

COO Message

Based on the four strategies set in the medium-term management plan, we will enhance our independent business expansion in the Americas and the value chain business while also evolving in new growth areas. The driving force for all of this is our commitment to meeting the challenge of becoming a true solutions provider.

Representative Executive Officer
President and Executive Officer,
Director, COO

Masafumi Senzaki



COO's Roles and Contribution to the Vision

The strength of the Hitachi Construction Machinery Group's corporate culture lies in its *Kenkijin* Spirit. I joined Hitachi Construction Machinery back in 1991, and from then until now there is one thing that has not changed: the company is made up of people who genuinely enjoy contributing to customers and making them happy. We make these contributions through the performance of our distinctive orange machines and the provision of related services. Everyone at the company thinks about how our machines can be used by customers and how they can contribute to our customers' safety and productivity. This dedication is captured in the *Kenkijin* Spirit, which forms part of our code of conduct. The *Kenkijin* Spirit upholds the three Cs of "Challenge, Customer and Communication". Guided by our customer-first policy, each one of us is embracing and meeting challenges to fulfill the corporate mission, demonstrating our power through good communication. I believe this is possible because all of us *Kenkijin*, or employees, share the same set of values. This is one of the strengths of our corporate and organizational culture.

As president and COO, I am tasked with increasing our corporate value. The specific measures by which we will seek to do so are summarized in the current medium-term management plan. As my own management policy, I attribute importance to on-site operations conducted at the forefront of our business and to understand what is actually going on. Accordingly, since I became president of the company, I have been proactively visiting our sites to communicate the corporate policies to on-site *Kenkijin* directly. Through townhall and other on-site meetings, I have now explained more than 30 times why it is necessary for us to maintain the Corporate Identity and implement a medium-term management plan, although I sometimes felt that such forums are not always ideal for providing all the details of our corporate policies. Hitachi Construction Machinery nevertheless values openness and freedom. This means it has a corporate culture that encourages employees to embrace challenges and make efforts while also giving them permission to say "no" when they are asked to do something that they cannot do. Further, we deem it

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important to find solutions through proactive communication and based on the principle of basics and ethics. We also respect the limits of reality and value interactive communication as part of our corporate culture, and I believe these values constitute the true *Kenkijin* style.

In order to achieve the Hitachi Construction Machinery vision, “Ensure a prosperous land and society for the future—We contribute toward realizing a safe and sustainable society—” all *Kenkijin* are expected to share the challenges faced by customers and commit themselves to helping our customers to meet these challenges. If each *Kenkijin* takes actions through a customer interest first (CIF) approach, it will help the Group build a robust corporate culture and become a true solutions provider as described in our Group Identity, which we formulated as the *raison d’être* of the Group to mark our second founding. I have experience working with customers directly at the forefront of the Group’s sales and service activities as well as at its manufacturing facilities around the world, which has given me an in-depth understanding of the challenges faced by our customers, dealers and our roughly 26,000 *Kenkijin*. I think this experience also helps me make management decisions and lead the company in a direction that is aligned with the Group’s vision.

Measures for “Continuation and Evolution” Set under the Medium-term Management Plan

We were able to end the first year of our current medium-term management plan, “BUILDING THE FUTURE 2025,” with favorable results propelled by the Americas business, mining business and value chain business. While boosting our overall performance in these three businesses, which we regard as our growth drivers, we also further enhanced our positions in the Asian, Indian and African markets to promote sales of products of the construction business. Unit and the Compact Business Unit.

The current medium-term management plan focuses on

“Continuation and Evolution” to promote the value chain business, which is continuing to grow, as well as the Americas business, for which we now have far more business opportunities. It also commits us to evolve by taking on the challenge of achieving new types of growth. The plan sets out our four core management strategies: “Delivering innovative solutions for customer needs,” “Enhancing the value chain business,” “Expanding business in the Americas” and “Strengthening human capital and corporate capabilities.” By following these strategies, we expect to achieve growth to become a true solutions provider.

To this end, we need to evolve by taking on the challenge of achieving new types of growth. For example, in response to growing calls for carbon neutrality, the Hitachi Construction Machinery Group is starting to develop and sell electric excavators in Europe ahead of other regions. Our construction machinery are utilized to create “a prosperous land and society.” They are driven by engines that provide hydraulic pressure. The source of the power that drives the engine is shifting from fossil fuels to electricity, and will later shift to hydrogen, which has no CO₂ emissions. This is a competitive environment and, because we have never developed or manufactured engines ourselves, we will work with engine manufacturers and other partner companies to help our customers achieve maximum value. Being supported by a range of partner companies, we have started to develop and sell electric excavators in Europe, as mentioned above, but electric excavators are not as yet widely used in the construction and civil engineering industries. This is because there are many challenges that cannot be solved through the simple replacement of conventional machinery with electric-powered models. In view of this fact, we opened our new research base, named “ZERO EMISSION EV-LAB,” in Ichikawa City, Chiba Prefecture, Japan as a place to conduct research to help customers solve their issues by providing them with solutions that go beyond simply the delivery of machinery.

When taking on new challenges, employees should have the freedom to fail. For the Hitachi Construction Machinery Group to continue to enjoy this kind of corporate culture, we have been implementing new measures, including holding the Hitachi Construction

Machinery Group Business Contest (KBC). The contest encourages *Kenkijin* to embrace challenges on a continual basis, both to further reinforce the corporate culture and to commercialize new projects. For the remanufacturing business, for example, there was a lot of technological know-how that we lacked. Despite this, we worked on remanufacturing using our own technologies. This imposed a considerable financial burden on us, but through the initiative we were able to gain confidence about what we could achieve. We are now aiming to increase sales revenue from the remanufacturing business to 80 billion yen by FY2030 by handling more remanufactured parts. To this end, we will consolidate our remanufacturing bases and locate the integrated base on the premises of the Banshu Works in Hyogo Prefecture, Japan to make it our mother factory for the recycling business and to enhance global cooperation for it. This will help us foster a resource recycling-based business for the circular economy.

For the continuation and further improvement of the favorable results in the Americas business and the value chain business, we have set KPIs for FY2025. The Americas represent a new market for us to pioneer on our own, as well as a core market for our unique growth story. This fiscal year, we will implement measures to achieve growth in the Americas through the independent expansion of our business in the region to record sales revenue of 300 billion yen for FY2025. For the mining business in the Americas, we need to expand our market share in North America, and also enter the South American market, where we currently have a very low corporate profile. In order to foster the mining business in the Americas, including promoting local sales of our dump trucks, we will work to expand our sales and service bases in the region and organically build ties with Hitachi Construction Truck Manufacturing Ltd., which operates a dump truck manufacturing factory in Canada; H-E Parts International LLC, which has parts remanufacturing facilities across the Americas; Bradken Limited, which has strengths in mineral processing, and Wenco International Mining Systems, Ltd., a provider of management systems for mining sites. When we resumed our own sales activities in the Americas, I received lots of pleasing comments from local customers, including, “You have finally come back to us after 20

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years,” which also made me feel a tremendous responsibility to get it right. Accordingly, I intend to lead the company to build even more ties and develop better relations for co-creation with local customers and dealers in the Americas. Speaking of local dealers in the region, we are pushing ahead with the diversification of sales channels and the expansion of the financing business. For the value chain business, we aim to increase its share of our total sales revenue to beyond 50% in FY2025 (as compared to 39% for the fiscal year ended March 31, 2024). It is also important to specify what our new heading will be after we achieve this target. We regard the value chain business’s share of our total sales revenue as an indicator to be used to increase the stability of our business in an environment in which we are susceptible to economic trends. But it is not always necessary to increase the share per se, as it may drop depending upon the quantity of new machines sold. We are therefore considering setting an absolute monetary KPI. Implementing measures to stabilize revenue in the business will also help us further expand our customer base for both our products and solutions.

Sustainability Activities and Stakeholder Engagement

Making each region more prosperous will provide a boost to global GDP. This means demand for construction machinery will continue to increase around the world in line with the establishment of prosperous societies, which will be promoted over a long period of time. But demand could still drop temporarily for a certain period, and FY2024 may be such a period. Generally speaking however, the construction machinery industry is one that can achieve long-term growth.

For sustainable development, it is necessary to make effective use of limited resources. Part of our *raison d’être* is to make contributions to such effective use and identify more business opportunities for doing so. We can also help our customers implement environmental measures, including those for carbon neutrality and the circular econ-

omy, through the provision of our construction machinery. To make such contributions, we need to foster DX and alliances, for which the entire Hitachi Construction Machinery Group will work to gain the required knowledge and expertise.

We have set a policy of helping our customers to extend the product life of the machines that they have already purchased from us by 1.5 times. This may seem disadvantageous to us in terms of our ability to make profits as the manufacturer of this machinery. However, I believe that this policy will be highly rated by customers as our strategy to provide them with solutions for environmental preservation and the circular economy. We gain profits from the machines that we have already delivered to customers in the value chain business. In order to increase the number of such machines, we do need to promote sales of new machines, but we are focusing more on increasing the profit that we can make from machines in operation by selling parts and related services such as overhaul services. We can increase such profits by 1.5 times by extending the product life by 1.5 times. Moreover, this will help promote the circular economy. In addition, we can maintain the prices of our second-hand machines at high levels by using genuine parts for the maintenance of the machines that we rent to customers. If we can thus increase the sales of related products and services in various processes across the value chain, we will be able to stabilize our performance, and this will also help us promote sales of our new machines through the branding effect gained in the value chain business. In a nutshell, demand for new machines is susceptible to economic conditions, which is why it is important that we enhance the value chain business.

In our sustainability activities, we attribute the greatest importance to our vision: “Ensure a prosperous land and society for the future —We contribute toward realizing a safe and sustainable society.—” Based on this recognition, we are working on our issues of materiality in consideration of the risks and opportunities posed to us due to changes in the external environment. For “Product and technology development contributing to climate change mitigation and adaptation,” which is one of our issues of materiality, we are promoting the electrification of our construction machinery. For “Conversion to a



Photo taken at First Quantum Minerals Limited’s (FQML) mine in Zambia with FQML personnel (The fourth person from the right is President Senzaki)

recycling-oriented business model,” we are expanding the value chain business including the remanufacturing business and working to extend the product life of our machines to contribute to the circular economy. For “Strengthening global governance,” we are sharpening our global supply chain and making effective use of human resources to contribute to local communities. All these issues of materiality are deeply related to our vision and are aligned with the SDGs, which are goals shared by the international community. In order to achieve these, we need to foster co-creation with all our stakeholders.

As for employee engagement, I think it is important to communicate to individual employees how their respective activities and achievements are helping customers solve their issues and how this pleases the customers, rather than just sharing customer complaints. Doing this will help us become a solutions provider.

We are not in a hierarchical relationship with our customers. We aim to be an indispensable partner for them in solving their issues. We will eventually build an ideal reciprocal and co-creative relationship between the Hitachi Construction Machinery Group and its customers and business partners including dealers, which will help all parties increase their respective corporate value. We will also take a

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similar approach to our procurement partners.

We recognize that companies cannot continue to conduct activities without gaining the understanding and cooperation of their local communities. We have a range of personnel making meaningful contributions at our sales, service, development and production sites located across various regions. They all have their own values and personal goals that they seek to achieve throughout their careers, and they have their home bases, which form part of their local community. I hope that through their corporate activities our employees will achieve personal growth, have more fulfilling home lives and contribute to their local communities rather than simply focus on receiving compensation for their work. I would like to build this kind

of relationship with all our stakeholders.

Companies depend on human resources to power all their activities, and this will never change. Individuals can make effective use of AI and DX to add more value to their company and to work more closely with their customers to formulate measures to quickly resolve their issues. I would like to make Hitachi Construction Machinery a household name and a company that attracts talented individuals. In particular, I would like to help familiarize senior high school and university students with our activities and encourage them to join us and become *Kenkijin* themselves. To this end, we will conduct promotional activities such as holding “open days” for our factories and offices and special classes for students, as well as accepting interns to our sites.

on our own stock price. I am not satisfied with our current stock price. Both the PER and PBR are relatively low. Through dialogue with shareholders and investors, I have come to understand that they think we can do better. In order to raise their confidence that we will do better, we need to clarify our growth scenario and communicate it to them through more dialogue and stronger engagement. They will invest in our company only when they can clearly understand what we focus on as the source of our corporate value and which types of customer value we are trying to enhance. At the same time, we need to be accountable and take responsibility for our activity results. Through these efforts we will work to increase our overall capital efficiency to become a company that is highly rated by shareholders and investors while undertaking management with a greater focus on stock price.



Management in Consideration of Stock Price and Shareholder and Investor Expectations

Our shareholders and investors, when I hear their opinions through our IR activities, seem to be giving a “thumbs up” to the key performance indicators (KPIs) included in our current medium-term management plan. When formulating the plan, we had in-depth discussions before setting the KPIs, and I am now even more confident that we set them appropriately. We are striving to achieve the KPIs as a unified team and one way we are doing this is by fostering the business unit system. Under this system, each business unit is expected to demonstrate that they have the support of their customers by achieving greater sales revenue. They are also expected to implement measures to maximize our post-adjustment operating profit on a consolidated basis. Since this fiscal year, we have been taking on the challenge of evaluating ROIC for each business unit and setting numerical targets linked to each measure.

In March 2023, the Tokyo Stock Exchange made an announcement titled “Action to Implement Management That is Conscious of Cost of Capital and Stock Price,” and this has prompted internal discussions

Establishment of the New “LANDCROS” Concept

In July 2024, Hitachi Construction Machinery set out its new “LANDCROS” business concept to signal our aspirations as a Group. When we held discussions on the Group Identity, which we announced in April 2023, we also asked employees to propose a word that would symbolize our future heading, with an eye to formulating a new corporate concept that would reflect our ideas. The word “LANDCROS” was chosen to embody our commitment to implementing our vision, “Ensure a prosperous land and society for the future.” By upholding the “LANDCROS” concept, we will strive to become a true solutions provider.