

CEO Message



We have achieved independent business development in the Americas and have changed our capital structure, providing new opportunities for further corporate growth.

We aim to be a highly-rated business partner for our customers through the implementation of our *Kenkijin Group Identity.**

Representative Executive Officer
Chairman and Executive Officer,
Director, CEO

Kotaro Hirano

* *Kenkijin*: Hitachi Construction Machinery Group employees who work individually and together to realize the goals and aspirations of the Group

Ensuring a Prosperous Land and Society for the Future as Our Management Philosophy

The vision of the Hitachi Construction Machinery Group is “Ensure a prosperous land and society for the future; Contribute toward realizing a safe and sustainable society.” Although this sounds simple, we need to implement a range of measures to help us achieve this vision. We are a customer-oriented organization, considering our dealers as our customers as well, rather than a company-oriented organization. We know that by observing our customers’ sites where our machines operate, we can identify ways to improve how we run our businesses and find new challenges to take on. We strive to not only provide our customers with high-performance and high-quality machines but also to satisfy them as users of those machines. Our customers use our well-maintained machinery to build roads, sewage systems and other infrastructure that improves the quality of people’s lives. They also use our machines to contribute to recovery efforts when a disaster occurs. By supporting our customers, we are thus also working to “ensure a prosperous land and society for the future”.

The types of challenges faced by our customers, including those related to the environment, constantly evolve. We must be attentive and on the lookout for such changes and respond accordingly. Right now, this means seeking to increase the on-site efficiency of our machines, to extend their product life from 10 to 15 years while maintaining their performance level, and to recycle the components of machines that have come to the end of their 15-year life, in addition to making our machines even more environmentally friendly. In order to earn more trust from our customers, we must be more than just a mere manufacturer of machines.

The Hitachi Construction Machinery Group has achieved independent business development in the Americas and implemented the change in its capital structure, and these achievements are providing the Group with new opportunities for further global growth. To firmly grasp this opportunity, it is important that all our global employees are familiar with our “Reliable Solutions” Corporate Statement: “We

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are a reliable solutions partner with/for our customers.”

Whether or not we can achieve such global growth depends on the motivation of individual employees. We wish for all members of the Group to align themselves with our growth strategy of becoming a provider of innovative solutions by taking a customer-oriented approach. We will take on and meet this challenge to make Hitachi Construction Machinery an enterprise that customers rate highly as a valuable and productive business partner that is easy to work with.

What Needs to Change and What Needs to Remain

Throughout Hitachi Construction Machinery’s history, there’s been chairman and president positions, but this is the first time we have had a structure with CEO and COO. We discussed in advance what roles we each would take on and clarified who would lead which meetings. As a function of CEO, I will work to make our Corporate Identity more widely known, formulate management plans, and enhance human resources development. I have only just embarked on these tasks and have yet to achieve results. I do indeed have a large in-tray of things to do.

For the Hitachi Construction Machinery Group to become something more to its customers than just a manufacturer of machines based on the Group Identity, I think the Group has things that it needs to change and things that it should not change going forward. And President Senzaki takes charge of the practical aspects of the required changes.

As for what should be changed, firstly, we need to increase the speed at which management is carried out. Due to the change in our capital structure, we have become independent from Hitachi, Ltd. Group, giving us greater leeway to manage more aspects of our business. For example, we used to consult our parent company about issues regarding investment, M&A and various other internal matters, which meant it took us a long time to make these kinds of decisions. We can now make a range of management decisions

with greater speed, although we do need to make adjustments with our new shareholders to accommodate this. Ever since Mr. Senzaki became president of Hitachi Construction Machinery in FY2023, we have been working to promote reforms to make the company a provider of solutions needed by customers, and President Senzaki is now leading the reforms in his role as COO.

The second is responding to changes in customer awareness. In the traditional construction machinery and mining business, the mission of manufacturers like us was to simply supply products with excellent performance and quality. However, customer issues and needs are changing, and we are entering an era in which manufacturers cannot only just supply products with excellent performance and quality, but rather also meet customer issues such as on-site safety, improved productivity, cost reductions such as fuel costs, asset optimization, and environmental friendliness to survive. Although our customers are steadfast in their commitment to increasing safety and productivity at their construction sites, there are other changes in their thinking that we must respond to also. To do so, we redefined our value chain business (parts and services, rental, used equipment and remanufacturing) in FY2017. Since then, we have been enhancing the business under our medium-term management plans and over the last six to seven years have focused on changing the mindset of our employees from one that values a business model driven by the sale of new equipment, to one that instead attributes importance to sales revenue from the value chain business. While enhancing our value chain business, we will increasingly be required to implement measures to contribute to making construction sites more environmentally friendly for the circular economy. Accordingly, we are attributing more importance to the number of equipment units operating in the market than to our market share calculated based on the number of new units sold only. This means providing reliable maintenance services for the roughly 300,000 working units that are currently in operation around the world to extend their product lives, thereby increasing their economic value. Also, to be highly rated by our customers, we need to help them meet their social obligations. Through independent business expansion in the Americas, we can now do this across the world, which I think is of great significance for us.

As for construction machine operators, there continues to be an ongoing shortage of labor. At the same time, technological additions such as self-driving and remote operation support systems can increase the machine’s complexities and costs. Some customers are expressing concern about the magnitude of investments that they need to make for the machines and also about their usability. Against this backdrop, customers are expecting us to support them in making efficient use of their assets (machines). It is expected that needs will become more diverse in the future. For example, as their needs diversify, some customers might be better served by renting or purchasing used equipment and we must be ready to make such proposals in order to equip them with a fleet that is suited to their purposes.

On the other hand, I regard it as one of my most important tasks to ensure one thing that should not change within our business. Specifically, I will work to ensure that all Hitachi Construction Machinery Group employees firmly uphold the vision of the Group, which is to “Ensure a prosperous land and society for the future” and is part of the Group Identity newly set in 2022. Our customers use our machines to build roads and lay water pipes to contribute to the development of local communities and the improvement of residential environments. If disaster strikes, these same machines will be needed to recover from the damage caused. We hope all our employees take pride in the fact that our machines make such contributions to society, and we want them to provide their customers with products and a value chain that can help our customers meet their challenges. This is what we mean when we talk about “Reliable Solutions.”

I think there is great importance to focus on building our Group Identity in the Americas, where we have recently expanded our market capabilities. In the Americas, our employee base has been increasing and diversifying at a rapid rate and we also have many new dealers for our products in the region. I therefore deem it important that we promote our Corporate Identity more widely with our local customers and dealers and not just among ourselves.

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New Mindset and the Enhancement of Human Resources

The Hitachi Construction Machinery Group has approximately 26,000 employees, of whom roughly 10,000 are Japanese. This means that the majority of our employees are not Japanese, and I think it is now time for us to further enhance our in-house education system and other measures to make the Group Identity more widely known. In addition to the Americas, where we have recently embarked on independent business expansion, we are also entering new areas of Africa, Central Asia and other regions. As both our employee and dealer numbers have increased in these regions, we will enhance our efforts to promote understanding of the Group's basic ideas and future business direction on a global basis, starting with the *Kenkijin* Spirit, which represents our values and contains our code of conduct. We formulated the Spirit in 2008 to express our shared global values in view of the difficulties we were having with internal communications following the increase in our non-Japanese workforce that began around 2004 as our overseas sales took off. Believing that there was more to the communication difficulties than mere language and cultural differences, such as the Japanese tendency to value tacit knowledge, I led the global discussion on and formulation of the *Kenkijin* Spirit, which clarifies our values and sets out our code of conduct as the basis for our corporate culture. By using the Spirit to align our values, we were able to expand our business. As a result, we increased our sales revenue beyond the one trillion yen marker to reach 1.4 trillion yen in FY2023. I believe we can attribute this result to the formulation of the *Kenkijin* Spirit.

It is also important to change how we communicate the *Kenkijin* Spirit in light of social changes and the diversification of our workforce. For example, our employees in South American countries such as Brazil, Chile and Peru speak Spanish and Portuguese and have different customs. For co-creation with local employees and dealers in these countries, we need to think about how we can communicate the Spirit in a way that is meaningful to them. Going forward, we will focus more on the Americas and will make further efforts to make our

Group Identity more widely known in the regions that are new to us.

The enhancement of our workforce provides us with a foundation for future growth and is essential for the development of products and promotion of sales. Accordingly, we are attributing importance to providing employees with education and training, as well as on-site, hands-on experience and are strengthening the related systems. Compared with my own age group, today's young people have greater diversity in terms of their personal characteristics and ways of thinking. When it comes to their work, however, it is important that these characteristics be united.

To this end, I value communication. Since the outbreak of the COVID-19 virus, the number of people working from home has increased, largely driven by the spread of technology that supports telecommuting. Face-to-face interaction remains important, however, and I am pleased to note that around 90% of our employees are engaging in "real communication." This is useful. For example, if you are at the office and you see someone from another department holding an urgent meeting in an effort to win a big order, you will naturally think about what impact it will have on your own job if they succeed in winning the order. You can also chat with someone from another department about a movie you watched over the weekend. But you cannot do these things if you are working from home. That is, you can broaden the scope of your exchanges by sharing the same physical space as your colleagues. With diverse teams, it is even more important to take actions in a united manner through "real communication." Face-to-face communication is also more conducive to maintaining an atmosphere of mutual respect. Looking back over my own career, I have communicated and interacted with countless people. Through face-to-face communication, I sometimes gained more information than could be gleaned by words alone. For example, once when someone was explaining a project in positive terms, I was able to pick up from their facial expression that there were some problems with the project. Also, when I explain business matters, I change my tone in response to the listeners' reactions. I am able to readily make these adjustments because I have engaged in "real communication" so many times that I have naturally become aware of the importance

of such fine-tuning. I believe that all employees of our company have the potential to one day lead it as part of the executive team. I would urge each of them to hone and make use of their respective communication skills with the aim to assume higher positions in the company.

I used to take business trips alone. Since last year, however, I have been making overseas business trips and inviting young employees serving in the position of manager to accompany me. Many of them are working at the head office or at factories and are not directly engaged in sales or service activities. I have been taking these people with me overseas to help them understand how their jobs are indirectly related to the work of our customers and dealers. I do this by giving them a chance to observe in person how I, in my capacity as CEO, am dealing with local official distributors outside Japan and to see what challenges our local customers in these countries are facing.

While I was serving as president of the company I was unfortunately unable to allocate much of my time to employee education. Now I can allocate more time to this, but there is more to it than just giving lectures. I think it is also important to visit our offices and factories to talk and exchange insights with on-site employees. Moreover, this past April, I started to directly provide explanations about Hitachi Construction Machinery's specific strategies and its future direction to those employed through mid-career recruitment



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as a means of enhancing their education. Mid-career workers have diverse backgrounds and are expected to make tremendous contributions to our businesses. But, being new to the company, they do not have much information about it. As CEO, I will therefore communicate with them directly regarding the business policies of the company and talk with them about our Group Identity, *Kenkijin* Spirit and management strategies, thereby helping to ensure that we are all aligned.

Improving Our Governance and Increasing Our Corporate Value

We make our corporate management plans based on the four management strategies set in our current medium-term management plan. They are: Delivering innovative solutions for customer needs; Enhancing the value chain business; Expanding business in the Americas; and Strengthening human capital and corporate capabilities. We deem it important to appropriately allocate our management resources (human resources, financial capital and others) to these strategies. In view of on-site challenges faced by our customers, we need to have more developers who can promote the electrification, automated and autonomous operation of our machines. To this end, we must enhance the development of personnel able to engage in development activities in Japan and also strengthen our development departments outside the country. For financial capital, it is essential to make investments in a well-balanced manner. We also need to decide which to prioritize among our production bases in North America, service bases in the mining business in South America, and bases in the global rental business. For the rental business in particular, we need to take the circular economy concept into consideration going forward.

Hitachi Construction Machinery is a company with a nominating committee, etc., where supervisory and executive functions are separate. Since the change in our capital structure, we have had a more proactive exchange of views at Board of Directors meetings

and are further raising our governance level. Moreover, we recently introduced the business unit system for integrated business operation from development through to selling and after-sale service. With regard to governance issues, we attribute importance to quality and safety. Accordingly, since FY2023, the quality division has been placed under the direct control of the president to ensure its dependence from other divisions. Since FY2024, meanwhile, the occupational health and safety division and the compliance division have been functioning as independent organizations under the leadership of an executive officer, who reports directly to the president. We will further increase the effectiveness of our governance system as our reform efforts continue.

Meetings of the Board of Directors are attended by three inside directors, namely, the CEO, COO and CFO, who are the top leaders for strategy, business operation and financial issues, respectively. The direction of discussions and the opinions expressed by outside directors at the meetings are communicated in an appropriate manner to executive officers and the departmental heads who report to them. In my capacity as CEO, I cooperate with the president to help executive officers to work with vigor and make growth plans at their own discretion. We are promoting discussions in a balanced manner in our effort to fulfill our respective responsibilities.

At Board of Directors meetings held in FY2024, we promoted discussions on our management strategies and business portfolio and fostered measures to improve the Board's monitoring function in response to the issues pointed out in the effectiveness evaluation conducted for FY2023. For past business operations and investments, it is important to discuss why certain outcomes were achieved, regardless of whether they were good or bad. For upcoming business and investment projects it is likewise necessary to be constantly asking "why?" in order to identify challenges, even as we are taking swift actions to foster the projects. It is also essential to maintain a good balance in our business amid the changes occurring more broadly in society.

It has been my view that achieving sales revenue of above 1,000 billion yen would mean raising the level of our corporate governance. On the other hand, I believed we would be able to continue

to manage our employees, internal education, rules and others at the current level if our revenue remained below the 1,000 billion yen mark. Now that our sales revenue has actually exceeded 1,000 billion yen to reach nearly 1,500 billion yen, we are facing an increase in our fixed expenses and a need to further sophisticate our operational level, which does indeed make it quite challenging to manage the organization. When sales revenue exceeds 1,500 billion yen, however, we will be able to stabilize management, and so we are now in a critical period.

I think higher corporate value and a higher governance level are interrelated. We will of course work for greater performance but we will also strive to promote co-creation with our stakeholders including customers, employees and business partners for the achievement of our vision. We introduced a restricted stock compensation system in 2023 by attributing importance to our stock price, but it is also important to increase our corporate value by contributing to the solution of social issues based on the concepts of safety, compliance and quality.

Hitachi Construction Machinery has taken a big step forward with its "second founding". But growing our business henceforth will not be easy. We will therefore seek the support of our stakeholders, including our customers and employees, as well as society at large, as we conduct the global operations of the Hitachi Construction Machinery Group. We hope you will join us on our journey.



Photo taken at the Cerrejon mine with personnel of our customer on a visit to Colombia in South America