to increase the use of cuting-edge technologies at construction sites by organizing annual tech workshops. In September 2022, in anticipation of the eruption of Mount Asama, we provided a remote-control solution combining ICT and remote-control support technologies for the construction of embankments in Tsumagoi Village, Gunma Prefecture.

We will continue to develop the Solution Linkage platform with the intention of offering one-stop ICT construction solutions that ensure high levels of on-site safety and productivity covering all types of worksites.

In addition to ICT construction solutions, Hitachi Construction Machinery will continue to provide individual solutions tailored to customer issues, such as onsite safety and product life cycle cost reduction.

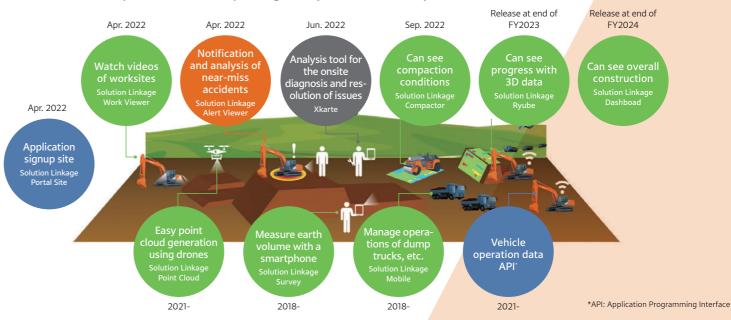
As for the newly introduced Productivity Zone, our goal is to establish operational excellence, a goal that had previously been overseen by the DX Promotion Group; adopt a unique onsite reform capability that cannot be imitated by rivals; and take on the challenges of process reforms in every facet of our operations. Especially this fiscal year, we will focus on process reforms in collaboration with the Spare Parts & Service Business Unit and the Mining Business Unit.

## **Towards Realizing the Group's Identity**

To become a company that consistently creates new value for customers, it is essential that we cultivate a corporate culture that consistently embraces challenges without fear of failure. Communication is vital for this to happen. Above all, we are convinced that when employees are consistently and strongly motivated to take on challenges, they can acquire the ability to reform and create new value.

To overcome the rapid changes characterizing the VUCA\* era, Hitachi Construction Machinery will challenge itself to transform into a highly agile organization.

## One-Stop Solutions for Improving Safety and Productivity at All Worksites



<sup>\*</sup> VUCA stands for Volatility, Uncertainty, Complexity and Ambiguity

**New Business Creation Unit** 

## **TOPICS**

# Aim to be a Company Able to Consistently Generate New Value

## **Business Development Office Initiatives Focused** on New Business Creation

Marking what is effectively the second founding of Hitachi Construction Machinery, we officially launched activities to create new pillars of business for the Hitachi Construction Machinery Group from fiscal 2022. Since its establishment in 2022, the Business Development Office of the New Business Creation Unit has been working with the mission of creating new businesses and establishing a culture and framework for spawning new businesses.

Being able to continuously create new businesses signifies the ability to perpetually create new value for customers. To enable each division to achieve this ability on their own, the Business Development Office has started projects in collaboration with each business unit. These projects focus on skill acquisition, like design conceptualization, idea creation and the effective communication of ideas, while advancing new business development. By running these projects each year, we aim to expand the number of employees who can move such initiatives forward.

## **Hitachi Construction Machinery Group Business** Contest: KENKI BUSINESS CHALLENGE

As a new activity, the Business Development Office holds the Hitachi Construction Machinery Group Business Contest KENKI BUSINESS CHALLENGE (K  $\beta$ C), which commenced in fiscal 2022, as a forum for how to turn one's original ideas into a business. 100 teams (124 individuals) submitted business ideas. To make sure that people without a business idea could participate as long as they have enthusiasm, we conducted a workshop for idea creation before the K $\beta$ C event. Approximately 400 employees participated in this idea workshop.

The K $\beta$ C event is unique in that it enables applicants to learn how to create new value while learning, and that it truly intends to commercialize viable businesses. After they submit their business ideas, participants have access to workshops and mentoring by experts that are designed to impart upon them the necessary skills for business creation. Moreover, participants who pass the intermediate and final evaluations emerge as the winners of KBC and are allowed to spend 20% of their work hours on issue verification. Following this, they can move to the Business Development Office and focus exclusively on the commercialization of their business idea.

To instill a culture of creating new value within the Group, Hitachi Construction Machinery will continue to carry out these activities, enabling employees to acquire skills and gain experience in business commercialization.



Presentation at KBC Evaluation Panel

## Business Commercialization Process

## Preparation period

Idea creation Workshops

## Brush-up period

About five months

Issue validation

Can spend 20% of work hours on business commercialization

About six months

## Commercialization validation

## Can exclusively focus 100% on business commercialization

Preparation of funds for proof (up to several tens of million yen for each proof of concept) About 6-12 months

Commercialization

Document-based evaluation

 $K\beta C$ Intermediate evaluation

KBC Final evaluation

Evaluation panel

Multiple evaluations

# **Acceleration of Research and Development**

## Reorganization of Development, Production and **Remanufacturing Bases in Japan**

The Hitachi Construction Machinery Group is reorganizing its main domestic development and production bases in order to enhance global competitiveness. In May 2023, research and development bases for construction and mining machinery were relocated and consolidated at the Tsuchiura Works.

As a part of this initiative, in order to expand and develop our remanufacturing business globally, we will consolidate and integrate our remanufacturing facilities, which are dispersed between the Tsuchiura and Hitachinaka works (both Ibaraki Prefecture), at the Banshu Works (Hyogo Prefecture) from fiscal

2024. In doing so, we aim to expand and increase efficiency in the parts and vehicle remanufacturing businesses. The consolidation of these businesses will free the facilities and space currently used for remanufacturing at the two works for repurposing, enabling the further expansion of production capacity for new vehicles and components.

Hitachi Construction Machinery's plans call for consolidating the remanufacturing business's domestic facilities at the Banshu Works. By doing so, we will expand this business and enhance its efficiency. At the same time, we will strengthen collaboration with overseas remanufacturing bases, establishing the Banshu Works as a mother plant for global remanufacturing while pushing forward various initiatives.

## Phased reorganization of development and production bases starting in FY2018 **Scheduled for completion in FY2027** Major development and production bases of complete Development: Tsuchiura Works Production: Tsuchiura/Ryugasaki Works machinery after reorganization Construction Consolidation of development and production bases into three business areas Development: Tsuchiura Works Production: Hitachinaka-Rinko Works Shift to customer orientation and improvement of Mining production efficiency Large Excavator Ultra-large Excavator Dump Truck Development/Production: Hitachi Construction Machinery Tierra Compact

## **Initiatives for the Development of Remote Operation and Automation Solutions for 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. As one solution to this problem, our customers in the industry are looking for construction machinery that can be remotely controlled and automated to operate autonomously. In May 2023, Hitachi Construction Machinery developed a baseline model for hydraulic excavators compatible with remote operation and automation solutions. The creation of a hydraulic excavator that can be operated remotely requires considerable modifications to the machine and the setup of peripheral equipment. To address challenges at construction sites, there was a need for a baseline model for co-creating automated solutions with customers and facilitating the introduction of remotely operated hydraulic excavators.

Since our development of ZCORE, a system platform to support the autonomous operation of construction machinery in 2020, we have progressed with R&D based on this concept. Looking ahead, we will take steps to develop solutions tailored to our customers' construction projects, for example, augmenting driving assistance functions for remote excavation and loading operations and automating certain repetitive operations like digging, rotating and loading.





Remote operation of a baseline model

## **Value Creation Process**



Meet expectations from customers, co-create innovative products, services, solutions and together, we continue to create new values.



Hitachi Construction Machinery Group Integrated Report 2023

Our Vision Value Creation Story Sustainability Initiatives Financial Strategy/Corporate Data 39

# **Our Approach to Sustainability**

## **Establishment of the Sustainability Basic Policy**

The Hitachi Construction Machinery Group is striving to promote sustainability through the practice of materialities, with the aim of helping to create a sustainable society.

In line with this aim, we established the Sustainability Basic Policy. We will continue endeavoring to improve our corporate value via the provision of construction machinery that will, in turn, contribute to the sustainable development of society.

## **Sustainability Basic Policy**

The Hitachi Construction Machinery Group's Vision, "Ensure a prosperous land and society for the future. We contribute toward realizing a safe and sustainable society," represents our foundation of a harmonious coexistence with society.

Our construction machinery contributes to the development of society by helping to build social infrastructure, thereby enriching the lives of humanity. Mining machinery plays a vital role in providing the minerals that are necessary for our everyday lives and economy, that are also integral in creating reliable solutions for a sustainable future.

Furthermore, our newly defined Mission, "Meet expectations from customers, co-create innovative products, services, solutions and together, we continue to create new values," expresses our purpose today, in order to address the challenges of tomorrow.

To realize this vision, our employees around the world will work together under the Spirit of "Challenge, Customer, and Communication" – strengthening our value chain business, including parts and services, rental, used equipment and parts remanufacturing, in addition to our new product sales business. Together, we aim to improve our corporate value by developing and delivering innovative products, services and solutions that contribute to the success of customers around the world. At the same time, we aim to promote and embed sustainability in our business practices through the materiality listed below.

## <Hitachi Construction Machinery Group's Materiality>

## Product and technology development contributing to climate change mitigation and adaptation

In response to the impact of climate change on the global environment, we will work to reduce CO<sub>2</sub> emissions in both product development and production processes, and strive to reduce the environmental impact of our entire value chain.

## Conversion to recycling-oriented business model

We will work to shift to a business model that promotes the efficient and cyclical use of resources.

## Creating innovative solutions for challenges faced by customers supporting social infrastructure

We will work together with our customers to address the various issues faced in the field, such as safety improvement, productivity improvement, and life-cycle cost reduction, while utilizing cutting-edge technologies.

## Strengthen global governance

We will establish an organizational structure that respects human rights and fosters an environment that promotes equality and growth in which all of our employees can feel valued and play an active role, thereby enhancing corporate value over.

# **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 taking into account the opinions of internal and external stakeholders, our Executive Board approved these four categories of materiality in July 2021, after which we reported the results in a Board of Directors meeting. We established key performance indicators (KPIs) for each materiality, and are managing progress under our 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

#### Requests and expectations from society

- · Contribute the achievement of the SDGs
- · Increase ESG investment
- Respond to GRI Guidelines, the UN Global Compact
- Comply with the Corporate Governance Code
- Respond to recommendations from external experts, etc.

#### Factors in the external environment that the Group monitors closely

- · Respond to the advancement of global warming
- Develop infrastructure to withstand natural disasters
- · Consider over consumption and the depletion of resources
- · Respond to the shift to circular economy
- · Accelerate DX
- · Respond to human rights issues, demands for supply chain management, etc.

Examine medium- to long-term risks and opportunities closely related to Group businesses

Identified four materialities

Reviewed together with internal and external stakeholders

Approved by the Executive Board and reported to the Board of Directors

## ■ Major Risks and Opportunities Associated with Changes in the External Environment

External Environment	Risks	Opportunities		Materialities		
Respond to the advancement of global warming	Suspension of operations due to natural disasters Growing costs of regulatory compliance due to stricter environmental regulations in each country and region Changes in industrial structure due to the transition to a decarbonized society and the resulting impact on business activities	Increased demand for environmentally conscious products and services  Attracting ESG investment due to positive investor assessments of our initiatives to address environmental concerns		Development of products and technology contributing	13 SHERI:	
Develop infrastructure to withstand natural disasters	•Supply chain disruption due to lack of progress in infrastructure development and the resulting impact on business activities	•Increased demand for in- frastructure maintenance and upgrades		to climate change mitigation and adaptation		
Consider over consumption and the depletion of resources	Damage to corporate value due to delays in implementation of initiatives Increased costs for introducing resource-conserving machinery	•Realization of a business model capable of both minimizing resource con- sumption and maximizing customer value		Conversion to a recycling-oriented	12 ocean	
Respond to the shift to circular economy	Increase in initial investment for conversion Increased product recovery and processing costs Increased procurement costs	•Increase in new business opportunities, markets, and demand •Reduction of manufacturing costs		business model	CO	
Accelerate DX	•Decline in competitiveness due to the expansion of competitors and new entrants	•Expansion of contacts with start-ups leading to deeper strategies as well as collaboration involving companies equipped with unique technologies		Creating innovative solu- tions for challenges faced by customers supporting social infrastructure	9 #####################################	
Respond to human rights issues, demands for supply chain management, etc.	Loss of public trust due to human rights violations     Loss of trust in business partners	•Gaining social credibili- ty through appropriate human rights initiatives		Strengthen global governance	5 \$20,47 ***  \$ \$20,45 **  8 \$20,44 **  8 \$20,44 **  ***  ***  ***  ***  ***  ***  **	

## Hitachi Construction Machinery Group's Materiality -

## ■ Materialities and KPIs

Materialities		Key Initiatives			KPIs	FY2021 Results	FY2022 Results	FY2030 Goals
		Expand the development of decarbonization technologies such as the electrification of machinery and hydrogen engines		Products (Scope 3)	CO <sub>2</sub> Reduction (total): Compared to FY2010	-21.4%	-21.9%	-33.0%
Development of products and technology contributing to climate	13 東京教育 13 東京教		CO <sub>2</sub> Reduction	Production (Scope 1+2)	CO <sub>2</sub> Reduction (total): Compared to FY2010	-27.1%	-33.0%	-45.0%
change mitigation and adaptation		Introduce renewable energy and systematically invest in high-efficiency facilities		Value Chain	Reduce CO <sub>2</sub> via used equipment, parts remanufacturing	19,686t	22,037t	Minimize environmental load across the entire value chain
		Provide optimal solutions for disaster prevention and mitigation, emergency response, and recovery and reconstruction		sponse, recovery, tion support	Convert to a recycling-oriented business model	114	138	Partnerships and support for major municipalities and industry groups
					Waste reduction	7,868t	8,787t	Minimize environmental load across the entire value chain
		•Expand parts remanufacturing business to bring performance	Resource r	ecycling	Recycling rate (Japan)	83.9%	93.7%	Aiming for 99.5% or higher
Convert to a recycling-oriented	12 つぐる角性 つかり角色	on par with new products  • Develop branded used equipment that is well-maintained and			Water usage reduction(intensity): Compared to FY2010	-40.2%	-31.7%	Water reclamation advancements and minimization of impact on communities
business model		include warranties  •Utilize data to differentiate our high-quality rental equipment	Parts rema	nufacturing	Expand parts reclamation business sales revenue: Compared to FY2010	402%	488%	Spread the adoption of services that meet local needs
			equipment		Expand used equipment business sales revenue: Compared to FY2010	104%	138%	Spread the adoption of products that meet local needs
Creating innovative		Contribute to cooperative construction machinery, operation support systems, and site safety     Expand machines, systems, and solutions that improve construction efficiency     Develop and provide labor-saving machines using unattended and robotized technology.	Improve safety		Functions to reduce accidents caused by Hitachi Construction Machinery products	Develop operation support systems that contribute to reduced accidents	Release assistance equipment designed to reduce collision damage (small-size road construction machines)	Contribute to zero overturns and fatal accidents
solutions for challenges faced by customers supporting social	9 産業と牧業等制の 高雅をつくろう		Increase pr	oductivity	Number of ICT machines adopted at target worksites	1,160 units (total; 3,704 worksites)	1,656 units (total; 5,177 worksites)	Standardize autonomous and labor-saving construction machinery
infrastructure			Reducing life cycle costs		Adoption rate of machinery status management systems (ConSite)	72%	73%	Aim for zero downtime
				nd development	Research and development cost to sales ratio	2.5%	1.9%	3.0% or higher
			Respect fo	r human rights	Business and Human Rights e-learning course attendance	81.4%	94.6%	100%
			Occupational accidents		0 incidents (vs. prior year)	157% (vs. FY2020; Japan)	145% (vs. FY2021; Japan)	Aim for 0 accidents
	5 Sz>8-986	•Respect human rights	Global lead	lership	Leadership training attendance (global)	88% (cumulative)	84% (cumulative)	100% (cumulative)
Strongthon	⊜	Global occupational safety and health management     Develop diverse human resources locally and globally.			Ratio of women in managerial positions (global)	10.4% (male 14.9%)	11.2% (male 16.0%)	Aim for gender parity
Strengthen global governance	8 無意思いる 経済建長も	Develop diverse human resources locally and globally     Establish fair sales partnerships     Ensure management transparency     Ensure compliance	Diversity		Ratio of local managers in general managerial positions at overseas group companies (global)	71%	72%	87%
	<b>M</b>		Fair procur	ement	Conduct supplier sustainability survey	66%	84%	Aim for 100% recovery through stable operations
			Eradicate of and bribery		Number of violations of corruption and bribery laws	0	0	0
				governance	Outside directors, female directors, non-Japanese directors	Outside directors: 4 out of 10 Women, non-Japanese: 2	Outside directors: 6 out of 10 Women, non-Japanese: 2	Toward a structure suitable for strengthening business and improving governance

# **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**

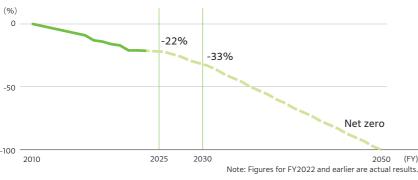
The Hitachi Construction Machinery Group has identified the development of products and technologies to tackle climate change as one of our materialities. By conducting risk assessments and scenario analyses of future forecasts and impacts on the business environment going forward, we seek to avoid or mitigate losses caused by possible future climate change, as well as to explore potential opportunities to create new businesses.

## **Realizing Carbon Neutrality**

The Hitachi Construction Machinery Group is working to reduce CO2 emissions with the aim of realizing carbon neutrality throughout the entire value chain by 2050. To this end, we have formulated a roadmap for reduction measures to be undertaken with regard to the two aspects of product development and production processes.

With regard to product development, we have set and are promoting the goal of reducing CO<sub>2</sub> emissions by 22% and 33% by fiscal 2025 and fiscal 2030, respectively, from the fiscal 2010 level (Diagram 1). This will serve as an indicator of our ability to provide our customers and society with environmentally friendly products that contribute to the reduction of CO<sub>2</sub> emissions. To achieve this goal, we are promoting the development of an 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

## ■ Products: Targets for the Reduction of CO<sub>2</sub> Emission Volume (from the FY2010 level) (Diagram 1)



our customers to reduce CO<sub>2</sub> while equipment is in use (Diagram 2).

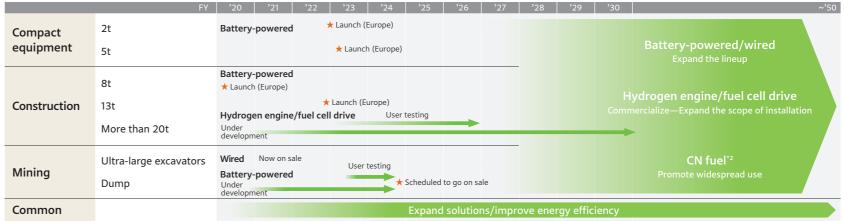
Meanwhile, as for the production process, we have set and are promoting the goal of reducing CO<sub>2</sub> emissions by 40% and 45% by fiscal 2025 and fiscal 2030, respectively, from the fiscal 2010 level (Diagram 3). Our methods for reducing CO2 emissions include energy conservation, conversion to renewable energy (in-house power generation through capital investment, introduction of renewable energy electricity), electrification, and fuel conversion (Diagram 4).

These initiatives aimed at realizing carbon neutrality throughout the entire value chain are also consistent with the spirit of "GX League," which will launch full-scale activities in Japan in fiscal 2023. Hitachi Construction Machinery became a member of "GX League" in May 2023. With our membership in this league helping us facilitate carbon neutrality initiatives, we will work in collaboration with other members and organizations while playing our part in the transition of Japan's socio-economic system as a whole.

\*1 Green Transformation (GX) League: An initiative established by Japan's Ministry of Economy, Trade and Industry to provide a place for collaboration among business corporations, government agencies, financial institutions and universities to take on the challenges of GX and transform economic and social systems, with an eye to achieving carbon neutrality in 2050

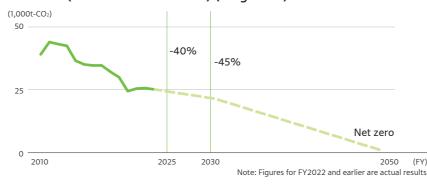
## Roadmap for the Development of Environmentally Friendly Products and Solutions (Diagram 2)

Expanding environmentally friendly products and accelerating that expansion through open innovation

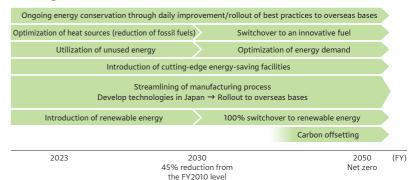


\*2 CN fuel: Carbon neutral fuel (biofuel, e-fuel and other synthetic fuel)

## ■ Production Process: Targets for the Reduction of CO<sub>2</sub> Emission volume (from the FY2010 level) (Diagram 3)



## Roadmap for Carbon Neutrality in Production Process (Diagram 4)



## **Environmental Strategy**

## **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 com-



pany. In October of the same year, we expressed our support for the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). In 2023, our internal task force updated scenario analysis for both 1.5°C and 4°C increases in temperature, assessing 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

1991	•Established Environmental Group
2005	•Established CSR Promotion Department •Published Environmental Report
2011	•Published CSR & Financial Report
2015	•Positioned Climate Change as a materiality
2016	•Published Long-Term Environmental Goals for 2030
2019	•Established Sustainability Promotion Group •Established Sustainability Promotion Committee •Obtained SBT certification
2020	Published four management indicators (ESG indicators)     Announced endorsement of the TCFD Recommendations
2021	•Disclosed information in the Integrated Report in accordance with the TCFD Framework •Re-positioned climate change as a materiality •First Disclosure Based on TCFD in Corporate Governance Report
2022	•Established Enterprise Risk Management (ERM) Committee •Adopted ESG evaluation <sup>11</sup> as one of the evaluation indicators used to determine performance-linked compensation for executives •Announced a declaration to aim for carbon neutrality by 2050 •Introduced sustainable financing
2023	•Became a member of the GX League

<sup>\*1</sup> ESG evaluation is conducted via the comprehensive assessment of ratings given by the CDP regarding the company's response to climate change and water security, its inclusion in the Dow Jones Sustainability Indices, and the progress of reductions in CO<sub>2</sub> emissions from products and production processes.

#### 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 Group President and COO, 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



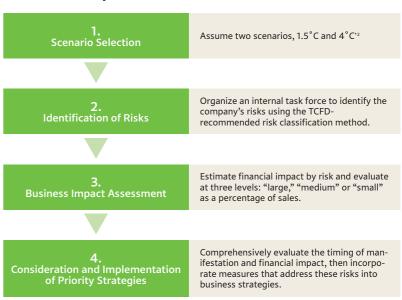
# Meeting Committee Structure and Deliberations regarding Sustainability

https://www.hitachicm.com/global/en/sustainability/management/

#### 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 said scenarios pose to the companies, and to formulate their own response measures and strategies based on these scenarios. In 2020, we organized the internal task force and have since updated analysis results of climate-related scenarios under an assumed 1.5°C or 4°C rise in global temperature in the following four processes.

## Scenario Analysis Process



\*2 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)

## Environmental Strategy -

## **Scenario Analysis Results**

We have listed the climate-related risks and opportunities we face in terms of products, services, solutions and the supply chain under the 1.5  $^{\circ}$  C and 4  $^{\circ}$  C scenarios.

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 scenario, 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 thus helped us update our recognition of risks and opportunities arising from 1.5°C and 4°C temperature rises. We are currently striving to realize strategies aligned with these risks and opportunities. Based on these considerations, we will strengthen the resilience of the Hitachi Construction Machinery Group by developing flexible and strategic businesses with the aim of maximizing opportunities and minimizing risks.

Time of manifestation	Short-term: Medium-term management plan (2023 to 2025) Medium-term: 2026 to 2030 Long-term: 2031 to 2050
Financial Impact	Small: 1 billion yen or less Medium: 1-10 billion yen Large: Over 10 billion yen

## Assessment Results Based on Scenario Analysis (1.5°C Scenario)

			Risks	Opportunities	manifestation	Impact	Our Response (Strategies)
							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.
							• Increase 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 markets
			Possible changes in investment and	Establishment of a competitive			Hitachi Construction Machinery Tierra has expanded the functions of its development and testing facility to accommodate the more sophisticated testing of electrified construction machinery and other equipment
			lending behavior due to tighter	advantage by	Medium- to	Connell	Conduct user tests with an eye to commercializing mid- and large-size hydraulic excavators powered by hydrogen engine & fuel cell drive technologies
		Products, Services	decarbonization regulations and	developing decarbonization technologies ahead	long-term	Small	• 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 2024.
		and Solutions increased decarbonization awareness		of competitors			Expand sales of trolley-powered dump trucks
						Consider the development of stationary rechargeable EVs and fuel cell EVs/hydrogen batteries to improve dump truck user-friendliness	
							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.
1.5°C	a decarbonized	Decline in Increased demand		Medium- to	Medium	The all-electric power system is an indispensable technological element supporting our customers' efforts 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.	
Scenario		coal demand	for hard rock	long-term		• In Latin America, we will strengthen our mining sales and service system in cooperation with the Marubeni Group, and strengthen ties with the ITOCHU Corporation Group in North America.	
							• In FY2019, we incorporated an internal carbon pricing system to consider the carbon price in investment decisions. We raised our carbon price from 5,000 ¥/t-CO <sub>2</sub> at the time of introduction to 14,000 ¥/t-CO <sub>2</sub> . Based on this pricing, we have promoted investment in energy-saving facilities and the introduction of renewable energy.
							• Planning to invest around ¥10 billion in measures aimed at reducing CO <sub>2</sub> emissions from production processes as well as to invest a similar amount in measures aimed at reducing emissions from products themselves over the course of the current medium-term management plan period
			Growing pressure				Hitachi Construction Machinery Energy Management System, which utilizes advanced IoT technology, has been introduced at six plants in Japan. The system mainly reduces peak power consumption and standby power consumption based on the visualized data.
		Supply Chains	to promote de- carbonization and	Carbon tay sayings	Medium- to	Largo	We are promoting the use of IoT for factory production equipment to monitor equipment operating conditions, thereby helping to improve productivity and reduce CO <sub>2</sub> .
	Supply Chains	deterioration in the company's reputa-	Carbon tax savings	long-term	Large	Renewable power is being introduced at Tsuchiura Plant, Kasumigaura Plant, Hitachinaka Plant, Banshu Plant, Hitachi Construction Machinery Tierra, Hitachi Construction Machinery Camino, Tada Kiko, Tata Hitachi Construction Machinery Company and Bradken.	
			tion				• We are working to reduce the volume of CO <sub>2</sub> emissions attributable to Bradken's Coimbatore factory in India by raising the ratio of renewable energy used by the site.
							We promote the optimization of global production and procurement, including the optimization of product inventory and transportation.
							We provide support for main procurement partners so that they can save electricity and improve energy productivity at their production facilities.

## **Environmental Strategy**

## Assessment Results Based on Scenario Analysis (4°C Scenario)

			Risks	Opportunities	Time of manifestation	Financial Impact	Our Response (Strategies)
			Increase in the fre-	Increased demand for	Medium- to long-term	Small	Providing construction machinery products and rental products (light dump trucks, small general-purpose products and attachments such as fork grapples, etc.) that contribute to infrastructure resilience measures related to disaster prevention and disaster mitigation
		Products, quency and severity of Services and such natural disasters Solutions as typhoons and floods	products, services, and solutions that can contribute to disaster prevention	We strive to provide the best solutions to meet demand at disaster sites by taking advantage of such technologies as the Solution Linkage.			
		Solutions	due to climate change and mitigation	'			Hitachi Construction Machinery Japan has concluded disaster agreements with local governments, etc. When disasters occur, these agreements place utmost priority on providing construction equipment and materials to disaster-stricken areas. (The number of such agreements totals 138 as of March 2023; we plan to expand this number to195 in FY2023.)
4°C	Rapid increase in natural	·					• Ensuring timely restoration support to procurement partners whose facilities were affected by flooding and executing production adjustment within the Group in order to avoid shipment delays
Scen	abnormal due to	Production stoppage due to the suspension	Establishment of a stable	Medium- to		We conducted the BCP checklist analysis for major procurement partners, such as members of the Tokiwa-kai cooperative association. For procurement partners identified as requiring enhanced measures, we conducted flooding risk assessments.	
		Supply Chains	of parts supply or the disruption of logistics networks	production system through emergency measures	long-term	Large	• We implemented flooding countermeasures, including the installation of drainage channels and defense walls around key facilities, to safeguard our own factories located in areas with high flooding risks.
							We take into account natural disaster risks, including those arising from climate change, when we build/relocate factories and offices.
			Risk of heat stroke due to rising temperatures	Establish a stable pro- duction system through emergency measures	Medium- to long-term	Small	• WBGT (heat index) meters evaluate the level of heat stress in hot environments of the manufacturing sites. When dangerously hot weather is expected, early alerts warning of heat stroke are issued.

## 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 the overall management of and prompt response 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 line with its goal of achieving carbon neutrality throughout the value chain by 2050, Hitachi Construction Machinery is promoting measures to reduce CO2 emissions with regard to the two aspects of product development and production processes.

## Interim targets for 2030

Reduction of CO <sub>2</sub>	Production	45% reduction (from the FY2010 level)	
emissions (total volume)	Products	33% reduction (from the FY2010 level)	

## Target for 2050

Realizing carbon neutrality throughout the entire value chain

## **TOPICS**

## Exhibiting the mini excavators and small-size excavators, both battery-powered, at "bauma 2022"

Hitachi Construction Machinery participated in "bauma 2022," an international construction machinery trade fair held in Munich, Germany, on October 24 through 30, 2022. At this event, we exhibited a full lineup of mini excavators and small-size excavators, both battery-powered.

Since 2020, the Hitachi Construction Machinery Group has marketed 8-ton class excavators and, in June 2022, began taking orders for 5-ton class excavators, as part of efforts to contribute to transition to zero-emission construction sites. In addition to exhibiting these two models, we unveiled two prototypes—a 2-ton class battery-powered excavator and a 13-ton class battery-powered excavator—at "bauma 2022." These two excavators were developed by EAC European Application Center GmbH (currently KTEG GmbH), a joint venture established by Hitachi Construction Machinery and a subsidiary of Kiesel, our distributor in Europe. Thus, we have exhibited a total of four models.

Today, many countries and regions are strengthening environmental regulations with the aim of promoting global warming countermeasures and realizing a low-carbon society. Accordingly, the need for electrified construction machinery is expected to grow even greater. Looking ahead, the Hitachi Construction Machinery Group will strive to take on the development of technologies and products to create new value and thereby resolve issues confronting society, the environment and customers.

46

## Initiatives to realize a circular economy

The Hitachi Construction Machinery Group takes a Group-wide approach to the implementation of the "4Rs," namely, "Reduce, Reuse, Recycle and Renewable," through its value chain businesses ranging from remanufacturing, used machinery sales and rental to services. In doing so, we strive to reduce the volume of waste emissions in diverse facets of our operations.

Product usage begins with the delivery of a new machine to customers and spans the lifetime of that machine. We aim to lengthen product life by 1.5 times. With this in mind, we are expanding our value chain businesses while striving to both maximize customer value and minimize resource consumption.

Specifically, we will leverage the machinery monitoring system ConSite, a service solution that supports our unique strength. We will also promote parts and

machine remanufacturing. We will thus strive to lengthen the machines' useful lives from 10 years to 15 years. Such efforts help reduce the volume of waste emissions as well as the volume of resources needed, thus contributing to the reduction of CO2 emissions.

As part of the medium-term management plan, we have also identified KPIs for the promotion of a circular economy. We believe that the significance of our initiatives lies in simultaneously contributing to the reduction of life cycle costs borne by customers and the resolution of social and environmental issues. Based on this belief, we will help create a sustainable society by "Shifting to a Resource-recycling Business," as specified in the Hitachi Construction Machinery Group's materialities.

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

#### Group-wide commitment to undertaking the 4Rs

#### Resource flow 4 Flow of our value chain Sales and suppl Parts and completed business products Reduce т Waste generation <u>|:āā≡</u> Reuse Reuse Effective use control Development and Use production Renewable *(55)* Use of renewable resources Recycling Collection Recycle

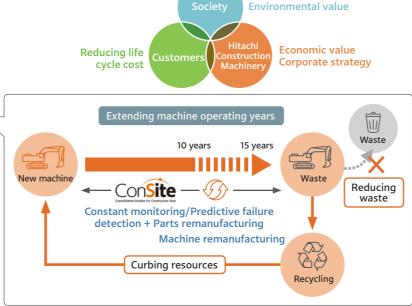
Waste

Resource recycling

Response to

climate change

## Significance of our initiatives for circular economy

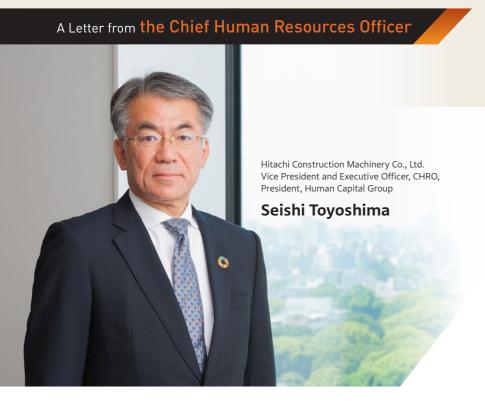


Blue indicates value chain business.

## KPIs for the Promotion of a Circular Economy

4R	Item	Details	FY2022	FY2025	FY2030
category	Item	Details	Results	Targets	Targets
Reduce	Waste emission intensity reduction rate (vs. FY2022)	Ratio of waste emission volumes to the amount of activities	±0%	+7%	+20%
Recycle	Resource recycling rate	Ratio of recycled resources to the volume of waste emissions	94%	90%	99.5%
	Growth rate of the number of machines in long- term operations (vs. FY2022)	Growth in the proportion of machines in long-term operation (60,000 hours or longer) in the total number of active mining machines	±0%	+20%	+50%
Reuse	Growth rate of reused parts (weight basis) via remanufacturing (vs. FY2022)	Ratio of raw material reduction through the recycling business	±0%	+40%	+150%
	Expansion in used equipment business sales revenue (vs. FY2022)	Sales revenue growth rate	±0%	+8%	Spread the adoption of products
	Expansion in sales revenue from the rental business (vs. FY2022)	Sales revenue growth rate	±0%	+30%	that meet local needs
	Machinery status management systems	ConSite adoption rate	73%	100% (Standard feature in FY2024)	Aim for zero downtime

# **CHRO Message**



## >> Kenkijin Spirit as a Wellspring for Harnessing **Abilities of Diverse Human Resources**

The Kenkijin Spirit is a value standard and code of conduct shared by the Hitachi Construction Machinery Group. The Kenkijin Spirit traces its origins to 2004, when, as a result of our accelerated global expansion, there became a need to have a shared set of values for Japanese and foreign employees. Our thinking at the time was that employees working in any region or field around the world should be able to refer to a consistent set of behavioral guidelines; effectively, a point of reference to which they could always return. About 100 employees from both within and outside

# Instilling the Kenkijin Spirit to Draw Out Diverse **Abilities of Our Human Resources**

Japan gathered and shared their opinions over several months, giving shape to the Kenkijin Spirit, which was introduced in 2008. It has been translated into eight languages, including English and Chinese.

Today, the Hitachi Construction Machinery Group has reached a stage that can be described as its second founding, as it resumes independent business expansion in the Americas and takes on other initiatives in the wake of becoming independent from the Hitachi Group. To accompany this second founding, Hitachi Construction Machinery has created a group identity consisting of vision, mission, and spirit components, valuing and evolving the unique character of Hitachi Construction Machinery nurtured since its founding. Of these, Hitachi Construction Machinery has partially reviewed spirit, namely, the Kenkijin Spirit.

The three Cs of the Kenkijin Spirit are defined as: Challenge, Customer and Communication. While the three Cs are shared by all business divisions, a unique code of conduct is defined by departments responsible for development, manufacturing, sales, service, rentals, quality assurance, new business creation and staffing. For example, in the staffing department, our vision is translated into specific actions with "support" as a keyword. Designed as a two-tiered structure, with common elements and department-specific guidelines, the three Cs are structured to be easily applicable and practiced by each individual in their work. We believe it is a wellspring for harnessing the abilities of our diverse human resources, which number 25,000 worldwide.

# >>> Focus on Global Human Resource **Training Groupwide**

Human resource development is one of the most important issues for management to address in order to maximize employee performance and realize sustainable growth for the company. On a non-consolidated basis, the number of training hours per employee has increased each year, with approximately 35 hours in fiscal 2020, 44 hours in fiscal 2021 and 52 hours in fiscal 2022. Especially from fiscal 2022, we initiated enhanced measures for human resource development focusing on digital technologies. Over two years, until the end of fiscal 2023, we plan to train approximately 1,000 employees on topics related to digital literacy. Furthermore, teams formed from business departments and DX departments are implementing programs to cultivate leaders who can promote digital solutions through practical experience.

Hitachi Construction Machinery is also putting extra effort into training human resources around the globe.

The company has an ongoing workshop called the Self-Improvement Program with the aim of creating an organizational culture that can prosper in this era of transformation. This is a structured program for learning the business skills and mindset required of a Kenkijin (an HCM employee), with the aim of helping employees acquire foundational capabilities to put the Kenkijin Spirit into practice. Employees become instructors and teach business skills and mindsets while referring to their own work experiences.

48

## This program started in Japan in 2019 and from fiscal 2022, it is being rolled out to Group companies worldwide in a bid to establish a shared culture for Hitachi Construction Machinery. So far, approximately 4,000 employees have participated in the program.

Additionally, across the entire Group, we are training global leaders. Specifically, we are exposing employees to new experiences through systematic job rotation based on individual career paths and implementing programs aimed at imparting management skills and a management mindset. In terms of management skills acquisition, apart from traditional means, we have expanded methodologies, including the dispatch of individuals for training outside their company. In fiscal 2022, we organized a program spanning a week to deepen intercultural understanding and exchanges among global leaders.

At the foundation of the Group's human resource development is a commitment to maintaining in-house instructors for training and to amplifying their impact throughout our vast organization. We are keenly aware of the importance of cultivating a mindset that places the responsibility for autonomous learning on each individual, rather than just providing them with lessons.

Going forward, we will continue to manage our talent, focusing on leader development and enhancing the capabilities of our employees.

## >> Initiatives in Diversity, Equity & Inclusion

Diversity, equity & inclusion is a source of new value creation for Hitachi Construction Machinery. We understand the importance of recognizing and respecting the diverse values and individuality of each person, irrespective of race, nationality, gender or age, as people who support our business. Based on this understanding, we are actively engaged in diversity, equity & inclusion on a global basis.

With over 25,000 Kenkijin worldwide, it is crucial that we provide opportunities and nurturing environments for our employees to thrive globally. On a worldwide basis, we are implementing initiatives focused on sharing and ingraining our group identity and global human resource policies while promoting local employees to general manager or even higher leadership positions at overseas companies.

From a global perspective, management is well aware of the imbalance in the percentage of female employees in management positions in Japan (fiscal 2022: men 16.0%, women 11.2%; medium-term target: men 15%, women 13%). We understand that increasing the ratio of female managers can lead to innovations from fresh perspectives, and we aim to equalize this ratio globally.

## >> Our Vision for 2030

From a longer-term perspective, as a vision for 2030, the Human Capital Group aspires to create a work environment where every Kenkijin can be themselves in Harmony. We aim to align the growth of our employees to the growth of the company, strengthening the bond between both, creating a cycle in which enhancing customer value improves profitability and corporate value and, ultimately, returns value back to employees and the company.

To achieve this, we have outlined five key points in our human resource strategy.

The first key is a relationship of equals between the company and its employees. The company supports the career development and growth of its employees, with both parties considering their relationship as one of mutual selection.

The second key is building an organizational culture based on our group identity and the Kenkijin Spirit. As President Senzaki stated in his message with "continuation" and "evolution" as keywords, we will inherit the good and add something new, building a new culture.

The third is winning as a team. We strive to maintain an environment in which every *Kenkijin* proactively plays their part, takes on challenges

and uses their individual talents and strengths to their utmost. By identifying the strengths of each employee, we can work together in unison to create new value.

The fourth key pertains to visualizing the state of individuals and the organization through the use of digital technology. While addressing various organizational issues, we aim to utilize digital technology to shed light on the state of individuals, the organization and assets.

Lastly, we intend to implement measures that, when discussed either internally or externally, are universally acknowledged as beneficial.

One of our unique strengths is our approach to business operations, which values the constant participation of all employees. By nature, each employee is equipped to think and act autonomously. We aim to leverage this in our speedy and laser-focused offensive posture as well as in a solid yet flexible defense. We will tackle various social challenges with the strength of our human resources (Kenkijin).



## **Human Resource Strategy**

A company is its people. We aim to enable each employee to discover an immense sense of job fulfillment and thus translate their personal growth into the expansion and development of our business operations. For the Hitachi Construction Machinery Group, human resources constitute our key asset and capital. As we consider human capital essential to achieving corporate growth, we have identified "Where every Kenkijin can be themselves in Harmony" as a vision regarding our workplace for 2030. In line with this vision, we have also set a target of achieving "triple zero" in the following important indicators: (1) the number of occupational accidents and diseases; (2) the number of resignations due to negative reasons; and (3) the number of compliance violations. We will persistently pursue this target.

Currently, the Group is striving to achieve a revival akin to its second founding. With this in mind, we are promoting global human resource management aimed at realizing our business strategies. At the same time, in order to empower each employee to realize their unique potential and strength to the fullest, we are engaged in the development of diverse human resources as well as endeavoring to improve overall organizational health. We also endeavor to thoroughly implement human resource governance on a global basis. Through the various human resource management measures described above, we are striving to create new value to be delivered to customers and thereby improve our corporate value.

In the course of promoting these human resource management measures, we cherish two fundamental concepts. First, we believe that a company must engage with individual employees on an equal footing. We recognize that a company must be chosen by employees just as it has chosen its employees. Accordingly, Hitachi Construction Machinery will assist its employees in their pursuit of career development and personal growth, so that they may serve as the driving forces creating new value and enhancing corporate value. Second, we aim to win as a team. By developing an environment in which everyone can leverage their unique potential and strength, we will pull together as one team, irrespective of organizational affiliation and positions, with all employees doing their best to accommodate customer needs and create new value.

## **Global Human Resource Governance**

The Human Resource Committee, which is chaired by the CEO, deliberates and determines human resource-related strategies and measures. In the course of executing these strategies and measures, we strive to ensure the balanced incorporation of (1) a top management perspective; (2) a business unit manager perspective; and (3) a front-line employee perspective. In other words, these strategies and measures are undertaken in a way that closely aligns with policies determined by top management while accommodating the needs of business unit managers and front-line employees.

## **Global Human Resource Management**

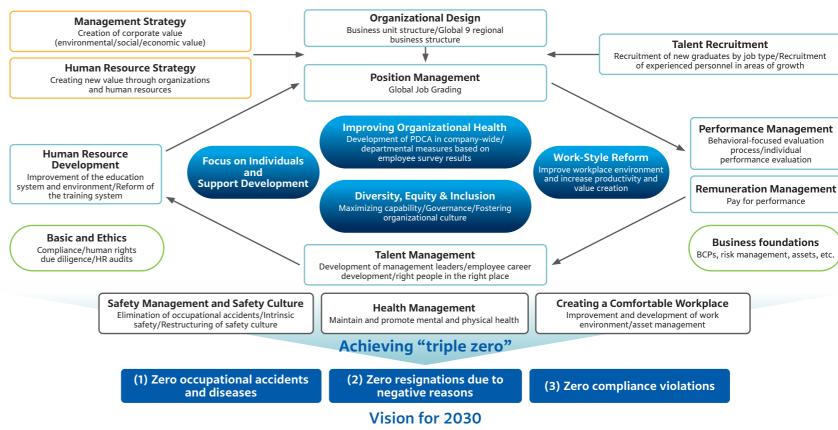
The strength of Hitachi Construction Machinery comes from the fact that the individuals who make up our diverse global workforce share the same vision, mission, strategies and plans and execute them with the Kenkijin Spirit in order to achieve

results and create corporate value. The mechanism for achieving this is a global human resource management system. Although we had previously undertaken differing human resource management measures by region and company, we formulated the Global Human Resource Management Policy in 2020. Since then, we have striven to roll out this universal policy and ensure that it is shared by all Group HR members. The Group has thus promoted human resource governance, including the advancement of diversity in our workforce and improvement of organizational health, as well as health, safety and human rights.

Specifically, we have created frameworks for "organizational design and position

management," "performance management," "talent management" and "human resource development," which together underpin human resource strategies closely aligned with business strategies. Under these frameworks, we implement necessary human resource management measures. In addition, we are engaged in endeavors to support the above frameworks and measures, namely, improving organizational health, promoting diversity, equity & inclusion and executing work-style reforms while striving to focus on individuals and support their development. Furthermore, we pursue the creation of a safe, sound and employee-friendly workplace on a global basis, believing that such a workplace will provide a basis for all the initiatives described above.

## ■ Human Resource Management System Chart



Where every Kenkijin can be themselves in Harmony

50

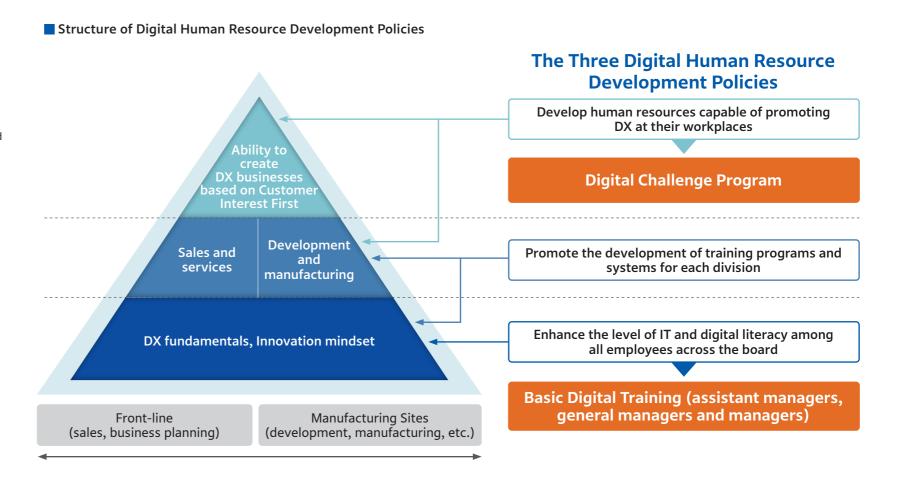
## **Strengthening Global Human Resource Development Linked with Business Strategies**

## **Basic Policy for Human Resource Development**

We have identified a basic policy of "nurturing human resources capable of creating new value, taking on the challenge of transformation and contributing to society through the development of a corporate culture supportive of individuals pursuing self-directed learning and growth." In line with this basic policy, we have established the Companywide Education Committee chaired by the CEO to implement various human resource development measures. We also manage the status of investment in human resources by monitoring hours spent in education. In fiscal 2022, the average length of education per employee amounted to 52 hours, seven hours longer than planned. For fiscal 2023, our planned target is set at 54 hours per employee, taking into account an expected increase due to the strengthening of manager training as well as training for supervisors at manufacturing worksites.

## Developing human resources to meet the challenges of transformation and digitalization

Today, we are facing a stronger call than ever before to pursue digital transformation (DX) in all aspects of business operations, with construction machinery itself being expected to incorporate sophisticated functions powered by digital technologies. Accordingly, we aim to further strengthen our digital solution business and step up operational process reforms. To this end, we have launched the "Basic Digital Training" and the "Digital Challenge Program," with the goal of ensuring that 1,000 employees complete these programs by March 2024. Currently, these programs are under way as planned. As we aim to enhance our ability to create a DX-driven business based on a concept of "customer interest first," we strive to equip employees with practical skills in a way that gives due consideration to the two types of digital skills required in front-line operations and manufacturing worksites. We will continue to develop our human resources so that we can swiftly accommodate future growth in DX needs.



## **Improving 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. In fiscal 2023, we began stepping up activities to improve organizational health on a global basis through the sharing of best practices at global meetings and the provision of individual assistance. We will further promote value creation by supporting the enhancement of happiness for all employees (Kenkijin) around the globe.

## **■** Employee Survey Results

Favorable rate (%)

Consolidated	2018	2019	2020	2021	2022	YoY change
Response rate (%)	66.3	79.7	85.2	91.2	95.0	+3.8
Favorable rate (%)	62.6	63.3	65.7	63.7	62.3	▲1.4
Individual	2018	2019	2020	2021	2022	YoY change
Response rate (%)	70.4	86.1	92.1	96.3	96.9	+0.6

60.3

58.2

55.9

**▲**2.3

58.1

## **Diversity, Equity & Inclusion (DE&I)**

56.0

At Hitachi Construction Machinery, the ratio of overseas human resources amounts to 60% of the overall headcount. Accordingly, we consider DE&I a means of improving corporate value. We respect the uniqueness of and diversity among individual employees and are striving to create a workplace in which everyone can succeed. In this way, we will secure sustainable growth for both employees and our organization. We are thus working to develop mechanisms and operations from the perspectives of organizational culture, governance, personnel systems, global and women's empowerment.

## **Addressing Human Resource Management Risks and Human Rights Violation Risks**

The Hitachi Construction Machinery Group has placed utmost priority on addressing issues associated with forced labor and immigrant workers. In line with this priority, we promote human rights due diligence on a global basis. We convene the Hitachi Construction Machinery Human Rights Due Diligence Promotion Council twice a year, with the President taking responsibility for the promotion of due diligence. Under this structure, the council examines reports on results of surveys regarding human rights due diligence undertaken by consolidated subsidiaries and suppliers and the status of improvement measures they implement.

## **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, through the introduction of risk assessment systems, we endeavor to visualize worksite risks and facilitate effective investment in safety measures even as we work to prevent accidents and injuries. The reduction of occupational accidents is an urgent issue, and we will strive even harder to lower the number to half 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 2022 and 2023 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 sur-

vey and robustly manage the status of employee mental health in line with specific KPIs, with the goals of reducing overall health risks. In these and other ways, we will continue further enhancing health management.



## **Updating the Workplace Environment**

To improve the level of our organizational health, we have promoted the updating of our workplace environment in a way that aligns with the actual status of each factory. These endeavors include the launch of a project associated with the construction of a new building on the premises of our factory, with the concepts for the construction and project goals determined by fully incorporating voices from employees. In addition, we promote the renovation or updating of cafeterias, in-house stores, restrooms and other employee welfare facilities along with the strengthening of security measures. We have also introduced seismic retrofitting for production facility buildings and slope reinforcement on factory premises. As such, we have also pushed ahead with safety-oriented phased facility upgrades.



Exterior view of a recently constructed engineering building (Tsuchiura City, Ibaraki Prefecture)

## **Initiatives to Visualize the Status of Human Capital**

We strive to understand and utilize ISO30414, which provides comprehensive and systematic indicators for the disclosure of human capital-related information. Through these efforts, we aim to develop a framework for assessing human capital-related information on a Groupwide and global basis even as we promote the proper disclosure of such information. By doing so, we will improve the quality of human resource management while securing medium- to long-term improvement in corporate value. Specific initiatives to that end include the preparation and disclosure of the first edition of the "Human Capital (HC) Report" in fiscal 2023. With this report as a guideline, we will proactively disclose our human resource strategies, KPIs, issues to be tackled, and other relevant matters to stakeholders within and outside the Group.

## **Governance Strategies**

## Corporate Governance System (As of August 31, 2023)

#### **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, as a member of society, the company is obligated to engage in fair and transparent corporate behavior. By extension, it is our belief that doing so will lead to an increase in corporate value and a further increase in shareholder value. Therefore, in order to construct a management execution system that enables the powerful and swift development of management strategies and to realize fair and transparent management, we aim to strengthen our corporate governance by separating management supervision and 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.

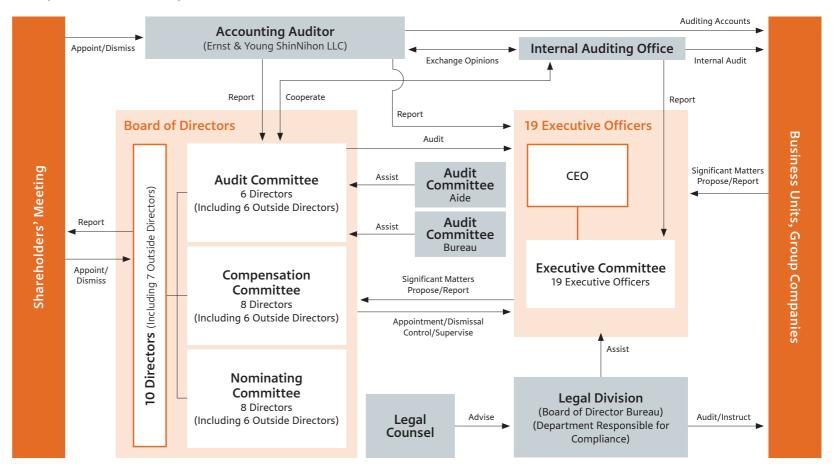
## **Corporate Governance System**

The Group has developed an execution system that can ensure the prompt and exact performance of 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 7 Outside Directors (5 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 the 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 maintains an Executive Committee that meets twice a month in principle comprising all Executive Officers, as an advisory body for deciding the business executions of Chief Executive Officer (CEO).

## **■** Corporate Governance System



Governance Strategies -

## 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 as well as 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 only of a monthly salary.

- A monthly salary shall be set at a fixed amount commensurate with the duty that is the supervisory function. The level of payment is determined in accordance with the individual's position, full-time or part-time status and basic salary and may also include an allowance for committee membership, For 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.

- Monthly salaries are set to standard amounts according to position.
- Please refer to the website to learn more about the breakdown of monthly salaries and performance-linked compensation for Executive Officers.



#### Corporate Governance

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

#### Evaluation of the Effectiveness of the Board of Directors

The company has conducted evaluations of the effectiveness of the Board of Directors since fiscal 2015. Continuing discussions of evaluations, practices and improvement measures have gradually improved its effectiveness. In January 2023, we commissioned a third-party organization to conduct guestionnaires regarding the following items. In addition, based on the results of the guestionnaire, we held interviews with 10 Directors, including Outside Directors.

#### <Ouestionnaire Areas>

- (1) Ideals regarding the Board of Directors' operations
- (2) Composition of the Board of Directors
- (3) Management of the Board of Directors
- (4) Discussions by the Board of Directors
- (5) Monitoring functions provided by the Board of Directors
- (6) Performance of Directors and Outside Directors
- (7) Support system and training for Directors
- (8) Dialogue with shareholders (investors)
- (9) Committees (nominating, audit, and compensation)
- (10) General assessment

#### <Analyses & Evaluations>

Since the fiscal 2015 launch of such evaluation, the Board of Directors Bureau had been playing a central role in the evaluation of the Board of Directors' effectiveness. However, following the change in capital stock in August 2022, the company decided to commission a third-party organization to conduct such evaluations. In fiscal 2022, said organization was tasked with the entire process ranging from the issuance of questionnaires and conduct of interviews to the aggregation and analysis of results, with the aim of leveraging an external perspective to more accurately assess the Board of Directors' effectiveness, to identify topics needing more intensive discussion or otherwise requiring specific responses and to enable the Board to enhance the quality of its discussions.

The evaluation conducted by the third-party organization granted the Company's Board of Directors with higher than average scores compared with other corporations while concluding that it is "generally functioning." On the other hand, it was suggested that for the Board to engage in more meaningful discussions, it should tackle the following issues: (1) allocate more time to the deliberation of management and business portfolio strategies; (2) improve the Board's monitoring functions; and (3) review the operation of the Nominating Committee.

#### <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) Expand opportunities for discussions of management and business portfolio strategies
- (ii) Reorganize agenda items while stepping up ongoing monitoring over such items
- (iii) Task the Nominating Committee with the review of the skill matrix and appoint individuals with specialist strengths in diverse areas as Directors

## **Risk Management**

The business environment surrounding society, including the development of information communication technology, geopolitical risks, and changes in economic conditions, has continued to change daily. The Group endeavors to understand and analyze the business environment in real time, to control for future risks while protecting opportunities for further growth, to take into consideration social issues as well as the competitive advantages and management resources of the company, and to reflect these factors in its management strategies.

In April 2022, we established the ERM (Enterprise Risk Management) Committee to take on the responsibility of company-wide risk management. Under the leadership of the CSO (Chief Strategy Officer) and other members of management, we have a system in place that enables us, when faced with risks that require companywide response policies and management decisions based on business operations, including risks that could shake the very foundations of our global operations, to guickly respond with company-wide management and countermeasures. 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.

## Governance Strategies -

## **■ ERM Committee System Diagram**



## **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 annual "Compliance Briefing Program," a video-based e-learning program, to ensure that the Code of Conduct, along with the Code of Ethics and Compliance, is well understood. The total number of trainees in fiscal 2022 was 20,447 for the entire Hitachi Construction Machinery Group.





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

## **Supply Chain Sustainable Management**

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

In fiscal 2022, a sustainable survey was conducted with procurement partners accounting for approximately 80% of Hitachi Construction Machinery's

non-consolidated purchase volume, for a collection rate of 84%. The percentage of procurement partners that did not meet the minimum score was 0%, compared with 3.7% in the previous round of the survey. Looking ahead, we will work together with our procurement partners to make further improvements.

Sustainability Promotion Group

#### Implementation of supply chain sustainable surveys FY2022 Actual results FY2025 Targets FY2030 Targets Aiming for 100% 84% 90% collection rate by firmly establishing operations (collection rate)



Dialogue with suppliers

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

## Governance Strategies -

## **Directors and Executive Officers**

## **Directors**



Director, Chairman of the Board of Directors Kotaro Hirano



Outside Director Toshiko Oka



Outside Director Kazushige Okuhara



Outside Director Maoko Kikuchi



Outside Director Takatoshi Hayama



Outside Director Hidemi Moue



Outside Director Toshinori Yamamoto



Outside Director Joseph P. Schmelzeis, Jr.



Director Keiichiro Shiojima



Director Masafumi Senzaki

Name	Nominating Committee	Compensation Committee	Audit Committee	Independent Officer	Affiliation	Reasons for Appointment (Experience and Knowledge)
Kotaro Hirano	0	0			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 extensive experience in production, procurement, and a wide range of other business areas.
Toshiko Oka	0	0	Chairperson	0	From other company	She has extensive experience as a top executive of consulting firm, knowledge of M&A, and deep insight.
Kazushige Okuhara	Chairperson	Chairperson	0	0	From other company	He has extensive experience as a business manager of an international company as well as knowledge and deep insight regarding personnel affairs and labor policies.
Maoko Kikuchi	0	0	0	0	Lawyer	She has extensive experience and knowledge in legal matters and experience and deep insight as a top executive and auditor.
Takatoshi Hayama			0		From other company	He has experience in information and communication systems in Hitachi Group and extensive experience and deep insight as a top executive.
Hidemi Moue	0	0			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.
Toshinori Yamamoto	0	0	0	0	From other company	He has extensive experience as a business manager of an international company as well as experience in business planning and administration along with manufacturing operations at home and abroad.
Joseph P. Schmelzeis, Jr.	0	0	0	0	From other company	He has experience in the management of an international company as well as extensive experience in the launch of venture startups, strategic consulting, etc. In addition, he has served as a senior advisor to U.S. ambassador in Japan and contributed to the development of ties between Japan and the United Sates.
Keiichiro Shiojima					Hitachi Construction Machinery Co., Ltd.	He has been involved in the accounting, financial business, and management of the company and the Group and has accumulated experience, achievements, and deep insight.
Masafumi Senzaki	0	0			Hitachi Construction Machinery Co., Ltd.	He has experience in manufacturing operations undertaken by the company and the Group at home and abroad along with extensive experience and deep insight regarding business management.

## **Executive Officer**

oresentative Executive Officer, irman and Executive Officer	Kotaro Hirano
oresentative Executive Officer, sident and Executive Officer	Masafumi Senzaki
 cutive Vice President and cutive 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	Yusuke Kajita
Vice President and Executive Officer	Keiichiro Shiojima

/ice President and Executive Officer	Seishi Toyoshima
/ice President and Executive Officer	Kazunori Nakamura
/ice President and Executive Officer	Eiji Fukunishi
/ice President and Executive Officer	Hidehiko Matsui

Executive Officer	Hiroshi Kanezawa
Executive Officer	Tooru Sugiyama
Executive Officer	Seimei Toonishi

Executive Officer	Yoshihiro Narukawa
Executive Officer	Tetsuya Hamabe
Executive Officer	Masaaki Hirose

	cer Yoshihiro Narukawa	Satoshi Yamanobe
ficer Tetsuya Hamabe Executive Officer Sandeep Singh	cer Tetsuya Hamabe	Sandeep Singh

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

## **Outside Director Roundtable Discussion**



Outside Director Roundtable Discussion —

# Future Prospects for the Second Founding

On June 19, 2023, three 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** 

## Maoko Kikuchi

Profile

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 Affairs at Microsoft Japan Co., Ltd., full-time member of the Audit and Supervisory Board at Mitsui-Soko Holdings Co., Ltd. and outside member of the Audit and Supervisory Board of KADOKAWA Corporation. Currently, she serves as Outside Director for Mitsui-Soko Holdings and became Outside Director of Hitachi Construction Machinery Co., Ltd. in July 2020.

**Outside Director** 

## Kazushige Okuhara

Profile

In 1970, Mr. Okuhara joined Fuji Heavy Industries Ltd. (now Subaru Corporation), and has served as the Director, Corporate Executive Vice President and General Manager of the Human Resources department. 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 Outside Director in June 2016.

Outside Director

## Toshiko Oka

Profile

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 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.

57

## **Outside Director Roundtable Discussion**

Please describe the Board of Directors' discussion about independent expansion and the change in principal shareholder

Okuhara: I am positive on the company's independent expansion into the Americas and change in principal shareholder. These represented major decisions for Hitachi Construction Machinery, likened to a second founding of the company.

While the American market is very important, I felt that the company's product offerings and pricing, in relation to its partnership with Deere & Company, were not aligning well with Hitachi Construction Machinery's vision for business expansion. When the topic of dissolving the business partnership arose, I believed it would be a challenge to achieve. However, with unwavering leadership and persistent negotiations, we were able to move forward and I feel that these efforts have vielded excellent results.

I also believe that management was very meticulous and thoughtful in its preparations concerning the capital relationship as a matter of priority. Kikuchi: I have deep respect for Hitachi Construction Machinery's executives for their truly tenacious negotiations and successful termination of the partnership agreement.

For example, Deere & Company's president changed more than once during negotiations, and Hitachi Construction Machinery was forced to adjust its negotiation strategies and styles to accommodate each personnel change. The difficult decision was also made to sell its American plant.

The fact that the business relationship with Deere & Company remains on good terms even after the agreement was terminated is, I believe, the result of their well-thought-out strategy considering situations after the termination of the agreement, as well as their sincere negotiations that did not endanger the trust between the two parties.

Although there were some initial reservations regarding the change in capital composition, particularly the drawbacks of distancing from the Hitachi Group, the executive side remained optimistic and viewed it as a new growth opportunity for Hitachi Construction Machinery. A search began for a sponsor that could adequately support the company's development in place of Hitachi Ltd, and, once successful, the idea of departing from the Hitachi Group seemed less challenging, and I believe our employees felt reassured and were able to accept the position and move forward. Hitachi Construction Machinery has a culture of optimism, a spirit of challenge and resilience and I believe this played a positive role during this time. Oka: At the graduate school, my teachings often cover M&A topics. From my standpoint, Hitachi Construction Machinery's change in principal shareholder has provided significant insights to companies, not just listed subsidiaries, but also companies that are subsidiaries.

From the perspective of Hitachi Ltd., this event represents a sale of a portion of their stake in Hitachi Construction Machinery. Historically, sales of shareholdings typically refer to divesting unprofitable businesses, i.e., seeking a company to take them over. However, this particular transaction comes as a result of a change in strategic direction within Hitachi Ltd.'s governance—construction machinery is not seen as an unprofitable business.

Such M&A transactions are called carve-out M&As. From the subsidiary's viewpoint, it indicates that their parent company is willing to part ways due to a change in strategy, even if the subsidiary is profitable.

The implication for the subsidiary is that they are not aware of when the parent company might decide to divest its shares. Accordingly, the subsidiary needs to be ready for such a transaction by considering daily who their best partner might be and who should own them with what kind of capital structure.

In reality, we had such discussions at meetings of the Board of Directors and arrived at the current formation while considering the proposal from Japan Industrial Partners, Inc.

With the termination of Hitachi Construction Machinery's partnership with Deere & Company, light was shed on some previously unseen business aspects after the relationship changed, reinforcing the notion that ending the alliance was a wise decision. The focus now shifts to how Hitachi Construction Machinery will expand further into the North, Central, and South American markets.

## How would you evaluate Chairman Hirano's leadership?

Oka: Chairman Hirano's leadership is outstanding. Above all, he has an aura that makes everyone want to follow him. Through each of his experiences, the Chairman has gained profound insights into this business. He has transformed each challenging decision into a source of strength, and I believe this has shaped him into the leader he is today.



58

## **Outside Director Roundtable Discussion**

Okuhara: I have many years of business experience, and during this time have not come across many individuals like Chairman Hirano who possess such strategic thinking and the ability to execute these ideas. I have great respect for him in this regard.

As the top executive, he has led negotiations with Deere & Company for years, persisting even when discussions escalated difficult and challenging levels. It is reassuring to witness a leader who does not waver, taking the lead and personally addressing the critical challenges.

His monthly messages to employees, which he has written himself since becoming president, play a significant role in aligning their thoughts and ensuring they understand the company's vision.

**Kikuchi**: In the past two years, I have learnt a lot from Chairman Hirano about the qualities a leader should possess to guide a company. For example, the ability to make decisions based on fairness, the capability to embrace others, and his cheerful and positive demeanor are all qualities I admire. From my point of view as Outside Director, if a company has an indifferent attitude toward accepting outside directors, they cannot adequately fulfill their roles. However, influenced by Chairman Hirano's



attitude, I feel that Hitachi Construction Machinery has extended a warm welcome to us.

Meanwhile, President Senzaki has followed a career that is distinct from that of the Chairman. He is a professional on the technical side and has extensive overseas work experience. While he appears gentle and calm, I have heard that he meticulously examines issues before making decisions. With the increasing importance of electrification and automation and the growing emphasis on overseas expansion, I believe he is the ideal leader to take on these challenges and grow Hitachi Construction Machinery. With the groundwork set and with the leadership of Chairman Hirano and President Senzaki, I feel that the company's second founding has started out on the right track.

Okuhara: While Chairman Hirano determines the strategic direction and leads from the front, President Senzaki possesses a unique strength in meticulously planning and executing new initiatives.

The challenges to achieving the objectives laid out in the medium-term management plan are numerous, and I have confidence in President Senzaki's ability to identify and overcome each challenge.

With the introduction of the business unit system, it is crucial to produce tangible results in operations. Based on my experience, in order to achieve something, something else must be set aside. Simplifying the organization and improving operational efficiency are essential to get the business units on the right track, in my opinion.

Oka: As I see it, Chairman Hirano is a man of action. Be it in the Americas or in capital relations, he has taken action. After making significant changes, it becomes essential to maintain stability and focus on foundational efforts. In this sense, if the Chairman represents action, then President Senzaki might symbolize stillness. I think President Senzaki is the right person for this challenging role. There are high expectations for him from both employees inside and people outside the company.

When it comes to foundational efforts, it would be beneficial if their roles were delineated, like the Chairman will handle this, and the President will do this. As their roles evolve over time through discussions

between the two leaders, I believe the best mixture will appear early on and we will see outcomes in quick succession.

During a recent online meeting of the Board of Directors, after I made a rather blunt comment, President Senzaki responded that I was absolutely right in every respect. Hearing this made me reflect, thinking I might have been too blunt. However, such interactions show that President Senzaki truly listens to others' opinions.

What discussions have taken place in the Board of Directors about the formulation of the medium-term management plan?

Kikuchi: The medium-term management plan sets high quantitative targets, such as for the earnings before interest, taxes, depreciation and amortization (EBITDA) margin and ROIC, while laying out medium- to long-term strategies.

In discussions by the Board of Directors, I expressed a desire to focus more on creating new value with "people as assets," and it was noted as "strengthening human and corporate capabilities." I had talked about the importance of the Kenkijin Spirit in past meetings, and the company created the Kenkijin Spirit Handbook in support of goals in BUILDING THE FUTURE 2025, the current medium-term management plan. This clarified the mission and values for each business division. By providing the handbook not only in Japan but also overseas, I believe it will help convey to the entire Group the company's medium-term policy for developing human resources.

Okuhara: The medium-term management plan can be somewhat exaggeratedly described as a "full employee participation medium-term management plan." It was formulated through discussions in the workplace, refining ideas, and then finalizing them. Especially during times when the company is undergoing change, I believe this formulation process was an

#### Outside Director Roundtable Discussion

excellent one to follow. Achieving the medium-term objectives will largely depend on human resources, in my view.

Particularly as Hitachi Construction Machinery expands globally, the utilization and evaluation of local human resources and groupwide initiatives is becoming critical.

Under President Senzaki's new leadership, I hope that the company will swiftly undertake human resource measures that signal a departure from previous approaches.

Oka: This was my first time observing the process of formulating the medium-term management plan. One policy was to share information about the medium-term plan's formulation prior to meetings of the Board of Directors. We received interim progress reports several times. However, perhaps because each business division was creating their parts of the plan from a bottom-up perspective, there were moments at the interim report stage that the management plan seemed more like a collection of parts stapled together. Each part seemed to be narrowly focused on its immediate surroundings, so when the parts were stacked together, it was hard to get a bird's-eye view of the entire industry and see the whole picture. Therefore, in the meetings of the Board of Directors, I recall having discussions suggesting that the management plan might be better if presented in a more story-driven manner or that some charts be redrawn to provide a bird's-eye view.

Even if some things are obvious to industry insiders, investors and others outside the industry might find them hard to understand. Based on my experience of such discussions, I believe the Board of Directors was deeply involved in the formulation of the medium-term management plan and contributed significantly to it.

Okuhara: Regarding the "parts stapled together" moment, Ms. Oka, you addressed it very directly yet in a gentle tone, which took everyone by surprise. However, soon after, content in the plan came out with a clear narrative focus. It might not have been said in as many words, but I believe that this awareness was already present within the organization.



For the Hitachi Construction Machinery Group to achieve further growth, what matters need to be addressed?

Oka: Speaking from an ESG perspective, first, on the environmental side (E), we should consider what machinery that impacts the planet should be like. The question for Hitachi Construction Machinery is what kind of construction machinery it can create that is kinder to the planet and to people.

In the social aspect (S), people are the most important. Generally speaking, the ranks of Japanese companies are predominantly filled with Japanese men. It is said that innovation occurs where there is diversity and most where companies actively promote diversity. However, the reality is that the majority, i.e., Japanese men, have arbitrarily chosen to favor

a few well-behaved and obedient minorities in order to achieve what is a merely superficial realization of diversity. Since the obedient minority aligns with the majority, innovation does not spark.

Therefore, the next step is to increase the number of minorities and remove the pressure on them to conform to the majority opinion. When this happens, minorities can express their opinions, and diversity is achieved in the true meaning of the word.

There is a different sense of speed in Japan compared with overseas. I believe one of President Senzaki's roles should be energizing diversity and creating an environment conducive to innovation.

Lastly, in governance (G), which management has been working on since 2014, the corporate governance system is now in place. While striving to further upgrade the governance structure, management will have to be more sensitive to the company's share price. There are many ways to appeal to the market, so it is essential that management communicates each one carefully to the market.

Okuhara: The Kenkijin Spirit is alive and well in employees and top management. Hitachi Construction Machinery is in an excellent position with both the structure and human resources it needs. With so many growth opportunities, I hope that management will be even more aware of the share price when decisions are made.

Kikuchi: Corporate growth means expanding and meeting the expectations of various stakeholders, such as employees, customers, investors, business partners and society. I would like President Senzaki and the executives to continue to proactively deliver a narrative that inspires hope in people. Also, it is essential to create an environment where all employees can think of new and better ways on their own and take the initiative.

I have high hopes for the second founding of Hitachi Construction Machinery. I am excited to see how the company will change the world with its ambitious goals. It would also be great if Hitachi Construction Machinery could take the lead in the automation and autonomous operation of hydraulic excavators.

# **Messages from New Outside Directors**

# I Aim to Contribute to the Realization of the Company's "Dream as a Manufacturer"

Message

After joining Tosoh Corporation, I started in accounting and then moved to sales, full-time labor union roles, procurement, a position in the Netherlands and upon returning to Japan, I was assigned to a business division. Over the course of my career, I have gained experience in nearly all administrative departments, serving as a business division head and director.

Every four or five years, just as I would grow accustomed to my role, I would be transferred, making me feel like a new employee each time. This repeated exposure to new roles made me see every task as a challenge, and I felt motivated by the opportunity to shape the future with foresight.

In 2016, I was made president of Tosoh Corporation, in which position I served for six years. With the livelihood of all employees in mind, we managed to achieve debt-free management, repaying all of the company's debt, which, in 1979, the year I joined, was as large as its net sales.

In day-to-day management, I have always aimed for a free-spirited company culture that values friendly competition, challenges and an open and inclusive environment. Hitachi Construction Machinery must continue to

evolve in order to meet various demands in society. Today, striking a balance between enhancing corporate value and addressing various social issues is of the utmost importance. It is not enough to excel in just one area; Hitachi Construction Machinery must take a holistic and balanced approach.

Manufacturers have dreams unique to their position as a manufacturer and strive to make these dreams a reality. The company's Board of Directors consists of individuals with diverse expert knowledge, and I intend to leverage the expertise I gained from working at a manufacturer to help Hitachi Construction Machinery achieve its dreams.

Having been involved in corporate management at a Japanese company for a long time, I think that the current composition of shareholders at Hitachi Construction Machinery may appear complicated from an external perspective. Looking ahead, as an outside director, I intend to thoroughly discuss issues with everyone and contribute to enhancing corporate governance.

Profile

Toshinori Yamamoto

Mr. Yamamoto joined Tosoh Corporation in 1979, where he served as Managing Director and President of the Chlor-alkali Group and the Petrochemical Group; Managing Director and President of the Chloralkali Group and Representative of China Operations; and Representative Director and President, Advisor and Corporate Advisor (current position) of Tosoh Corporation. He was appointed as an outside director of Hitachi Construction Machinery in June 2023.

# **Major Opportunities for** the Hitachi Construction Machinery Group

Message

I am convinced that major business opportunities are in store for Hitachi Construction Machinery. People around the world recognize the Hitachi Brand, and the company is dedicated to producing excellent products while earnestly addressing issues related to a circular economy and carbon neutrality. Furthermore, the company not only manufactures products but also develops businesses that can contribute to sustainable life cycles in the economy and at customers.

Being involved in the management of a growth-oriented company like Hitachi Construction Machinery is a great opportunity for me as well. I am deeply honored and truly excited to be here.

I came to Japan with my family when I was 13 years old and have lived here for a total of 37 years. Professionally, I began my career at a management consulting firm, moved on to start an IT venture, worked in the entertainment and financial sectors and eventually served as the Senior Advisor to the Ambassador at the U.S. Embassy in Tokyo. Throughout my career, I have accumulated diverse experience and built a strong network of connections.

For example, I believe I can contribute by setting

detailed KPIs for sales organizations and revising compensation systems as well as by offering advice on geopolitical issues, which are crucial to global expansion, and leveraging my connections.

Since Hitachi Construction Machinery is a rapidly growing company, it is essential that each employee, as a united team, understands their goals clearly. Knowing to what extent the company wants to grow and what each individual needs to do is the first step in solidifying the foundation for growth. I aspire to draw on my experience to ensure the Hitachi Construction Machinery Group seizes upon this great opportunity.

I understand that Hitachi Construction Machinery is on the verge of a significant leap, one akin to a second founding. As a leading example of a Japanese company with a high ratio of business overseas, I believe capital market participants are likely to expect more from Hitachi Construction Machinery. With my past experience, perspective as a foreign national and my role as an independent outside director in mind, I am committed to making significant contributions to Hitachi Construction Machinery.



## Profile

Mr. Schmelzeis joined Bain & Company in 1984. His career includes serving as Vice President of American Express International and Senior Advisor to the Ambassador, U.S. Embassy in Tokyo. He currently holds such positions as Executive Manager of Cedarfield Godo Kaisha, Outside Director of DENSO CORPORATION, Vice Chairman of International Highspeed Rail Association and Outside Director of Central Japan Railway Company. He became an outside director of Hitachi Construction Machinery in June 2023.

Hitachi Construction Machinery Group Integrated Report 2023

Our Vision Value Creation Story Sustainability Initiatives Financial Strategy/Corporate Data

# 11-Year Consolidated Financial Highlights

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

Note: 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*² (IFRS)	2022/3 (IFRS)	2023/3 (IFRS)
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	1,279,468
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	1,055,482
Overseas sales ratio	%	75.2	71.1	72.8	69.3	70.0	79.9	80.1	77.9	75.0	78.8	82.5
Solutions business	Millions of yen	_	_	_	_	6,691	92,287	95,976	90,596	79,140	94,822	131,164
Adjusted operating income	Millions of yen	_	_	_	23,364	28,265	93,582	116,841	76,618	32,710	93,518	135,701
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	112,661
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	70,175
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	1,627,003
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	659,992
Net interest-bearing debt <sup>-1</sup>	Millions of yen	325,050	308,909	236,240	138,785	183,246	148,736	237,461	276,778	249,158	258,850	395,475
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	0.60
Return on equity attributable to owners of 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	11.0
Return on assets attributable to owners of 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	4.6
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	40.6
Price-earnings ratio	Times	18.31	14.59	17.17	43.18	73.57	14.55	9.11	11.31	72,91	8.96	9.32

<sup>\*1</sup> Net interest-bearing debt = Interest-bearing debt - Cash and cash equivalents at end of period

<sup>\*2</sup> Some data for the fiscal year ended March 2021 have been changed to figures reflecting the retrospective application of a change in accounting policies to the consolidated financial statements.

## 11-Year Consolidated Financial Highlights —

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* <sup>3</sup> (IFRS)	2022/3 (IFRS)	2023/3 (IFRS)
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	330.00
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	330.00
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	3,103.66
Dividends per share	JPY	40	50	60	40	12	85	100	60	20	110	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	33.3
Capital Investment, Etc.												
Capital investment (construction basis) <sup>r</sup> 1	Millions of yen	78,175	52,007	32,401	35,156	30,665	41,833	57,634	84,075	73,371	89,585	119,338
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	24,443
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	1.9
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	135.4
JPY/EUR	JPY	107.5	134.8	138.3	132.4	118.9	130.1	127.9	120.8	124.6	130.6	141.0
JPY/RMB	JPY	13.5	16.5	17.6	18.6	16.2	16.8	16.6	15.7	15.7	17.5	19.7

<sup>\*1</sup> In this edition of the Integrated Report, capital investment is redefined to include funds invested in leased operating assets. Figures for past fiscal years have been retrospectively restated accordingly.

<sup>\*2</sup> Average exchange rates during the period

<sup>\*3</sup> Some data for the fiscal year ended March 2021 have been changed to figures reflecting the retrospective application of a change in accounting policies to the consolidated financial statements.

## **CFO Message**

Hitachi Construction Machinery Group Integrated Report 2023



## >>> Review of Fiscal 2023

In fiscal 2023, the period ended March 31, 2023, Hitachi Construction Machinery faced significant challenges. At the start of the fiscal year, the lockdowns in Shanghai halted the supply of resin components and sheets, tanks and other items. Disruptions in the supply chain led to shortages of semiconductors and engine parts. Facing these challenges head on, while coordinating with suppliers and making internal adjustments, Hitachi Construction Machinery managed to maintain production and supply on an

# While aligning environmental measures with business strategies, we are capturing new market opportunities and enhancing corporate value

unprecedented scale for the fiscal year, meeting robust demand.

Despite soaring material costs and rising transportation expenses overseas, Hitachi Construction Machinery brought new machinery models to market at the right time and covered the increased costs with added value pricing strategies. Furthermore, we made smoother-than-anticipated progress on independent expansion in the Americas, a priority measure that commenced in March 2022. Coupled with higher sales in the mining and value chain businesses, as well as the depreciation of the yen, sales revenue increased 25% year on year to ¥1,279.5 billion in fiscal 2023, while adjusted operating income grew 45% to ¥135.7 billion, both setting new record highs.

With fiscal 2023 being the final year of the previous medium-term management plan, management decided to address current points of concern, such as revisions to the pension system, and make a fresh start with the new medium-term management plan.

We achieved the financial targets of our previous management plan, attaining an adjusted operating income margin of 10.6% versus the target of at least 10%, and an ROE of 11.0% versus the target of over 10%.

Unfortunately, cash flow deteriorated due to an increase in working capital associated with a surge in volume. As a result, the net D/E ratio ended up at 0.6, missing our target of 0.5 or lower. Management will prioritize efforts to improve cash flow and rectify this issue on the balance sheet.

## >> Changes in Capital Structure and **Subsequent Joint Business Expansion**

There were two significant changes in fiscal 2023, comprising independent expansion in the Americas and a change in the principal shareholder, where Hitachi Construction Machinery became independent of the Hitachi Group and welcomed Japan Industrial Partners, Inc. and ITOCHU Corporation as new shareholders.

When we belonged to the Hitachi Group, we benefited from a cash pooling system that gave access to open-ended transfers of funds, which was quite useful. However, with proactive financing from Japanese banks and other banks that we do business with, Hitachi Construction Machinery was able to guickly refinance its borrowings. Ratings agencies also gave high marks for Hitachi Construction Machinery as a newly independent company. We feel both of these changes were viewed by investors in a positive light.

As our first round of collaboration after the capital tie-up with ITOCHU Corporation, we established a finance joint venture in North America to handle construction machinery sales financing.

In North America, dealers are the main sales channel, and payments for construction machinery are often split up and paid in installments over a long period. Construction machinery manufacturers must be able to offer dealers and customers quick credit checks and competitive financing options tailored to their needs.

## **CFO Message**

Specifically, we offer a retail financing menu that packages together residual value leases and after-sales services, as well as a rent-to-purchase program wherein new vehicles are initially offered on a rental basis that, after a certain period, switches over to a sales transaction, with the amount of total rental payments deducted from the vehicle sales price. These are part of our floor plan financing options designed to help dealers maintain inventories.

Minimizing accounts receivable that could otherwise grow larger in step with increasing sales volume offers the biggest financial benefit of all, namely the ability to utilize funds for other investment opportunities.

## >>> Financial Strategy for Independent **Expansion in the Americas**

One of our first investments in the Americas business is for reinforcing the structure at Hitachi Construction Machinery Americas. With a focus on sales and service departments, we plan to increase the number of employees from 160 as of March 2023 to 240 by March 2024 in order to precisely home in on market needs across North, Central and South America. In addition, our Atlanta headquarters was expanded with new training facilities and a Command Center to support the ConSite service solution. Hitachi Construction Machinery is also anticipating investment aimed at expanding the mining business through the establishment of a support center and the strengthening of its parts remanufacturing factory as well as the parts supply system as a whole.

While our intention is to fund these planned investments primarily with operating cash flow, we are also in a growth phase under the current medium-term management plan. If the need arises for an unplanned largescale M&A deal, management will be keen to pursue the deal, even if it means increasing borrowings. Please note that our new medium-term management plan, which covers the period up to fiscal 2025, does not take into account the construction of the new full knock-down production base in the Americas.

The company's domestic plants are currently operating at full capacity. As there is spare capacity at our Chinese plants, we will shift production of some small- and mid-size products to China. The freed up production capacity in Japan will then be redirected towards expanding production for the Americas. Management assumes domestic plants will help supply operations in the Americas until our sales revenue target of ¥300 billion is achieved through independent expansion in the region.

Furthermore, if Hitachi Construction Machinery were to construct a new plant in the Atlanta vicinity, costs would likely increase because products headed for the West Coast would have to cross the Rocky Mountains. Mirroring the strategy with our Oosterhout plant in the Netherlands, management is considering a scenario where the machinery bodies are supplied from Japan and small-scale plants on the East and West coasts handle only assembly.

## >>> Financial Strategy under New **Medium-term Management Plan**

During the course of the new medium-term management plan, Hitachi Construction Machinery plans to invest ¥400 billion in total in the Group. Of this amount, approximately ¥100 billion will be allocated to investments in the Americas, including for the purchase of operating assets for rent to customers. Because management anticipates a need for largescale investments in growth under the new medium-term management plan to support the expansion of the Americas business, which is in a growth phase, as well as the mining business and the value chain business, we will place emphasis on our cash generation capabilities, for example by improving operating cash flow, with the aim of securing funds for reinvestment.

First, the company aims to increase FFO (operating cash flow before working capital adjustments) by expanding its Americas, mining, and value chain businesses.

Also, to demonstrate capital efficiency improvement and growth-oriented management both internally and externally, the company has set quantitative targets for the EBITDA margin, operating cash flow margin and ROIC in the new medium-term management plan.

On the other hand, as the scale of business expands, Hitachi Construction Machinery needs to control the bloating of working capital that can result from growth in accounts receivable and inventories. The company plans to closely monitor regional demand trends and order backlogs while meticulously keeping inventory at appropriate levels at each Group company. Through these efforts, we aim to improve the cash conversion cycle (CCC) without letting debt increase that easily, with the intention of effectively generating and reinvesting cash.

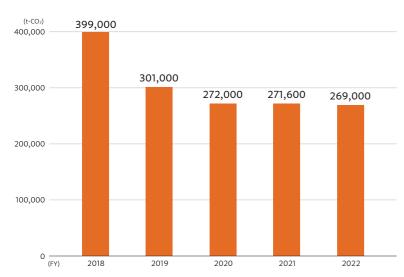
By rapidly securing cash this way, management aims to improve profit margins and capital efficiency. Ultimately, this will eventually lead to better returns for shareholders.

Regarding the dividend payout ratio, the company has set a target for stable and consistent payouts in the 30% to 40% range, and management will deliberately work to improve the dividend payout ratio in stages during the course of the new medium-term management plan.

Under its new medium-term management plan, the Hitachi Construction Machinery Group will focus on the development of environmentally friendly products, such as electric excavators and fully electric dump trucks. On the other hand, by leveraging ConSite to maintain and extend the service life of machinery and by offering units for rental as well as for sale as used vehicles, Hitachi Construction Machinery aims to continuously earn revenue while tracking the condition of construction machinery until it is decommissioned. This value chain will in itself contribute to a circular economy and help the global environment. The vision of Hitachi Construction Machinery Group entails aligning business strategy with environmental measures, seizing upon new market opportunities and increasing corporate value.

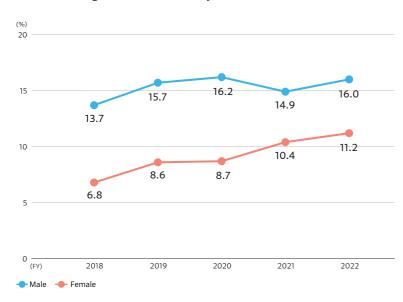
# **Non-Financial Highlights**

## GHG (CO<sub>2</sub>) Emission Volume

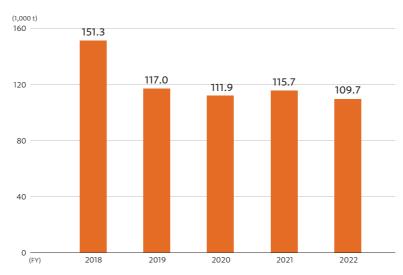


Note: Figures presented above comprise the volume of Scope 1 and 2 emissions from all domestic and overseas bases, including both production and non-production sites, in the scope of consolidation.

## Ratio of Management Positions by Gender (Consolidated Basis)

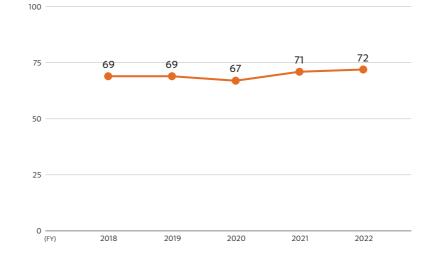


## **Waste Emission Volume**

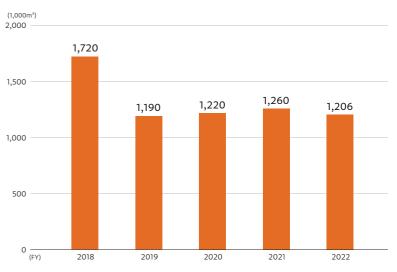


Note: Figures presented above comprise the volume of waste emissions from all domestic and overseas bases, including both production and non-production sites, in the scope of consolidation.

## Ratio of Locals in General Manager or Higher Positions at **Overseas Group Companies**

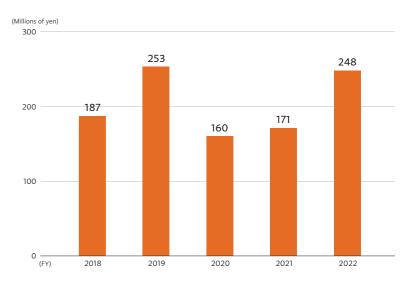


## Water Consumption Volume



Note: Figures presented above comprise the volume of water consumption at all domestic and overseas bases, including both production and non-production sites, in the scope of consolidation.

## Social Contribution-Related Expenses (Consolidated Basis)



## **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 December 2022)



**FTSE Blossom Japan Sector** Relative Index

#### FTSE Blossom Japan Sector Relative Index

We are recognized as a Japanese company engaging in excellent practices in ESG within the sector. (As of June 2023)



#### FTSE4Good Global Index Series

We were selected for inclusion in the "FTSE4Good Global Index Series" Responsible Investment (RI) indices for global companies. (As of June 2023)



#### **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 2023)



**FTSE Blossom** Japan

#### **FTSE Blossom Japan Index**

We are recognized as a Japanese company engaging in excellent practices in ESG. (As of June 2023)

## **2023** CONSTITUENT MSCLJAPAN 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 2023)

## Assessment of Sustainability and Management Strategy



#### 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 2022, we received a climate change score of A- and a water score of B, as we did in 2021.

	2019	2020	2021	2022
CDP Climate Change	A-	A-	A-	A-
CDP Water	В	В	В	В



#### All Japanese Listed Companies' Website Ranking

Our website was granted the highest AAA ranking in the 2022 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 2022)



#### Health and Productivity 2023

In both 2022 and 2023, Hitachi Construction Machinery was certified as a Health & Productivity Management Outstanding Organization by Nippon Kenko Kaigi. (March 2023)

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



#### Gomez ESG Site Ranking

Selected as an excellent company in the Gomez ESG Site Ranking (2023). This ranking survey is conducted by BroadBand Security, Inc. to evaluate the usability and information quality of ESG websites provided by listed companies in Japan. (August 2023)

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OBAL CO.



#### SBT (Science Based Targets)

SBTi certifies companies that have set scientifically based greenhouse gas emissions reduction targets consistent with the 2°C target (1.5°C target) level required by the Paris Agreement. In May 2019, our long-term targets for greenhouse gas emissions reductions received certification.



#### Internet IR Awards

The company received an Award of Excellence in the 2022 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 2022)

#### **Endorsement of Initiatives**



## Task Force on Climate-related Financial Disclosures (TCFD)

TCFD is an initiative established by the Financial Stability Board (FSB) that requires companies to disclose climaterelated 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.

## **United Nations Global** Compact (UNGC)

In April 2023, we participated in the United Nations Global Compact, under which the United Nations and the private sector (companies and organizations) joined forces to form the

world's largest sustainability initiative to build a healthy global society. The United Nations Global Compact has 10 principles related to the protection of human rights, the elimination of unfair labor, the response to environmental concerns and the prevention of corruption.



## Green Transformation (GX) League

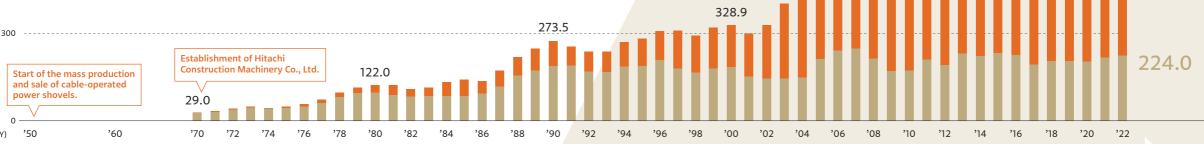
The GX League is an initiative established by Japan's Ministry of Economy, Trade and Industry to provide a place for collaboration among business corporations, government agencies, financial institutions and universities to take on the challenges of GX and transform economic and social systems, with an eye to achieving carbon neutrality in 2050. We became a participant in the GX League in May 2023.

Sales Revenue FY2022

1.2795 trillion yen

# **History of the Hitachi Construction Machinery Group**





## 1949

The U05 cable-operated shovel, designed for postwar reconstruction and social capital improvement, was unveiled in the Hitachi Ltd. Kameari Works as a purely Japanese machine. The full-scale production of the U06, a remod-

U05, began in 1950, marking the beginning of Hitachi Construction Machinery Co., Ltd.

Overseas Domestic



## 1965

The UH03, the first hydraulic excavator developed with Japanese technology, is commercialized. Unlike the commonly used machinery of the times with one-pump-one-control-valve mechanisms, the UH03 adopted a two-pumptwo-control-valve mechanism developed via the use of Hitachi Construction Machinery's own technologies. This resulted in a drastic improvement in operability. The UH03 was widely used in the construction of Tomei Express Way and other infrastructure, thereby supporting Japan's burgeoning economic growth.

## 1986

The Landy EX Series, new generation hydraulic excavators incorporating electronic controls, is introduced.



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. This function has made it possible to collect operational infor-

mation from distant locations, contributing to the streamlining of customer operations.



## 2013

ConSite service solutions that ensure the optimal operation of machines used by individual customers is introduced.



## 2016

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



2022~ Launched the pursuit of a revival akin to our second founding

# Company Profile (As of March 31, 2023)

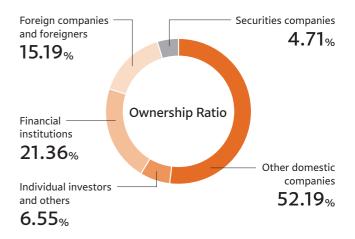
Company Name	Hitachi Construction Machinery Co., Ltd.
Paid-in Capital	81,577 million yen
Head Office	2-16-1 Higashi-Ueno, Taito-ku, Tokyo, 110-0015, Japan
Established	October 1, 1970
Representative	Masafumi Senzaki, Representative Executive Officer, President and COO
Number of Employees	25,430 (Consolidated), 5,621 (Non-consolidated)
Major Operations	Manufacturing, sales, rental and service of construction machinery, transportation machinery, environment-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/



# Investor Information (As of March 31, 2023)

Stock Exchange Listing	Prime Market 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	23,407
Annual Shareholders Meeting	The annual meeting of shareholders is held in June in Tokyo.

## **Composition of Hitachi Construction Machinery Shareholders**



## Major Shareholders (Top 10 Largest Shareholders)

Number of shares held ('000)	Shareholding ratio (%)
55,290	26.00
54,062	25.42
31,342	14.74
12,409	5.84
4,906	2.31
2,277	1.07
2,047	0.96
1,402	0.66
1,275	0.60
1,249	0.59
	55,290 54,062 31,342 12,409 4,906 2,277 2,047 1,402 1,275

Notes: 1 The 2,465,562 shares of treasury stock held by the company are not included in the above table.

2 Shareholding ratios are calculated by excluding the 2,465,562 shares of treasury stock.

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

2-16-1 Higashi-Ueno, Taito-ku, Tokyo 110-0015 URL https://www.hitachicm.com/global/en/

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