**Hitachi Construction Machinery Group Integrated Report** 

2024

**HITACHI** 

**Reliable Solutions** 

# **BUILDING THE FUTURE**







## SPIRIT of Hitachi Construction Machinery Group

**Our code of conduct** 

- Challenge
- Customer
- Communication



Messages from Sustainably Enhancing Strategies to Achieve the Global Business Expansion/ Sustainability Promotion Initiatives

Hitachi Construction Machinery Group Integrated Report 2024 Introduction Top Management Our Corporate Value Medium-term Management Plan Growth Strategy by Region that Support Sustainable Growth Corporate Data

## **Editorial Policy**

The Hitachi Construction Machinery Group produces an integrated report to provide stakeholders with a deeper understanding of its business model and medium- to long-term value creation strategy, and to create a positive cycle of enhancement of corporate value and value co-creation through dialogue. The 2024 edition highlights topics related to our value chain business and human capital management as a way of presenting our management strategies and initiatives for sustainable corporate value creation from both financial and non-financial perspectives.

### **Summary of Integrated Report 2024**

In this report, our CEO explains the Group's long-term vision and identity, while our COO gives an overview of the Group's medium-term management plan and management strategy. The report also contains feature articles on the value chain business and human capital management, which we are promoting as priority issues, showcasing our activities toward becoming the True Solution Provider we aspire to be. The human capital management section includes a message from our CHRO as well as a roundtable discussion among younger employees expected to play key roles in the future.

In the section on the strategy to achieve the medium-term management plan, our CFO explains the Group's financial and capital strategies in an easy-to-understand manner by use of a cash allocation diagram and ROIC tree. IR Information provides an update on dialogue with investors. The Technology Strategy section presented by the CTO describes our key initiatives aimed at establishing the industry's leading technological development capability.

In the section titled Growth Strategy by Region, the strategies for the respective regions, including our independent business expansion in the Americas, are outlined by the responsible general manager from a different perspective to that taken in the 2023 report.

Sustainability Initiatives features our efforts for biodiversity, for which we have newly established a policy, in addition to our endeavors to address climate change and to realize a circular economy. For Corporate Governance, we have included additional content. In the roundtable discussion among five independent outside directors, they offer their candid opinions.

To help stakeholders gain a deeper understanding of the Growth Story we are pursuing, the report broadens the scope of information disclosure.

## **Scope of this Report**

#### **Target Period**

April 1, 2023 to March 31, 2024 (Includes certain information from April 1, 2024 and later)

#### **Organizations Covered**

Hitachi Construction Machinery Group (Hitachi Construction Machinery Co., Ltd. and its consolidated subsidiaries)

#### **Accounting Standards**

Unless otherwise specified, financial statements for the fiscal year ending March 31, 2014 or earlier comply with the J-GAAP and financial statements for the fiscal year ending March 31, 2015 or later comply with the International Financial Reporting Standards (IFRS).

#### **Referenced Guidelines**

We have prepared the Hitachi Construction Machinery Group's *Integrated Report 2024* and Sustainability Website in accordance with the GRI Standards and by referencing the International Integrated Reporting Framework of the International Financial Reporting Standards (IFRS) Foundation and the Guidance for Integrated Corporate Disclosure and Company-Investor Dialogue 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**

September 2024 Previous Issue: September 2024 Next Issue: September 2025 (tentative) Hitachi Construction Machinery Group Integrated Report 2024

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## **Our Communication Map**

In addition to publishing this integrated report, the Hitachi Construction Machinery Group fulfills its accountability responsibility and engages in more meaningful communications with stakeholders through media such as the ESG Data Book and Sustainability Website.

#### ESG Data Book

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

#### Sustaiability Website

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

#### Corporate Governance Report

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

This report shares quantitative

#### Human Capital Report

information related to the Hitachi Construction Machinery Group's human capital as well as its human capital strategy and initiatives.



#### Investor Relations Website

This website shares financial results and IR news, as well as information for individual investors and various IR materials, in a timely manner.

#### Annual Securities Report

This document reports on the company's corporate affairs, business overview and financial information in each fiscal year pursuant to the Financial Instruments and Exchange Act.

#### Business Explanatory Meeting Materials

Materials used for explanatory meetings and ESG briefings for institutional investors and analysts are uploaded along with summaries of Q&A sessions.

#### <Public Relations>

#### TIERRA+ (magazine)

TIERRA+ is a quarterly magazine published to inform a wide range of stakeholders about the Hitachi Construction Machinery Group's activities in Japan and overseas.

## **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 addons 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.

### **CEO** Message

### 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 Kenkiiin 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 onsite, 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 electronification, 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  $\,$ 

## **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 customerfirst 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

#### COO Message

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 stvle.

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 CO<sub>2</sub> 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 (KβC). 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

#### COO Message

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

#### COO Message

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 Al 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.

# 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

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.

# 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.

## About the new concept "LANDCROS"

In July 2024, we established the new concept "LANDCROS" as a proof of our desire to deliver innovative solutions. The logo design features the keywords of "LANDCROS" with the Hitachi Construction Machinery Group, Japanese-rooted latest technology, and reliable solutions. From now on, under the Hitachi brand, we will utilize "LANDCROS" in a variety of internal and external occasions to spread a new image of Hitachi Construction Machinery to all stakeholders.



New concept logo

### **Determining how to be a True Solutions Provider**

Currently, the construction machinery market is undergoing significant changes. To respond to the market changes, we must listen to our customers and become a "true solutions provider" that can address various customer issues.

The Hitachi Construction Machinery Group is in its second start-up period after separating from the Hitachi Group and restarting its independent expansion in the Americas.

In this context, the unique "Group Identity" was established in 2022. In discussing the Group Identity, we conducted a broad survey regarding symbolic phrases that would express the direction that we should take and formulated the new concept that embodies the various "desires".

#### **Our Desire behind LANDCROS**

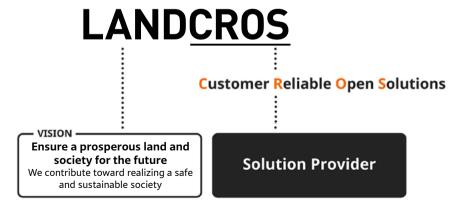
In the 2022 survey for employees, we received nearly 5,000 proposals, including desires behind those words.

The most common desires can be summarized as the following five.

- We want to connect with land through machines and contribute to ensure a prosperous land and society for the future.
- We want to cross with our customers on their journey.
- We want to be a reliable presence for our customers.
- We want to openly co-create new businesses and value with our customers and partners, and develop together.
- We want to propose innovative solutions to our customers and various stakeholders. LANDCROS is a unified symbolic word

that embodies the five desires.

The LAND symbolizes our vision "Ensure a prosperous land and society for the future -We contribute toward realizing a safe and sustainable society-" which is defined in the Group Identity. The CROS represents "Customer, Reliable, Open, and Solutions", and reflects our direction toward becoming a solution provider.



Messages from Sustainably Enhancing Strategies to Achieve the Global Business Expansion/ Sustainability Promotion Initiatives

Hitachi Construction Machinery Group Integrated Report 2024 Introduction Our Corporate Value Medium-term Management Plan Growth Strategy by Region that Support Sustainable Growth Corporate Data

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# **Sustainably Enhancing Our Corporate Value**

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In 1950, Hitachi, Ltd., the predecessor of Hitachi Construction Machinery Co., Ltd., launched the full-scale marketing of cable-operated shovels. Some 70 years later, the Hitachi Construction Machinery Group is providing the construction industry with the latest advancements in construction equipment. In the meantime, the Group has developed a sales and service network built on an integrated system of rental, sales and services (RSS) that allows it to meet the needs of customers in every corner of the world. In 2022, the Hitachi Construction Machinery Group began a second founding by building on its accumulated strengths and the hard-earned trust of its customers. To that end, the Group is delivering products, services and solutions that contribute to on-site operations for customers around the globe. The Hitachi Construction Machinery Group will thus achieve its corporate vision—"Ensure a prosperous land and society for the future. We contribute toward realizing a safe and sustainable society."

Sales Revenue FY2023

1.4059 trillion yen



#### 1949

The U05 cable-operated shovel, designed for postwar reconstruction and infrastructure improvement, was unveiled as a 100% Japanese-built machine. The full-scale production of the U06, a remodeled version of the U05,

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



#### 1965

The UH03, the first hydraulic excavator developed with Japanese technology, is commercialized. The UH03 adopted a two-pump, two-valve hydraulic system developed via the use of Hitachi Construction

Machinery's own technologies. This resulted in a drastic improvement in operability.





#### 1986

The Landy EX series of new-generation hydraulic excavators incorporating electronic controls is introduced.



#### 2000

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



#### 2008

The Kenkijin Spirit is formulated as the Hitachi Construction Machinery Group's code of conduct and an expression of its values.



#### 2013

The ConSite service solution designed to ensure the optimal operation of machines used by individual customers is made



#### 2016

The ZX200X-5B hydraulic excavator and core component of the Group's informationoriented construction (ICT) solutions is introduced.



From 2022 Launched our second founding

## Strengths We Have Gained



### **Earning Power of the Value Chain** Business

In the course of conducting the construction machinery business since its founding, the Group has cultivated the ability to provide optimal solutions to each customer's on-site problems by constantly revising its business model to accommodate changes in the external environment. We refer to this solution business as the value chain business, which the Group boasts as its unique strength. By drawing on our comprehensive strengths, including our customer base and financing knowhow, we strive to identify our customers' latent needs and reinforce our earnings base.

Special Feature 1: Upgrading the Value Chain Business

See page 21.

# **Innovation Generated through the Cultivation of Individual Talent**

Around the world, social needs for construction machinery are many, varied and constantly changing. If we wait for these changes to occur, we will not be able to respond to them. Instead we must anticipate needs and provide solutions to meet them. We can do this because each and every one of our "Kenkijin" employees around the world is committed to creating technologies, products, services and solutions that are highly valued by customers.

Special Feature 2: Further Enhancement of Human Capital Management

See page 25.





# Flexibility to Accommodate Changes in Markets

Since the 1990s, we have shifted from the business of exporting products from Japan to expanding our production, sales and services overseas to serve local markets. This has allowed us to rapidly grow our business internationally. Our Group currently has bases all over the world and is delivering value to more and more countries. We will continue to provide new value going forward by leveraging our ability to adapt to change, which has allowed us to flexibly respond to the needs of diverse customers in various regions.

Global Business Expansion/Growth Strategy by Region

See page 51.

## Hitachi Construction Machinery Group's Materiality

The Hitachi Construction Machinery Group reviewed its issues of materiality in 2021 from the perspective of social trends, such as the SDGs and ESG, as well as from the perspective of external environmental factors, which have the potential to both help and harm our corporate value. In this process, we examined the Group's medium- to long-term risks and opportunities and identified the four issues of materiality most likely to have a large impact on our businesses. We discussed the identified issues with both internal and external stakeholders, obtained approval from the Executive Committee, and reported on the approved issues to the Board of Directors. We then set key performance indicators (KPIs) for each of the issues and have been managing the progress made with the action plans set for the KPIs under our sustainability and governance system, thereby ensuring their steady implementation.

We will review the issues of materiality from time to time in response to changes in the external environment.

### ■ Materiality Identification Process

#### Requests and expectations from society Factors in the external environment that the Group monitors closely Contribute to the achievement of Progress of global warming the SDGs Need to develop infrastructure to Increase ESG investment withstand natural disasters Respond to the GRI Guidelines and Mass consumption and depletion of the UN Global Compact resources Comply with the Corporate Shift to a circular economy Governance Code Acceleration of DX Respond to recommendations from Human rights issues, expectation external experts, etc. for supply chain management, etc. Examination of medium- to long-term risks and opportunities closely related to the Group's business Identification of four issues of materiality Examination of the issues with internal and external stakeholders Approval of the issues by the Executive Committee and reporting to the Board of Directors

## **Risks and Opportunities**

Progress 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			Product and technology development contributing to	
Need to 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 infrastructure maintenance and upgrades		climate change mitigation and adaptation	
Loss of biodiversity	• Impact of business activities on biodiversity	Contribution to biodiversity through the develop- ment of environmentally conscious products and the promotion of a circular economy			
Mass consumption and 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 consumption and maximizing customer value		Conversion to a recycling-oriented business model	
Shift to a circular economy	Increase in initial investment for conversion     Increased production recovery and processing costs     Increased procurement costs	Increase in new business opportunities, markets and demand     Reduction of manufacturing costs			
Acceleration of DX	Decline in competitiveness due to the expansion of competitors and new entrants     Increase in development costs incurred in trying to meet the changing needs of customers	Expansion of contacts with startups leading to deeper strategies as well as collaboration with companies equipped with unique technologies Provision of products, services and solutions based on the effective use of digital technologies		Creating innovative	
Decrease in working population	Impact on sales caused by failure to deal with labor shortage-related issues faced by the construction industry	Provision of products, services and solutions with higher safety and productivity		challenges faced by customers supporting social infrastructure	
Requirement for safety and quality	Loss of social trust due to the provision of a product with insufficient safety/quality	Winning of more trust from customers by the continuous provision of products that they can use with peace of mind			
Human rights issues, expectation for supply chain management, etc.	Loss of social trust due to human rights violations or infringements     Loss of trust from business partners	Winning of more social trust through appropriate human rights-related initiatives			
Increase in geopolitical risks	• Impact on business activities caused by enhanced import/export controls	Incorporation of risk management results in the formulation of management strategies		Strengthening global governance	
Need to ensure transparency in cor- porate governance	Decrease in competitiveness caused by lack of transparency	Higher corporate value and sustainable growth			

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## Hitachi Construction Machinery Group's Materiality

## **Materiality and KPIs**

Materiality	Priority Measures	KPIs			FY2022 Results	FY2023 Results	FY2025 Targets	FY2030 Targets		
Product and technology development contributing to climate change mitigation and	Accelerate the development of decarbonization technologies	Product use (Scope 3, Category 11)		CO <sub>2</sub> emissions reduction (absolute emissions): Compared to FY2010	-21.9%	-20.1%	-22%	-33%		
adaptation  13 cannel  Company	Make proactive use of renewable energy and systematically invest in high- efficiency facilities	CO <sub>2</sub> emissions reduction	Production (Scope 1 + 2)	CO <sub>2</sub> emissions reduction (absolute emissions): Compared to FY2010	-33.0%	-40.4%	-40%	-45%		
	Promote the parts reuse and recycling business in the trend toward a circular economy		Value chain	Growth rate of reused parts (weight basis) via remanufacturing: Compared to FY2022	±0%	+7.4%	+40%	+150%		
	Waste reduction	Resource recycling	Waste	Waste recycling rate (in Japan)	93.7%	92.9%	94%	Aiming for 99.5% or higher		
Conversion to a	Effective use of water resources		Water	Reduction of use (intensity): Compared to FY2010	-31.7%	-39.9%	-34%	Advance water reuse and minimize the regional impacts of water use		
recycling-oriented business model		ll-maintained used		Expansion of sales revenue in the used equipment business: Compared to FY2022	±0%	-3.3%	+8%	Availability of products that meet regional needs		
CO NO PRODUCTION		Promotion of a circular econo	my for	Growth rate for the quantity of used equipment sold with a warranty': Compared to FY2022	±0%	+24.7%	+5%	+10%		
				Expansion of sales revenue in the rental business: Compared to FY2022	±0%	+10.3%	+30%	Availability of products that meet regional needs		
	Increase the operation rate of rental equipment by the effective use of data			Rental equipment operation rate in Japan (total for three products'2): Compared to FY2022	±0%	-0.2%	+4%	+9%		
Creating innovative	Contribute to cooperative construction machinery, operation support systems and site safety			Improve safety Functions to red Machinery produ		Juce accidents caused by Hitachi Construction ucts	Released assistance equipment designed to reduce collision damage (small-size road construction machines)	Developed a base machine for hydraulic excavators to provide solutions for remote control and automation toward the improvement of working environments and safety at construction sites	Achieve "cooperative control" between humans and machinery	Contribute to zero overturns and fatal accidents
solutions for challenges faced by customers supporting social infrastructure	Accelerate the development of automated and remotely operated construction machinery	Improve productivity	Development and expansion of products and systems that contribute to higher productivity		Promoted the development of an engineless full-electric dump truck to carry out demonstration tests at the Kansanshi copper and gold mine in Zambia by the end of FY2023	Developed the RBT Series hydraulic excavators for remote operation (released in May 2024) and developed a new remote operation solution	Disclose information on efforts to develop and expand products and systems that contribute to higher productivity	Promote standardization for automated and labor-saving construction machinery		
9 AND INFRASTRUCTURE			Monthly active u	users of ConSite Pocket*3	3,619 users	4,470 users	5,500 users	7,000 users		
	Reduce life cycle costs of construction	Reduce life cycle costs	Number of status changes'4 made for used equipment		1,356	2,391	3,000	4,200		
	machinery by stabilizing their operation	stabilizing their operation		e implementation rate by "ConSite OIL"s" condition	77%	72%	80%	90%		
	Accelerate the development of products and solutions	R&D system	Ratio of R&D cos	sts to sales revenue	1.9%	2.2%	3% or higher	3% or higher		

## **Hitachi Construction Machinery Group's Materiality**

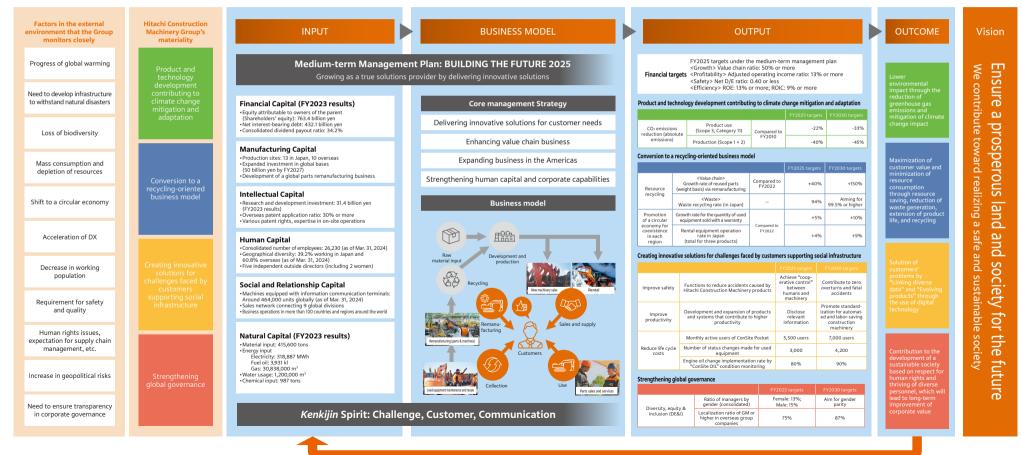
## **Materiality and KPIs**

Materiality	Priority Measures			FY2022 Results	FY2023 Results	FY2025 Targets	FY2030 Targets
	Respect human rights in the value chain Respect for human rights Attendance rate for education on "Business and Human Rights"		94.6%	95.0%	100%	100%	
	Promote global human resource management	Global leaders	Global leadership training attendance rate (global rate)	84% (cumulative total)	82% (cumulative total)	100% (cumulative total)	100% (cumulative total)
	Diversity, equity & inclusion (DE&I)	Diversity initiatives	Ratio of managers by gender (consolidated)	Female: 11.2% Male: 16.0%	Female: 10.8% Male: 15.8%	Female: 13% Male: 15%	Aim for gender parity
			Localization ratio of GM or higher in overseas group companies	72%	71%	75%	87%
Strengthening global governance	Global occupational safety and health management	Occupational hazards	Zero occupational hazards (compared to the previous FY)	145% (compared to FY2021, in Japan)	135% (compared to FY2022, in Japan)	Down 50% (compared to FY2024)	Aim for zero
5 center COULUTY	Fair and responsible procurement	Fair and responsible procurement	Implementation of a supply chain sustainability survey	84%	93%	95%	Increase the response rate to 100% by making it a regular survey
8 COMMISSION AND	Increase the transparency of management decision-making and the process leading to the results	Corporate governance	Outside directors, female directors, non-Japanese directors	Outside directors: 6 out of 10 Female directors, non-Japanese directors: 2	Achieved the targets for FY2025 by increasing the number of outside directors to 7 out of 10 (as of June 2023, and 6 out of 9 as of the end of March 2024) and that of female directors and non-Japanese directors to 3	Increase the number of independent outside directors to a majority on the Nominating, Compensation and Audit Committees.  Appoint an independent outside director as the chairperson of each committee	Shift to a system suitable for strengthening the business and improving governance
	Corporate ethics and compliance	Eradicate corruption and bribery	Number of corruption- and bribery-related legal violations	0	0	0	0
		Corporate ethics and behavior	Thorough legal compliance in business activities	0 serious violations *Legal violations for which fines or administrative monetary penalties are imposed	0 serious violations	0 serious violations	0 serious violations

- \*1: Used equipment provided with a warranty, being certified as "PREMIUM USED" by Hitachi Construction Machinery (that is, certified as having met the inspection and maintenance criteria set by the Hitachi Construction Machinery Group and its authorized dealers)
- \*2: Hydraulic excavators, mini excavators and wheel loaders
- \*3: ConSite Pocket is a smartphone app that monitors the status of customer-owned machines for appropriate service support and downtime reduction and provides timely alerts regarding preventive maintenance.
- \*4: "Status change" means the transfer of the data of used equipment on the relevant system. It is conducted to enhance support for users of used equipment that has been transported from another region for operation in the user's region, thereby extending the product life of the equipment.
- \*5: By monitoring the oil status 24 hours a day, the sensor-equipped ConSite OIL system facilitates timely oil changes to prevent machine failures.

## **Value Creation Process**

The vision of the Hitachi Construction Machinery Group is to "Ensure a prosperous land and society for the future; We contribute toward realizing a safe and sustainable society." For the realization of this vision, the Group will continue to meet the expectations of customers and co-create innovative products, services and solutions together with customers for the creation of new value. To this end, we will make achievements for the key performance indicators (KPIs) that we have defined based on our issues of materiality, thereby solving social issues through our business activities and continuing to increase our corporate value on a medium- to long-term basis.



# Feature



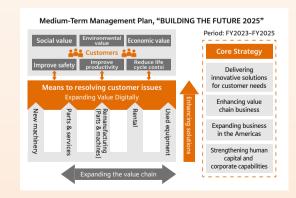
The Hitachi Construction Machinery Group envisions itself as the world's No. 1 solution provider, able to provide innovative solutions that anticipate customers' needs, in addition to supplying construction machinery supported by advanced technology and an integrated service system.

Innovative solutions are refined through ongoing customer interest first (CIF) activities, in which we work closely with each customer to identify their issues and concerns. What is important is to create new value by the application of out-ofthe-box thinking to solve customer issues. In this age of rapid change, the issues affecting our customers are also changing day by day. It is important to promptly grasp any change in our customers' challenges by having ongoing contact with them and developing an understanding of their current and future issues and concerns. It is also important to generate and test hypotheses, and take on the challenge of finding solutions. If the results of verification are unsuccessful, we use the failure as a stepping stone to future success. By rapidly iterating this cycle together with our customers and partners, we can achieve tremendous success. A speedy, collaborative activity can itself turn out to be an innovative solution.

This cycle of action is the essence of the "Kenkijin Spirit." We believe that by engaging it effectively we can provide customers with "Reliable Solutions."

## Solutions offered by the Hitachi **Construction Machinery Group**

We want the solutions offered by the Hitachi Construction Machinery Group to bring joy not only to our customers but also to ourselves. Solutions based on this approach are not limited to products (machines) but involve all areas of business, including our value chain business. We work to sophisticate our solutions through the expansion of the value chain business in order to achieve the "Reliable Solutions" aspired to by the Hitachi Construction Machinery Group.



Hitachi Construction Machinery Group Integrated Report 2024 Introduction Sustainable intervent of the Construction Machinery Group Integrated Report 2024 Introduction Top Management Our Corporate Value Medium-term Management Plan Growth Strategy by Region that Support Sustainable Growth Corporate Data

## Parts and Service Business: Solutions using "ConSite"

The ConSite service solution tool contributes to the stable operation of machinery by proposing maintenance and parts replacement based on the operational data of each customer's construction machinery. The service was launched in 2013, and the number of ConSite-equipped machines has now reached 268,000 (as of the end of August 2024). In addition to the regular report and emergency alert distribution functions, we have offered a wide range of applications to strengthen our ability to make proposals to customers. ConSite has thus generated increased sales in parts and servicing.

As there are many varieties of compact and construction machinery in operation, operational data is used to efficiently target

machines that require maintenance and servicing. When service staff inspect the targeted machines, they use the "ConSite Shot" inspection report creation app to strategically propose preventive maintenance, parts replacement or repairs.

As mining equipment operates 24 hours a day for 365 days, higher levels of reliability and durability are required. In our service proposal activities, we carry out detailed inspections of each machine, and use digital technology to measure operational data and wear, etc., to propose parts replacement or repairs.

We will accelerate these initiatives and increase sales revenue from parts and servicing.

# Expanding parts and services sales through proposal of strategic preventive maintenance and parts replacement/repair based on machine operating information



## Remanufacturing Business: Remanufacturing Parts and Machines

Dating back to the 1970s, our remanufacturing business has a history of around 50 years. Over the decades, we have expanded our lineup of remanufacturing items and advanced our remanufacturing technology. Parts recycling involves remanufacturing used parts to provide them with the same performance level as new parts. We began our overseas expansion at an early stage, and today we are operating our remanufacturing business at 23 locations in 11 countries (including Hitachi Construction Machinery), including Australia, Indonesia and Zambia.

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In Japan, the remanufacturing factories are currently located at the Tsuchiura Works and the Hitachinaka Works, which will be consolidated and integrated into the Banshu Works in Hyogo Prefecture by the end of FY2024. The new factory will be used as a mother plant to strengthen global collaboration for remanufacturing. We will address space constraints by consolidating and integrating facilities and work to increase the number of remanufactured parts handled. We also actively engage in machine remanufacturing, which involves purchasing equipment that has been submerged in water and other used machinery and using remanufactured parts to restore it to the same level of functionality as new machines for resale. We are also undertaking the remanufacturing of the main bodies of ultra-large hydraulic excavators used for long periods of time. We are developing this business at multiple overseas locations, including Zambia, Indonesia, South Africa and Turkey.



Special Feature 1 Upgrading the Value Chain Business

Overseas, we are strengthening our remanufacturing business in the Americas. Remanufacturing was previously carried out to the extent that dealers could accommodate it. However, as of FY2023. Hitachi Construction Machinery Americas is overseeing the remanufacturing business in the Americas, with Hitachi Construction Truck Manufacturing engaging in remanufacturing parts for ultra-large hydraulic excavators and dump trucks. In addition, H-E Parts, which specializes in cooling systems and engines for mining equipment, is responsible for the remanufacturing of those components.

In this way, we aim to achieve a resource-recycling business by expanding our capacity both in Japan and overseas. We plan to increase sales revenue for the remanufacturing business from approximately 42 billion yen in FY2023 to approximately 80 billion yen in FY2030.

### Deploy chassis remanufacturing knowledge to each region. and contribute to achieving a circular economy.

#### Before remanufacturing









ZX200-3 that was remanufactured at the Hitachinaka Works (Sold in 2007, suffered water immersion in heavy rain)

#### Before remanufacturing





#### After remanufacturing



Ultra-large hydraulic excavator that was remanufactured in Zambia (Sold in 2011, 21,950 operating hours)

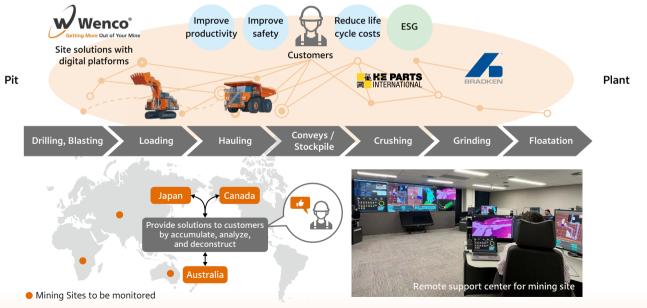
## Mining Value Chain Business: Strengthening the Operation from Pit to Plant

In the mining business, we are working to build on-site solutions using digital platforms. We monitor the operational status of multiple mining sites at various touchpoints in our business domain, from mining (pit) to ore dressing (plant) from three bases in Japan, Canada and Australia.

Our personnel specialized in the respective fields of mining equipment, mining operations and software use the latest digital technology to accumulate and analyze data obtained in real time from multiple mining sites and provide solutions to the issues faced by each customer. At present, the main target of monitoring is the excavation and hauling processes. We aim to gradually expand the monitoring coverage to contribute to the efficient and optimal operation of the entire mining sites of customers.

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#### Contributing to Efficient and Optimal Mining Operations by Expanding the Scope of **Monitoring at Multiple Mining Sites**



Special Feature 1 Upgrading the Value Chain Business

## Rental and Used Equipment Business: Developing a business model to maintain the value of used equipment over the long term

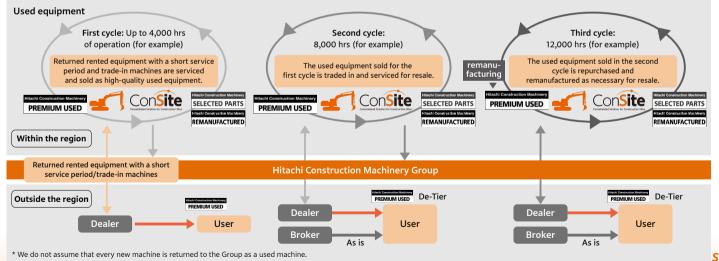
Since starting its rental business 1996, Hitachi Construction Machinery has achieved growth by expanding its service areas to Europe, North America, China, Australia and India. In FY2017, we began offering the "PREMIUM RENTAL" brand overseas. For this business, the Hitachi Construction Machinery Group and authorized new equipment dealers become the owners of rental assets and provide rental customers with construction machinery to suit their needs. After a certain rental period, the equipment is resold as "PREMIUM USED" (used equipment with a warranty). For properly maintained used equipment that is sold in this way, parts remanufacturing, finance and other value chain services can be offered on an ongoing basis, which extends the product service life, reduces customers' life cycle costs, and

contributes to the preservation of the global environment.

In this way, we have been promoting the business model of "securing high-quality used equipment from the rental business" throughout the Hitachi Construction Machinery Group. Going forward, we will establish a scheme in which remanufactured rental equipment comes back to Hitachi Construction Machinery as used equipment so that our products are circulated around the world as reliable machinery suitable for long-term use. For this business model, we will service and then sell machines that have been leased for a relatively short period and returned, as well as trade-in machines. We define the period after maintenance during which the used machine is in operation as the first cycle. After the first cycle, the machine is traded

in, serviced again and resold for operation in the second cycle. The third cycle is the period during which the machine is in operation as a used machine after being remanufactured as necessary and resold. We envisage this circulation of machines occurring within a region. For each machine offered for resale, efficient preventive and regular maintenance will be provided using ConSite, as is the case with new machines. We will handle these machines as "PREMIUM USED." for which maintenance is conducted based on their history and condition, to maintain their value over an extended period. With a view to extending the service life of machinery, we thus are transitioning to a resource-recycling business model.

#### Scheme to Ensure that Machines are Returned to Our Group as Used Equipment



- SELECTED PARTS: A brand offering after-sales service parts that are inexpensive while still providing performance close to that of genuine parts. The warranty period is the same as that of genuine parts.
- REMANUFACTURED: A brand offering genuine remanufactured parts from Hitachi Construction Machinery. The warranty is the same as for new parts.
- PREMIUM USED: A brand offering used equipment certified by Hitachi Construction Machinery and sold with a warranty.
- De-Tier: To change the specifications to adapt to the fuel properties of the operating area when exporting to countries or regions with different emissions regulations.
- As is: The transfer of used equipment in its current state (as is).

Special Feature 1 Upgrading the Value Chain Business

## CHRO Message

# Promoting Human Capital Management as an Integral Part of the Management and Business Strategies

# Maximizing the Value of Human Capital in the VUCA era

Lots of industries, including the construction machinery industry, are experiencing rapid changes in their business environment. This is occurring against the backdrop of a rise in geopolitical risks as well as the progress of DX and GX, which are causing changes to the industrial structure, and the intensification of global competition across industries and in new business fields. In order for the Hitachi Construction Machinery Group to continue to achieve growth in these circumstances, it needs to maximize the performance of its human capital.

The Human Capital Group is upholding, "Where every *Kenkijin* can be themselves in Harmony" as its vision for 2030. We are striving to help all *Kenkijin* to fully express and demonstrate their individuality and strengths in ways that will lead to the transformation of their company and business operations, thereby creating new value for customers and increasing our corporate value. In order to execute and lead human capital management, we are ensuring balanced incorporation of (1) a top management perspective; (2) a business unit manager perspective; and (3) a general employee perspective.

First, from a top management perspective, we are planning and implementing human capital strategies as an integral part of our management and business strategies and in both an "offensive" and "defensive" perspective. In terms of the "offensive" perspective, we are working on the organizational structure, human capital allocation, and development of educational infrastructure in response to the transformation of the business portfolio, in order to lead the transformation of the Company and its businesses. In terms of the "defensive" perspective, we are working to reduce business risks by ensuring safety management and compliance.

Second, from the manager's perspective, we are supporting the materialization of the basic philosophy regarding human capital management of "the company and the individual in an equal relationship" and "winning as a team," as well as the implementation of management and business strategies. In order for the relationship between the Company and the individual to be a "relationship to choose and to be chosen," the manager is responsible for creating dialogue between the top management and the employees, bridging any gaps, and creating an environment that draws out the strengths of all employees. We are supporting managers in improving their management skills so that they can fulfill this role. From the perspective of "winning as a team," we will support managers in leading their general organizations to provide better value and service to customers.

Third, from the perspective of general employees, we are making efforts based on the concept of "equity" so that diverse human capital can maximize their individuality and strengths, and everyone can work independently and actively, placing themselves in the position of the leader "Lead the self." We are providing an optimal workplace environment in terms of office and operations environment as well as systems and structures. We will also foster a culture in which employees learn and challenge themselves by taking in our core value of the *Kenkiiin* Spirit, and encouraging autonomous career development.

\*1 "equity": where everyone can demonstrate their existent and potential individuality and strengths

# Visualizing Human Capital and Enhancing Human Capital Management

In the BUILDING THE FUTURE 2025 medium-term management plan that we launched in FY2023, we express our commitment to growing

### **CHRO** Message

### Special Feature 2 Further Enhancement of Human Capital Management

as a true solutions provider by delivering innovative solutions. We are also upholding "Strengthening human capital and corporate capabilities" as one of the core management strategies that we will implement in response to changes in our business environment. We have thereby made it clear that we are linking our human capital strategies more closely to our management strategies.

In November 2023, we became the first machine manufacturer to obtain certification for "ISO 30414"<sup>2</sup>, which is one of the management system standards of the International Organization for Standardization. "ISO 30414" provides international guidelines for human capital reporting, according to which organizations quantify and analyze human capital information about their own employees and disclose the results to the public.

We also published *Human Capital Report 2023*, which summarizes quantitative information about our human capital. We will continue to disclose relevant information in line with the "ISO 30414" guidelines and review and improve our human capital strategies based on feedback received from both within and outside the company, thereby improving our corporate value on a medium- to long-term basis.

\*2 The guidelines consist of 11 areas and 58 metrics such as productivity and diversity, etc.





Human Capital Report https://www.hitachicm.com/global/ en/sustainability/

# Promoting the success of diverse individuals globally

The mission as CHRO is to enhance the happiness (well-being) of each and every employee and link this to the growth of our business. The number of *Kenkijin* exceeds 26,000 people globally, and these individuals are a tremendous source of strength for the Hitachi Construction Machinery Group. I believe that we can create a virtuous cycle that not only increases our customer and corporate value but also boosts *Kenkijin* pride and our organizational health (in terms of employee engagement) by aligning individual employees' dreams and aspirations with what they do in their work to achieve the unique aims of the Group as well as with the ideal society we envision for the future. To this end, I would urge all Group employees to make every possible effort to increase their own social and market value to become the individuals they aspire to be.

For autonomous career development, we will implement measures to help employees clarify their own ideal and take actions to achieve it, including promoting dialogue in one-on-one meetings, enhancing coaching training, launching career training by age group and assigning career consultants. While enhancing the learning content that we offer, we will also make more investments in human capital development to help employees acquire the skills to become the individuals they aspire to be, with a particular focus on data scientists and project management professional (PMP\*3) gualifications.

Furthermore, we will globally visualize the skills and abilities of individual employees and promote appropriate talent management. By making effective use of digital tools, we will centrally manage the related data to clarify the career path of each employee, thereby helping them pursue their own development, which will in turn serve as a driving force for the growth of the entire Group.

In pursuing their own growth, I expect employees to also come



up with innovations that will enhance our organizational productivity and create new value. Through these measures, we will fulfill our corporate social responsibility and contribute to the realization of a sustainable future.

\*3 PMP: International certification for project management given by Project Management Institute, Inc.

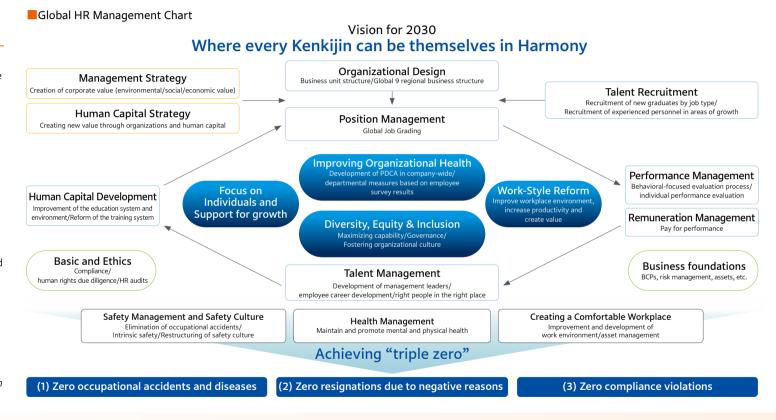
## **Human Capital Management**

## Visualization and Reinforcement of **Human Capital on a Global Basis**

The Hitachi Construction Machinery Group is promoting human capital management to maximize organizational and individual performance based on its Global Human Capital Management Policy formulated in 2020.

Specifically, we are working to continuously review and improve the respective schemes of "position management," "performance management," "talent management" and "human capital development," which make up the human capital strategy linked to our business strategies. We strive to promote human capital investment to enhance our corporate value by identifying issues in line with the indicators defined by ISO 30414 and other standards in the areas of "improving overall organizational health (engagement)," "job satisfaction and ease of work," "diversity, equity & inclusion" and "support for growth," which form the foundation of these schemes.

Furthermore, we strive to promote the further visualization and strengthening of human capital through measures such as enhancing the Human Capital Report and strengthening dialogue with internal and external stakeholders, with the aim of achieving our vision for 2030: "Where every Kenkijin can be themselves in Harmony."



Special Feature 2 Further Enhancement of Human Capital Management

### **Human Capital Management**

Hitachi Construction Machinery Group Integrated Report 2024

## **Improving Organizational Health (Engagement)**

Organizational health, also as known as "corporate culture" or "employee awareness," is an indicator of the condition of an organization. In order for a company to grow and develop, it is important to improve organizational health, in addition to improving business performance. Based on the results of annual employee surveys, the Hitachi Construction Machinery Group is working to improve its organizational health by steadily executing the PDCA cycle of identifying issues, planning and implementing measures, and confirming and reflecting on the effects. After identifying issues and planning measures, we are working to materialize the measures through workshops involving not only executives but also employees.

Through milestone management and follow-ups, we are getting closer to achieving our goals.

We will work to enhance our organizational health on a continuous basis with a view to building an organizational culture in which employees with diverse backgrounds can play an active role and achieve results.

#### ■ Employee Survey Results

						FY2023	
Response rate	Hitachi Construction		Indirect	91.2	95.0	95.1	
Positive response rate	Machinery Group					63.7	62.3
Response rate	Hitachi Construction Machinery Co., Ltd.	Indirect	%	96.3	96.9	96.7	
Positive response rate		employee		58.2	55.9	57.9	
Response rate		Direct		100	100	99.9	
Positive response rate		employee		53.2	56.5	61.5	

# Workplace Environment in which Everyone Can Work with Vitality and Enthusiasm

As a part of measures to enhance our organizational health, we are fostering a worker-friendly environment in accordance with the actual conditions of each factory and workplace. For example, the Orange Innovation Plaza (the new engineering building) at Tsuchiura Works, which became operational in May 2023, was designed around diversity, comfort and communication—concepts proposed by junior employees as a result of a series of workshops and discussions.

To realize the three concepts, we have proposed strengthening the office neighborhood (optimization within departments), enhancing Activity Based Working (ABW), and enriching third places as the framework for a new ideal way of working.

We are committed to further improving the workplace environment and enhancing internal and external communication.

Diversity: Anyone can work from anywhere at any time
Comfort: Fostering physical and mental well-being
Communication: Connecting people and creating collaboration

Communication space in the engineering building



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

While respecting the diversity of our workforce and the values of individual employees, it is important to integrate these diverse values in order to generate innovation. Based on the concept of "equity," we are strengthening our efforts in DE&I from the perspectives of women's empowerment, globalization and work engagement.

From FY2023, we have incorporated DE&I training into our rank-based training. We are also encouraging managers to take courses to help them deepen their understanding of diversity management.

We believe that if we can get each manager to recognize the importance of DE&I, this will facilitate innovation based on different perspectives and ideas, and lead to enhanced corporate competitiveness.

#### Diversity

Ratio of Management Positions by Gender (Consolidated)	Hitachi		Female 10.4 Male 14.9	Female 11.2 Male 16.0	Female 10.8 Male 15.8
Ratio of Locals in General Manager or Higher Positions at Overseas Group Companies	Construction Machinery Group	%	71	72	71

## Strengthening Global Human Capital Development and Support for Growth

In order to achieve sustainable growth, we are strengthening and expanding our human capital development measures on a global basis in line with our business strategies. From FY2023, we are focusing on developing a workforce that can drive change by providing training to strengthen the business skills of leadership personnel at overseas Group companies to encourage a change in mind-set and behavior.

In the priority fields of digital, technology and skills, we will develop a platform able to provide the optimal learning experience to suit each employee's needs, and will support each person's autonomous learning and growth.

#### Average hours of training and amount invested in training per employee

	Coverage		FY2021		
Average training time Investment in training	Hitachi Construction Machinery Co., Ltd.	Hours	44.0	52.0	58.7
	Hitachi Construction Machinery Group	Hours	_	27.8	34.4
	Hitachi Construction Machinery Co., Ltd.	Yen	99,000	134,100	149,500

Special Feature 2 Further Enhancement of Human Capital Management

### Special Feature 2 Further Enhancement of Human Capital Management

## **Human Resource Development**

## **Group-wide Global Workshop**

With the aim of creating an organizational culture that helps us to thrive in this current era of change, we have been implementing a workshop called the Self-Improvement Program for all group employees worldwide. This workshop provides an overview of the basic strengths of businesses belonging to the Group and aims to enable participants to acquire the skills and mindset needed to achieve goals. The workshop consists of five programs (16 topics) that provide the basic necessary skills for business execution.

All employees of Hitachi Construction Machinery Co., Ltd., including management, and all employees of domestic group companies at the assistant manager level and above have completed the Program according to the training plan. Currently, the Program is mainly being offered at overseas group companies. As of March 31, 2024, 5,990 employees, including 1,610 from overseas group companies, have participated in the Program.

In line with our digital human resource development plan, we will continue to roll out the Self-Improvement Program across the entire group from FY2024 onwards.

## **Developing Digital Human Resources**

We are working to develop digital human resources in order to be able to respond to rapid technological innovation and implement management strategies.

For group companies in Japan, the period from FY2022 to the end of FY2023 was designated as a period for strengthening the development of digital human resources, and training related to digital literacy was implemented. In addition, a program was implemented to develop digital promotion leaders through practical experience by forming teams across the business division and DX division. A total of 1.152 employees have participated in the program.

In addition to these programs, from FY2024 we have also started programs to train project managers and data scientists in order to promote the development of human resources with the kind of digital expertise that is required across all departments.

#### Attendance at Self-Improvement Program (Persons)

	FY2019	FY2020	FY2021	FY2022	FY2023	Total
Hitachi Construction Machinery Co., Ltd.	490	898	973	223	120	2,704
Domestic Group companies	206	238	538	397	297	1,676
Overseas Group companies	0	0	128	385	1,097	1,610
Total	696	1,136	1,639	1,005	1,514	5,990

#### ■ Attendance at Digital Programs (Persons)

			Total
Hitachi Construction Machinery Co., Ltd. + Domestic Group companies	538	614	1,152

<sup>\*</sup> The figure for FY2022 includes the number of employees who participated in trial programs conducted in FY2021.

## **Enhancement of Management and Leadership Skills**

Hitachi Construction Machinery provides hierarchical education courses for employees from their first year to their sixth year, as well as for newly appointed assistant managers, newly appointed managers and newly appointed general managers, in order to clarify the roles and responsibilities of each level (rank) and to enable efficient work execution and decision-making. Following the separation from the Hitachi Group in 2022, we reviewed the content of our training in view of our new management strategies and human resource requirements, and began implementing new programs in October 2023.

Specifically, we have incorporated DE&I training into our hierarchical programs and are encouraging all section and department managers to take coaching training to enable them to support the growth of their subordinates. We will continue these efforts in FY2024.

We are also developing business leaders who can plan and implement management strategies over the medium to long term to achieve sustainable growth and improve our competitiveness as a global enterprise. In FY2022, we reorganized our development program to include contents designed to strengthen management skills and external human networks. In FY2023, we also began offering these programs for business leaders at overseas locations.

#### Attendance at Business Leader Training (Total)

	FY2021	FY2021	FY2023
Hitachi Construction Machinery Group	88%	84%	82%

### Special Feature 2 Further Enhancement of Human Capital Management

## **Occupational Safety and Health/Health Management**

## **Securing Occupational Safety and Health** through Rebuilding a Culture of Safety and Establishing a Mechanism

Hitachi Construction Machinery Group, we prioritize based on the basic philosophy that "safety and health are all priorities." the Group's Safety and Health Promotion Committee oversees safety and health activities aimed at ensuring that all employees can work in a safe and secure environment. The specific measures we are focusing on are "Rebuilding a culture of safety." "Promoting inherent safety" and "Promoting autonomous operation of the management system." The first is about establishing the widespread adoption of a safety-first mindset and safety-first behavior. The second is about promoting automation and visualization in order to reduce the risk of work-related accidents and manage workloads. The third is about promoting awareness of each department's responsibilities and ensuring the appropriate evaluation of activity results.

In FY2023, we worked to revitalize exchanges and strengthen governance through the Global Safety and Health Conference. We held an online meeting with 85 participants from 31 bases in Japan and overseas. Attendees learned about how to implement effective safety and health activities across the Group.

## **Enhancing Individual Performance through the Promotion of Health Management**

In 2017, we formulated the Health Management Declaration in the name of the president to demonstrate our commitment to health management and its importance to the management team. In the post-COVID era, we view health as being the foundation of initiatives related to work-style reform, work-life balance and other reforms. In order to enhance the creativity of the organization going forward, we will focus on employee happiness and aim to achieve a positive and pleasant workplace environment for all employees. In 2024, Hitachi Construction Machinery was certified as a Health & Productivity

Management Outstanding Organization by Nippon Kenko Kaigi, the company's seventh such certification.

\* Health Management is a registered trademark of the Health Management Research Association of NPO



#### **Initiatives for Mental Health**

Recognizing the importance of mental health care, the Hitachi Construction Machinery Group has been conducting activities centered on four types of care based on the Ministry of Health, Labour and Welfare guidelines on an ongoing basis. We are offering training programs on topics related to the prevention of harassment and coping with stress in the wake of the pandemic.

Stress checks have been conducted every year prior to the enactment of the law and have led to the awareness of stress by employees, the creation of a comfortable working environment, and PR and promotion of the use of consultation desks by specialized counselors. In FY2023, approximately 10,000 employees, including those at domestic group companies, took the stress checks conducted in July.

In addition, through self-care training for all employees, line-care training for managers including workplace improvement considerations, support for employees who have lost their jobs. and EAP (Employee Assistance Program), we are engaged in health-related consultation support for employees and their families.

#### Attendance rate in Mental Health Training

	FY2021	FY2022	FY2023	FY2024 (target)
Hitachi Construction Machinery non-Consolidated	20.5%	91.5%	86.6%	Improvement from FY2023

\* Number of employees who participated in self-care training/ Number of employees eligible for self-care training x 100

#### ■ Ratio of people with high stress found in stress checks

	FY2020			FY2023	FY2024 (target)
Hitachi Construction Machinery Co., Ltd. (Including Domestic Group Companies)	14.5%	16.5%	16.4%	16.2%	Improvement from FY2023

<sup>\*</sup> The percentage of eligible employees at all domestic companies who were determined to be under high levels of stress (High-stress rating: Evaluation criteria based on the Ministry of Health, Labour and Welfare's score conversion table)

#### Frequency of lost-workday injuries (frequency rate\*)

	FY2020	FY2021	FY2022	FY2023	FY2024 (target)
Hitachi Construction Machinery non-Consolidated	0.15%	0.29%	0.30%	0.29%	50% reduction from FY2023
Domestic group companies	0.27%	0.39%	0.30%	0.48%	110111 F 1 2023

<sup>\*</sup> Frequency rate: The number of incident per 1,000,000 employee-hours worked. It is an indicator of the state of health and safety at a workplace. (These statistics only count lost-time-incidents of at least one day)

#### **Roundtable Meeting of Young Employees**

Special Feature 2 Further Enhancement of Human Capital Management

## What Kind of Future Do We Envision for Hitachi Construction Machinery?

this? In the roundtable meeting, four young employees who belong to the next generation of the company talked about the future that they envision for Hitachi Construction Machinery.

#### 1 Jake Chesser

Assistant manager, Dealer Support Dept., Global Marketing Group

In charge of developing and implementing sales education programs for overseas dealers

### 2 Seunghui Ju

Assistant manager, Business Development Office, New Business Creation Unit

In charge of finding and partnering with overseas startups that have new technologies and ideas for the mining industry

3 Shogo Kunioka

Assistant manager, ConSite Development Promotion Dept., Customer Support Div., Spare Parts & Service Business Unit

## In charge of developing new ConSite solutions to be mounted on next-generation models 4 Saho Sugiyama Engineer, New Products Development Dept., Development Div., Construction Business Unit In charge of designing and developing excavator-based machines for demolition work as well as for foundation work

## **Employees Feel that Hitachi Construction Machinery's Corporate Culture Values People** While Giving First Priority to Quality and Safety

Jake: Nice to meet you, everybody.

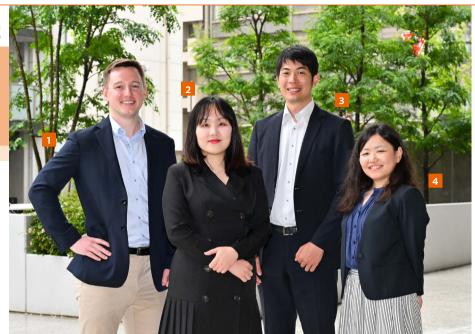
Kunioka: Hello, I joined the company in 2014 concurrently with

Ms. Sugiyama and my workplace is near hers.

Sugivama: I engage in product design, and my workplace has its strongest relationships with factories. When I was job hunting, I was told by a recruiter here that the company "is like a large ver-

sion of a town factory." I found this to be true after I joined the company. I was surprised to see how friendly everyone is. Ju: I am from South Korea and joined the company in January 2023. When I was interviewed by one of the senior staff members whom I now work with, I was impressed by their considerate attitude and could see they sincerely cared about my future career. That's why I decided to join the company. It might be my own prejudice, but before joining Hitachi Construction Machinery I thought that being a long-established Japanese company it might have a kind of closed corporate culture. However, I have found that I can turn to those around me for advice about anything. Everyone is very considerate.

Jake: As I am from the United States, I tend to compare the company with those back home. I think Hitachi Construction Machinery is a company that develops human resources from a long-term viewpoint. In fact it focuses on human resource development as part of its corporate culture. In the United States, you are basically expected to acquire qualifications and improve yourself in your own time. Of course, we also make our own efforts for self-improvement here, but the company supports us in doing so by providing us with opportunities to enhance our skills in an organized manner. I was able to learn about the construction



in Europe.

Special Feature 2 Further Enhancement of Human Capital Management

Roundtable Meeting of Young Employees



manual tools. During my first year at the company I worked at Hitachi Construction Machinery Japan Co., Ltd., visiting constructional level.

Ju: Hitachi Construction Machinery gives first priority to quality and safety, and all employees take great pride in that fact, I think. Sugiyama: I am now engaged in design aimed at remodeling excavators into machines for disassembly and basic construction work. I often face difficulties in the development process, but I have reliable colleagues at the production site who are eager to help me shape my ideas. Even if it is a bit inefficient, our workplace culture tends to encourage an enthusiastic passion to help out and get involved. I sometimes think it is necessary to speed up the development process, but not at the expense of the good "analogue" aspects of our work.

tion sites to see and learn how our products were used there.

Then I was reassigned to the Technical Support Dept., where I

provided technical support for the maintenance of our machines

machinery market during my four-year stint at the Planning and Administration Dept. in the Global Marketing Group, where I was assigned when I first started. Thanks to this, I am now engaged in employee development for our dealers outside Japan, having being granted my wish to be transferred to the department responsible for education.

Kunioka: The company has long been developing and mass-manufacturing construction machines and is sincerely committed to quality and safety and highly aware of the importance of ensuring compliance. Also, as it makes nearly 80% of its sales outside Japan, employees are well aware of the need to identify local needs through on-site interviews and incorporate the identified needs into our products and services. I majored in mechanics and I love machines. I joined the company because I was attracted to its construction machines used for construction and civil engineering work that could never be conducted using

## **Challenges to Meet and Changes to Make** Identified at Each Workplace: "No Result, No Progress" and "No Risk, No Return"

Kunioka: It might be a typical issue for a machinery manufacturer, but I think it is sometimes difficult to make progress without having specific numerical targets, such those for performance. I am currently engaged in the development of solutions, for which I need to understand the challenges faced by customers. The

company might not be good at this kind of task on an organiza-

Ju: Whenever I give out my business card to someone outside the company at an overseas exhibition or a seminar, they praise us as a "reliable brand" and a "global company," which makes me feel very proud. However, I feel that the company does have problems regarding how to deal with risk. Startups are naturally



#### Special Feature 2 Further Enhancement of Human Capital Management Roundtable Meeting of Young Employees

unstable and therefore have great potential. Investing in startups is a typical high-risk and high-return investment, but when I propose an investment in a certain startup. I often find it is rejected by the company for the reason that the feasibility of the business is unforeseeable. The risks that the company has to consider are becoming more complex and sophisticated, but unless it takes such risks proactively, it cannot achieve further growth. This is what I sometimes think.

Jake: I agree with you. We should make attempts by deeming failure a natural occurrence. The number of Japanese companies that take this kind of approach has actually been gradually increasing.

Kunioka: We need to specify its monetary effect in order to implement a development project, but we need to implement it in order to calculate the effect. It's a chicken-and-egg scenario. The company recognized this as a serious issue and has started to provide all employees with solutions training. In developing a solution. I think it is necessary to make a series of small achievements to achieve a visible result, which will help change the mindset of employees at the company.

Sugivama: In designing a product, we must not think light of risks, as they have impacts on safety and quality. However, when I want to design something, my managers let me do it rather than stopping me. When I fail halfway through a project, I sometimes have to redo it again from the beginning. In order to design a product, I therefore need to have both the physical and mental strength to keep going through repeated failures until it is finally commercialized. It is not easy to meet this requirement. Moreover, we sometimes repeat the same discussions, like, "We need to add this function to promote sales." "But it will raise production costs." I think we need to make improvements on this kind of approach.

Jake: We also need to meet the challenge regarding how we

work. Our personnel division is working to foster reforms, but there are still many people who think they have cornered the market on the best way to work. We need to have a more flexible workplace environment. If we cannot do this, we might not be able to retain outstanding young employees.

## Work Motivation and the Future of Hitachi **Construction Machinery: Embracing More Challenges and Providing More Opportunities** as a Company

Ju: This January, I had a very nice experience. When a startup that we partner with exhibited electric construction machines at CES 2024, which was held in Las Vegas and is one of the world's largest tech exhibitions. I received lots of messages from my friends saying, "I saw excavators made by Hitachi Construction Machinery at the event. They were great!" I felt very proud of the company, which is indeed a global player. I also often receive images of our machines from my friends living in South Korea, Kazakhstan, China and others via social media. For example, they might say. "I just saw an orange excavator." I often see our construction machines in urban areas, but as I am in charge of promoting open innovation for mining machinery, I would like to be able to see more mining machines and also be able to ride them. Sugiyama: When I first started, I had the chance to ride a mining machine as part of my practical operation training, which I undertook at our testing facilities located in Urahoro, Hokkaido. Jake: Everyone at the company loves construction machinery, which helps us feel connected. I have few opportunities to deal with machines directly, but providing training is tremendously



motivating for me because I can see its impact. It is nice to see trainees achieve growth as a result of the efforts I have made as their trainer, and this also helps me to grow. At a strategic meeting of managers from all over the world and on other occasions, I work as a facilitator between personnel in Japan and those outside the country, thereby helping to bring the entire Group together. It is guite an attractive aspect of my job. Sugiyama: As a designer, I do not directly experience that very often. As our machines are sometimes used in very harsh environments, sometimes an unprecedented event happens. In such cases, I come up with a hypothesis through theoretical thinking and feel a sense of achievement when I can actually identify the causal factor. It is guite satisfying to solve a problem based on the expertise that you have been accumulating.

### Special Feature 2 Further Enhancement of Human Capital Management Roundtable Meeting of Young Employees

Kunioka: I feel more like Jake. I can imagine on-site situations based on the hands-on service experience I had after joining the company and this helps me a lot at the ConSite Development Promotion Dept., which is my present workplace. I am most pleased when I can solve issues faced by our customers, dealers and regional headquarters and receive their thanks. We have a cloud database of operational data on our machines, which are sent from the sensors that are mounted on them. I want to provide our dealers with analysis data to support them in making reports



to their customers. I would like to help them in this manner. Jake: Our service personnel all over the world fully understand ConSite, but some of our sales staff are yet to understand it, which is regarded as a serious problem for the training division. Mr. Kunioka, please help me think about how to help employees in this regard through education.

Kunioka: Yes, let's do it together.

Jake: The Career Development Div., has established a system to help employees to obtain the project management professional (PMP) qualification, and I am endeavoring to obtain it right now. In order to develop a new training program, we need to assign a budget, make a plan by asking for support from people both inside and outside the company, and finally give the training on-site. We also need to set KPIs to measure the results and effects of the project, for which PMP skills are very important. Once I have obtained the qualification, I would like to apply for the position of leader. People can achieve further growth by demonstrating leadership, and I think people in my own age group should take on more responsibility. I hope that the company will provide us with more of such opportunities.

**Sugiyama**: I want to address issues faced by customers on-site with more ownership. Under the current system, too many people are involved in the process to determine the specifications, which I am afraid is causing an information distortion. It would be a great loss if the technologies accumulated by the company are used in a way that differs even a little from the original intention. I would like to build an environment in which everyone, not just the people who develop machines, can share the true needs of customers without the information becoming distorted. To this end, I need to have a wider range of knowledge about our value chain in addition to my technological knowledge, and so I would like to study more going forward.

Kunioka: I also think it is necessary to have expertise in the field



of information as well as mechanical knowledge.

Ju: After I propose a partnership with a startup, I sometimes find a small gap between the technology our mining machines require and the technology possessed by the startup. This is because I do not have enough knowledge about our products and what is going on at construction sites. By acquiring more knowledge, I think I will become able to propose a partnership with a startup that has a technology that perfectly meets our technological development needs. Then I can encourage the company to make more proactive investments in new technologies. I would like to improve myself as early as possible to contribute to making Hitachi Construction Machinery a company that embraces one new challenge after another.

Kunioka: I believe Hitachi Construction Machinery can have a tremendous impact on society. I think it is important for each of us to have a broader outlook on society beyond the framework of construction machines. By enhancing our own abilities, I think we can then make the company one that can solve all kinds of issues, for which I will make even more efforts.

Messages from Sustainably Enhancing Strategies to Achieve the Global Business Expansion/ Sustainability Promotion Initiatives

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**Strategies for Achieving Medium-Term Management Plan** 

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Hitachi Construction Machinery Group Integrated Report 2024

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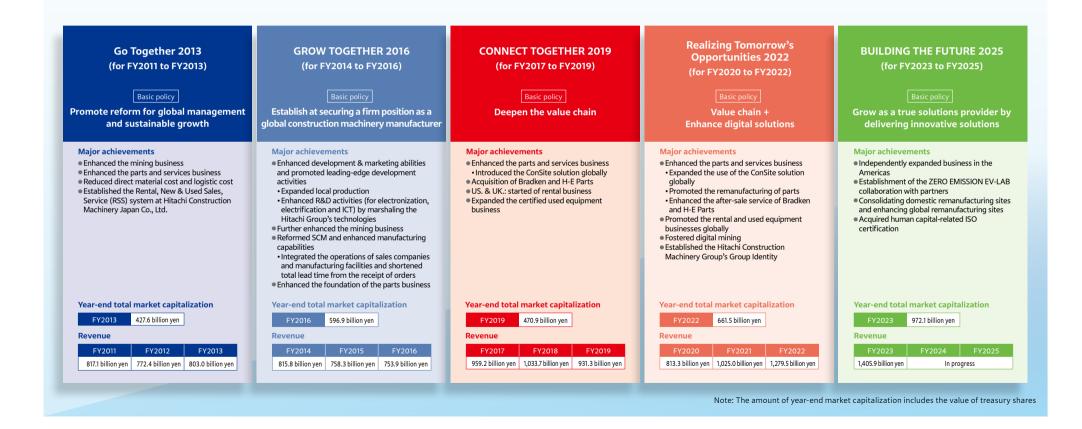
Sustainably Enhancing

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# Path toward Further Improvement of Corporate Value

The Hitachi Construction Machinery Group, under a series of medium-term management plans, has steadily implemented measures and built a stable foundation, while responding to rapid changes in the external environment and management issues faced by the Group.



# **CFO** Message



As CFO of the Hitachi Construction Machinery Group, I regard increase our corporate value as synonymous with improvement of our capital productivity. Our basic financial and capital policies are to: (1) help employees be more aware of the cost of equity: (2) select easy-to-understand KPIs (for both internal and external use): (3) appropriate manage our balance sheet; and (4) increase opportunities to engage in dialogue with shareholders and investors. In order to improve return on invested capital in conjunction with cash flow (CF) management, we must first foster an internal awareness of capital costs and clarify the criteria for investment decisions using ROIC. We are also calculating the net present value (NPV) of our investment based on a weighted average cost of capital (WACC) rate of about 7%, aiming to realize a gain on an investment within three years and recover the investment cost within ten years.

In its "BUILDING THE FUTURE 2025" medium-term management plan, the Hitachi Construction Machinery Group has set four core strategies along with some quantitative key performance indicators (KPIs) related to capital productivity and ESG issues. I regard it as one of my responsibilities to lead the implementation of the Group's financial and capital policies by appropriately identifying the opportunities and risks posed to the Group, thereby contributing to its medium- to long-term growth.

### **Highlights of Our Performance for FY2023**

For FY2023, which was the first year of the current medium-term management plan ("MTMP"), global demand for hydraulic excavators dropped by 11% year on year to 223,000 units (according to our estimate as of July 2024). However, the Hitachi Construction Machinery Group increased its sales revenue by 11% year on year to 1,405.9 billion yen, mainly driven by its independent business expansion in the Americas. It also boosted its adjusted operating income by 23% to 168 billion ven, thereby hitting a new record for both sales revenue and adjusted operating income. In the Americas, which is now our growth driver market, we posted sales revenue of 217.5 billion yen (up 30% year on year) through independent business expansion. In the value chain (VC) business, we recorded sales revenue of 554.6

### **CFO Message**

billion yen (up 10% year on year), which accounted for 39.4% of our total sales. Sales revenue in the mining business came to 291.8 billion yen (up 18% year on year). The year-on-year increase in adjusted operating income is attributable to the markup of our sales prices and to the weaker yen, which delivered extra profits of 31.6 billion yen and 31.5 billion yen respectively, far offsetting an increase of 19.4 billion yen in the cost of materials and an increase of 16.3 billion yen in indirect costs including strategic expenses. Moreover, in order to increase our profitability and capital productivity, we reclassified non-core operations in the specialized parts and services business segment into discontinued operations, and as a result posted a net loss of 11.8 billion yen including the amount of impairment loss.

# MTMP-Based Financial and Capital Strategies and Cash Allocation

Under our current MTMP, we uphold the following four core management strategies: (1) Delivering innovative solutions for customer needs; (2) Enhancing the value chain business; (3) Expanding business in the Americas; and (4) Strengthening human capital and corporate capabilities. Over the three-year MTMP period, we plan to invest 260 billion to 270 billion yen in total (as compared to 81.8 billion yen over the former MTMP period). In order to create operating cash flow (OCF) that supports this size of investment, we will improve our capital productivity and "cash creation ability" to achieve EBITDA margin of 18% or more for profitability, OCF margin of 10% or more for capital efficiency, and ROIC of 9% or more as our new KPIs under the current MTMP. To this end, I hope to lead the expansion of the Americas business, the mining business and the VC business as growth drivers for the steady expansion of funds from operations (FFO: cash flow from operations before changes in working capital).

As for cash allocation during the three-year period under the current MTMP, we assume that cumulative total OCF will slightly exceed 400 billion yen (as compared to 104.5 billion yen under the former MTMP). For FY2023, we recorded OCF of 73 billion yen, influenced by the extension of the cash conversion cycle (CCC) of net working capital by 10 days to a total

of 187 days. This was caused by an increase in inventory assets, which we pursued in order to supply more products to dealers and others to meet the expanding demand in the Americas. On the other hand, we took the relevant trade receivables off-balance sheet through the establishment of a joint venture financing company for construction machinery (in which

planned for FY23-25

Hitachi Construction Machinery has a 30% stake) named ZAXIS Financial Services Americas, LLC, and this had a positive effect on our cash flow. In the Americas business we will reach an investment recovery phase in the latter half of FY2024 and expect OCF of at least 300 billion yen for the period from FY2024 to FY2025 along with the posting of robust EBITDA.

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### ■ Dividends and Payout Ratios

planned for FY23-25



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### **CFO Message**

As for cash outflow, the amount of growth investment will be about one-third of the amount of OCF (of which up to 100 billion ven will be invested in the Americas business) and the investment made to enhance the existing businesses will account for another one-third. We are planning to more than triple the investment amount relative to the amount invested under the former MTMP. In particular, we will increase the amount of growth investment by around four times. The amount of capital investment totaled 109 billion yen for FY2023, and for FY2024 we will increase it to 120 billion yen, including the amount to be allocated for investment in Hitachi Construction Truck Manufacturing Ltd. in Canada for the enhancement of the mining business. As for the establishment of a new manufacturing base in the Americas, we will make a final decision after achieving net sales of 300 billion ven in the Americas and before the end of the period of the next MTMP. For shareholder returns, we will continue to pay dividends in a stable manner at the consolidated payout ratio of around 30% to 40%. For dividend per share, our annual payment amount hit a new record of 150 yen per share for FY2023, with the payout ratio reaching 34.2%. For FY2024, we are currently planning to pay 175 yen per share to increase the amount of shareholder returns to around one-third of the amount of OCF during the current MTMP, which is a nearly 80% increase relative to the former MTMP, while investing more for our own growth.

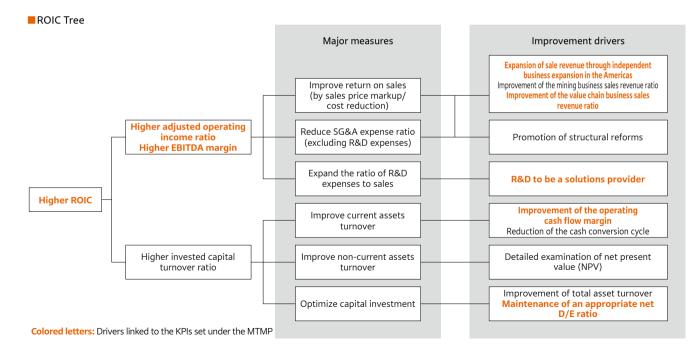
### Improving Capital Productivity by Using an ROIC **Tree for Business Unit Management**

In order to improve ROIC for greater corporate value and capital productivity, we started to create an ROIC tree in FY2024. In reference to the tree, we set some improvement themes for ROIC and monitor progress made on them from the viewpoints of both investors and ourselves. From the viewpoint of investors, we calculate ROIC by using consolidated invested capital as the denominator for the formula. From our internal viewpoint, we manage ROIC-related targets for each of our business units (BUs) based on their respective working capital and fixed assets.

For FY2023, our overall ROIC and ROE came to 9.8% and 13.1% respectively, from 8.4% and 11.0% respectively in FY2022, to be egual to or a bit above the corresponding targets set in the current MTMP. With WACC being kept at around 7%, we have been able to achieve nearly 3% for the equity spread rate. To provide a clearer view from the investor perspective, we will link the major KPIs set in the current MTMP with the major ROIC improvement themes by using the ROIC tree, thereby increasing the effectiveness of our measures for higher ROIC. Specifically, we have set the following, among others, as our major improvement themes: Expand sales revenue through independent business expansion in the Americas: boost the

VC business share of our total sales revenue; increase the OCF margin; and stabilize the net D/E ratio. As for the expansion of the ratio of sales in the VC business to total sales, we deem it important to keep a balance between increasing the sales ratio and boosting the sales of our machines themselves, rather than simply focusing on raising the ratio from 50%, which is a target set under the current MTMP, even higher to 60%.

From our internal viewpoint, we started to break down our balance sheet for each BU in a simplified manner in FY2023 with an eye to managing ROIC individually for the products of each BU, for which we also reduced the number of KPIs used as improvement drivers by



### **CFO Message**

each BU to around three. For ROIC, the Mining BU as well as the Spare Parts & Services BU, which is engaging in the VC business, have a high ROIC. In contrast the Construction BU has a low ROIC. We need to foster the consolidation of product models and cost reduction in the Construction BU to improve its capital productivity whereas the idea that the BU does not need to make profit from the sale of machines as profit can be secured from the sale of spare parts and services is widely shared internally. The Rental & Used Equipment BU also has a low ROIC, which sometimes drops to a level below the WACC rate. This is mainly due to the purchase of various rental assets. In this BU, we will extend the lifespan of our products to promote a business geared toward the circular economy, while raising the operating income ratio without focusing too much on short-term ROIC as a requirement that we should meet. Also, for the improvement of ROIC, we may need to make a decision from a management accounting perspective, including discontinuing the sale of a product for which we have recorded an operating loss for two fiscal years in a row. In fact, we sold non-core VC business operations in FY2023.

# Quantification of the Financial Impacts of Climate Change and Future Strategies

The Hitachi Construction Machinery Group is upholding "Product and technology development contributing to climate change mitigation and adaptation" as one of its issues of materiality. To this end, we are working to reduce CO<sub>2</sub> emissions from our product development and manufacturing processes to achieve carbon neutrality (CN) by 2050. As for product development, we are facing various risks in the ongoing transition to a decarbonized society, including those posed by stricter regulations, behavioral changes, external pressure and reputational issues, and changes in demand for mineral resources. Amid these trends, however, we can also gain a competitive advantage and grasp new business opportunities by developing new products for CN ahead of others. As for the manufacture of products, we are not exempt from calls to both save energy and shift to the use of renewable energy, and any delay to meet this requirement will pose a risk to us.

We have been evaluating climate change-related risks and opportunities since FY2020 and are aiming to quantify the financial impacts of climate change going forward. Our Financial Investment Committee has set aside a budget for investment in CN and prioritizes this investment in its screening process for capital/R&D investment projects.

Following on from the conclusion of our first agreement regarding a Positive Impact Finance loan (type without limits on usage) in December 2022, we issued our first green bond in March 2024 to raise funds of 10 billion yen. The funds will be used to develop products expected to contribute to solving environmental issues, such as a fully electric truck without engine. Based on the recognition that climate change is a serious global issue that must be addressed urgently, we will work even harder to contribute to the creation of a safe and sustainable society through the enhancement of our measures for a circular economy and CN. We will also make the environmental value creation activities that we conduct through our business operations more widely known to our stakeholders in order to speed up fundraising while focusing on our own capital productivity and return on investment.

# Dialogue and Engagement with Shareholders and Investors, Information Disclosure and TSR

In FY2023, which was the first year of the current MTMP, the management team and the IR division proactively conducted activities to enhance our dialogue with shareholders and investors and highlight our growth strategies more broadly to them. We had individual dialogues with around 250 institutional investors in total, including dialogues between the management team and roughly 70 companies. Our shareholders and investors showed strong interest in a range of issues, including our progress in the Americas business and the mining business, our growth and profit stabilization in the VC business, the details of our earnings guidance, and our approach to the disclosure of information about our dividend forecasts. Results of the dialogues with our shareholders and investors are shared at Executive Committee and Board of Directors meetings as inputs for

the announcement of financial results and the discussion of measures for the next fiscal year.

In FY2023, we held ordinary briefing sessions on our financial results, small meetings and domestic and overseas road shows for our shareholders and investors. We also invited them to take a tour of the Tsukuba Parts Center, which is our core base for parts to be used in our after-sale service. Moreover, we held an explanatory meeting on our parts and services business strategies as well as the fourth round of our briefing session on ESG issues. The explanatory meeting on the parts and service business provided participants with an opportunity to deepen their understanding of the business, which is one of the core components of our VC business. At the briefing session on ESG issues, in which we focused on our DX strategies, we explained the medium- to long-term measures that we will implement to increase our corporate value. Moreover, at the O&A session held at each of the events, we proactively exchanged views with participants. By continuing to hold events such as briefing sessions and study tours of our manufacturing facilities we hope to help both institutional and individuals investors gain a full understanding of our businesses and thereby encourage them to invest in our company.

As a result of the initiatives described above, we started to disclose historical data about the improvement of our capital efficiency on our website, publicly forecast, at the very beginning of the fiscal year, the dividend amount to be paid to our shareholders for the year, and explain our priority measures at a briefing session on our business. We will continue working to enhance dialogue and engagement with our shareholders and investors and expand the scope of our information disclosure in consideration of their needs.

Our total shareholder return (TSR) was 51.8% during the FY2023, outperforming the average TSR of TOPIX constituents (41.3%) and that of TOPIX Machinery constituents (46.2%). However, in terms of forecasted PER and PBR, our relative rating in the capital market is still below a level satisfactory to us. In view of this fact, we will strive to raise our capital productivity (ROIC) while reducing the cost of equity and WACC and boosting our equity spread in an effort to make our growth story a reality, thereby increasing our corporate value on a medium- to long-term basis.

Hitachi Construction Machinery Group Integrated Report 2024 Introduction Top Management Our Corporate Value Medium-term Management Plan Growth Strategy by Region that Support Sustainable Growth Corporate Value

# Financial Results for FY2023

# **Quantitative Review of the Management Results for FY2023**

- Sales revenue increased by 11% year on year, being propelled by a steady increase in sales, mainly in the Americas.
- Adjusted operating income and net income attributable to owners of the parent both hit a new record with a 23% increase and a 33% increase, respectively.

(billions	of yen
-----------	--------

				Year-on-year change
Cor	Revenue	1,405.9	1,264.9	11%
ıtinui.	Adjusted operating income*1	168.0	136.6	23%
Continuing operations	Operating income	162.7	135.7	20%
perati	Income before income taxes	160.5	115.0	40%
ions	Profit from continuing operations	116.3	77.5	50%
Loss from discontinued operations		-11.8	1.7	=
Net income attributable to owners of the parent		93.3	70.2	33%
EBIT*2		167.5	121.3	38%
Dividend per share *3		150 yen	110 yen	40 yen

- \*1: "Adjusted operating income" is presented as revenues less cost of sales as well as selling, general and administrative expenses
- \*2: We calculate EBIT according to the following formula: Income before income taxes Interest earned + Interest paid (EBIT stands for earnings before interest and taxes.)
- \*3: We pay dividends twice per fiscal year as interim and year-end dividends based on the principle that we distribute surplus funds in accordance with consolidated business results. We will work to maximize shareholder returns by continuing to pay dividends at the consolidated payout ratio of 30% to 40%.

#### Changes made in relation to information disclosure

For our financial performance for the fourth quarter of FY2023 onward, <u>non-core operations</u> in the specialized parts and service business segment <u>are categorized into "discontinued operations"</u> in line with the International Financial Reporting Standards (IFRS). (We have also recalculated the results for the previous years and the full-year forecast for FY2024 based on this categorization.)

- For sales revenue, adjusted operating income, operating income and income before income taxes, the amounts shown are for continuing operations, excluding the amounts for discontinued operations.
- For net income attributable to owners of the parent, the <u>total amount is shown by summing the amount for continuing</u> <u>operations and that for discontinued operations</u>.

### Qualitative Review of the Management Results for FY2023

Delivering innovative solutions for customer needs	■ Co-creation with partners across industries for net zero emissions at construction sites  • Expanded collaboration for mobile charging equipment, which constitutes infrastructure indispensable for electric construction machinery. Specifically, began joint development with Kyushu Electric Power for the Japanese market. Also started the sale and rental of equipment supplied by Alfen B.V. of the Netherlands for the European market with financial support and cooperation from ITOCHU Corporation.  • Decided to establish the ZERO EMISSION EV-LAB in Ichikawa City, Chiba Prefecture as a research base for co-creation with partner companies.  ■ Expansion of the monitoring scope at multiple mining sites to contribute to higher on-site efficiency and the optimization of the entire operation at each mining site  • Remotely monitored mining operations conducted at multiple mines at various points in the mining process from mineral extraction to mineral processing from three bases in Japan, Canada and Australia.	
Enhancing the value chain business	Consolidation of the remanufacturing bases in Japan and enhancement of the global remanufacturing bases to build a resource remanufacturing based business model  Located the consolidated remanufacturing base at the Banshu Works in Hyogo Prefecture and enhanced global cooperation to make it a mother factory for the remanufacturing business.  In the Americas, Hitachi Construction Machinery Americas supervised the remanufacturing business and Hitachi Construction Truck Manufacturing remanufactured the parts recovered from end-of-life super-large hydraulic excavators and dump trucks. Also, H-E Parts engaged in the remanufacturing of the cooling systems and engines of mining machinery.	
Expanding business in the Americas		
Strengthening human capital and corporate capabilities	<ul> <li>Acquisition of certification for the ISO 30414 human capital-related information disclosure guidelines ahead of other machinery manufacturers (in November 2023) and publication of Human Capital Report 2023</li> <li>Formulation of a team of around 3,000 people, mainly researchers and developers, at the Tsuchiura Works to promote innovation</li> <li>Organization of the first round of the KENKI βUSINESS CHALLENGE (KβC), which encourages employees to reshape the corporate culture by taking on the challenge of creating a new business</li> </ul>	

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Messages from Sustainably Enhancing Strategies to Achieve the Global Business Expansion/ Sustainability Promotion Initiatives

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#### Financial Results for FY2023

### Consolidated sales revenue by region

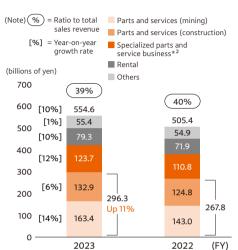
We increased sales revenue in all regions excluding Russia & CIS and China by a total of 141 billion yen.

(billions of yen)

						Year-on-year	comparison
						Monetary amount	Change
Japan		226.9	16%	224.0	18%	2.9	1%
Asia		127.0	9%	122.7	10%	4.4	4%
India		85.0	6%	73.1	6%	11.9	16%
Oceania		251.1	18%	225.4	18%	25.7	11%
Europe		182.9	13%	164.7	13%	18.2	11%
	North America	334.4	24%	259.8	21%	74.6	29%
The Americas	Central and South America	40.9	3%	38.3	3%	2.5	7%
through independent expansion		375.2 (217.5)	27% (15%)	298.1 (167.6)	24% (13%)	77.1 (49.8)	26% (30%)
Russia & CIS		23.4	2%	37.4	3%	-14.0	-37%
Middle East		34.7	2%	25.0	2%	9.8	39%
Africa		70.4	5%	54.7	4%	15.7	29%
China		29.2	2%	40.0	3%	-10.8	-27%
Total		1,405.9	100%	1,264.9	100%	141.0	11%
Overseas sales revenue ratio	5	84%	-	82%	_	_	_

### Changes in Sales Revenue in the Value Chain Business\*1

- In FY2023, sales revenue increased by 10% year on year to 554.6 billion yen, thereby hitting a new record.
- Sales revenue from parts and services increased by 11% year on year. We also achieved better year-on-year results in other segments.
- Sales revenue in the value chain business accounts for 39% of our consolidated sales revenue, down one percentage point year on year due to the substantial growth of new vehicle sales.
- \*1: The value chain business is composed of all businesses other than the sale of new equipment and includes the sale of parts and services. It also includes the specialized parts and service business and the rental business.
- \*2: In the specialized parts and service business, we develop, manufacture and sell parts and offer service solutions as part of our after-sale services for mining equipment and machines that are not handled in the construction machinery business segment.



### Consolidated cash flow

■ For FY2023, operating cash flow amounted to 73 billion yen and free cash flow calculated by deducting the amount spent on investment was also positive at 34 billion yen.

(billions of yen)

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			Year-on-year change
Cash flow from operating activities	73.0	-26.1	99.2
Operating cash flow margin	5.2%	-2.1%	7.3%
Cash flow related to investment activities	-39.0	-42.6	3.6
Free cash flow	34.0	-68.8	102.8
Cash flow related to financial activities	-8.9	87.1	-96.0

# Medium-term Management Plan

The Hitachi Construction Machinery Group is implementing its "BUILDING THE FUTURE 2025" three-year medium-term management plan to achieve growth as a true solutions provider.



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

KPI			Medium-term Management Plan FY2025 targets	
	Value chain ratio		50% or more	39.4%
Growth	Own business reve	nue in the Americas	300.0 billion yen or more	217.5 billion yen
	• R&D/Revenue ratio	)	3% or more	2.2%
Duefite bility	Adjusted operating	income ratio	13% or more	12.0%
Profitability	• EBITDA margin rati	o*1	18% or more	16.8%
Safety	Net D/E ratio		0.40 or less	0.57
	• Operating cash flow margin ratio*1		10% or more	5.2%
Efficiency	• ROE		13% or more	13.1%
	• ROIC*1, *3		9% or more	9.8%
Shareholder return*2	Consolidated dividend payout ratio		Stable and continuous implementation with a consolidated dividend payout ratio of 30% to 40% as a guide	34.2%
	Reducing environmental impact and CO <sup>2</sup>	Production (Scope 1 + 2)	-40%	-40.4%
emissions (total, compared with the 2010 level)		Product (Scope 3)	-22%	-20.1%
230	Diversity, equity &	Localization ratio of GM or higher in overseas group companies <sup>*1</sup>	75%	71%
	inclusion	Ratio of managers by gender (consolidated)*1	Women 13% Men 15%	Women 11% Men 16%

<sup>\*1:</sup> Indicators newly set

<sup>\*2:</sup> We aim to allocate one third of operating cash flow to each of maintenance and strengthening investment, prior investment and shareholder returns and the payment of interest-bearing debt as our basic approach to operating cash flow and fund

<sup>\*3:</sup> The level of capital cost (WACC), based on which we set the ROIC target, is recognized at about 7%.

# **Upgrading the Business Unit System**

To optimize our business organization by taking a customer-driven approach, we introduced the business unit system in April 2022 and have been updating it ever since.

Under the business unit system, each business unit conducts business through an integrated process of development, manufacturing and after-sale service that responds to the needs of its customers. We are thus optimizing our business organization to speed up the development of products and the solution of problems for the benefit of our customers.



#### ■ Business Unit System Based on a Customer-driven Approach

Smoothly resolve issues confronting customers by taking a cross-departmental approach



#### **Construction Business Unit**

Hydraulic excavators: Operating weight of 10t to less than 100t Wheel loaders: Engine output of 50kW and higher

These machines are used for the development of large housing lots and the establishment/improvement of public infrastructure such as roads, railways and waterways. We provide a range of products to meet customer needs, including hybrid types for lower fuel consumption and ICT construction machinery.







Hydraulic excavator Wheel loader

Compaction equipment

Newly established the Electric Products Development Center in April 2022

- toward zero emissions, and promoted measures to make construction machinery carbon neutral
- Has continued to develop applied products for more than 40 years, including machines with special specifications developed to meet diverse customer needs

# • Promote sales in both developed and developing countries by continuously adding new products with improved digital functions to the existing product

- Promote cooperation between the construction divisions across regions for the expansion of global supply
- Enhance independent business expansion in the Americas and speed up activities to enter emerging markets including Central and South America

### **Mining Business Unit**

Hydraulic excavators: Operating weight of 100t and more Dump trucks: Load weight of 150t and more

These machines are operated for 20 hours or more a day for the excavation and transportation of minerals at open-pit mines across the world. They offer the quality and performance required for long-hour operation in areas remote from cities.





Large and ultra-large hydraulic excavator

Rigid dump truck

• Has been conducting operations since 2017, which was before the official launch of the business unit system

- By using the Fleet Management System (FMS), has been engaging in mixed fleet management (of dump trucks made by multiple manufacturers) at various mines
- Opened the AHS remote support center in Australia in April 2024 to establish an around-the-clock remote monitoring and support system

minina"

 Launched a world-first demonstration experiment of an engineless full electric rigid dump truck for differentiation through "net zero emissions Hitachi Construction Machinery Group Integrated Report 2024

### Upgrading the Business Unit System

### **Compact Business Unit**

Hydraulic excavators: Machine/operating weight of less than 10t Wheel loaders: Engine output of less than 50kW

Our compact machines are used for civil engineering and demolition work in narrow spaces in urban environments as well as for snow removal, agriculture. forestry, landscaping and livestock farming, thereby helping customers meet their need for higher productivity.





Mini excavator

enhance collaboration with it

Mini wheel loader

#### • The distinguishing feature of this business unit is that it focuses on the operation of Hitachi Construction Machinery Tierra Co., Ltd. In April 2023, the Business Strategy Department was established within the head office of Hitachi Construction Machinery to enable the business unit to formulate product strategies for Hitachi Construction Machinery Tierra and

• Aims to increase its global market share to at least 10% as a target for FY2030

- Plans to increase the number of retailers that offer its products within the MTMP period while working on DX for retailing
- Has been developing electric construction machinery while preparing for hybrid production

### **Spare Parts & Service Business Unit**

- Provides the IoT technology-based ConSite solution for the real-time collection and analysis of data on machine conditions, which enables the detection of signs of failure
- Contributes to reducing the life cycle cost of each product by offering SELECTED PARTS and remanufactured parts in addition to genuine parts

- Positions the Banshu Works as the mother factory for the remanufactured business and enhances collaboration with the overseas remanufactured bases to enhance the ability to produce remanufactured parts toward the establishment of a global production system for such parts
- As an initiative for a circular economy, started to conduct a business to purchase submerged machines and used equipment in order to recover parts to eventually resell as remanufactured parts

#### Power & Info Control Platform Business Unit

• Is developing functions in a comprehensive manner as an organization that integrates the development and manufacture of hydraulic equipment, reduction gears, electric devices, electronic control systems and software

• A group of professionals who are working for the development of connected and digitalized construction machinery for the company

 Concluded a capital and business partnership agreement with Japanese IoT-related startup aptpod, Inc. in May 2023 to jointly develop a self-driving system as well as a system to remotely control construction machinery using digital twin technology

### **Rental & Used Equipment Business Unit**

 Helps customers select optimal machines according to the scale and duration of their construction work in the rental business and helps customers solve product life cycle cost-related problems in the used equipment business, thereby contributing to a shift by customers toward resource remanufactured based business

Works on the smooth distribution of used equipment in each region

- Is building a system to distribute used equipment (highly functional machines and models released in developed countries) across regions
- Provides efficient preventive maintenance service by using the ConSite solution as for new equipment and conducts the PREMIUM USED maintenance service base on the relevant service history and machine conditions, thereby contributing to maintaining the value of used equipment for an extended period

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

• Is fostering measures in three zones: Incubation Zone to create and develop new businesses; Transformation Zone to expand new businesses; and Productivity Zone to raise the productivity of existing businesses

- Established the Zero Emissions Business Planning Project within the unit in October 2023, aiming to promote research, verification and improvement activities in an agile manner on a short-term basis in collaboration with various partners around the world
- Enhances and expands co-creation activities to upsize the business of the unit and improve operations by utilizing digital technologies

# Technology Strategy



### **CTO Message**

# We are enhancing human resource development and open innovation with an eye to establishing industry-leading R&D capabilities.

### Accelerating R&D Activities to Keep up with **Changes in Technologies and Customer Environments**

We at the Research & Development Group have been advancing the performance, durability and functionality of our machines by doing model updates every few years. We are now in the age of the connected vehicle, however, and must also keep up with the rapid progress in digital and communication technologies and changes in our customers' environments. To meet this requirement, we must speed up our development activities. In addition, whereas our technological challenges traditionally related to mechanical engineering. including hydraulic pressure and structures, more than half of our technological issues these days are related to software and communication technologies, making it essential that we develop researchers and developers who can address these issues and make effective use of open innovation opportunities to establish such technologies. Accordingly, we established the Open Innovation Promotion Office in April 2023, which has since been leading joint development projects with companies specializing in communication and software, including startups. We are also considering making more effective use of fast-evolving AI systems at our development sites. For example, our developers are considering the use of AI systems in our ICT construction machinery, specifically to improve their obstacle detection and machine control functions based on deep learning using images

captured by machine-mounted cameras. We are also starting to conduct examinations on using AI for the provision of solutions and support to our customers, including making ConSite data reports and deciding which customer to prioritize in making customer visits.

The external technological environment has also substantially changed over the past two to three years. For example, the advancement of automobile driving support technologies and their now widespread use is causing a drop in the market prices of light detection and ranging (LiDAR) sensors and ultrasonic sensors, facilitating the evolution of construction machinery. In response, our personnel engaging in development activities for construction and mining machines are now working even harder, recognizing that the time has come for them to incorporate their developments into new machines to be released on the market.

# **Making Steady Progress on Five Advanced** Themes from Medium- to Long-Term **Viewpoints**

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 on a medium- to long-term basis. As our vision for 2030, we aim to establish industry-leading R&D capabilities. Accordingly, we set up five advanced R&D themes: improve safety, improve productivity, reduce life cycle costs, prevention of global

### CTO Message

warming and adapting to global polarization. We have already made progress and achievements on these themes.

First, we completed the development of a prototype full battery dump track and shipped it out for a demonstration experiment, which we have been conducting under actual operating conditions at the Kansanshi copper and gold mine in Zambia since 2024. We developed this prototype by applying the proven technologies adopted for our dump trucks equipped with a trolley dynamic charging system. The battery-charged prototype can be recharged via an overhead power transmission line to drive the AC motor and will thus contribute to achieving net-zero greenhouse emissions from mining equipment.

Second, we announced the RBT series of hydraulic excavators that can be operated remotely. RBT stands for Ready to be ROBOT and refers to a "robot with no human operator on board." We released the first two models of the series in May 2024. Unlike conventional remote-controlled machines, the two medium-sized hydraulic excavator models are controlled digitally via a network and can be utilized by our customers as a base machine on which a range of new technologies can be mounted. To achieve this, we collaborated with silex technology, Inc. to develop a new solution to overcome lags and disruptions in the transmission of camera images and operational signals, which is a major issue for remote-control technologies. Based on the solution, which we have developed by combining silex's communication technology with our own know-how and data accumulated by working with our customers, we aim to further improve the operability and efficiency of the RBT series. We are planning to start a demonstration experiment for the solution within FY2024 to verify its specific effects.

We have also made progress in the development of self-driving technology. We conducted a joint experiment with general construction company Maeda Corporation and iXs Co., Ltd. on autonomous excavation using our ZCORE system platform-equipped hydraulic excavator. In the experiment, which lasted about four months from November 2023, we were able to build a generic interface between

the construction company's system and our hydraulic excavator and verify its effect. I would say we are thereby one step closer to Hitachi Construction Machinery's goal of achieving "cooperative safety" at construction sites, which refers to humans and machines working together safely for higher productivity.

### **Creating "Co-Creation Places" for Open Innovation**

These achievements have been made through open innovation activities, which we have been promoting in recent years, and through technological partnerships, which we have formed with business partners, startups, universities and others across industries and on a global scale based on our own hydraulic technologies as well as the electronics and advanced IT technologies possessed by Hitachi, Ltd. "Delivering innovative solutions for customer needs" is the first pillar of our current medium-term management plan, "BUILDING THE FUTURE 2025." As a solutions provider, we deem it particularly important to not only make effective use of our technologies but to do so in a more open manner. We have therefore also been working to establish our own "co-creation" places" throughout the fiscal year, with a view to providing our engineers who specialize in communication, image recognition, machine control and other technologies with even more opportunities to have dialogues with their counterparts at leading companies in various fields and to thereby identify more seeds for innovation.

As one of such places we opened the Orange Innovation Plaza in the engineering building of the Tsuchiura Works. The Plaza was completed in the spring of 2023, in time for us to hold the Hitachi Construction Machinery Innovation Summit 2023 there at the end of May. As many as 40 companies exhibited at the venue for the firsttime event, with 110 exhibiting online. Visitors to the venue included representatives of an energy company with whom we had little contact in our day-to-day operations, and the event provided our

engineers with a valuable opportunity for communication.

Furthermore, in May 2024, we opened ZERO EMISSION EV-LAB in Ichikawa City, Chiba Prefecture. The development of our electric construction machinery has so far been led by German company KTEG GmbH, with the Tsuchiura Works also engaging in the development. Going forward, we will promote co-creation with our customers and business partners at the Ichikawa research base for the achievement of zero emissions at construction sites. Thanks to the cooperation of Isuzu Motors Limited, ITOCHU Corporation and Kyushu Electric Power Co., Inc., we now have a full lineup of batterydriven electric excavators at the research facility, as well as the portable charging equipment and construction equipment required for the achievement of zero emissions.

Also, in May 2023, we decided to form a capital partnership with aptpod, Inc., an IoT-related startup in Japan. By making use of this company's high-speed IoT platform, we have started to develop a system to remotely control and automatically operate construction machinery by using their digital twins. For civil engineering, it is necessary to transmit and process topographic data at a high speed to reflect the changes in the physical environment that occur during on-site construction work. Due to the sheer volume of this data, it has previously been difficult to build digital twins of construction machinery that can operate in real time. The high-speed "intdash" IoT platform provided by aptpod enables users to transmit voluminous data at a high speed and in a stable manner. For us, it means we

can now receive data from construction machinery and other on-site systems and process it to build real-time digital twins of the machines. We are now ready to press forward with a joint development with the startup using a range of real-world data.



Opening ceremony held for ZERO EMISSION EV-LAB

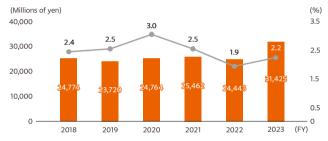
# Nurturing an Agile Corporate Culture to Offer More Value to Customers

Through the promotion of open innovation, we are adopting anew ideas from outside the company. We have also started to implement an initiative to transform our entire organization into one with an agile corporate culture. We previously developed a new product by identifying the needs of customers ahead of others and then releasing a perfected model. With customers these days attributing more importance to software functions in terms of product performance, we are responding by releasing products that can be updated over the air (OTA) via a network. We have already introduced an agile development process for ConSite and other services so that we can update the related software applications over time to shorten the development period. As a solutions provider, I think our next step will be to firmly establish an agile development method. We must also be able to promptly update our solutions for construction sites in order to provide direct assistance in improving site conditions. Based on this recognition, our development and sales teams will work in concert to provide customers with machines and solutions that both agile and ready to go, thereby earning the trust of our customers as their solutions provider.

As for R&D investment, we uphold the target of raising the ratio of R&D investment to sales revenue at least to 3% in the mid-term plan, as compared to the 2.2% recorded for FY2023. One of my important roles as CTO is to see that we reap the yields of R&D investment efficiently. To this end, I ensure that the Development Strategy Office works steadily to lead the formulation of a medium-to long-term technological strategy roadmap that describes R&D and product development plans, with a focus on the optimal allocation of budget and human resources. The Hitachi Construction Machinery Group has specified "Product and technology development contributing to climate change mitigation and adaptation" as one of its issues of materiality and aims to make its entire value

chain carbon neutral by 2050. Toward this goal, we have set our medium-term milestone targets and vision in reference to social, environmental and technological trends. We will make plans separately for our internal activities and for open innovation activities by backcasting from these targets and vision and will centrally manage the plans to avoid the duplication of development themes between business units.

#### ■ R&D Investment and Ratio of R&D Investment to Sales Revenue



# Adhering to the Principle of "No Hierarchical Relationships Regarding Technologies"

As I have already mentioned, digital technologies will be further sophisticated, making it an important management priority for us to develop engineers armed with the comprehensive expertise required of a construction machinery manufacturer that is engaging in the development of entire systems. Specifically, we must help our engineers gain comprehensive knowledge about construction machinery bodies and structures that meet customer needs and about how the machines are used at each construction site. To this end, we newly established the Power & Info Control Platform Business Unit. This

unit is tasked with developing technologies for hydraulic equipment, electronic control, transmission, software, and comprehensive body control systems and will manufacture the products that incorporate the developed technologies.

In recent years, a string of scandals involving manufacturers have been reported, reminding us of the importance of ethics to engineering. I have often repeated something my supervisors told me soon after I joined the company: "There should be no hierarchical relationships regarding technologies." Engineers deal with physical phenomena, which occur regardless of whether you are an entry-level employee or a high-level manager. Engineers must therefore communicate as equals and with candid sincerity in order to maintain a strong ethical framework. For example, even if a product is designed and manufactured strictly according to specifications, its performance could still be lower than expected in an evaluation test or the product might even break. If such an incident occurs, the engineer in charge must communicate this frankly up the chain of command, and even unfortunate or disappointing test results must be collectively acknowledged. Maintaining an ethical approach to engineering is thus something we must continue to promote, along with the Group's long-cherished Kenkijin Spirit.

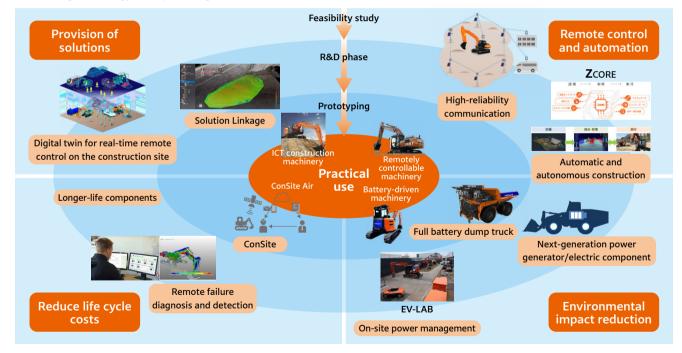
We have been working to establish industry-leading R&D capabilities by the year 2030, which will soon be upon us. We have also formulated a technology strategy roadmap that more clearly shows our medium-term milestone targets and vision toward 2050. Further, we have set dozens of R&D themes, including those for remote control, automation, digital twins, ICT construction machinery, electric components, batteries, power management, longer-life components, advancement of ConSite, remote failure diagnosis and preventive maintenance, while making predictions about regulatory and policy trends in each country as well as about future technological advancement. Going forward, I will be working hand in hand with all members of the Group to make steady progress and become a true solutions provider.

### **Technological Strategy Roadmap**

Hitachi Construction Machinery is conducting research on more than 250 technological themes, which we summarize in a technological strategy roadmap as our vision for 2035. The themes are roughly divided into the following four categories: provision of solutions,

remote control and automation, environmental impact reduction, and life cycle cost reduction. We make examinations to decide on the development themes to be addressed internally and those to be addressed in cooperation with external parities, and then allocate the necessary financial and human resources to each of them.

### ■ Technological Strategy Conceptual Diagram for 2035



### **Intellectual Property Strategy**

The Hitachi Construction Machinery Group attributes importance to intellectual property activities in its business. We set basic policies on the protection of intellectual property and respect for the intellectual property of other parties as part of the Hitachi Construction Machinery Group Code of Conduct and have been conducting intellectual property activities based on these policies.

The Intellectual Property Department is leading our intellectual property activities and promoting the formulation and implementation of intellectual property strategies in cooperation with the R&D and business divisions. We are also sharing intellectual property strategies among Hitachi Construction Machinery Group companies.

In view of the high share of overseas sales among our total sales, we attribute importance to having a global patent network and have been maintaining the ratio of our overseas patent applications at 30% or more of the total since FY2011. Further, we are enhancing patent activities for our value chain- and carbon neutrality-related technologies to elevate our intellectual property-related capacity to a global top level.

### **Intellectual Property Education**

In order to proactively create and protect our own intellectual property and respect that of others, the Hitachi Construction Machinery Group has been providing its employees with intellectual property education, which is regularly updated in response to legal and regulatory revisions and other changes.

Based on the recognition that employees require different knowledge about intellectual property depending on their job and rank, the Group is proactively providing them with rank-specific education, including holding basic seminars for entry-level employees and seminars on intellectual property leadership for mid-rank employees.

We will continue to conduct intellectual property education in and after FY2024, reviewing the contents as necessary.

Messages from Sustainably Emancing Strategies to Achieve the Global Business Expansion/ Sustainablity Promotion Initiatives

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**Global Business Expansion/Growth Strategies by Region** 

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# Global Business Expansion

## **CMO Message**

# We will offer value to customers above and beyond their expectations through products & service developed to meet customer needs in each regional market.

### Progress with the Medium-term Management Plan

In March 2022, Hitachi Construction Machinery made an announcement about the termination of the joint venture relationship with Deere & Company and the start of independent business expansion in the Americas. Subsequently, in FY2023, we were able to substantially boost sales in the region, being supported by favorable local market conditions. In the same fiscal year, we also took on the challenge of reforming the rental business in Japan based on the policy of becoming a true solutions provider by offering innovative solutions to customers, as upheld in the medium-term management plan. In the Japanese rental market, demand is greatest for hydraulic excavators in the 20-ton class, which are relatively cheap. In order to increase our presence in this fiercely competitive market, we decided to make effective use of our ability to provide solutions as our strength. Accordingly, we worked to transform the comprehensive rental business into a unique "Kenki-solution" rental business to provide customers, particularly those in our focus industries, with optimal rental machines, thereby offering more service value to them. Further, we succeeded in reducing fixed costs by starting to conduct the business mainly through medium-sized bases. We will continue to reform and expand the value chain business, including the used equipment and rental business, above and beyond our customers' expectations.

### **Market Trends and Our Growth Strategies**

The global construction machinery market is still in its growth stage on an overall basis. In FY2022, a shortage of semiconductor devices caused upheavals in the supply chain at the same time as market demand for the machines increased. The Hitachi Construction Machinery Group

was among the suppliers that were unable to meet the demand. The market disruption was mitigated in FY2023 even as demand for construction machinery in emerging economies increased in connection with infrastructure improvement and resource development. Demand for our products is likewise expected to expand in India. although the government will take some time to complete its budget following the national election. In Australia and South Africa, demand from the mining industry remained brisk for the exploitation of coal and iron ore deposits and the excavation of hard rock. In Europe, however, demand for houses dropped due to a rise in lending interest rates from 2023, and this has affected demand for construction machinery. In North America, local demand has remained brisk. It is predicted that interest rates will stabilize going forward, and we will continue to monitor the trend. In Japan, we cannot expect a substantial increase in public investment and construction demand, but the market will continue to be stable. In China, construction demand has dramatically decreased along with the stagnation of urban civil engineering projects and the market may take several years to recover.

The Hitachi Construction Machinery Group has been formulating growth strategies fit for each regional market. In particular, we have been embracing our biggest challenge for achieving growth in the Americas. Specifically, we increased the number of dealers who constitute our local dealer network from eight to 24 to build a network that covers 80% of the Norh American market. Also, in the Central and South American market, where we previously focused on the sale of mining machines, we took our first step toward selling construction machinery. The Americas represents a vast market and we will firmly increase the presence of the Hitachi brand and the Group in this market

by meeting diverse needs of local customers, including those for parts, services, rental machines and premium used equipment, through the appropriate assignment of dealers.

Vice President and Executive Officer CMO

President of Global Marketing Group. General Manager of China Business Div.



#### Message to Our Stakeholders

In FY2023, following the lifting of restrictions on overseas travel linked to COVID-19, I visited the Group's bases around the world. Through the visits, I noted that these bases have different systems and cultures and that what local customers expect from the Hitachi brand also differs by country and region. Hitachi Construction Machinery upholds the principle of "Customer Interest First," and I regard it as my mission as Chief Marketing & Sales Officer (CMO) to work tirelessly to identify products and services that can contribute to our customers' businesses and to use new insights to come up with novel proposals, thereby helping the company develop new products and services that can meet market needs. Another of my important roles is to demonstrate leadership for the achievement of the medium-term management plan, as we have promised our stakeholders, including our shareholders and investors. Some might say that you can increase your profitability simply by cutting off an unprofitable business, but this would only narrow the business scope of our dealers. We will therefore focus not only on profit margin but also on profit size. I would like to lead Hitachi Construction Machinery to be an enterprise that can return even more profit to shareholders by increasing its capital value and efficiency.

# **Americas**



# **North America: Business Strategy**

The business model for the Americas business since the 2022 launch involves the distribution of finished machinery manufactured in Japan through the Hitachi Construction Machinery Americas dealer network. Support, parts and services are provided by official dealers, through which a variety of service solutions centered around "ConSite" are offered. The Americas business has gotten off to a much better start than expected, establishing a system that facilitates the direct distribution of products, services and solutions to customers as value in this huge market. Before the partnership was dissolved, the supply of products under the Hitachi Construction Machinery brand was limited. When we embarked on the independent business expansion, we were determined to work from scratch to build trust in the brand under the banner of the Reliable Orange color. Happily for us, our brand recognition in the market turned out to be greater than expected. which we view as a testament to the trust we have gained from our customers through 45 years of business in the Americas.

There was significant demand in FY2022, and we rushed our production to meet customer expectations. Unfortunately, we were temporarily unable to deliver products due to difficulties in procuring semiconductors and other components. From the second half of FY2023, operations returned to normal and our products were stocked at each dealer. One of the main strategies aimed at improving our presence in the Americas, the Group's largest market, is to expand our value chain business. Utilizing our network of Group companies and dealers that already covers around 80% of the North American market, we are offering rental machinery, parts and ConSite service solutions. We will continue to earn even more trust from our customers by demonstrating how Hitachi Construction Machinery can contribute to their business not only with new products but also throughout the product life cycle.

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### Launch of the ZAXIS-7 Series in the Americas

In August 2023, the high value-added ZAXIS-7 series was released in the North American market. In conjunction with this, Hitachi Construction Machinery Americas held a training session on the operability and features of the ZAXIS-7 series for approximately 100 sales and service staff from across North America. Offering higher added value than the conventional ZAXIS-6 series, ZAXIS-7 enables dealers to accommodate the needs of a wider range of customers. The ZAXIS-7 series has been selling well since its launch, accounting for nearly 40% of the total number of units sold in FY2023.

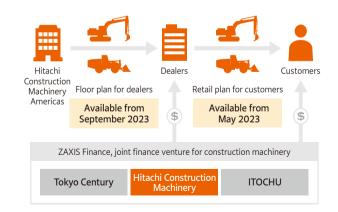
### ■ Sales of high value-added products in Americas



# **Upgrading Finance Business and Expanding Rental Business**

ZAXIS Financial Services Americas, LLC. ("ZAXIS Finance"), a joint venture finance company funded by the U.S. subsidiaries of ITOCHU Corporation, Tokyo Century Corporation and Hitachi Construction Machinery Co., Ltd., began offering retail finance to U.S. customers in May 2023 and floor plan financing to U.S. dealers in September 2023. This should enable Hitachi Construction Machinery Americas to accelerate sales while controlling the increase in accounts receivable.

Hitachi Construction Machinery Americas is also aiming to expand its rental business. In the Americas, wholesale rentals are operated by the group company ACME Lift Company ("ACME") and retail rentals are operated by dealers. Although customers have rental needs, it is difficult for agencies and rental companies to invest in them due to the size of capital expenditures and investment efficiency. The wholesale rental service made available through ACME will provide services that meet customer needs while keeping asset growth in check. Allowing us to realize a rental business capable of delivering the products a customer requires in a timely manner.



# Participating for the First Time in CONEXPO 2023, the Largest Construction Machinery Trade Show in North America

Hitachi Construction Machinery Americas took part in CONEXPO 2023 for the first time under the Hitachi Construction Machinery brand. The largest construction machinery trade show in North America, CONEXPO 2023 was held from March 14 to 18, 2023 and attracted 139,000 visitors over the five days. By showcasing its construction machinery and its parts and services business, Hitachi Construction Machinery Americas was able to highlight its ability to provide cutting-edge products, services and solutions in the Americas market, based on the track record cultivated by Hitachi Construction Machinery in the global market. Around 2,000 construction machinery manufacturers from around the world took part in the exhibition, making it a valuable opportunity to grasp global trends.

At the media conference and IR meeting, Hitachi Construction Machinery Americas' Chairman Sonosuke Ishii and CEO Al Quinn spoke about the company's achievements in the Americas and its future strategies, attracting the attention of industry journalists and analysts.



Hitachi Construction Machinery Group Integrated Report 2024
Hit roduction Top Management Our Corporate Value Medium-term Management Plan Growth Strategy by Region that Support Sustainable Growth Corporate Data

# **Central and South America: Business Strategies**

In the Central and South American market, Hitachi Construction Machinery has been conducting business mainly in the mining sector. Like Africa, this region is characterized by its large number of countries, a diversity of languages and differing regulations. The Central and South American market is expected to grow due to the high demand for mining equipment, particularly dump trucks. We are therefore working to expand our service infrastructure for our eight dealers in South America, such as by establishing service support bases and remanufacturing plants. In countries like Brazil, where the market is large but import tariffs on finished products are high, it is also essential to cultivate the market by using the rental business as a foothold. From the perspective of strengthening the value chain business, we are planning to introduce well maintained used machinery from Japan to South America as a way to expand our business.

As part of the independent business expansion in the Americas, we are aiming to expand our construction business also in the Central and South American market and have started to expand the network of dealers to consolidate our sales system.

# Establishing a Local Production and Service System for Dump Trucks in the Americas Market

Hitachi Construction Machinery has decided to begin full-scale production of dump trucks in FY2026 at Hitachi Construction Truck Manufacturing Ltd. (head office: Ontario, Canada), a group company responsible for the production and remanufacturing of dump truck maintenance and service parts. This will establish a local production and service framework for AC-driven dump trucks for mining in the Americas market.

For dump trucks produced in Canada, mainframes, welding structures and components such as engines and radiators will be locally sourced to improve the local procurement rate. Other key components will be imported from Japan to ensure the same level of reliability as Japan-made models. Engineers, including designers, will be present at Hitachi Construction Truck Manufacturing to flexibly respond to specification changes on individual trucks and deliver quality products and services that cater to customer needs.



Hitachi Construction Truck Manufacturing Ltd. (Ontario, Canada)

# Bradken Purchases a Peruvian Foundry from Funtec

Bradken Pty Ltd (headquarters: New South Wales, Australia), a Hitachi Construction Machinery Group company that manufactures parts for mining equipment, purchased the land, buildings and facilities necessary for a foundry from Fundacion Technologica S.A. ("Funtec;" Chilca, Peru), a manufacturer of steel casting for mining sites in the Republic of Peru.

Bradken aims to rapidly supply products and further expand its mill liner business to respond to the vigorous demand in South America, the largest market for mill liners in the world, with a focus on Peru and Chile, where hard rock is mined in abundance. Bradken will make a capital investment in the foundry, with the first production run of large mill liners expected in 2026.



Foundry of Funtec (Chilca, Peru)

### Seizing the Future in the Americas

# **Hitachi Construction Machinery Americas Opens New Headquarters Facilities Comprising Office Building and Conference & Training Center**

Hitachi Construction Machinery Americas Inc., the regional headquarters for the Americas, held an opening ceremony on February 19, 2024 to celebrate the completion of its new office building and conference & training center in Newnan, Georgia. Designed and constructed with environmental friendliness in mind, the new buildings are equipped with the latest facilities. The company will use the new headquarters facilities to strengthen its proposal-making capability and support system for customers and dealers and further accelerate its business. development.

The two new buildings were constructed on the site of a former wheel loader assembly and manufacturing factory and parts warehouse, with some of the structure and materials of the old buildings being reused. The conference & training center will be used to provide customers and dealers with training on the operation, maintenance and servicing of products. The office building will house the sales, parts and services, and administrative departments. In addition to the work space for employees, a command center will be set up to monitor the operating status of construction and mining machinery using the ConSite service solution tool. In addition, the building will serve as a hub to oversee parts remanufacturing and rental businesses.

with a view to enhancing the company's support system and offering a broader range of service menus.



A full view of Hitachi Construction Machinery Americas' new facilities

### **Voice of Regional General Manager**

# Toward the Second Phase of Independent Business Expansion in the Americas Aiming to Achieve Sales Growth by Reinforcing a Structure to Enhance Operational Quality



Senior Vice President and Executive Officer General Manager of America Business Div. Chairman of Hitachi Construction Machinery Americas Inc

#### Sonosuke Ishii

This year marks the third year since the start of our independent business expansion in the Americas in March 2022. In February 2024, the new company facilities were completed to serve as the headquarters for our Americas operations. We held a grand opening ceremony with a number of dignitaries and business partners in attendance. Since then, we have received numerous visits from customers and dealers, held meetings and discussions, and provided various training sessions, strengthening our activities as the regional headquarters.

Although staffed with highly motivated personnel, our organization is still young, having been established only two and a half years ago. We are therefore promoting team-building and other activities necessary for new organizations, such as cross-cultural communication training. As our area of responsibility covers not only North America but also Central and South America, we have built up a workforce representing a diverse range of nationalities, including Puerto Rico, Brazil, Colombia and Venezuela, so that we can serve

customers and dealers in a manner that aligns with regional characteristics, including language. In addition, to allow us to interact effectively with the large number of geographically dispersed dealers spread across the vast land of the United States, we have also appointed regional staff on a remote basis to collect detailed customer and dealer information and respond to their requirements promptly.

We are aiming for a substantial year-on-year increase in sales in FY2024. We expect sales for the overall construction and compact market in North America to be on par with the previous year. As we are aware that competitors have completed replenishing their inventories, which had been running low following the pandemic, the competition is certain to intensify. Going forward, the expectation of our customers and dealers will shift from merely meeting delivery times to offering superior services. We will work on improving and reinforcing our operational quality as an initiative for the second phase of the independent business expansion in the Americas.

Our network of dealers in North America now covers around 80% of the market. We aim to cultivate the remaining market, develop new dealers and further expand our business operation. We have completed the deployment of staff in South America, where demand for mining equipment is currently high, while the head office in North America has also increased its staff and resumed production of dump trucks in Canada. Going forward, we will work to strengthen and review our partnerships with dealers. At the same time, in collaboration with group companies actively operating in the South American mining market, such as Bradken, H-E Parts and Wenco, we aim to establish a system that will enable the Hitachi Construction Machinery Group to comprehensively respond to the needs of the mining market.

# **Europe**



development bases close to customers

Weaknesses (Issues)

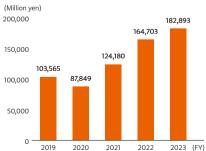
Opportunities

Strenaths

Risks

- Growing momentum for electrified and zeroemissions machinery and for the sharing economy
- Intensifying geopolitical risks
- Inflation and the restraint of infrastructure investment

### Sales Revenue by Region (Europe)



The Hitachi Construction Machinery Group has operated in Europe for many years, having established Hitachi Construction Machinery (Europe) in 1972 as its regional headquarters to meet the demands of the market in cooperation with dealers. In 2018, the Group established the European Application Center (EAC), which develops electrified and applied products tailored to meet the market's specific characteristics. The EAC has working ever since to offer cutting-edge construction machinery and solutions.

# Establishing a Marketing and Development System to Respond to Changes in Demand in the Environmentally Advanced European Market

The EU has published a policy to effectively ban the sale of new gasoline-powered vehicles by 2035. In response, the Group established the EAC, which is responsible for the development of electrified products in Germany, as a development base with marketing functions to build a system that is highly attuned to local needs. The rate of use of electrically powered construction machinery varies from country to country, but the rapid shift toward EVs in Germany in particular is also affecting the construction machinery industry. Moreover, the switch from engine-driven to battery-driven mini excavators for use at work sites in densely populated urban areas has provided the advantage of noise reduction. This has led to new developments in the market, with not only construction machinery manufacturers but also dealers working independently to launch sales of electric construction machinery powered by swappable batteries.

In order to respond to this trend, Hitachi Construction Machinery has worked in collaboration with the EAC on the electrification of construction machinery that meets customer needs while still using components of existing machines. At bauma, the international construction machinery trade fair held once every three years in the German city of Munich, Hitachi Construction Machinery's electric products have attracted a great deal of attention from visitors from around the world.

In the U.K. market, we have a sales and service system directly managed by the manufacturer, and are strengthening our rental business and developing a business with high asset efficiency based on the concept of resource recycling. We have just started implementing a new business model, in which rented products with relatively short service years are sold as PREMIUM USED machinery (guaranteed used machinery) within Europe.

### **Voice of Regional General Manager**

### Reinforcing the Value Chain Business with Asset Efficiency in Mind in the Relatively Stable Market

Representative Executive Officer, Senior Vice President and Executive Officer President of Construction Business Unit General Manager of EMEA Business Div. Chairman of Hitachi Construction Machinery (Europe) N.V.





In Europe, demand from four major countries (Germany, the U.K., France and Italy) accounts for nearly 70% of the market, so it is essential to pay close attention to the trends in Germany and the U.K., in particular. The market is characterized by a serious shortage of labor and strong environmental regulations, along with strong needs for digitalization, a wide range of attachments, and electric machines that can help achieve zero emissions. Hitachi Construction Machinery (Europe) works closely with 39 direct and independent dealers across Europe to accurately understand end-user needs and provides solutions that combine hardware, digital technology and software to differentiate ourselves from competitors. We maintain an appropriate level of dealer inventory to increase sales prices and to expand our market share. In addition, at KTEG, a joint venture funded jointly with Hitachi Construction Machinery's German distributor, efforts are being made to develop products that meet the advanced needs of the European market. The outcomes of the effort will be deployed not only in Europe, but also in North America and Japan. We are also strengthening our efforts to capture the needs for rental machines and equipment through the R2R\* program in collaboration with a British subsidiary rental company and dealers. Furthermore, we will expand our business through reconstruction projects in Eastern Europe, capturing small-scale mining demand and expanding sales of spare parts.

\*R2R (Rent to Rent): A business model in which a rental company leases machinery to dealers and other rental companies

### **TOPICS - Europe**

### Launch of an Energy Storage System Business for **Electric Construction Machinery**

In October 2023, Hitachi Construction Machinery launched a business to provide energy storage systems for electric construction machinery in Europe. In collaboration with Alfen B.V. ("Alfen"), a manufacturer of energy storage systems (head office: the Netherlands), and ITOCHU Corporation, the company will sell and rent the storage systems in 14 European countries, including the Netherlands. the United Kingdom, and France.

Demand for electric construction machinery, which has a low environmental impact and produces less noise, is growing across Europe, but the lack of charging facilities near construction sites poses a challenge to widespread use.

With a length of three meters, Alfen's charging equipment is about the size of a small container and can be transported by truck, ITOCHU Corporation provides financing to Hitachi Construction Machinery and its dealers, and supports the expansion of the rental business without increasing the Group's assets. Hitachi Construction Machinery estimates that the proportion of electric construction machinery in the European construction machinery market will grow to between 15% and 22% by 2030 and, through the provision of these storage systems and other initiatives, we aim to overcome the obstacles to electrification one by one.



Hitachi Construction Machinery's battery-driven excavators powered by Alfen's mobile storage system

### **TOPICS - Europe**

### **Acquisition of French Dealer Cobemat SAS**

Hitachi Construction Machinery (Europe) N.V. (headquarters: the Netherlands), the European regional headquarters of Hitachi Construction Machinery, has concluded a share transfer agreement with Cobemat, a leading dealer in France. Cobemat became a wholly owned subsidiary on April 1, 2023, and was rebranded as Hitachi Construction Machinery France S.A.S.

Cobemat began working with Hitachi Construction Machinery (Europe) as the authorized Hitachi dealer in 2003. Having gradually expanded its sales area, it now cover approximately 50% of the French market, including the capital Paris, where major construction companies are based. With the conclusion of this contract, the company plans to operate at six locations as a sales and service subsidiary directly overseen by the Hitachi Construction Machinery Group. The company will strengthen its competitiveness through a sales and service system directly managed by the manufacturer; accelerate value chain businesses such as parts and servicing, rentals, and used machinery; and propose optimal solutions to address customer issues and needs concerning products able to support ICT and contribute to zero emissions. It will also expand its business by growing the size of its rental fleet, focusing on medium- and large-sized hydraulic excavators and wheel loaders, and providing high-quality rental equipment and used machinery that has been properly serviced and maintained by the Hitachi Construction Machinery Group.



Then Hitachi Construction Machinery (Europe) President Takaharu Ikeda (left) and then Cobemat owner Xavier Beaulieu (right)

Messages from Sustainably Enhancing Strategies to Achieve the Global Business Expansion/ Sustainability Promotion initiatives

Hitachi Construction Machinery Group Integrated Report 2024 Introduction Top Management Our Corporate Value Medium-term Management Plan Growth Strategy by Region that Support Sustainable Growth Corporate Data

# Russia, CIS, Africa and Middle East



### Sales Revenue by Region (Russia, CIS, Africa and Middle East)



CIS, Africa and the Middle East have vast land areas and are rich in oil, natural gas and other natural resources. These regions have active demands for construction and mining equipment for urban civil engineering, pipeline construction and mine sites. Hitachi Construction Machinery has built a strong reputation for its Reliable Orange brand in these regions over many years.

# Africa: Strong expectations for the demand increase at Copper Mines in Zambia and Democratic Republic of The Congo

Although the coal industries is in adverse circumstances due to the trend of decarbonization, demand for coal export to India is strong and the situation in coal mines in the territories are supported by this. In contrast, the global trends toward decarbonization and electrification are driving brisk demand for copper, and there are high expectations for increased investment in mining equipment in the so-called Copper Belt region, particularly in Zambia and the Democratic Republic of the Congo (DRC). There are ongoing concerns, however, about the business risks inherent in this area.

Hitachi Construction Machinery's business operations in the region are driven by Hitachi Construction Machinery Zambia, which meets the needs of copper mine developers in Zambia and the DRC through its remanufacturing business. In addition, we are seeking to expand business opportunities and establish competitive commercial terms through collaboration with ITOCHU Corporation in response to the accelerating trend toward electrification in the mining industry. In the construction business, the challenge is to expand the product lineup for increasing the earnings of independent dealers.

In FY2023, we captured multiple large orders for mining equipment in the DRC, Zambia and South Africa. In FY2024, we will successfully complete these deliveries and engage them to our value chain business.

# CIS: Capturing Demand for Mining Equipment by Building Efficient Logistics

In CIS market, Eurasian Machinery, a Hitachi Construction Machinery Group dealer in Central Asia, has established solid sales and service networks mainly for mining equipment. With exploiting abundant underground resources, we expect continuous demand for mining equipment. Nevertheless, given its great distance from Hitachi Construction Machinery Group's global production footprints, our challenge is to build efficient logistics. In addition, leveraging reliability of Hitachi Construction Machinery's mining equipment, we continue to maintain and strengthen our competitiveness over neighboring Chinese brands, which have been aggressively penetrating the market in last years.

# Middle East: A Promising Market with Abundant Natural Resources and Potential for Economic Growth

The economies of the Middle East are heavily dependent on oil, natural gas and other energy resources. At the same time, opportunities for environmental businesses, such as business related to renewable energy, are expanding. In addition, e-commerce is growing in tandem with the rapid digitalization of society. Compared with Japan and developed countries in Europe and the U.S., the average age of this region is younger and the potential for future economic growth is high.

Hitachi Construction Machinery has a long-established network of dealers in the Middle Eastern market, and its high-quality used construction machinery from Japan is well regarded. In FY2023, we launched the ZAXIS-7 series of hydraulic excavators and the ZW-7 series of wheel loaders in Turkey. The ZAXIS-7G series has also been introduced to the rest of the Middle Eastern market and ConSite has been highly acclaimed. We also aim to be a solutions provider that offers a range of Reliable Solutions: the BX100 backhoe loader, the ZV650W walk behind roller made in Japan, Drilling equipment for mining exploration made in Turkey, and the electric conversion of diesel excavators.

### Voice of Regional General Manager

### **Reinforcing After-Sales** Services for Greater **Customer Satisfaction**



General Manager of Russia & CIS Business Div. President of LLC Hitachi Construction Machinery Eurasia Atsuo Hashimoto

Kazakhstan, Uzbekistan and other Central Asian countries that form the core of CIS market have achieved significant economic growth in last years, and exploitation of underground resources such as oil, gas and minerals has been particularly active. In addition, with young and vital populations, these countries are actively promoting to attract foreign investments, laying out such an investing environment.

Since 2018, Hitachi Construction Machinery has shown its commitment to the markets of Kazakhstan, Uzbekistan and other countries in the region by establishing Eurasian Machinery as its affiliate and dealer. Furthermore, by strengthening its component remanufacturing base in Kazakhstan, the company has helped customers in Central Asia to reduce their running costs and contribute to the circular economy in the region.

We will continue to meet the demand for mining equipment, which is growing with underground resource exploitation in the region. In the after-sales service field, we will further strengthen our parts and service bases in each locations, including customers, mining sites to meet their satisfaction.

Going forward, we will work with Hitachi Construction Machinery Group companies around the world to circulate remanufactured components outside CIS region. We aim to contribute to electrification in mines and the reduction of CO<sub>2</sub> emissions in the region through our ultra-large electric hydraulic excavators and trolley-powered dump trucks.

### Voice of Regional General Manager (Africa)

**Ensuring Successful Delivery** of Large Orders for Mining **Equipment to Secure a Stable Revenue Base** 

> General Manager of Africa Business Div. President of Hitachi Construction Machinery Africa (Ptv.) Ltd.

Toshiva Hasemi



The business in the African region has always the concerns of political instability, financial difficulties and inadequate infrastructure. When developing our activities in the region, we therefore must pay close attention to risk management. Nevertheless, we aspire to take on new challenges (regions, products, projects) while we keep strengthening and stabilizing the foundations of our existing businesses.

For our robust business foundations, we are committed to successfully complete the delivery of large orders for mining equipment between FY2023 and FY2024 and then leverage these orders to secure stable earnings from the parts and services business over the next 10 years. To underpin this strategy, it is essential to secure appropriately skilled personnel. Although we currently rely on support from overseas engineers, we plan to actively promote on-site training and the use of local talent in the future.

As for a growth strategy, we have high expectations for the initiatives the Japanese government is taking as part of the Global South strategy in the region, which is highly dependent on China fund. In particular, in terms of initiatives to reduce greenhouse gases, we have delivered electric hydraulic excavators and trolley-powered dump trucks to mining sites, and are conducting proof-of concept tests of full-battery driven dump trucks at mining sites in Zambia. By highlighting that these machines are environmentally superior and significantly contribute to reducing fuel consumption at mining sites, we hope to establish ourselves as a solution provider.

### Voice of Regional General Manager (Middle East)

**Capturing the Growing Needs** in the Mining Industry to **Drive Growth** 



President of Hitachi Construction Machinery Middle East Corp. FZE Manabu Arami

Hitachi Construction Machinery Middle East Corporation has offices in Dubai, the U.A.E. and Istanbul, Turkey, and provides marketing, sales and after-sales services in the Middle East and East Africa through local dealers.

The newly launched ZAXIS-7 and ZAXIS-7G series have been developed to provide customers with safety, environmental performance, high productivity and low life cycle costs. Since 2021, we have been conducting Value Based Selling (VBS) training to improve dealer capabilities and enhance their ability to make value-based proposals to customers. More than 100 dealer staff in total have received the training so far. In 2024, we held a dealer meeting in January and new product training sessions in June to strengthen our relation with dealers. We also take part in exhibitions as a way to increase brand recognition in each market. To ensure that customers satisfaction, we are increasing the efficiency of the supply of service parts and improving availability by expanding the parts warehouse and introducing a warehouse management system (WMS). In addition, with the mining industry booming in many countries, we exhibited at the Future Minerals Forum held in Saudi Arabia and discussed changes in mining and guarrying regulations and "net zero emissions mining." The world is changing, and the Middle East is changing along with it. Recognizing this change as an opportunity, Hitachi Construction Machinery Middle East will continue to listen to the voices of our customers and provide Reliable Solutions under the slogan, "One Team for creating customer value."

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Our Corroparate Value

Medium-term Management Plan

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Our Corroparate Value

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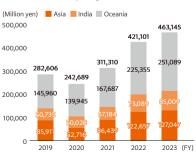
Ton Management

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# **Asia and Pacific**

Development, production. New approaches to sales and service system succeed amid intensifying directly managed by the market competition manufacturer Established presence as the Hitachi Construction Machinery brand Weaknesses Strengths (Issues) **Opportunities** Risks Growing demand for Expansion of Chinese high-quality machines and construction machinery manufacturers

#### Sales Revenue by Region (Asia and Oceania)



Hitachi Construction Machinery has a long history of business in the Asian region, where the population is rapidly increasing. We have established a network of affiliates, subsidiaries and dealers as a solid basis for product sales and the value chain business. In Indonesia, we have established production, development and parts remanufacturing bases to serve as a business hub for Asia. In the Oceania region, Hitachi Construction Machinery has established a solid presence, particularly in the mining and construction industries.

# Indonesia: Cumulative Shipment of 50,000 Units of Medium-Size Hydraulic Excavators

In December 2023, Hitachi Construction Machinery Indonesia achieved cumulative shipments of 50,000 units of medium-size hydraulic excavators ranging from 11 to 30 tons. The company began producing these excavators at its first factory in 1993, shipping 222 units in that year. Thereafter, production steadily increased as demand in the Southeast Asian market grew. In addition to their use in urban civil engineering in Southeast Asia, Hitachi Construction Machinery's hydraulic excavators are highly rated for their durability and quality in sites that require heavy duty equipment in the agriculture, forestry and mining industries. To respond to the growing demand for higher-quality products, the company launched the ZAXIS-7G series of medium- and large-size hydraulic excavators in February 2024. Hitachi Construction Machinery Indonesia will continue to develop and produce products that meet the needs of customers in Southeast Asia and surrounding areas as well as expand into the Middle East, Africa, Europe and other regions.

Indonesia consists of a chain of islands stretching 5,000 km from east to west. This geography makes the timely supply of maintenance parts particularly important in the country. To meet this need, a new parts remanufacturing plant for medium- and large-size hydraulic excavators was built on the premises of Hitachi Construction Machinery Indonesia's first factory, and operations began in June 2021. The widespread use of ConSite, not only in Indonesia but also in other Southeast Asian countries such as Malaysia, Thailand, the Philippines and Vietnam, has enabled the timely supply of high-quality remanufactured parts, contributing to the stable operation of our customers' machinery and reducing their life cycle costs.

### Oceania: Verification Test of Operator Assist System for Ultra-Large Hydraulic Excavators at Australian Mine Site

Hitachi Construction Machinery has developed an Operator Assist System aimed at supporting the digging and loading operations of ultra-large hydraulic excavators. It commenced a verification test at one of Rio Tinto's mine sites in late March 2024 with a view to commercialization. The verification test is being performed at one of the mining giant's iron ore mines in the Pilbara region of Western Australia. Sensors, monitors and other equipment are attached to an EX3600-7 ultra-large hydraulic backhoe excavator (operating weight of 360 tons) to conduct a performance verification of digging and loading tasks by the Operator Assist System and verification of the usability of the monitor display installed in the operator cab.

Mines producing iron ore, copper and other mineral resources are required to maintain stable operations 24 hours a day, 365 days a year. The operators of ultra-large hydraulic excavators at these sites are tasked with efficiently digging up materials and repeatedly loading them onto dump trucks while carefully avoiding contact and collisions with surrounding machinery. The Operator Assist System contributes to reducing operator burden, improving safety and productivity and reducing fuel consumption at mine sites. Conducting the testing on the customer's site will demonstrate the practical application of the Operator Assist System and help to improve the accuracy of the system going forward.



EX3600-7 ultra-large hydraulic backhoe excavator

### Voice of Regional General Manager (Asia)

### Maintaining a High Market Share in a Market with High **Growth Potential**





The Asian region is a market with high growth potential, with development being underway in many countries in addition to the demand coming from major cities such as Singapore. Palm plantations and pulpwood forestry, which take advantage of the tropical climate, are also thriving, and many construction machines are operating day and night. The region is also blessed with mineral resources and is a major market for mining equipment. The Asia Business Division has two production factories in Indonesia, one for medium-size machines (10 to 30 tons) and the other for mining equipment. Both factories supply machinery mainly to within the Asian region. Producing products close to the market reduces transportation costs and allows us to reflect unique local needs in product design in a timely manner. Our products designed for palm plantations and forestry in particular have been highly acclaimed by our customers and we have maintained a substantial market share. In addition, we have a component remanufacturing plant in Kalimantan, where many mines are located, as a support base for mining products, supporting customers' 24/7 operation. In Indonesia, Malaysia and Thailand, where our products are in high demand, our directly managed dealers are engaged in sales and service, enabling us to guickly respond to customer requests in close cooperation with production factories.

In FY2024, we will release the 7G series featuring excellent fuel efficiency, in addition to the 5G series, which has been well received for its high durability. Depending on demand, models from both the 5G and 7G series will be offered in different countries. By meticulously catering to the requirements of our customers sites, we intend to achieve tremendous progress this year.

### Voice of Regional General Manager (India)

### **Maintaining Market Share by** Offering High Value-Added **Products and Services**

**Executive Officer** General Manager of India Business Div. and President & Director of Tata Hitachi Construction Machinery Company Private Limited Sandeep Singh



India, recognized as the fastest-growing large economy, is currently focusing on extensive infrastructure development. This has led with diverse requirements for construction equipment. The presence of nearly all major construction equipment including three Chinese manufacturers in the country has resulted in a highly competitive industry landscape.

Tata Hitachi Construction Machinery, as the market leader in Excavators, addresses the varied needs of its customers through a strategic approach involving two key product series: the EX series and the ZAXIS series. This strategy is bolstered by our extensive network of dealers with strong after sales support, ensuring we reach and serve customers in every region of the country.

We are committed to maintaining this approach in FY24 and beyond, by strengthening value-added products such as Used Equipment and Rentals designed to enhance customer profitability.

### Voice of Regional General Manager (Oceania)

# Remaining a Supplier of Choice by Developing Innovative Solutions

General Manager of Oceania Business Div. and President & Director of Hitachi Construction Machinery Oceania Pty., Ltd, President & Director of Hitachi Construction Machinery Australia Ptv., Ltd. Rav Kitic



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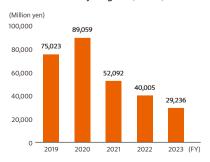
Hitachi Construction Machinery's Oceania business units continue their strong commercial performance in the Construction and Mining sectors. Central to our long-term success and resilience is a key focus on value chain. Our Value Chain ratios have continuously exceeded 50% of total turnover for many years. In particular, the parts and services streams underpin the resilience and commercial returns irrespective of external market conditions. We continue to strive to be the supplier of choice, by remaining agile and developing innovative solutions such as Modularisation, where we reduce costs, increase equipment availability, simplify the repair process, and more importantly create a safer working environment on customer sites. We partner with key customers, rather than being a mere supplier.

Our remanufacturing facilities are integral in our path towards driving the circular economy. Within these facilities we continue to evolve and further refine reuse procedures to provide not only the lowest cost offering, but importantly reduce our impact on the environment. The increased focus and often aspirational targets on decarbonisation from our customers align perfectly with our core value of reducing our carbon footprint. Our partnered solutions are being delivered by utilising the vast global capability with collaborating with external partners.

# China



### Sales Revenue by Region (China)



Hitachi Construction Machinery (China) started fullscale production in 1995 in the Chinese city of Hefei. Today, its production capacity has expanded to be second only to Japan. In 2013, it also started local production of hydraulic machinery parts, establishing a business foundation based on local production for local consumption while serving as an indispensable supply base for Europe and the rest of Asia.

### **Implementing Strategies in Procurement, Production and Sales**

The Chinese construction machinery market fell sharply in 2019 due to the spread of COVID-19 and in 2021 due to lockdowns. While demand for Chinese produced machinery has recovered to a certain extent, demand for machinery from foreign manufacturers, including our company, fell sharply again in FY2023. The worsening real estate slowdown since 2021 is expected to linger for some time. In addition, Chinese construction machinery manufacturers are expanding exports to Southeast Asia and other parts of the world in order to sustain GDP growth amid the limited growth in domestic demand. As the overall production capacity of Chinese manufacturers is sufficient to meet worldwide demand, we view this as a major cause for concern. Hitachi Construction Machinery is thus confronted with the challenge of securing and retaining good customers. Hitachi Construction Machinery Distribution (China) Co., Ltd. began operations in November 2022 as a sales and service company in China. It is currently undergoing an organizational restructuring with the aim of strengthening its business.

Meanwhile, we recognize that China is an important production base. The production bases in China have the longest history of any of our overseas factories, and they also have large-scale production capacities and engineering capabilities. In addition, there are many excellent procurement partners for electrification, which makes the country a strategically important area for procurement. We will develop business strategies in a manner that aligns with the changing operational environment in terms of production and sales as well as procurement.

### **Voice of Regional General Manager**

# Preparing Ourselves for a Market Recovery through Structural Reform and Implementing Business Strategies that Anticipate Change

Vice President and Executive Officer, CMO President of Global Marketing Group, General Manager of China Business Div.





As is evident from the real estate slump, the Chinese market is slowing down, which has significantly impacted the demand for construction machinery. Demand for hydraulic excavators has been sluggish since FY2021, and both domestic and foreign manufacturers have suffered a significant decline in sales. We expect it will take some time for demand to recover. Despite this, there is a certain level of demand for construction machinery for agriculture, forestry and mining. Our company is therefore developing sales strategies with a focus on large-size hydraulic excavators for mining, which require high functionality, durability and reliability.

In FY2023, we worked to reform the business structure of our sales companies and dealers. We established a new company to oversee the sales and service operations in November 2022, and promoted reforms at each dealer, such as strengthening efforts in the mining industry or reviewing the rental business, as appropriate. We believe that the market as a whole will eventually recover despite the current slowdown. We therefore continue to push forward with structural reforms, while also implementing business strategies that will allow us to respond quickly to change.

Our China business revolves around Hitachi Construction Machinery (China), a development and manufacturing company located in Hefei, Anhui Province. The machinery produced at the company's factory is sold not only in the Chinese market but also in various regions such as Europe, Southeast Asia and Africa. China also plays a role as a supplier of products, and we see it as a promising strategic region for procurement as the shift to EVs advances in the future. We are committed to firmly establishing our business in the Chinese market.

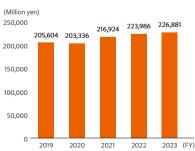
# Japan



Curbing infrastructure

### Sales Revenue by Region (Japan)

sharing economy



Since its founding in the 1950s as a Japanese construction machinery manufacturer, Hitachi Construction Machinery has accumulated experience and a proven track record in the global market over the past 70 years. We have established a system for developing unique technologies overseas based on our integrated product, service and solution development system in Japan. In addition, we continue to provide Reliable Solutions to solve the issues facing our customers at construction sites in the Japanese market, where the population is both aging and declining.

# Co-Creating Zero-Emissions Construction Sites Together with Customers and Partners

In recent years, there has been growing interest among construction companies in electric construction machinery that emits no  $CO_2$  or other greenhouse gases when in operation. However, construction machinery is sometimes used in places where no recharging facilities or temporary power sources are available. In order to achieve zero emissions at construction sites, it is therefore necessary to propose solutions tailored to the customer, including not only the introduction of electric construction equipment but also the development of infrastructure such as charging facilities and their efficient operation.

With this in mind, in May 2024 we opened the "ZERO EMISSION EV-LAB" research facility in Ichikawa City, Chiba Prefecture, with the aim of promoting collaborative creation with customers and partners to achieve zero emissions at work sites. The lab features battery-powered electric excavators manufactured by the Hitachi Construction Machinery Group, as well as mobile energy storage systems and other related construction equipment. Furthermore, Isuzu Motors Limited, ITOCHU Corporation and Kyushu Electric Power Co., Inc. will work together as ZERO EMISSION EV-LAB partners to promote the establishment of zero-emissions business models. The EV-Lab features a demo area that can simulate sites where electrically powered construction machinery and equipment are in operation and a communication area for exchanging views and brainstorming new ideas with visitors. We will make the facility into a venue where we can explore related issues and the possibilities for achieving zero emissions across all construction sites in collaboration with customers and partners all over the world.

### **Voice of Regional General Manager**

Living Up to Our Aspiration to be "the First Choice for Enduring Partnership" by Solving Issues of a Customer





The construction industry in Japan is facing a number of challenges, including a shortage of workers, an aging workforce and environmental issues. Against this background, we propose the best solutions to meet the challenges faced by our customers. In particular, to address the pressing issues of a shortage of manpower and an aging workforce, it is urgent to improve productivity at construction sites. We contribute to the enhancement of productivity and safety with the "P-Line" attachment-changing system, which allows the operator to change attachments by himself/herself, and the "Solution Linkage" MG" retrofit kit, which provides 3D guidance to the operator using ICT and IoT. In terms of environmental considerations, we contribute to achieving carbon neutrality, focusing on the use of battery-powered electric excavators and remanufactured parts. Through these solutions, we will expand our business while at the same time working to achieve sustainable growth and enhance our corporate value, with a focus on "establishing a business model as a manufacturer's rental service," "strengthening collaboration with business partners" and "expanding the ICT solutions business."

We strive to create new value through collaboration with our stakeholders and to live up to our aspiration to "Be the first choice for enduring partnership."

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Messages from

Sustainably Enhancing
Our Corporate Value

Strategies to Achieve the

lobal Business Expansion/

ustainability Promotion Initiatives that Support Sustainable Growth

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# Sustainability Promotion Initiatives that Support Sustainable Growth

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# **Sustainability Promotion Initiatives**

### **Our Approach to Sustainability**

The Hitachi Construction Machinery Group aims to promote sustainability and contribute to the sustainable development of societies by addressing materialities. Under the Sustainability Basic Policy formulated in line with the Hitachi Construction Machinery Group's collective identity, we will contribute to the sustained development of societies and enhance our corporate value through construction machinery.

### **Sustainability Promotion System**

Important sustainability-related issues are discussed at the CSR Promotion Managers Meeting and the Environmental Promotion Managers Meeting, and then reported to the Sustainability Promotion Committee (which meets twice a year) comprising executive officers and presidents of major Group companies. The President and COO chairs the Sustainability Promotion Committee. which deliberates on and approves measures to address climate change and other ESG-related issues pertinent to management decisions. These important ESG issues are discussed and approved by the Executive Committee and the Board of Directors for appropriate monitoring and supervision.

As part of our global approach, we share our policies and direction on sustainability promotion with representatives of overseas Group companies at the Global Sustainability Promotion Managers Meeting and exchange opinions with them. In addition. the Global Sustainability Working Group shares the measures taken in individual countries and regions in accordance with the pre-determined direction and pursues and enhances sustainability initiatives on a global basis.

### Sustainability Promotion System



#### **Sustainability Basic Policy**

The Hitachi Construction Machinery Group's vision "Ensuring 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 Materialities>

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 CO2 emissions in both product development and production processes, and strive to reduce the environmental impact of our entire value chain.

#### Conversion to a 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.

#### Strengthening 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.

# **Realizing Carbon Neutrality**

The Hitachi Construction Machinery Group is working to reduce its CO<sub>2</sub> emissions to net zero 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.

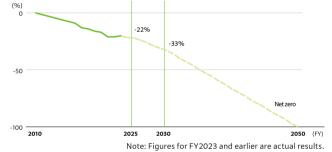
With regard to product development, we have set and are promoting the goal of reducing CO<sub>2</sub> emissions by 22% and 33% by FY2025 and FY2030, respectively, from the FY2010 level (Diagram 1), This will serve as an indicator of our ability to provide our customers and society with environmentally 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 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 FY2025 and FY2030, respectively, from the FY2010 level (Diagram 3). Our methods for reducing CO<sub>2</sub> 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 supply chain are also consistent with the spirit of "GX League,"\*1 which launched full-scale activities in Japan in FY2023. 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.

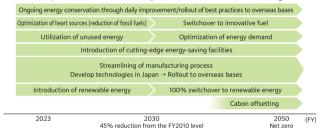
- \*1 Green Transformation (GX) League: An initiative established by Japan's Ministry of Economy, Trade and Industry to provide a place for collaboration among business corporations, government agencies, financial institutions and universities to take on the challenges of GX and transform economic and social systems, with an eye to achieving carbon neutrality in 2050
- Products: Targets for the Reduction of CO<sub>2</sub> Emissions Volume (from the FY2010 level) (Diagram 1)



■ 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)



■ Roadmap for the Development of Environmentally Friendly Products and Solutions toward Net Zero Greenhouse Gas Emissions by 2050 (Diagram 2)



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

# Response to TCFD Recommendations



In recognition of climate change action as a key issue, we have been carrying out initiatives and disclosures based on the recommendations issued by the Task Force on Climate-related Financial Disclosures (TCFD). In July 2020, we established an internal task force consisting of group managers and key personnel from corporate and business groups across the company. In October of the same year, we expressed our support for the TCFD recommendations. 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.

#### Governance

Important issues related to climate change are discussed at the CSR Promotion Managers Meeting and the Environmental Promotion Managers Meeting, and then deliberated on by the Sustainability Promotion Committee (which meets twice a year) comprising executive officers and presidents of key Group companies. The 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 then discussed and approved by the Executive Committee and the Board of Directors, and are appropriately monitored and supervised. These deliberations and approvals are also shared with the Global Sustainability Promotion Managers Meeting, attended by representatives of overseas Group companies, and its subordinate organization the Global Sustainability Working Group.

### History of Climate-Related Activities

FY	Activities
1991	• Established Environmental Group
2005	• Established CSR Promotion Dept. • 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 • Made first TCFD-based disclosure in Corporate Governance Report
2022	• Established Enterprise Risk Management (ERM) Committee • Conducted stakeholder dialogues on TCFD • Adopted ESG evaluation <sup>-3</sup> as one of the evaluation indicators used to determine performance-linked compensation for executives • Declared intent to aim for carbon neutrality by 2050 • Introduced sustainable financing for the first time
2023	Became a member of the GX League     Expanded collaboration on portable charging equipment for construction sites     Issued green bonds
2024	Opened "ZERO EMISSION EV-LAB" research facility

<sup>\*3</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 made in reducing CO<sub>2</sub> emissions from products and production processes.

### ■ Sustainability Meetings and Deliberations

Meeting structure				
Sustainability Promotion Committee	President and COO	Executive officers (including CEO, COO, CSO, CFO, CHRO, CTO, CDIO, and CMO), presidents of major group companies	Consideration and approval of the Hitachi Construction Machinery Group's sustainability promotion policies, inclusive of climate change policies, as well as key measures and KPIs	Consideration and approval of policies to promote overall sustainability, including those addressing carbon neutrality, circular economy, TCFD, TNFD, and ESG assessments
Environmental Promotion Managers Meeting	President, Sustainability Promotion Group	President of domestic and overseas group companies, General managers of business divisions	Discussion and approval of environmental policies in accordance with the Action Guidelines for Environmental Conservation, management of KPI progress toward maintaining and improving environmental conservation activities, sharing of key measures and requests for cooperation	Examination of approaches to promoting carbon neutrality and a circular economy
CSR Promotion Managers Meeting	President, Sustainability Promotion Group	General managers of corporate and business divisions, presidents of Group companies in Japan	Group's efforts to promote sustainability, progress management of non-financial medium-term targets, sharing of priority measures and requests for cooperation	Sharing information, policies, etc., pertaining to the promotion of sustainability in general, including TCFD, TNFD, and ESG assessments
Global Sustainability Meeting	President, Sustainability Promotion Group	Presidents of overseas Group companies	Sharing of deliberations and decisions by the Sustainability Promotion Committee and the CSR Promotion Managers Meeting	Sharing of the Group's approaches to promoting sustainability globally
Global Sustainability Working Group	President, Sustainability Promotion Group	Sustainability officers at overseas Group companies	Sharing of the Group's global sustainability policies and measures	Sharing of case studies from overseas Group companies and formulation of social contribution policies

See "Sustainability Promotion System" on page 65.

### Strategies

Looking ahead to an uncertain future, companies must analyze scenarios in terms of the risks and opportunities they face and then develop their own countermeasures and strategies. The Hitachi Construction Machinery Group formed an internal task force in 2020 that has updated scenario analyses for 1.5°C and 4°C increases in temperature through the following four processes.

### ■ Scenario Analysis Processes

Scenario Selection

Assume two scenarios for 1.5°C and 4°C increases in temperature

2 Identification of Risks Organize an internal task force to identify the company's risks using the TCFDrecommended risk classification method

Business Impact Assessment

Estimate financial impact by risk and rate them on a 3-level scale of "large," "medium," or "small" as a percentage of sales

4 Consideration and Implementation of Priority Strategies Comprehensively assess the likely timing and financial impact of risks and then reflect risk countermeasures in business strategies

### **Assessment Results Based on Scenario Analysis**

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

Climate-related risks and opportunities were evaluated at three levels in terms of their likely timing and financial impact, and a comprehensive assessment of overall significance was then carried out. We are working with internal task force members to reorganize climate-related business strategies for items that we believe are of high importance within each scenario.

Our scenario analyses helped us identify risks and opportunities in both the 1.5°C and 4°C climate change scenarios, and we are working to achieve carbon neutrality with strategies to address these risks and opportunities. We will strengthen the resilience of the Hitachi Construction Machinery Group by developing flexible and strategic businesses aimed at minimizing risks and maximizing opportunities.

See "Assessment results based on scenario analysis" on p. 69.

### **Risk Management**

New risks such as climate change, geopolitical risks, and human rights issues in supply chains have emerged that could shake the very foundations of our business, and managing these risks is becoming increasingly important. Accordingly, we designated new risks that require company-wide response policies and management decisions as "company-wide risks," and established the Enterprise Risk Management (ERM) Committee in April 2022 as a forum to manage these risks. Under the leadership of the Chief Strategy Officer (CSO) 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 to the Executive Committee and the Board of Directors on important matters such as company-wide risk management policies.

See "More Robust Global Risk Management" on p. 74.

### **Indicators and Targets**

We are working to reduce CO<sub>2</sub> emissions in both product development and production processes with the aim of becoming to achieve carbon neutral throughout the entire value chain by 2050.

### Interim targets for 2030

Reduction of CO <sub>2</sub> emissions (total volume)	Production (Scope 1+2)	45% reduction (from the FY2010 level)
	Products (Scope 3)	33% reduction (from the FY2010 level)

#### Target for 2050

Achieve carbon neutrality throughout the entire value chain

### Assessment results based on scenario analysis

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

	<u> </u>						
Scenario	Туре				Manifestation timing	Financial impact	Countermeasures
	Transition to a decarbonized society	Products, services & solutions	Possible changes in investment/lending behavior due to tighter decarbonization regulations and increased decarbonization awareness	Establishment of a competitive advantage by developing decarbonization technologies ahead of competitors	Medium to long term	Small	Aim to accelerate development by nearly tripling R&D investment from FY2017 levels in advanced development areas of decarbonization and productivity improvement (automation/autonomization, driving assistance, etc.) by FY2025 Increase production facility capacity by approximately 1.3 times from its FY2021 level by FY2025 to meet growing demand for compact products in the North American and European markets Expand the functions of Hitachi Construction Machinery Tierra's development and testing facility to accommodate more sophisticated testing of electrified construction machinery and other equipment Conduct user tests with an eye to commercializing medium and large hydraulic excavators powered by hydrogen engine & fuel cell drive technologies 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, with proof-of-concept (PoC) starting in 2024 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 Contribute to the longevity of our products by reintroducing used machines that have been serviced and are covered by warranty as "PREMIUM USED" vehicles Establish ZERO EMISSION EV-LAB, a research center for the collaborative creation of zero-emission construction sites; pursue development of new solutions such as visualizing the cycle from recharging to use and matching power management to customers' construction sites by utilizing the electric construction equipment/devices being used on-site Aim to extend the operating life of machinery from 10 to 15 years by utilizing ConSite, parts recycling, and body remanufacturing
1.5°C scenario			Decline in coal demand	Increasing demand for hard rock	Medium to long term	Medium	The all-electric power system is an indispensable technological element supporting our customers' efforts to achieve net-zero emissions by 2050, and 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.  We will strengthen our mining sales and service system in cooperation with the Marubeni Group in Latin America, and seek closer ties with the ITOCHU Corporation Group in North America.
		Supply chains	Growing pressure to decarbonize, reputation damage	Carbon tax savings	Medium to long-term	Large	We introduced an internal carbon pricing system in 2019 that takes carbon price into account in investment decisions. We raised our carbon price from 5,000 yen/t-CO2 to 14,000 yen/t-CO2 to promote investment in energy-saving facilities and the introduction of renewable energy.  Planning to invest around 10 billion yen in measures aimed at reducing CO2 emissions from production processes as well as a similar amount in measures aimed at reducing emissions from products themselves over the course of the current medium-term management plan period  Hitachi Construction Machinery Energy Management System, which utilizes loT technology, has been introduced at six plants in Japan to reduce peak power consumption and standby power consumption based on visualized data.  We are promoting the use of loT for factory production equipment to monitor equipment operating conditions, thereby helping to improve productivity and reduce CO2.  Renewable power is being introduced at Tsuchiura Works, Kasumigaura Works, Hitachinaka Works, Banshu Works, Hitachi Construction Machinery Company, and Bradken.  Bradken has increased the percentage of renewable energy used at its Coimbatore Plant in India to reduce CO2 emissions.  We provide the optimization of global production and procurement, including the optimization of product inventory and transportation.  We provide support for major procurement partners so they can save electricity and improve energy productivity at their production facilities.
	Rapid increase in natural disasters and extreme weather events	Products, Services & Solutions	Rapid increase in the frequency and intensity of such natural disasters as typhoons and floods due to climate change	Increased demand for products, services, and solutions that can contribute to disaster prevention and mitigation	Short- to long-term	Small	Providing construction equipment 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 Providing optimal solutions to meet demand at disaster sites through technologies such as the Solution Linkage series Hitachi Construction Machinery Japan prioritizes the provision of construction equipment and materials to disaster-stricken areas based on agreements concluded with local governments and other parties.
4°C Scenario		Supply Chains	Production stoppage due to the suspension of parts supply or the disruption of logistics networks	Establishment of a stable production system through emergency measures	Short- to long-term	Large	Ensuring timely restoration support to procurement partners whose facilities are affected by disasters and executing production adjustments within the Group to avoid shipment delays Securing multiple suppliers for critical parts and establishing systems to avoid delays in parts supply We implemented flooding countermeasures, including the installation of drainage channels and defense walls around key facilities, to safeguard our own plants located in areas with high flooding risks. We take into account natural disaster risks, including those arising from climate change, when building/relocating factories and offices. We plan to introduce a system that bolsters supply chain BCPs.
			Risk of heat stroke due to rising temperatures	Establishment of a stable production system through emergency measures	Short- to long-term	Small	WBGT (heat index) meters evaluate the level of heat stress in hot environments at manufacturing sites and send out early alerts to warn of heat stroke if dangerously hot conditions are expected. We are seeking to automate and robotize production to avoid heat stroke risk and other personal injuries.

# **Initiatives to Realize a Circular Economy**

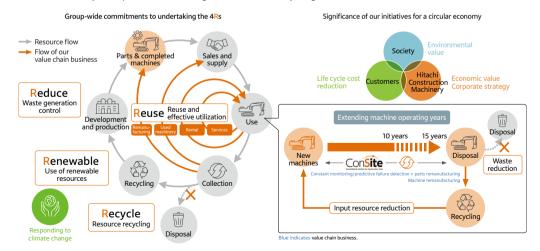
# Circular Economy and Biodiversity: Becoming More Nature-Positive and Further Improving Resilience

The Hitachi Construction Machinery Group is working to promote the use of zero-emission machines and to reduce waste from various angles through its value chain businesses, including parts, service, remanufacturing, rentals, and used equipment. To this end, we are promoting the 4Rs (Reduce, Reuse, Recycle, and Renewable) throughout the Group and expanding our value chain business with the aim of increasing product life cycles by 1.5 times, and we are making a circular economy a practical part of our business by encouraging wider use of remanufactured parts and recycled materials. These efforts have resulted in the

reduction of waste and resource inputs, and ultimately contribute to the reduction of  $\text{CO}_2$  emissions.

We are also striving to contribute to biodiversity and nature positivity by providing machinery and technologies that aid the development of the agriculture, forestry, and livestock industries, and to do our part in creating resilient societies by enhancing the sophistication of machinery used in disaster prevention and mitigation work. We are thus working to improve our corporate value based on environmental and social values.

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



#### ■ KPIs for the Promotion of a Circular Economy

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	ltem	Details	FY2023 results	FY2025 targets	FY2030 targets	
Reduce	Waste emission intensity reduction rate (vs. FY2022)	Ratio of waste emission volumes to the amount of activities	17% reduction	7% reduction	20% reduction	
Recycle	Resource recycling rate (Japan)	Ratio of recycled resources to the volume of waste emissions	93%	94%	99.5%	
	Growth rate of the number of machines in long- term operation (vs. FY2022)	Growth in the proportion of machines in long-term operation (60,000 hours or longer) to the total number of active mining machines	+13%	+20%	+50%	
Reuse	Growth rate of reused parts (weight basis) via parts remanufacturing (vs. FY2022)	Ratio of raw material reduction through the remanufactur business	+7%	+40%	+150%	
	Expansion in used equipment business sales revenue (vs. FY2022)	Sales revenue growth rate	-3%	+8%	+8% Wider adoption of products that meet local needs	
	Expansion in sales revenue from the rental business (vs. FY2022)	Sales revenue growth rate	+10%	+30%		
	Machinery status management systems	ConSite adoption rate	73%	Standard feature from FY2024 onward	Aim for zero downtime	
	Reduce Recycle	Reduce Waste emission intensity reduction rate (vs. FY2022)  Recycle Resource recycling rate (Japan)  Growth rate of the number of machines in long-term operation (vs. FY2022)  Growth rate of reused parts (weight basis) via parts remanufacturing (vs. FY2022)  Expansion in used equipment business sales revenue (vs. FY2022)  Expansion in sales revenue from the rental business (vs. FY2022)  Machinery status management	Reduce Waste emission intensity reduction rate (vs. FY2022)  Recycle Resource recycling rate (Japan)  Growth rate of the number of machines in long-term operation (vs. FY2022)  Reuse Growth rate of the number of machines in long-term operation (vs. FY2022)  Growth rate of the number of activities of machines in long-term operation (so, FY2022)  Growth rate of the number of machines in long-term operation (so, FY2022)  Growth rate of the number of machines in long-term operation (so, FY2022)  Growth rate of reused parts (weight basis) via parts remanufacturing (vs. FY2022)  Expansion in used equipment business sales revenue (vs. FY2022)  Expansion in sales revenue growth rate  Reuse (vs. FY2022)  Machinery status management  ConSite adoption rate	Reduce Waste emission intensity reduction rate (vs. FY2022)  Recycle Resource recycling rate (Japan)  Growth rate of the number of machines in long-term operation (vs. FY2022)  Reuse Growth rate of the number of machines in long-term operation (vs. FY2022)  Growth rate of the number of machines in long-term operation (vs. FY2022)  Growth rate of the number of machines in long-term operation (vs. FY2022)  Growth rate of the number of machines in long-term operation (so, 50,000 hours or longer) to the total number of active mining machines  Reuse Ratio of waste emission 17% reduction feasures with active mining of machines in long-term operation (so, 50,000 hours or longer) to the total number of active mining machines  Reuse Sales reduction through the remanufacturing (vs. FY2022)  Expansion in used equipment business sales revenue growth rate  Figure 17% reduction 4-13% reduction 4	Reduce Waste emission intensity reduction rate (vs. FY2022)  Recycle Resource recycling rate (Japan)  Growth rate of the number of machines in long-term operation (vs. FY2022)  Growth rate of freused parts (weight basis) via parts remanufacturing (vs. FY2022)  Reuse Results Ratio of waste emission volume to the amount of activities  Growth in the proportion of machines in long-term operation (vs. FY2022)  Growth rate of freused parts (weight basis) via parts remanufacturing (vs. FY2022)  Expansion in used equipment business sales revenue (vs. FY2022)  Expansion in sales revenue (vs. FY2022)  Expansion in sales revenue from the rental business (vs. FY2022)  Machinery status management systems  Machinery status management systems  Machinery status management systems  Ratio of resystems results of waste emission volume to the volume of waste emission volume of reduction activities  Growth rate of freused parts (wight be total number of active mining machines  Reuse Resource recycled resources to the volume of waste emissions volume of waste emissions volume of waste emission volume of reduction activities  Growth rate of freused parts (with the proportion of machines in long-term operation (so, 000 hours or longer) to the total number of active mining machines  Frequence of the amount of activities  Frequence of the amount of reduction activities  Frequence of waste emission volume of reduction activities  Frequence of waste emissions of reduction activities  Frequence of was	

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# Working Toward a Society in Harmony with Nature—Addressing Biodiversity

### **Basic Concept**

Biodiversity has been positioned as an issue closely tied to climate change that needs to be tackled, and governments, investors, and others are increasingly demanding that companies address this issue.

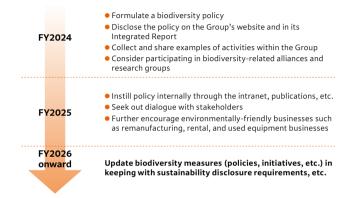
For its part, the Hitachi Construction Machinery Group is already implementing biodiversity-conscious initiatives at its business sites, and we believe it is important to actively communicate these initiatives internally and externally to further promote biodiversity initiatives.

Accordingly, the Hitachi Construction Machinery Group has formulated a "Biodiversity Policy" that serves as the basis for the Group's biodiversity initiatives. The Group will continue undertaking biodiversity initiatives based on this policy.

# **Biodiversity Policy Formulation Process**

- (1) The Sustainability Promotion Group formulated a secretariat draft based on external developments such as the creation of the Task Force on Nature-related Financial Disclosure (TNFD) and the release of the Ministry of the Environment's "National Biodiversity Strategy 2023-2030"
- (2) This draft was approved via the Sustainability Promotion Committee, etc.
- (3) Reports were then submitted to the Executive Committee and the Board of Directors (subsequent changes will fall under the iurisdiction of the Board of Directors)

# **Roadmap for Biodiversity Measures**



#### **Biodiversity Policy**

#### 1. Commitment

• 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 vision of a society based on harmonious coexistence with society. Based on this vision, and recognizing that the Group's business activities depend on the benefits of biodiversity and have the potential to affect ecosystems, we aim to realize a society in harmony with nature through the development of environmentally friendly products and the promotion of a circular economy, including regeneration projects.

#### 2. Compliance with national laws and regulations in accordance with international conventions

• We comply with the relevant laws and regulations of each country, including the prohibition of illegal logging of forests, in accordance with international biodiversity conventions such as the Convention on Biological Diversity, and work to conserve biodiversity in the areas where

#### 3. Addressing biodiversity through business

- We strive to reduce environmental impact along the value chain, from design and development to production and logistics, with the aim of promoting a circular economy and realizing nature positivity.
- We aim to reduce the impact on the ecosystem by actively working on the lengthening of product life cycles and the remanufacturing business based on the "4 Rs\*1," thereby reducing waste and new resource inputs.
- By actively developing and providing ICT construction solutions, we will improve productivity and shorten construction periods, thereby contributing to the reduction of greenhouse gases and sustainable forestry management.

#### 4. Understanding the relationship between business and biodiversity and reducing impacts

- With the aim of preventing biodiversity loss (no net loss), we will select priority areas for biodiversity conservation, assess the impacts and dependencies on nature, including biodiversity, arising from our operations, as well as risks and opportunities, and promote appropriate measures. In addition, we aim to create a net positive impact (i.e. the effect of compensatory measures on biodiversity exceeds the loss of biodiversity) by 2050, and we will work to prevent deforestation that has a negative impact on ecosystems through afforestation and other reforestation initiatives.
- When operating in priority areas from a biodiversity perspective, targets and indicators will be managed by adopting the concept of prioritization (mitigation hierarchy 2), whereby negative impacts are avoided, reduced or minimized and compensatory measures are taken for those impacts that still remain.

#### 5. Stakeholder engagement and disclosure

- Collaborate and dialogue with the Hitachi Construction Machinery Group's employees, procurement partners, local communities and NGOs to increase the effectiveness of biodiversity conservation initiatives.
- Proactively disclose information on initiatives based on this policy.

#### 6. Scope and jurisdiction

- This policy will be promoted within not only the Hitachi Construction Machinery Group, but also procurement and business partners for their endorsement.
- The Board of Directors will report on and approves the development and changes to this policy.
- \*1 4Rs: Reduce, Reuse, Recycle, Renewable
- \*2 Mitigation hierarchy: A framework for minimizing adverse effects on nature with a long-term perspective. It is a concept that guides organizations to first avoid impacts, and if that is not possible, to reduce the impact on nature, and finally to fulfil their responsibility to restore affected areas and ecosystems

## Working Toward a Society in Harmony with Nature—Addressing Biodiversity

### Hitachi Construction Machinery Group Initiatives for Biodiversity Conservation

### Example 1 Hitachi Construction Machinery Tierra's efforts to conserve Lake Biwa

Local characteristics and collaboration with stakeholders are important perspectives when addressing biodiversity.

Shiga Prefecture has designated July 1 as "Lake Biwa Day," and the public and private sectors are working together to clean up the lake. Located near Lake Biwa, Hitachi Construction Machinery Tierra supports this aim by cleaning the roads around its plant and the ditches of nearby rice paddies. We are also participating in the "Fish Cradle Paddy Field Project," a Shiga Prefecture initiative to restore the scenery that was once commonplace around Lake Biwa by installing fishways in rice paddies where the number of living creatures has declined dramatically. In addition, we are promoting efforts to deepen the public's understanding of Lake Biwa by offering rice planting and harvesting experiences and other opportunities to observe the creatures that live in rice paddies and agricultural waterways.

In 2015, the Lake Biwa Conservation and Restoration Act was enacted, positioning Lake Biwa as a national asset. We must pass on its precious natural environment and abundant blessings to future generations. Hitachi Construction Machinery Tierra will therefore continue its activities to protect the richness of Lake Biwa.



Rice planting and harvesting experiences and events to observe the living creatures living in rice paddies and agricultural waterways

### Example 2 Tree planting through "Plant a Million Zambia"

With the issue of climate change becoming a global challenge, the importance of afforestation activities that contribute to the direct regeneration of forests has been reaffirmed. New reforestation through the planting of trees absorbs CO2 and cleans the water and air, contributing to climate change mitigation, ecosystem stability, and human health.

Hitachi Construction Machinery Zambia is participating in the "Plant a Million Zambia" initiative aimed at promoting economic and sustainable development by bringing local schools and communities together to reaffirm the importance of forests and trees. In August 2023, Hitachi Construction Machinery Zambia, in partnership with the implementing organization, planted 365 saplings in primary and secondary schools in Chongwe District. Employee volunteers participated and helped out in this tree-planting initiative that also helped raise environmental awareness among employees.



Hitachi Construction Machinery Zambia volunteers and Plant a Million Zambia staff

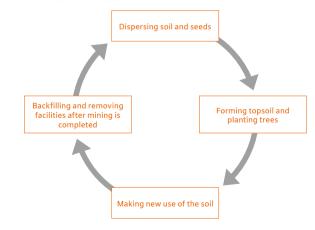
### Example 3 Soil rehabilitation after mine closure

Soil rehabilitation is an important issue for preserving the environment and enabling stable use of a site after mining is completed.

It is important to return mines to a self-sustaining natural ecosystem or a state that ensures the safety of future land use, and our business partners are actively working on soil rehabilitation.

We will continue our efforts to address biodiversity from the perspective of cooperation with stakeholders.

### Rehabilitation Process



## **Human Rights/Supply Chains**

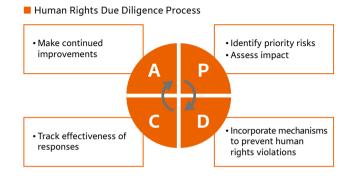
## **Human Rights Due Diligence Initiatives**

To build a corporate culture in which human resources with diverse values and perspectives can thrive, it is essential to deepen understanding of human rights and foster a mindset of mutual respect. To this end, the Hitachi Construction Machinery Group is actively promoting the exchange of human resources among its business locations worldwide.

In FY2020, we began assessing the status of forced labor and migrant labor, identified as priority risks common to the Group, using a 30-question Priority Risk Questionnaire focused mainly on labor, health and safety, and grievance mechanisms. Following surveys of a total of 63 domestic and overseas plants and Group company business locations, we have implemented countermeasure initiatives at a total of 15 sites where evaluation items were below a certain level.

Of the responses to the survey's 30 questions obtained from 618 procurement partners since FY2022, 7.2% of the responses were below a stipulated level; improvements made at our request have since been confirmed in 75.8% of these, and we will continue to check on improvements being made in the remaining 24.2%.

In May 2021, we established the Hitachi Construction Machinery Human Rights Due Diligence Promotion Council, headed by the president, as the organization responsible for undertaking human rights due diligence, and the council convened six times by FY2023 to set in motion a PDCA cycle for human rights due diligence. The results of risk assessments are reported to employees and procurement partners, and the status of consideration, implementation, and progress of countermeasures for items that were below a certain level are confirmed and reported at these council meetings.



## **Human Rights Education and Training**

The Hitachi Construction Machinery Group continuously provides education on human rights in its training programs for new employees and new department managers and in other rank-specific training programs, with the aim of raising employee awareness of human rights.

 Human Rights Training Results (cumulative number of participants from FY2021 to FY2023)

		Of which, department managers and above	Of which, general employees
Hitachi Construction Machinery (non-consolidated)	4,284	801	3,483
Group companies	4,240	741	3,499
Total participants	8,524	1,542	6,982



Human rights https://www.hitachicm.com/global/en/sustainability/social/

:ps://www.nitacnicm.com/gioba manrights/

## **Supply Chain Sustainable Management**

Amidst growing interest in corporate social responsibility within the international community, the Hitachi Construction Machinery Group is promoting sustainability initiatives across its supply chains, inclusive of procurement partners. As part of this effort, we conduct an annual "Supply Chain Sustainability Survey" targeting major procurement partners (primary suppliers) with whom we have direct transactions of substantial volume and who provide important parts and raw materials for our Group's products. Procurement partners whose evaluation results do not meet the minimum scores set by the Group have been identified as procurement partners with high potential sustainability risks, and they have been making continuous improvements at our request.

In FY2023, we conducted a sustainability survey of procurement partners accounting for approximately 80% of Hitachi Construction Machinery's non-consolidated purchase volume. The response rate was 93% (vs. 84% in FY2022), and the percentage of procurement partners that did not meet the minimum scores set by our Group was 0%, the same as in FY2022.

We will continue to conduct surveys and pursue improvement activities together with our procurement partners.



Dialogue with Procurement Partners https://www.hitachicm.com/global/en/sustainability/social/fairbusiness/supplier/

## **Risk Management**

## **More Robust Global Risk Management**

Developments in information and communication technology, geopolitical risks, and changes in economic conditions bring day-to-day changes to the business environment surrounding society. The Hitachi Construction Machinery Group regularly ascertains and analyzes this business environment, implementing risk management in terms of both risks requiring preparation and opportunities for further growth and in keeping with social issues, its competitive advantages, and management resources, and reflects these risks and opportunities in its management strategies while controlling them.

In April 2022, the Enterprise Risk Management (ERM) Committee was established to take charge of company-wide risk management and prompt implementation of measures, with the Chief Strategy Officer (CSO) and other management members taking the lead in the overall management of risks requiring company-wide response policies and management decisions based on business operations.

Company-wide risks are identified by having the secretariats of committees that oversee company-wide committees determine risk once each term. The extracted risks are then evaluated in terms of importance, urgency, etc., from a company-wide perspective, and those issues positioned as important topics are shared with the FRM Committee.

The ERM Committee discusses and makes decisions on environment-related issues such as climate change, pollution, and disasters, as well as risks that could shake the very foundations of our global operations, including pandemics, cybersecurity, human rights, geopolitical risks, economic security, and community issues. The committee basically meets once per term to discuss and make decisions on these risks, but extraordinary meetings may be held in response to sudden requests to address company-

wide risks or at the request of the chairperson, other committees, or relevant business units. Ethical and legal violations are discussed by the Compliance Management Committee, which is charged with raising awareness to prevent violations and implementing measures to avert their recurrence.

The ERM Committee reports to the Executive Committee and the Board of Directors on important matters such as companywide risk response policies, and the Compliance Management Committee reports on major compliance matters.

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### ■ ERM Committee Structure



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

## **Corporate Governance**

### **Basic Policies**

Hitachi Construction Machinery recognizes that sustainability is an important management issue and that, in addition to improving business performance, the purpose of corporate governance is to acknowledge the company's status as a member of society that must 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, 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**

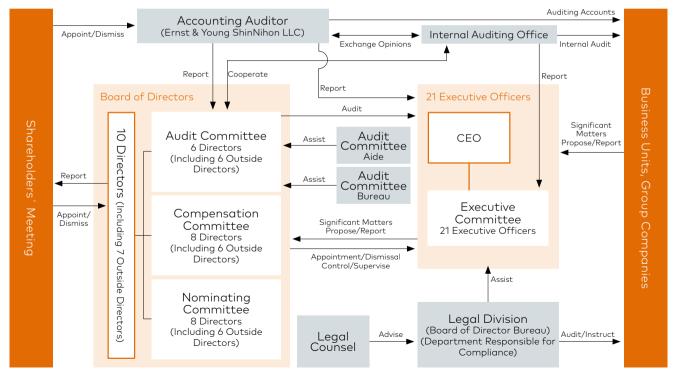
The Hitachi Construction Machinery Group has developed an execution system that can ensure the prompt and exact performance of business strategies and has also adopted the structure of a company with committees, such as a nominating committee, as provided for in the Companies Act, thereby separating 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

Corporate Governance System (as of June 24, 2024)

reporting relationship and other relationships between Executive Officers.

As an advisory body to the Chief Executive Officer (CEO), the Group maintains an Executive Committee that meets twice a month in principle and comprises all Executive Officers. And It controls important matters related to business operations.



Messages from Sustainabily Enhancing Strategies to Achieve the Global Business Expansion/ Sustainability Promotion Initiatives

Hitachi Construction Machinery Group Integrated Report 2024 Introduction Top Management Our Corporate Value Medium-term Management Plan Growth Strategy by Region that Support Sustainable Growth Corporate Data

## **Corporate Governance**

## Deliberations and Activities of the Board of Directors and the Committees (FY2023)

### **Board of Directors**

### Chairperson: Kotaro Hirano (Representative Executive Officer, Chairman and Executive Officer, Director)

The Board of Directors decides on the basic management policies and signals the direction of corporate strategies from a medium- to long-term viewpoint. It also effectively supervises the execution of business from an objective perspective. The majority of Board members are outside directors. Being individuals of international caliber, they have sufficient experience and expertise to ask questions and give advice on the execution of business by executive officers and to contribute to open deliberations at Board meetings.

### Deliberation/Activity Themes for FY2023

- Management policies
- $\bullet \ \mathsf{Business} \ \mathsf{execution} \ \mathsf{system}$
- M&A project
- Quarterly business execution report
- Report on the fulfilment of duties by each of the committees
- Resolutions made based on laws, regulations and in-house rules, and others

### **Compensation Committee**

### Chairperson: Kazushige Okuhara (Independent Outside Director)

The Compensation Committee has the authority to decide on the details of the compensation to be given to each director and executive officer. The Committee conducts deliberations to identify the issues and items to be examined with regard to director compensation, revise the policies on the determination of the details of compensation to be paid to directors and executive officers, and offer incentives to executive officers.

### Deliberation/Activity Themes for FY2023

- Basic policies on executive officer compensation
- Composition and standards of executive officer compensation

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- Evaluation items for executive officers' performance-linked compensation
- Evaluation results for executive officers' performance-linked compensation, and others

### **Nominating Committee**

### ${\it Chairperson:} \ Kazushige \ Okuhara \ ({\it Independent Outside Director})$

The Nominating Committee has the authority to decide on the details of proposals to be made about the selection and dismissal of directors for submission to the general meeting of shareholders. The Committee conducts examinations regarding the desirable composition of the Board of Directors, checks the expertise and experience of candidates for director positions by making effective use of the skill matrix set by the company, and makes plans to develop and select candidates to serve as top managers and executive officers.

### Deliberation/Activity Themes for FY2023

- Development of candidates for executive officer roles
- Business execution system
- Definition of director selection criteria (skill matrix and composition of the Board)
- Selection of candidates for director roles, and others

### **Audit Committee**

### Chairperson: Toshiko Oka (Independent Outside Director)

The Audit Committee confirms whether or not directors and executive officers are performing their duties efficiently and in line with laws and regulations as well as in-house rules and basic management policies. In cooperation with accounting auditors and the internal control department, the Committee monitors the status and operation of the financial, accounting and internal control systems.

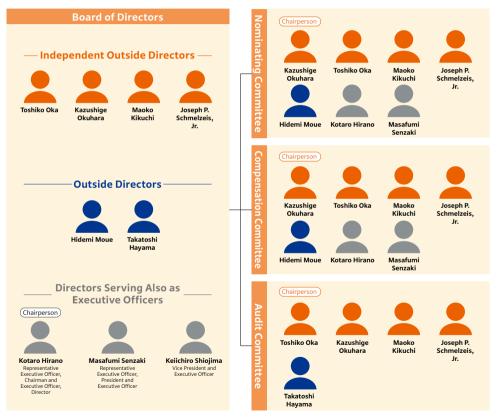
A "Company with a Nominating Committee, etc." under the Companies Act is mandated to ensure that the majority of members of the relevant committees are outside directors. Accordingly, in its Group Governance Guidelines, Hitachi Construction Machinery provides that the majority of its Audit Committee members be independent outside directors and is making efforts to further enhance the Committee's supervisory function.

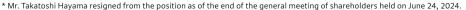
### Deliberation/Activity Themes for FY2023

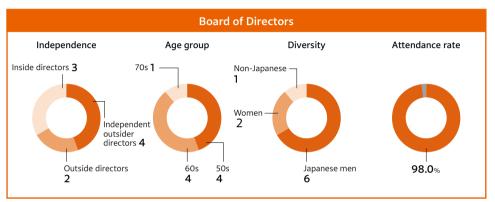
- Exchange of opinions with representative executive officers, and interviews with executive officers and heads of business units about their execution of duties
- Interviews with Group companies in and outside Japan about their business execution
- Interviews on the internal audit results and on the establishment and operation of internal control systems
- Interviews on environmental, quality and compliance audits and other compliancerelated issues
- Attendance at important meetings and perusal of written approvals by the assistant to the Audit Committee

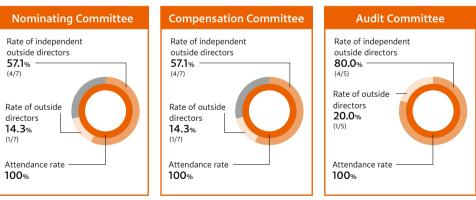
## **Corporate Governance**

## Composition of the Board of Directors and the Committees (as of March 31, 2024)









<sup>\*</sup> One independent outside director resigned from the position in the middle of the term. As a result, the number of independent outside directors on the Board is 4 as of March 31, 2024. The above graph shows the data as of this date.

Messages from Sustainably Enhancing Strategies to Achieve the Global Business Expansion/ Sustainably Promotion Initiatives
Hitachi Construction Machinery Group Integrated Report 2024 Introduction Top Management Our Corporate Value Medium-term Management Plan Growth Strategy by Region Hat Support Sustainable Strategy by Region

## **Corporate Governance**

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

Hitachi Construction Machinery has been conducting an annual evaluation of the effectiveness of its Board of Directors to maintain and increase the effectiveness, as provided for in Article 12 (Board Evaluation) of its Corporate Governance Guidelines. The effectiveness evaluation was started in FY2015. Following the change in the company's capital structure in August 2022, all evaluation procedures, including the questionnaire survey, interviews, tabulation and analysis, were entrusted to a third-party organization for the identification of discussion topics and activities to be given greater emphasis by the Board of Directors, which is expected to help the Board to engage in more meaningful discussions at its meetings.

In FY2023, the number of outside directors appointed at the general meeting of shareholders reached 70% of the total number of directors. Also, the number of independent outside directors reached one half of the total number, and the Board also now has one non-Japanese member for the first time in its history. Further, each of the committees is chaired by an outside director. Under these circumstances, we entrusted the ongoing evaluation of the effectiveness of the Board to a third-party organization with an eye to further increasing its effectiveness.

The following provides an outline of the evaluation of the effectiveness of the Board of Directors conducted for FY2023.

### ■ Evaluation of the effectiveness of the Board of Directors

Evaluation method	(1) The Board conducted deliberations about a third-party effectiveness evaluation survey at its meeting held in Nov. 2023. (2) A third-party organization conducted a questionnaire survey targeting all 10 directors in January 2024 and interviewed all 9 incumbent directors in February in reference to the survey results. (3) The third-party organization tabulated and analyzed the survey and interview results. (4) The secretariat for the Board made a summary report on the improvements made in reference to the results for the previous fiscal year and presented it at the Board meeting held in March. Participants in the meeting deliberated on the issues to be addressed going forward, the improvement measures for the issues, and matters to be disclosed in the corporate governance report and other documents.
Question items	(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

### **Effectiveness Evaluation Results for FY2023**

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The third-party organization evaluated the Board of Directors as functioning well, with all scores exceeding the average scores of other companies. For some of the items, however, the scores were below those recorded by the company for FY2022. In response, in order to further increase the effectiveness of the Board, the following issues were identified as challenges to be met: (1) Providing the Board with more time and opportunities to discuss management strategies, business portfolio strategies and other important themes; (2) Improving the management of Board meetings; (3) Reviewing the management of the Nominating and Compensation Committees; and (4) Reviewing the methods used to undertake dialogue with shareholders.

## **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.

- Review the agenda explanation method to secure more time for discussion
- 2. Ask the departments and directors to make improvements to their proposals to be submitted to the Board
- Rationalize the skill matrix for the selection and promotion of directors with the required expertise and for the selection of candidates for future director positions
- 4. Enhance dialogues with shareholders and institutional investors

## **Corporate Governance**

## **Details of Skills Required of Directors**

Hitachi Construction Machinery specifies the skills required of directors based on the Hitachi Construction Machinery Group's management policies, Group Identity, medium-term management plans and other management strategies so that it can select candidates who have diverse backgrounds to collectively cover all the skills required of directors.

The following shows the details of the skills, why they were selected as necessary skills, and the skill matrix for current directors.

### ■ Details of the skills

Skill	Details	Reason for selection
International business management	Business experience in and outside Japan, and management experience at a global company	Our overseas sales ratio has exceeded 80% of the total, and we are working for the expansion of the Americas business. Under these circumstances, directors need to have this skill to be able to make prompt management decisions from an international viewpoint and based on an understanding of geopolitical risks.
R&D	Expertise and practical experience in R&D for the co-creation of innovative products, services and solutions	The construction industry is facing environmental changes including a shrinking working population. We need to continue to deliver innovative products and solutions that will help customers in the industry respond to such changes through labor-saving measures and others, for which directors need to have this skill in order to supervise the planning of necessary strategies and the establishment of necessary systems.
Quality, production and procurement	Expertise and practical experience regarding quality, production and procurement	Directors need to have this skill to supervise the planning of necessary strategies and the establishment of necessary systems for the Gorup to continuously increase its productivity and provide customers with high-quality products and solutions.
Sales and marketing	Expertise and practical experience in the formulation of sales and marketing strategies based on an appropriate understanding of the global business environment and customer needs	Directors need to have this skill to supervise the planning of necessary strategies and the establishment of necessary systems for the company to continue to be a close and reliable partner to customers based on an appropriate understanding of their needs.
IT and digital technology	Expertise and practical experience in the effective use of digital technology	Directors need to have this skill to promote DX within the company and to supervise the planning of necessary strategies and the establishment of necessary systems to expand the value chain business through the effective use of digital technology.
Financial accounting	Expertise and practical management experience in financial accounting to continue to increase the corporate value	Directors need to have this skill to ensure precise financial reporting and to supervise the planning of capital policies and the establishment of relevant systems based on management strategies.
M&A	Expertise and practical experience in growth investment for the continuous increase of corporate value	Directors need to have this skill to supervise the planning of necessary strategies and the establishment of necessary systems for the company to implement cooperative projects with partners across the world and in different industries in line with the progress of globalization and the expansion of the value chain business.
Legal affairs and compliance	Expertise and practical experience in legal affairs and compliance for continuous business growth	Directors need to have this skill to foster and supervise the establishment of a system to ensure compliance with laws, regulations and corporate ethics based on "Basics and Ethics," one of our fundamental values, and to fulfill their monitoring function to ensure appropriate business management.
Personnel affairs, human rights and human resource development	Expertise and practical experience in personnel affairs, human rights and human resource development for continuous business growth	Directors need to have this skill to enhance the abilities of employees and their organizations and to supervise the planning of necessary strategies and the establishment of necessary systems to realize Hitachi Construction Machinery's vision for human capital management: "Where every Kenkijin can be themselves in Harmony."

### ■ Skill Matrix for Current Directors

							Major field of expertise and experience/Field in which contributions are expected								
Name	Position/Title	Nominating Committee		Audit Committee	Independent director	Tenure	International business management	R&D	Quality, production and procurement	Sales and marketing	IT and digital technology	Financial accounting	M&A	Legal affairs and compliance	Personnel affairs, human rights and human resource development
Masaaki Ito	Independent outside director	•	•	•	•	-	•	•	•				•		
Toshiko Oka	Independent outside director	•	•	<ul> <li>Chairperson</li> </ul>	•	3	•					•	•		•
Kazushige Okuhara	Independent outside director	<ul><li>Chairperson</li></ul>	Chairperson	•	•	8	•		•	•				•	•
Maoko Kikuchi	Independent outside director	•	•	•	•	4	•						•	•	•
Joseph P. Schmelzeis, Jr.	Independent outside director	•	•	•	•	1	•			•	•	•			•
Takeshi Fujisawa	Outside director			•		_	•	•			•				
Hidemi Moue	Outside director	•	•	1		2	•					•	•		
Keiichiro Shiojima	Director			1		3	•					•	•		
Masafumi Senzaki	Director	•	•			1	•	•	•	•	•	•		•	•
Kotaro Hirano	Director	•	•	į		7	•		•	•		•	•	•	•

## **Corporate Governance**

## Directors and Executive Officers (as of June 24, 2024)

### Directors -

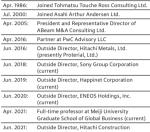


Director. Chairperson of the Board of Directors Kotaro Hirano





Independent Outside Director Toshiko Oka





Apr. 1970: Joined Fuji Heavy Industries Ltd.

Oct. 1999: Senior Managing Director, TOKYO SUBARU Inc.



Independent Outside Director Maoko Kikuchi

Apr. 1992:	Appointed as a prosecutor in the Public Prosecutor's Office of the Ministry of Justice
Aug. 1997:	Joined the Los Angeles office of Paul Hastings LLP
Mar. 1999:	Registered as an Attorney at Law in Japan as well as in the State of New York, the United States Joined Nagashima & Ohno (currently Nagashima Ohno & Tsunematsu)
Apr. 2004:	Joined the General Secretariat of the Fair Trade Commission
May 2006:	Chief Compliance Officer of Softbank Corp.
Apr. 2014:	Executive Officer in Charge of Legal and Public Affairs at Microsoft Japan Co., Ltd.
Jun. 2016:	Outside Auditor for Mitsui-Soko Holdings
Jun. 2020:	Outside Director, Mitsui-Soko Holdings (current) Outside member of the Audit and Supervisory Board of KADOKAWA Corporation
Jul. 2020:	Outside Director, Hitachi Construction Machinery Co., Ltd. (current)
Aug. 2020:	Managing Partner, Compass International Law Office (current)
Nov. 2023:	Outside Corporate Auditor for Ryohin Keikaku Co., Ltd.



Outside Director Takeshi Fujisawa

	Apr. 1989:	Joined Hitachi, Ltd.
	Apr. 2015:	General Manager, Public Solutions Department 3, Public System Div., Information & Communication Systems Company
	Apr. 2019:	General Manager, Enterprise Solutions Div., Industry & Distribution Business Unit
	Apr. 2020:	General Manager, Digital Solutions Div., Industry & Distribution Business Unit
	Apr. 2022:	General Manager, Digital Solutions Business Div., Industrial Digital Business Unit
	Apr. 2024:	COO of Social Infrastructure Business Unit (current)
1	Jun. 2024:	Outside Director, Hitachi Construction Machinery Co., Ltd. (current)



Independent Outside Director Masaaki Ito





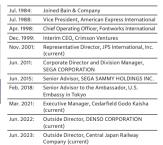
Independent Outside Director Kazushige Okuhara

Jun. 2001:	Corporate Vice President, Senior General Manager of Japan Region, Subaru Sales & Marketing Division, Chief General Manager of Subaru Parts & Accessories Division and General Manager of Customer Service Center, Fuji Heavy Industries Ltd.
Jun. 2003:	Corporate Senior Vice President, Chief General Manager of Subaru Japan Sales & Marketing Division and Chief General Manager of Subaru Marketing Division
Apr. 2005:	Corporate Senior Vice President and General Manager of the Human Resources Department
Jun. 2006:	Director, Corporate Executive Vice President and General Manager of the Human Resources Department
Jun. 2006:	President and Chair of the Business Reforms Promotion Committee at Subaru System Service Co., Ltd.
Jun. 2010:	Representative Director and Deputy President of Fuji Heavy Industries Ltd.
Jun. 2011:	Representative Director and President of Subaru Kohsan Co., Ltd.
Jun. 2016:	Outside Director, Hitachi Construction

Machinery Co., Ltd. (current)



Independent Outside Director Joseph P. Schmelzeis, Jr.



Outside Director, Hitachi Construction Machinery Co., Ltd. (current)

Outside Director Hidemi Moue

	Apr. 1979:	Joined The Industrial Bank of Japan, Limited
	Jun. 1996:	General Manager, Capital Markets Department 2, IBJ Securities Co., Ltd.
	Feb. 1998:	General Manager, Business Development Department, IBJ Securities Co., Ltd.
	Oct. 2000: General Manager, Corporate Finance Department, Mizuho Securities Co., Ltd.	
	Nov. 2002:	President and CEO, Japan Industrial Partners, Inc. (current)
33	Jun. 2010:	Auditor, Mobile Internal Capital, Inc. (current)
	Jun. 2022:	Outside Director, Hitachi Construction Machinery Co., Ltd. (current)
	Aug. 2022:	Representative Director and President, HCJI Holdings, Ltd. (current)
	Jan. 2023:	Director, Proterial, Ltd. (current)
	Dec. 2023:	Director, TOSHIBA CORPORATION (current)

Continued on p.81

## **Corporate Governance**



Keiichiro Shioiima

Apr. 1988:	Joined Hitachi Construction Machinery Co., Ltd.
Apr. 2011:	General Manager, Credit Management Department, Finance Div.
Apr. 2014:	Director, Hitachi Construction Machinery Asia and Pacific Pte. Ltd.
Apr. 2016:	General Manager, Finance Department, Finance Div., Corporate Management Group, Hitachi Construction Machinery Co., Ltd.
Apr. 2019:	Deputy General Manager, Finance Div., Corporate Management Group
Apr. 2020:	Executive Officer, General Manager of Finance Div.
Jun. 2021:	Director (current)
Apr. 2022:	Vice President and Executive Officer, General Manager of Finance Div. (current)



Masafumi Senzaki

Apr. 1991:	Joined Hitachi Construction Machinery Co., Ltd
Apr. 2017:	General Manager, Russia and CIS Business Div President and Director of Hitachi Construction Machinery Eurasia Manufacturing LLC
Apr. 2018:	Executive Officer, General Manager of Marketing Group, Hitachi Construction Machinery Co., Ltd.
Apr. 2021:	Vice President and Executive Officer, General Manager of Corporate Strategy and Operations Management Groups
Apr. 2022:	Senior Vice President and Executive Officer, General Manager of Corporate Strategy Group
Apr. 2023:	Representative Executive Officer, President and Executive Officer (incumbent)
Jun. 2023:	Director (current)

### Executive Officer

Representative Executive Officer. Chairman and Executive Officer, CEO Kotaro Hirano

Representative Executive Officer, President and Executive Officer, COO Masafumi Senzaki

Executive Vice President, Executive Officer, CSO Naovoshi Yamada

Senior Vice President and Executive Officer. General Manager of America Business Div. Sonosuke Ishii

Representative Executive Officer, Senior Vice President and Executive Officer Officer responsible for Security Trade Control President of Construction Business Unit Yusuke Kajita

Vice President and Executive Officer, CFO President of Financial Strategy Group

Keiichiro Shioiima

Vice President and Executive Officer, CHRO President of Human Capital Group Seishi Toyoshima

Vice President and Executive Officer, CTO President of Power & Info Control Platform **Business Unit** President of Research & Development Group

Kazunori Nakamura

Vice President and Executive Officer President of Mining Business Unit Eiii Fukunishi

Vice President and Executive Officer, CMO President of Rental & Used Equipment **Business Unit** President of Global Marketing Group General Manager of China Business Div. Hidehiko Matsui

Vice President and Executive Officer Officer responsible for MONOZUKURI President of Production & Procurement Group Yoshihiro Narukawa

**Executive Officer** President of Compact Business Unit Kazuhiro Ichimura

Executive Officer Vice President of Mining Business Unit Hiroshi Kanezawa

Executive Officer Vice President of Mining Business Unit Tooru Sugiyama

Executive Officer, CDIO President of New Business Creation Unit Seimei Toonishi

Executive Officer President of Corporate Strategy Group Tetsuya Hamabe

Executive Officer General Manager of Japan Business Div. Masaaki Hirose

**Executive Officer** President of Spare Parts & Service Business Unit Hiroshi Hosokawa

**Executive Officer** President of Safety/Health & Compliance Group Satoshi Yamanobe

Executive Officer General Manager of Oceania Business Div. Rav Kitic

**Executive Officer** General Manager of India Business Div. Sandeep Singh

Note: Listed by title and in the order of the Japanese kana syllabary

### About the abbreviations

CDIO: Chief Digital & Information Officer

CEO: Chief Executive Officer

CFO: Chief Financial Officer

CHRO: Chief Human Resources Officer

CMO: Chief Marketing & Sales Officer

COO: Chief Operating Officer

CSO: Chief Strategy Officer

CTO: Chief Technical Officer

## **Corporate Governance**

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

- 1. How to determine the policies At Hitachi Construction Machinery, the Compensation Committee sets forth the company's policies on the determination of the amount of compensation to be paid to 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 policies
  - (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 its 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.

- Directors shall be paid their monthly salary in a fixed amount in view of the fact that their duty is of a supervisory nature. The specific amount shall be determined in accordance with the individual's position, full-time or part-time status and basic allowance for the position and may also include an allowance for committee membership. Compensation for serving as a director shall not be paid to directors who also serve as executive officers.
- (3) Matters relating to executive officers Compensation for executive officers consists of a monthly salary and performance-linked compensation.
  - Executive officers shall be paid their monthly salary according to the standards set for each position.
  - Please refer to the following for the breakdown of monthly salaries and performance-linked compensation for executive officers. For the amounts of salaries to be paid to executive officers on and after April 1, 2024, the Compensation Committee made a new resolution at its meeting held on March 29, 2024.

■ Breakdown of Monthly Salaries and Performance-Linked Compensation for Executive Officers

		Performance-linked compensation			
Category			Restricted stock compensation		
Chairman and President	42%	42%	16%		
Executive Vice President	55%	30%	15%		
Senior Vice President and lower positions	60%	25%	15%		

- The amount of performance-linked bonus shall vary according to the level of achievement against the standard target and the results achieved by each person in their respective position, and the range of variation shall be from 0% to around 200%. In principle, the evaluation shall be carried out according to the ratios shown below.
- Evaluation Method for Performance-Linked Bonus

Category			
CEO, COO and Executive Vice President	80%	_	20%
Executive Officer	60%	30%	10%

- The evaluation indicators and composition ratio for performancelinked bonus are as follows.
- Evaluation Indicators and Composition Ratio for Performance-Linked Bonus

		Composition ratio					
Category							
	Net income	50%	80%	30%	60%		
(1) Company-wide	Consolidated operating cash flows	20%		10%			
performance	Consolidated value chain sales	_		10%			
	ESG assessment	10%		10%			
(2) Division p	erformance targets		_		30%		
	argets (three indicators for the management issues organizational health)		20%		10%		

- \* ESG assessment is an overall assessment based on the CDP's climate change and water security ratings, Dow Jones Sustainability Indices (DJSI) and the reducing rate of CO<sub>2</sub> emissions related to production and products.
- \* Organizational health is an index to evaluate the health of an organization from various perspectives such as employee engagement and diversity & inclusion.

\* For foreign executive officers, standard compensation is set according to the benchmarks of compensation levels of each country and region from the viewpoint of retaining capable personnel, taking into account the market competitiveness of the compensation.

## **Details of the Restricted Stock Compensation System**

Hitachi Construction Machinery, in line with the resolution made by its Compensation Committee on March 31, 2023, introduced the restricted stock compensation system (hereinafter, "the system") to: (1) provide executive officers (hereinafter, "the targeted officers") with an incentive to make greater efforts for the medium- to long-term and continuous improvement of corporate value and (2) foster value sharing between the targeted officers and shareholders.

- (1) Outline of the stock holding system for officers and employees Under the system, the targeted officers receive monetary claims from Hitachi Construction Machinery. All of these claims are to be used to make an investment in kind to receive shares of the company's ordinary stock ("ordinary stock"). The investment cost per share shall be determined by the Board of Directors based on the closing price of the company's ordinary stock on the Prime Market of the Tokyo Stock Exchange on one business day before the day on which the Board makes the decision (or the closing price on the latest trading day if no trading has been completed on the day) and shall be set at an amount that will not be particularly advantageous to the targeted officers The targeted officers are obliged to hold the stock allocated to them under the system until they resign from their position. The total number of shares to be allocated to the officers under the system and how to allocate them shall be determined by the Compensation Committee in consideration of the purpose of the system, business situation of the company, and the scope of responsibilities assumed by the targeted officers.
- (2) Type and total amount of stock to be allocated to the targeted officers under the system

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During the period from the start of the 61st term to the end of the term, the company plans to allocate a total of 31,688 shares to the targeted officers. During the period from the start of the 60th term to the end of the term, the company allocated 25,072 shares to the targeted officers.

- (3) Those who are entitled to beneficial rights and other rights under the system
  - Executive officers (excluding those living outside Japan)

## **Framework for Strengthening Governance**

Hitachi Construction Machinery recognizes that sustainability is an important management issue and that, in addition to improving business performance, the purpose of corporate governance is to acknowledge the company's status as a member of society that must engage in fair and transparent corporate behavior. By extension, the company believes that this will lead to an increase in corporate value and a further increase in shareholder value. In addition to addressing important management issues, the company has structured its approach to supporting the strengthening of corporate governance into a comprehensive framework.

### **Corporate Governance at Hitachi Construction Machinary**

- 1. Corporate Governance
- The monitoring and control of management by the Board of Directors are defined as mechanisms that are intended to ensure that the company's decision-making and business execution take into consideration the interests of shareholders and other stakeholders, are in compliance with laws and regulations, are carried out efficiently, and enable the company to achieve sound and continuous development.
- 2. Governance (In-house governance)

  The monitoring and control of employees by management are defined as mechanisms intended to ensure that the business is run properly, in accordance with the requests of the Board of

Directors.

### The Company's Three Lines Model

The Three Lines Model is widely recognized as an effective structure and process that strongly supports governance and risk management while enabling the achievement of corporate objectives. The company acknowledges that the Three Lines Model below contributes to the strengthening of governance and is promoting its adoption within the Group.

- First Line (Business units)
   Business units have direct responsibility as owners of risks that arise from business operations, including for controlling (identifying, evaluating, responding to and monitoring) these risks.
- Second Line (Risk management organizations, including corporate

departments and various committees)

Risk management organizations use their expertise to provide support, conduct verification and raise objections regarding the management of risks. While working in collaboration with the first line, they monitor and report on the adequacy and effectiveness of the first line's risk management.

 Third Line (Audit office)
 As an organization reporting directly to the COO, the audit office provides independent and objective assurance and advice to management and governing bodies (such as the Board of Directors and

the Audit Committee) on the adequacy and effectiveness of the risk management of the first and second lines.

With these three lines working in collaboration, the company will prevent the materialization of risks and strengthen its governance.

■ The company's overall Three Lines Model diagram



Legend: Reporting Uplegation, Instruction, Resources, Supervision Communication, Coordination, Collaboration

Reference: Created with reference to the IIA's Three Lines Model



Framework for Strengthening Governance

 $https://www.hitachicm.com/content/dam/hitachicm/global/en/sustainability/governance/corpgovernance/docs/240724\_Framework\_for\_Strengthening\_Governance.pdf$ 

On July 2, 2024, five Hitachi Construction Machinery Co., Ltd. independent outside directors gathered for a roundtable discussion.

The directors candidly discussed their assessments of group initiatives and challenges, and their expectations for the sustainable improvement of corporate value.



### Independent Outside Director

### Joseph P. Schmelzeis, Jr.

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 High-speed Rail Association and Outside Director of Central Japan Railway Company. He has held the position of Outside Director of Hitachi Construction Machinery since June 2023.

# Independent Outside Director (Chairperson of the Compensation Committee and the Nominating Committee)

### Kazushige Okuhara

In 1970, Mr. Okuhara joined Fuji Heavy Industries Ltd. (now Subaru Corporation), and served as the Director, Corporate Executive Vice President and General Manager of the Human Resources Department of the company, 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 has held the position of Outside Director of Hitachi Construction Machinery Co., Ltd. since June 2016.

## Independent Outside Director (Newly Appointed)

### Masaaki Ito

Mr. Ito joined Kuraray Co., Ltd. in 1980. After serving as General Manager of Methacrylate Division, Chemicals Company, Vice President of Functional Materials Company, Managing Executive Officer, and Representative Director and President, he became Chairman and Director of Kuraray (incumbent). He has held the position of Outside Director of Hitachi Construction Machinery Co., Ltd. since June 2024.

### Independent Outside Director

### Maoko Kikuchi

In 1992, Ms. Kikuchi was appointed as a prosecutor in the Public Prosecutor's Office of the Ministry of Justice. She later joined the Los Angeles office of Paul Hastings LLP and Nagashima Ohno & Tsunematsu. She has also worked at the General Secretariat of the Fair Trade Commission and served as 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 as well as Outside Corporate Auditor for Ryohin Keikaku Co., Ltd. She has held the position of Outside Director of Hitachi Construction Machinery Co... Ltd. since July 2020.

## Independent Outside Director (Chairperson of the Audit Committee)

### Toshiko Oka

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

## Overview of the Results for FY2023 Achieving Take off in Line with the Sustainable Growth Story

Okuhara: FY2023 was an important year for the Hitachi Construction Machinery Group. Under the slogan "second founding" adopted following the change in its capital structure and the restart of its Americas business, the Group launched its mediumterm management plan, which had been created in a participatory fashion. Fortunately, demand for the Group's products is brisk in the Americas, enabling the Group to achieve takeoff in line with its sustainable growth story thanks to favorable sales and profit and the positive boost it received from the foreign exchange market.

**Kikuchi:** I was invited to a grand opening event held by Hitachi Construction Machinery Americas in February 2024. The predecessor of this company was a wheel loader manufacturer founded in 1981. Some of the company's employees have been working there for more than 30 years. The event provided me with a wonderful opportunity to see how excited on-site employees are about the new start or "second founding."

Schmelzeis: The local governor also attended the event, giving an indication of the magnitude of local expectations for the company. The event also made it clear to me that the dealers genuinely love and respect our products.

**Oka:** I also think that the Group was able to make a fresh start almost exactly as planned. Unfortunately the stock price has not reflected that success. In contrast to the passion felt by on-site workers, capital market players still seem to be taking a wait-and-see approach.

**Ito:** As I have just been appointed as outside director, I cannot express opinions about the Group based on my own experience.

However, I think the *Kenkijin* Spirit is a wonderful code of conduct. The three "Cs" are well aligned with the goals of each department and function and are widely understood by employees. I think this is due to in-house education, which has been provided steadily.

Schmelzeis: Hitachi Construction Machinery is conducting business across national borders. For example, the company might manufacture a product in Japan but also provide maintenance services for it in the United States, for which employees need to foster internal collaboration so that they can offer solutions to customers. To this end, it is really important that they share the Spirit.

**Kikuchi:** The *Kenkijin* Spirit is globally shared within the Group, being translated into English and some other languages. According to what I have heard from Group employees working in various countries, they have strong affection for Hitachi Construction Machinery and attribute importance to the Spirit.

**Oka:** The word *Kenkijin* means not only people who are dealing with *kenki*, or construction machinery, but also the trust they have earned and various other related things, I think.

**Ito:** During the period in which Hitachi Construction Machinery was a subsidiary of Hitachi, Ltd., *Kenkijin* was an important word that showed the company's unique identity among the other Hitachi Group companies.

## Changes in the Business Environment How to Deal with Issues Such as a Smaller Population

**Kikuchi:** As for changes in the business environment surrounding the manufacturing industry, including Hitachi Construction

Machinery, the biggest issue is the shortage of labor, which is particularly serious in remote regions. In response, the company needs to attribute more importance to greater work efficiency, mechanization and automation, and must speed up measures for them.

Schmelzeis: Customers need solutions and so Hitachi Construction Machinery needs to provide them not only with products but also software, thereby delivering comprehensive value to them. To this end, the company needs to have the ability to analyze relevant data and systems for the creation of new value. And to meet this requirement, it needs personnel versed in digital technologies. This is another challenge to be met by the company.

Oka: Managerial resources include people, goods and money. In the past, companies, especially manufacturers, only needed to focus on product and peripheral markets. Now they are required





to pay more attention to their capital cost and stock price in their business management and to deal with the capital market, which is taking on greater importance. Issues related to labor that need to be addressed by society as a whole, are also surfacing making the human capital market more significant. Accordingly, it is becoming even more challenging to manage a business. Amid these circumstances, I clearly see a need for the company to pay attention to a wider range of issues.

Okuhara: One of the important changes faced by companies is the rising geopolitical risk, including the risk that production bases and sales networks established by them might become inoperable. I feel that Hitachi Construction Machinery must become more sensitive to these risks and take prompt actions in the event that such a risk materializes.

Ito: Issues related to China clearly have a great impact on the

company as a Japanese construction machinery manufacturer. These issues have the following two aspects: "China as a market" and "China as a competitor." For the former, the Chinese construction machinery market is becoming stagnant due to the stalling of the Chinese growth model, which is driven by property development. For the latter, Chinese construction machinery manufacturers are rapidly increasing their ability to offer cheaper products with stable quality. In the automobile industry, Japanese manufacturers have already faced fierce competition from Chinese manufacturers and are reportedly losing market share. Particularly in the ASEAN region, which has strong ties with China and is a large market for Hitachi Construction Machinery, the company is facing a difficult situation, I think.

## **Progress with the Medium-term Management** Plan and Evaluation of the Results **Aiming to Be a True Solutions Provider**

Oka: I think a medium-term management plan is made for roughly two purposes. First, to share the management policies with employees. Second, to make a commitment to the capital market. In addition to making a commitment, the company also needs to assure investors that it will fulfill the commitment with a high probability. To this end, the Nominating, Compensation and Audit Committees are fulfilling their respective roles. Last fiscal year, we spent a lot of time discussing the remuneration system with a focus on the appropriateness of the KPIs to ensure the achievement of the medium-term management plan. I think it is one of our roles as outside directors to make it even more probable that the Group will achieve the management plan.

Okuhara: We discussed the improvement of the remuneration

system across a range of formats. No one was against improvement, but some are not satisfied with the current improvement level. I therefore want to discuss the remuneration system further from a new viewpoint.

**Schmelzeis:** It is indeed important to check the results for each KPI. It is impossible to do everything perfectly at the same time, so I think it is essential that we monitor the KPIs and continue to talk with the management team about the results.

Kikuchi: As for "Strengthening human capital and corporate capabilities," which is one of the core strategies under the mediumterm management plan, I think diversity is a challenge to be addressed. For Hitachi Construction Machinery to achieve further growth, it is necessary for the company to promote female employees to the positions of director and executive officer in a planned manner. I also think it is essential to promote and make effective use of personnel on a global basis. The Board of Directors has Mr. Schmelzeis as one of its members, but the company needs to further enhance its governance system by promoting global personnel to the position of executive officer and director and incorporating their opinions into the management of the system.

Okuhara: Regarding the progress made with the medium-term management plan, I am concerned about the business unit system. This system was started in FY2022 but we have not yet seen any specific achievements made under it. Also, I think that the targets and results have not yet been broken down well for each job under the business unit system. I hope that sincere efforts will be continued until some specific results have been achieved. Ito: Having heard the lecture given by the secretariat, it is my understanding that the medium-term management plan has been implemented steadily. However, I am still concerned about China-related issues, as I have already mentioned. For the Americas, all those related know where the focus needs to be in the region,

and necessary measures have already been taken, which I hope will be continued. For China, however, I was not able to get a clear picture of the company's future plan.

**Kikuchi:** The value chain business is also important for Hitachi Construction Machinery. Personally, I have a guestion about the medium-term target set for this business, specifically the target of increasing sales in the business to at least 50% of the sales of new machines. Is it okay then if the value chain business sales increase to 50% of the amount, as a result of sales of new machines falling? I think it is necessary to set a more appropriate KPI. The value chain business is indeed important in the current shifting of focus from things to solutions. However, you cannot provide maintenance services for unsold new machines, and so I hope that more focus will be placed on synergy effects between the sales of new machines and the value chain business, improvement of operating income margin and other related issues.

Okuhara: Even when the sales of parts and services increase in the value chain business, it is not easy to identify the specific contributing factors.

Oka: Yes, indeed. It would be useful for investors if the company can show them a clear indicator that they can monitor for evaluation. Schmelzeis: In the value chain business, you need to anticipate the needs of customers in the market for the next decade and conduct your analysis based on that. However, manufacturers do not always have this kind of marketing ability and so may need to form partnerships with dealers to share relevant information or create a marketing team in other ways. At any rate, you cannot successfully undertake the value chain business without obtaining necessary data.

Ito: Hitachi Construction Machinery has been doing business using the so-called "product out" method and has achieved growth driven by its product appeal, being supported by its outstanding engineers. However, going forward, the company aims to become a true solutions provider, for which salespeople will take the lead, and this will fundamentally change the company's business approach and philosophy. The president is strongly determined to do this, so I am not worried. However, some friction will occur in the process that the company is now undertaking toward this change.

Okuhara: I have recently been concerned about the depth of communication between the head office and the frontline sales and manufacturing personnel. Such communication is necessary for the company to truly understand the stay close customers, as opposed to just saying it understands them. If the company encounters a stagnant market situation in the future in the Americas business without truly understanding the needs of local customers, it will find itself in quite a difficult situation.

Kikuchi: Salespeople and manufacturing workers have different cultures, and it would not be easy for either group to change their culture. In Japan, Hitachi Construction Machinery has an important sales company in Hitachi Construction Machinery Japan and could implement a range of measures to address this difficult challenge, including enhancing human exchange between the two companies.

Schmelzeis: The term "solution" means an answer to a question, and it is important that Hitachi Construction Machinery has a system to provide expert answers to questions, just like a medical doctor who draws on their own professional knowledge, research and training to propose a solution to a patient whose knees hurt. You cannot become like the doctor just by making products at a factory. In order to become a true solutions provider, the company needs to enhance its abilities to an even greater degree. To put it the other way round, by enhancing its abilities, the company can be the industry leader.

## **Evaluation of the Effectiveness of Governance Promoting Reforms by Working Closely with** Management

Oka: At many of the Board of Directors meetings held recently. we found ourselves running behind schedule. In contrast, three years ago, when I was first appointed as an outside director, the meetings usually ended on time. We tend to get heated and spend more than the allocated time discussing strategies and changes to the business environment.

Ito: I see. I attended a Board of Directors meeting of the company for the first time the other day. At the meeting, Mr. Okuhara said, "I don't want to have a series of different topics discussed at this meeting. The Board should take a broader view," which was guite





inspiring. Each participant talked freely at the meeting, and I felt reassured by this.

Kikuchi: For an agenda that cannot be addressed at one Board of Directors meeting due to time constraints, the executive team was asked to make an interim report. Accordingly, they have already made and submitted this report to the Board. At a Board of Directors meeting, we do not simply receive reports and make decisions as a formality. Going forward, I will continue to make efforts to enhance governance by promoting in-depth discussion at Board meetings by measures such as making recommendations on the themes to be addressed by the Board in my capacity as outside director.

Oka: As chairperson of the Audit Committee, I need to lead the establishment of a new auditing system as Hitachi, Ltd. no longer audits the company as one of its Group companies. I have been talking with the person who serves as my assistant about how to build an organizational auditing system. Under the Committee,

which is mainly composed of outside directors, I would like to build a system suitable for Hitachi Construction Machinery within about a vear.

Okuhara: As chairperson of the Nominating Committee and the Compensation Committee. I have talked a lot with members of the Committees about the changes that should be made to the organizations. I have been thinking about the significance of the Committees for the company and would like to reform them by working closely with the management team. This fiscal year, I will discuss the issues with new members of the Committees. Schmelzeis: One of the differences between Japanese and American companies is that the management team, directors and investors have a greater shared interest in the United States. To put it in extreme terms, it might be better if we received all of our compensation in the form of stocks. Or it might at least be possible for the company to increase the ratio of stocks to the total remuneration so that its executives and investors have a greater shared interest.

Kikuchi: As one of the means to enhance governance in line with the Corporate Governance Code, we need to establish a contact point that is independent from the management team. Accordingly, measures to enhance the internal reporting system have been proposed within the company, and executive officers are attributing importance to these measures. For incidents that might affect corporate value, examinations are being made for the establishment of a system for not only the executive team but also outside directors to be informed of these incidents. Under such a system, I would also like to hear about problems and address them as an outside director when a serious incident happens with regard to a procurement partner or a subsidiary of the company.

## **Measures for Human Capital** To Overcome a Range of Issues and Enhance Competitiveness

Ito: I was surprised to hear from a person in charge of hiring at the company that the number of job applicants had been exceeding expectations. This reminded me of the power of the Hitachi brand. The brand might not be powerful enough to attract female applicants however, which I regard as another challenge to be met.

Schmelzeis: I think Japanese companies in general, not just Hitachi Construction Machinery, are facing gender-related issues, which need to be addressed in the upstream section, specifically at the stage of education. It takes time to develop female employees into managers. Although I support it, it might be difficult for the company to make achievements in this regard over a short time frame.

Kikuchi: I think it would be better to promote a female employee to a managerial position in order to provide other female employees with a role model. I want to see the company do this without hesitation.

Schmelzeis: Japanese companies are not quick to recruit talent from outside the company, particularly for executive positions. However, I think it would be nice to bring in new talent, thereby giving some inspiration to the existing workforce. So how about bringing in an outstanding woman from outside?

Oka: Based on my experience at multiple companies, an organization does not change until at least 30% of its total workforce are members of a minority group. At Japanese companies, Japanese men represent a majority, and they have been competing with each other for higher positions. In this age of diversity, however, a minority group is also beginning to participate in the

competition. The majority side, in response, wants to remove the minority group because they see them as limiting their own scope of opportunity. But if the minority group reaches the level of 30% or higher, it is not easy for the majority group to remove them and so the majority will accept the minority and they will work hard together. This will in turn help the organization undertake reforms.

Kikuchi: I often hear that many women decline an offer of promotion. This is not a problem they as women should be asked to solve by themselves. Instead, the company needs to evaluate the reasons for this and provide women with a better working environment, including making remote work possible and enabling even those in managerial positions to take parental and maternity leave. To get women to work as managers, I think it is necessary to provide them with more diverse options.

Okuhara: It is indeed important to do so. Embracing such a challenge might cause waves, but it will help the management team identify the issues that they should address. It might therefore be necessary to take on such a challenge.

Kikuchi: Women experience various life events such as raising children, and can face further barriers later in their careers too. I hope that managers of female employees will understand what barriers women face and acknowledge that their ideas and behavioral styles differ from men, who are a majority at the company, and adequately support the women in their organization.

Oka: All companies are now promoting diversity and trying to employ more women. But how about the level of inclusion? Do all companies really have an inclusive culture? I doubt this.

Ito: The other day I heard on a news program about a man who had taken parental leave experiencing hardship because his supervisor gave him too high a workload when he returned to work. This was because the supervisor had failed to duly allocate the man's tasks to others while he was away. I think it is essential for a company to educate those in managerial positions as the most important precondition to be met to improve the workplace environment.

Okuhara: When it comes to human resources, there are a range of issues, not limited to those related to women. The company has been promoting local hires to executive officer positions in some regions, but there are still many issues that should be solved regarding how the company should develop human resources and make effective use of them on a global scale. It would be necessary to compare its measures with those of its competitors to see where it is lacking. I think this kind of examination is necessary.

## **Expectations for the Hitachi Construction Machinery Group**

**Schmelzeis:** As Hitachi Construction Machinery is a great company. I simply want it to take the top spot in the industry. Kikuchi: It is said that Japan is returning to an industrial structure that values manufacturing, and the company has indeed been attributing importance to the operation of its plants and development organizations in Japan. I think such efforts will be increasingly rewarded going forward. It is a global company, with its overseas sales now reaching 80% of total sales. I hope that all Group members will make a concerted effort for the further development of the Group around the world.

Oka: Hitachi Construction Machinery has become independent from the Hitachi Group. I expect that it will serve as an example of a successful spin-off. Having gone through the so-called lost three decades, Japan needs to restructure its industry, for which companies need to buy and sell businesses. By showing that

Hitachi Construction Machinery has been doing business successfully after going independent. I think business restructuring will be further facilitated in other industries as well.

Ito: I want the company to value its Japanese origins. Its main market is outside Japan, however, and so there will be a future discussion about why it continues to be headquartered here. This is a very important theme for the company and I hope to monitor developments closely.

Okuhara: This goes back to the Kenkijin Spirit that we talked about at the beginning of the meeting, but I think respect is important. For the three Cs, which are Challenge, Customer and Communication, showing respect for others is an essential component. Based on this recognition, I expect that the Hitachi Construction Machinery Group will demonstrate its unique appeal going forward.



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## 11-year Consolidated Financial Highlights

			ac constructio	litachi Construction Machinery Co., Ltd., and Consolidated Subsidiaries N (each fiscal year ending on March 31)				Note: Consolidated financial statements have been prepared in accordance with the International Financial Reporti Standards (IFRS) from the fiscal year ended March 31, 2015; terms in brackets are Japanese GAAP items.					
	Financial Indicator	Units	2014/3 (Japanese GAAP)	<b>2015/3</b> (IFRS)	<b>2016/3</b> (IFRS)	<b>2017/3</b> (IFRS)	<b>2018/3</b> (IFRS)	<b>2019/3</b> (IFRS)	<b>2020/3</b> (IFRS)	<b>2021/3*</b> <sup>2</sup> (IFRS)	<b>2022/3</b> (IFRS)	<b>2023/3</b> (IFRS)	<b>2024/3</b> <sup>2</sup> (IFRS)
	Revenue [Net Sales]	Millions of yen	802,988	815,792	758,331	753,947	959,153	1,033,703	931,347	813,331	1,024,961	1,264,927	1,405,9
	Overseas revenue [Overseas sales]	Millions of yen	571,142	594,036	525,531	527,961	765,933	827,628	725,743	609,995	808,037	1,040,941	1,179,0
	Overseas revenue ratio	%	71.1	72.8	69.3	70.0	79.9	80.1	77.9	75.0	78.8	82.3	8
	Specialized parts and services business*3	Millions of yen	=	-	=	6,691	92,287	95,976	90,596	79,140	94,822	116,623	129,8
Operatings Results	Adjusted operating income margin (loss)	Millions of yen	-	-	23,364	28,265	93,582	116,841	76,618	32,710	93,518	136,645	168,0
	Income (loss) before income taxes [Income before income taxes and other adjustments]	Millions of yen	52,775	58,953	24,517	23,859	95,612	102,702	67,103	25,578	110,869	115,013	160,4
	Net income (loss) attributable to owners of the parent [Net income attributable to owners of the parent]	Millions of yen	28,939	26,023	8,804	8,022	60,004	68,542	41,171	10,340	75,826	70,175	93,
	Total assets [Total assets]	Millions of yen	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	1,835,0
	Total equity attributable to owners of the parent [Shareholders' equity]	Millions of yen	388,381	431,227	395,963	399,619	448,502	486,407	473,537	513,602	611,608	659,992	763,3
	Net interest-bearing debt*1	Millions of yen	308,909	236,240	138,785	183,246	148,736	237,461	276,778	249,158	258,850	395,475	432,0
	Net debt-to-equity ratio (Net D/E ratio)	Ratio	0.80	0.55	0.35	0.46	0.33	0.49	0.58	0.49	0.42	0.60	0
Financial Position	Return on equity attributable to owners of the parent [Return on equity] (ROE)	%	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)	%	4.9	2.4	0.9	0.8	5.7	6.0	3.5	0.9	5.8	4.6	
	Equity attributable to owners of the parent ratio [Shareholders' equity ratio]	%	35.7	40.5	42.7	39.5	41.2	41.0	40.6	42.1	43.4	40.6	2
	Price-earnings ratio	Ratio	14.59	17.17	43.18	73.57	14.55	9.11	11.31	72.91	8.96	9.32	10

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<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 31, 2021 have been changed to figures reflecting the retrospective application of a change in accounting policies to the consolidated financial statements.

<sup>\*3</sup> Effective from the fiscal year ended March 31, 2024, the segment name "Solutions Business" has been changed to "Specialized Parts and Services Business." The change in segment name has no impact on segment information.

<sup>\*4</sup> During the fourth quarter of fiscal year 2024, we classified the non-core operations in the Specialized Parts and Services Business segment as discontinued operations. Consequently, sales revenue, adjusted operating income, and income before income taxes are presented for continuing operations, excluding discontinued operations, from the fiscal year ended March 31, 2023 onward.

## 11-year Consolidated Financial Highlights

							Standards (IFRS) from the fiscal year ended March 31, 2015; terms in brackets are Japanese GAAP items.						
	Financial Indicator	Units	2014/3 (Japanese GAAP)	<b>2015/3</b> (IFRS)	<b>2016/3</b> (IFRS)	<b>2017/3</b> (IFRS)	<b>2018/3</b> (IFRS)	<b>2019/3</b> (IFRS)	<b>2020/3</b> (IFRS)	<b>2021/3*</b> <sup>3</sup> (IFRS)	<b>2022/3</b> (IFRS)	<b>2023/3</b> (IFRS)	<b>2024/3</b> (IFRS)
	Earnings per share attributable to owners of the parent [Net earnings per share attributable to owners of the parent]	Yen	136.24	122.44	41.41	37.72	282.16	322.31	193.61	48.62	356.57	330.00	438.68
Per-Share Indicators	Diluted earnings per share attributable to owners of the parent [Diluted earnings per share attributable to owners of the parent]	Yen	136.20	122.42	41.41	37.72	282.16	322.31	193.61	48.62	356.57	330.00	438.68
	Equity per share attributable to owners of the parent [Net assets]	Yen	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	3,589.46
	Dividends per share	Yen	50	60	40	12	85	100	60	20	110	110	150
	Consolidated dividend payout ratio	%	36.7	49.0	96.6	31.8	30.1	31.0	31.0	41.1	30.9	33.3	34.2
Capital	Capital investment (construction basis)*1	Millions of yen	52,007	32,401	35,156	30,665	41,833	57,634	84,075	73,371	89,585	119,338	109,016
Investment, etc.	R&D expenditure	Millions of yen	18,809	17,843	18,834	19,304	24,571	24,774	23,720	24,764	25,462	24,443	31,425
etc.	R&D expenditure to revenue	%	2.3	2.2	2.5	2.6	2.6	2.4	2.5	3.0	2.5	1.9	2.2
Foreign Currency Exchange Rates*2	JPY/USD	Yen	100.3	110.5	120.1	108.7	110.9	111.0	108.7	106.0	112.6	135.4	141.0
	JPY/EUR	Yen	134.8	138.3	132.4	118.9	130.1	127.9	120.8	124.6	130.6	141.0	152.0
	JPY/RMB	Yen	16.5	17.6	18.6	16.2	16.8	16.6	15.7	15.7	17.5	19.7	20.1

<sup>\*1</sup> Effective from this Integrated Report, capital investment will include operating assets for lease; historical information has been changed as well.

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

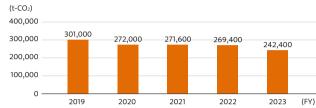
<sup>\*3</sup> Some data for the fiscal year ended March 31, 2021 have been changed to figures reflecting the retrospective application of a change in accounting policies to the consolidated financial statements.

Messages from Sustainably Enhancing Strategies to Achieve the Global Business Expansion/ Sustainability Promotion Initiatives

Hitachi Construction Machinery Group Integrated Report 2024 Introduction Top Management Our Corporate Value Medium-term Management Plan Growth Strategy by Region that Support Sustainable Growth Corporate Data

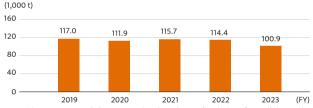
## **Non-Financial Highlights**

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



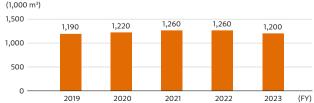
Note: Figures presented above comprise the volume of Scope 1 and 2 emissions from all domestic and overseas bases, including both production and non-production sites, in the scope of consolidation.

### ■ Waste Emission Volume



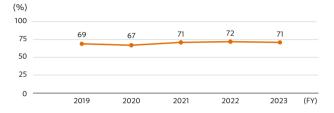
Note: Figures presented above comprise the volume of emissions from all domestic and overseas bases, including both production and non-production sites, in the scope of consolidation.

### ■ Water Consumption Volume

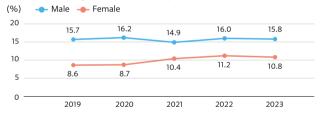


Note: Figures presented above comprise the volume of all domestic and overseas bases, including both production and non-production sites, in the scope of consolidation.

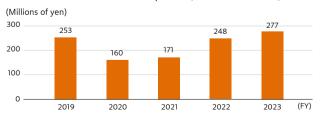
### ■ Ratio of Locals in General Manager or Higher Positions at Overseas Group Companies



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



### ■ Social Contribution-Related Expenses (Consolidated Basis)



## **External Evaluation**

### **Endorsement of Initiatives**



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

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

### **WE SUPPORT**



### United Nations Global Compact (UNGC)

In April 2023, we have participated in the United Nations Global Compact, which is 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. And The United Nations Global Compact has 10 principles related to the protection of human rights, the elimination of unfair labor, the response to the environment, and the prevention of corruption.



### **GX League (Green Transformation)**

GX (Green Transformation) League is an initiative established by Japan's Ministry of Economy, Trade and Industry. It is a place where companies that are working to realize sustainable growth will work together with similar companies, government agencies, finance, and universities to take on the challenges of GX (Green Transformation) and put them into practice to transform economic and social systems. We participated in the GX Leaque (May 2023).

### **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 2023).



FTSE Blossom Japan

#### FTSE Blossom Japan Index

We are recognized as a Japanese company engaging in excellent practices in ESG (as of June 2024).



Sompo Sustainability Index

### **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 2024).



### FTSF4Good Global Index Series

We were selected for inclusion in the "FTSE4Good Global Index Series" Responsible Investment (RI) indices for global companies (as of June 2024).



**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 2024).



#### MSCI ESG Leaders Indexes

This is an index by MSCI, a U.S.-based company. We have been selected as a company with a high ESG rating in our sector (as of June 2024).

### Assessment of Sustainability and Management Strategy



### Carbon Disclosure Project (CDP)

The CDP is a non-profit organization in the UK that globally surveys. discloses, and evaluates corporate initiatives regarding climate change and water. In 2023, we received a climate change score of Aand a water score of B, as we did in 2022.

	2020	2021	2022	2023
CDP Climate Change	A-	A-	A-	A-
CDP Water Security	В	В	В	В



### SBT (Science Based Targets)

SBTi certifies companies that have set scientifically-based greenhouse gas emission 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 emission reductions received certification.



#### Best IR Award at 2023 IR Award

We received Best IR Award at 2023 IR Award conducted by Japan Investor Relations Association (JIRA).



#### Health and Productivity 2024

In 2024, Hitachi Construction Machinery was certified as a Health & Productivity Management Outstanding Organization by Nippon Kenko Kaigi, as we did in 2023, (March 2024)

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



### All Japanese Listed Companies' Website Ranking

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 2023)



### **Greatest IR Improvement Premium Company**

We were selected as "Greatest IR Improvement Premium Companies" of the JIRA 30th Anniversary Commemorative Award. (November, 2023)



External Evaluation https://www.hitachicm.com/global/en/ir/evaluation/

## **IR Information**

### FY2023 Dialogue with Shareholders (Stakeholder Engagement)

Key personnel involved	COO, CFO, President of Business Unit, Investor Relations Sec.					
		Japan	102			
		Asia	82			
	Individual meetings (at investors' locations)	North America	23			
Overview of shareholders, investors, etc., engaged in dialogue		Europe	25			
Overview of shareholders, lilvestors, etc., engaged in dialogue		Other regions	7			
	Company briefing sessions (held six times) Four financial results explanatory meeting, one ESG explanatory meeting, one business explanatory meeting  * Numerical values are totals					
	Progress in each businesses, including mining and the	Americas, where profit margins ar	e high			
	Self-help efforts to stabilize profitability by expanding value chain businesses and improving productivity					
Principal dialogue topics and concerns	Request for disclosure of dividend forecasts from the beginning of the fiscal year					
	Strategies tied to financial figures and other quantitative targets					
	Interest in new shareholder composition, and readiness for conversion to the next shar composition					
Attributes of shareholders participating in dialogue	Investment styles: Value, Growth, GARP, ESG, etc.					
	Dialogue content reported to management (quarterly)					
Feedback provided to management and the Board of Directors	Dialogue content reported to and discussed at Board of Directors meetings (four times a year)					
	Website listing historical data such as cost of capital and various financial figures and indicators made available					
Steps taken based on dialogues, etc.	Disclose dividend forecasts disclosed at the beginning of FY2024					
	Priority measures explained at business explanatory meeting, etc.					

### "Investor Relations" website

https://www.hitachicm.com/global/en/ir/



Please visit our website for the latest IR-related information.

- IR News
- Performance and Financial Information
- IR Library
- To Individual Investors, etc.



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Hitachi Construction Machinery Group Integrated Report 2024

## Company Profile (as of March 31, 2024)

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

Paid-in Capital 81,577 million yen

**Head Office** 2-16-1 Higashi-Ueno, Taito-ku, Tokyo

Established October 1, 1970

Masafumi Senzaki, Representative Executive Officer, President and Executive Officer, COO Representative

Number of 26,230 (consolidated), 5,862 (non-consolidated) **Employees** 

Business Purposes Manufacture, sale, rental, and after-sales service of construction and transport

machinery, environmental products, etc.

Principal Facilities Tsuchiura Works, Kasumigaura Works, Hitachinaka-Rinko Works, Hitachinaka Works,

Ryugasaki Works, Banshu Works

URL https://www.hitachicm.com/global/en/



Ueno Fast Tower

## Investor Information (as of March 31, 2024)



Major Shareholders (Top 10 Largest Shareholders)

Wajor Strate rotaers (10p to Eargest Strateholders)		
	Number of shares held (x 1,000)	Shareholding ratio (%)
HCJI Holdings Ltd.	55,290	26.00
Hitachi, Ltd.	54,062	25.42
The Master Trust Bank of Japan, Ltd. (trust account)	30,516	14.35
Custody Bank of Japan, Ltd. (trust account)	12,335	5.80
JP Morgan Securities Japan Co., Ltd.	3,437	1.62
HSBC HONG KONG -TREASURY SERVICES A/C AISAN EQUITIES DERIVATIVES	2,398	1.13
STATE STREET BANK WEST CLIENT-TREATY 505234	2,015	0.95
Goldman Sachs Japan Co., Ltd. BNYM	1,944	0.91
JP MORGAN CHASE BANK 385781	1,447	0.68
SSBTC CLIENT OMNIBUS ACCOUNT	1,212	0.57

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Securities

companies

3.71%

Other Japanese

corporations

52.09%

<sup>\*</sup> The 2,442 thousand shares of treasury stock held by the Company are not included in the table above.

<sup>\*</sup> The 2,442 thousand shares of treasury stock are also excluded when calculating shareholding ratios.

# **® 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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