CFO Message

Vice President and Executive Officer, Director and CFO
President of Financial Strategy Group
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Our capital productivity improvement measures using an ROIC tree have been generally successful. Going forward, we will further enhance our corporate value by boosting profitability.

Hitachi Construction Machinery Group's Vision for Financial and Capital Strategies

For the Hitachi Construction Machinery Group, enhancing corporate value is synonymous with increasing capital productivity. For higher capital productivity, we are upholding the following basic policies for our financial and capital measures: (1) help employees be more aware of the cost of equity; (2) select easy-to-understand KPIs for both internal and external use; (3) appropriately manage our balance sheet; and (4) increase opportunities to engage in dialogue with shareholders and investors. In my capacity as CFO, I will foster cash flow (CF) management based on these policies so that we can make maximum use of our capital in this rapidly changing business environment, thereby increasing our corporate value on a continual basis.

Importance of Financial and Capital Strategies for the Enhancement of Corporate Value

For a company to enhance its corporate value on a continual basis, it is important to make efficient use of capital. Accordingly, Hitachi Construction Machinery is working to improve its return on capital investment (ROIC), which we use as a core indicator for the efficient use of capital, by starting with increasing employees' understanding of the cost of equity. Presently, we are calculating the net present value (NPV) of our investments based on a weighted average cost of capital (WACC) rate of about 7%, and we make and evaluate our investment decisions based on the clear quantitative criteria of realizing a gain on an investment within three years and recovering 60% of the investment cost within five years.

For higher ROIC, we clearly show our financial and non-financial KPIs set based on the medium-term management plan (MTMP) and use these KPIs as improvement drivers in our ROIC tree. We are also enhancing the monitoring of the indicators that are directly related to ROIC, such as adjusted operating income ratio and invested capital turnover ratio.

It is also important to ensure the stability of operating cash flow (OCF) to secure funds for growth investment and shareholder returns. To this end, we need to improve the cash conversion cycle (CCC) in our balance sheet management by reducing trade receivables, inventory assets and others. The sale of idle assets and the review of our business portfolio to sell non-core businesses are also helping us generate cash.

We are also implementing capital productivity-related measures outside the company through dialogues with shareholders and investors. In these dialogues, stakeholders expect us to meet the following two requirements among others: (1) show potential for the further growth and stability of our business as well as for the expansion of our key focus businesses; and (2) clearly show the measures to reduce fixed costs to increase our cash generation ability and capital efficiency and management's commitment to reviewing the business portfolio. For FY2024, our total shareholder return (TSR) did not reach a satisfactory level partially due to the downward revision of our performance forecast. However, the frequency of shareholder/investor dialogue meetings has substantially increased from 239 in FY2023 to 318, enabling us to deepen constructive dialogues with them to explain how we plan to increase our corporate value toward the future.

Measures to Boost Our Stock Price

For the continuous improvement of our corporate value and stock price, we are making efforts to increase both our capital efficiency (ROE and ROIC) and rating from the capital market (PER), believing

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that increasing these will help us improve our stock price-to-book value ratio (PBR) and corporate value.

In FY2017, we recorded a PBR of 1.95 when our sales revenue in the Chinese market reached its peak, and also our ROE and PER were as high as more than 14% and 14 to 15, respectively. Recently, however, PER has dropped more sharply than ROE, which also decreased, with PBR remaining at 0.9 to 1.3. I regard the failure to communicate our equity story to the market as one of the causal factors for these results. In the current medium-term management plan, in response to these issues, we set measures for (1) the enhancement of the value chain (VC) business, (2) our own business expansion in the Americas and for (3) the expansion of revenue in the mining business as priority measures to be implemented to ensure the stability and growth potential of our revenue.

Moreover, we position the provision of our innovative LANDCROS solution to customers as a pillar for our unique value creation process. LANDCROS is an initiative to develop a new revenue creation model through the advancement of our machine technologies, the enhancement of our digital platform and the building of open partnerships. The advancement of the VC business through the expansion of LANDCROS will help create a virtuous cycle of increasing the stability of our business portfolio, lowering the cost of equity and WACC, and expanding our equity spread and improving PER. To this end, in the next MTMP, we will set the KPIs that are based on the LANDCROS concept and can be shared both within and outside the company to show the progress we have made to achieve growth, thereby enhancing the relationships of trust with shareholders and investors.

Basic Approach to Measures to Increase Our Corporate Value and Stock Price

Enhancement of corporate value

PBR (Stock price/ Net assets per share) = **ROE** (Net income/ Net assets) × **PER** (Stock price/ Net income per share)

In and after Q1 of FY2024
PBR: Less than 1.0

<Probable causes>
- Perceived stagnation of growth in the Americas
- Downward revision of performance forecast
- Sensitivity to market situation
- Weak cash generation ability
- Bloated balance sheet and low capital efficiency

Enhancement of ROE/ROIC

Precondition: Sales and profit expansion in key focus businesses
- Higher ROIC at each BU
- Reduction of indirect expenses
- Strict selection of investment targets
- Review of business portfolio
- Working capital (inventory) control

Evaluation by investors

Focus placed on company guidance, compound annual growth rate, earnings per share and free cash flow as well as on actual performance

<Important points regarding information dissemination by the company>
- Clear equity story
- Expansion of sales in the VC business to reduce cyclical impact
- Generation of cash, commitment to shareholder returns
- Highlighting contribution to the environment
- Financial results, IR roadshows, organization of more events

Appeal points

(1) Proved potential for the further growth and stability of our business and for the expansion of our key focus businesses
(2) Measures to reduce fixed costs to generate cash and increase capital efficiency, management's commitment to reviewing business portfolio

Strategies to Implement Capital Productivity Boosting Measures

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 with the aim of achieving growth as a true solutions provider. For the steady implementation of this management plan, I am promoting the Group's financial and capital policies for its medium- to long-term growth as the Group's CFO, while appropriately identifying the opportunities and risks posed to it.

In FY2024, which was the second year of the current medium-term management plan, demand for hydraulic excavators dropped in regions including North America, Western Europe and Japan causing global market demand to fall by 1% year on year to 221,000 units, which marked the third annual decrease in a row. This market situation had a certain impact on our sales revenue by region. However, despite this severe business environment, we made steady achievements in our three key focus businesses. In particular, the VC business share of our total sales revenue increased by four percentage points to 43% year on year due to growth in the rental and spare parts and services businesses. Through our own business expansion in the Americas, we posted sales revenue of 210.2 billion yen, although a slight decrease year on year. The mining business share of our total sales revenue remained flat at 21% relative to FY2023. As a result, concerning our Group's capital productivity, ROIC came to 7.5% (9.8% for FY2023) and ROE to 10.4% (13.1% for FY2023), but we were able to retain a small increase in equity spread.

Evaluation of the ROIC Tree, Reduction of the Cost of Equity

For the fundamental improvement of our capital efficiency, we started to use an ROIC tree in FY2024 to clarify our relevant improvement targets and monitor the progress made toward the targets from the viewpoints of both investors and ourselves. Specifically, from the viewpoint of investors, we manage the progress with a focus on consolidated invested capital, and from our internal viewpoint, we manage it for each of our business units (BUs) based on their respective working capital and fixed assets.

The self-evaluation conducted using the ROIC tree has revealed the following facts: we need to meet certain challenges to increase sales revenue through our own business expansion in the Americas while also improving total asset turnover. At the same time, however, we have made steady progress for multiple indicators, as demonstrated by an increase in the VC business share of our total sales revenue, increase of the OCF margin, and the stabilization of the net

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D/E ratio within an appropriate range. Also, for FY2024, we reduced structural reform-related costs by 3.3 billion yen year on year. Further, we have steadily reviewed our business portfolio, including selling Bradken's non-core business in North America. Moreover, we are successfully making progress with non-financial KPIs in line with the MTMP, such as CO_2 emissions reduction and DE&I. We have thus continued to make improvements both financially and non-financially. On a medium-term basis, we need to maintain net income attributable to owners of the parent at 100 billion yen or more in order to achieve an ROE of 12% with net assets amounting to about 800 billion yen.

We also regard reducing the cost of equity as an important target to achieve for higher capital efficiency. Our cost of equity and WACC are affected by the high β value, which means high stock price volatility and hinders us from reducing our capital cost. The causal factors for the value include capital-related factors such as the low free float ratio. If, however, the VC business share of our total sales revenue further increases to stabilize our business performance, it will lead to the reduction of the risk premium and the cost of equity. I will work to stabilize our business performance and increase our capital efficiency to lead the creation of a virtuous cycle of decreasing WACC and increasing our corporate value from a financial aspect.

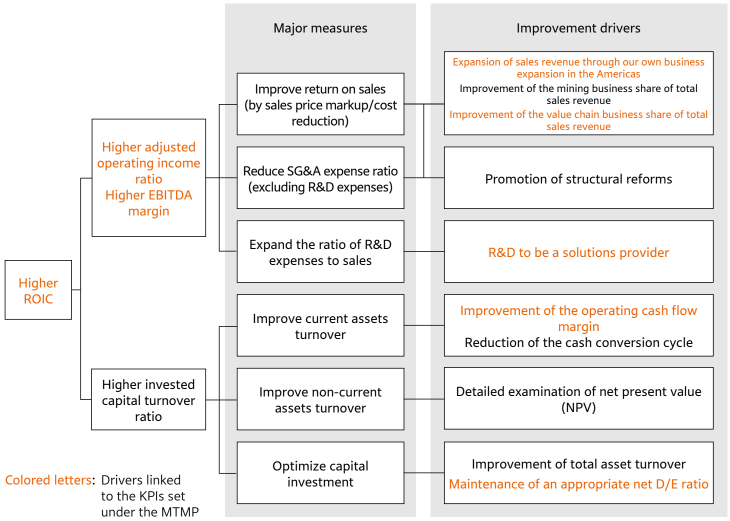
Working for Higher Profitability as the Next Theme

The biggest management challenge presently faced by our company is the need to reduce fixed costs. Our marginal profit ratio has remained at around 40%, but our fixed cost ratio has reached around 29%. For FY2024, our adjusted operating income ratio was 10.6%. A causal factor behind this was that we had boosted our production capacity on the assumption that global demand for hydraulic excavators would expand, but the actual production quantity was lower than initially expected, making it difficult to offset the higher fixed costs. Our depreciation-to-sales revenue ratio is high at slightly more than 6%, and we aim to lower it to less than 6% by keeping the amount spent on existing businesses and the regular renewal of current equipment within the annual depreciation limit, while making strict investment decisions for new businesses. I also want to reduce our personnel cost from the current 12% level to the 10% level by changing it to proportional cost, thereby reducing our fixed cost ratio to around 25% eventually.

We also plan to further improve our marginal profit ratio while reducing fixed costs. For FY2025, the VC business share of our total sales will reach 48% and will further expand on a medium-term basis relative to our competitors. For example, the asset-light LANDCROS-based solution will help increase our marginal profit ratio going forward.

As for external factors, the impact of U.S. tariff measures on our products shipped in FY2025 will be 8.6 billion yen, which we will mainly deal with by price pass-through and also by enhancing the rental business and fostering cost reduction. Through these measures we aim to achieve an adjusted operating income ratio of 13% or more in the medium term, for which I will lead the implementation of financial measures for greater profitability.

ROIC Tree-Based Evaluation (Forecast for FY2024 to FY2025)



Major KPI	Unit	FY2023 results	FY2024 results	Outlook for FY2025 (as of the end of July 2025)
Net sales gained through our own business expansion in the Americas	Billions of yen	217.5	210.2	207.5
Mining business share of total sales revenue	%	21	21	21
Value chain business share of total sales revenue	%	39	43	48
Promotion of structural reforms	(FY2023 to FY2024) • Structural reforms for business in China and Japan • Spin-off of a non-core business and consolidation of bases in the specialized parts and services business segment			
Ratio of R&D expenses to sales	%	2.2	2.7	3 or higher
Operating cash flow margin	%	5.2	10.5	11 or higher
Cash conversion cycle	Number of days	187	184	182 or below
Detailed examination of net present value (NPV)	Examination of NPV by project to improve non-current assets turnover			
Total asset turnover	Times	0.81	0.76	0.77
Net D/E ratio	%	0.57	0.48	0.45 or below

Change in Cash Allocation

The Hitachi Construction Machinery Group allocates one-third of the cash it generates to each of the following three as its basic policy: (1) investment in the maintenance & enhancement of existing businesses; (2) strategic growth investment; and (3) improvement of the financial structure and shareholder returns. However, if the net D/E ratio drops to below 0.5, we will increase the cash allocated to shareholder returns. In fact, we have a favorable financial structure and will continue to allocate cash in a strategic and flexible manner for the

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maximization of our capital efficiency and shareholder value.

Expansion of OCF Generation Ability and the Qualitative Change of Cash Allocation

In our financial and capital strategies, I regard the qualitative change of cash allocation as a symbol of the Hitachi Construction Machinery Group's reform. During the period of two years under our current medium-term management plan, OCF reached 217 billion yen, having more than doubled relative to the target set in the previous medium-term management plan. This improvement is attributable to an increase in funds from operations (FFO: cash flow from operations before changes in working capital), specifically to the enhancement of the profitability of the core business, and also to the improvement of working capital. Based on close cooperation between management and the sales and production departments, Hitachi Construction Machinery continuously assesses its inventory and accounts receivable for strict management of working capital. We will continue to manage working capital in a careful manner, limiting the number of days that it takes for us to collect cash from accounts receivable and inventory assets to 100 days and 120 days, respectively, as a guideline. On the other hand, operating assets for lease increased due to the expansion of rental assets in the U.S., which is a strategic market for us, and the increase has been putting pressure on our cash flow since the period of the previous medium-term management plan. The expansion of the rental business could also cause a decrease in ROIC, and so we are expanding the business while carefully keeping the balance in focus.

These measures implemented to expand our OCF led to the reduction of net interest-bearing debt and the enhancement of our financial structure. Further, we raised funds totaling 68.2 billion yen through sustainable finance, including concluding a positive impact finance agreement and issuing a green bond to raise 10 billion yen, thereby strengthening our fund-raising foundation for sustainable growth.

Changes in Investment Targets and Shift to Growth Fields

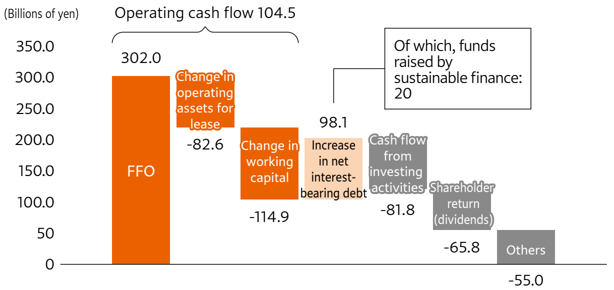
We have also experienced substantial quantitative and qualitative changes in cash outflow. Cash flow from investing activities, which was 81.8 billion yen under the previous medium-term management plan, reached 91.9 billion yen during the period of two years under the current medium-term management plan. Eventually, it will expand to 140 billion to 150 billion yen. Further, the investment targets have greatly changed. Under the previous management plan, we mainly invested in our domestic plants and Bradken to maintain and enhance our current business, while limiting growth investments. However, under the current plan, we are substantially expanding growth investments, while limiting the investment to maintain and enhance the current businesses. We are planning to raise the proportion of growth investments to about 50% of our total investment amount. We have already been making investments to grasp global growth opportunities, including investing to acquire the assets of Brake Supply in North America, introducing mill liner production equipment in Peru, and establishing a company to serve as our South and Central American regional headquarters in Chile. Our growth investments also include investment in Hitachi Construction Truck Manufacturing in Canada, which is expected to help enhance our mining business. For the establishment of manufacturing facilities in the Americas, we will make a strategic decision during the next medium-term management plan period, based on the precondition that we will achieve sales revenue of 300 billion yen or more by expanding our business on our own in the region.

Policy on Shareholder Returns and Future Outlook

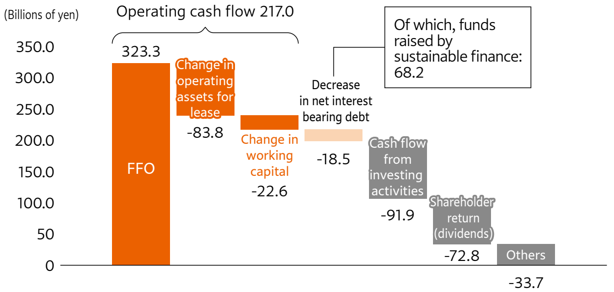
The Hitachi Construction Machinery Group regards it as one of its most important financial policies to ensure stable and continuous shareholder returns toward the maximization of its shareholder value. As the basic shareholder return policy, we are proactively paying dividends in consideration of the business environment by setting our consolidated dividend payout ratio at 30% to 40%. For FY2024, we increased the dividend per share by 25 yen to 175 yen, and our consolidated dividend payout ratio reached 45.7%. Also, for FY2025, we plan to pay 175 yen per share and will continue to attribute importance to shareholder returns under the next MTMP, while giving consideration to our business performance and cash generation ability. Under the current MTMP, the amount of shareholder returns will total around 110 billion yen, up about 70% from the level under the previous MTMP. For net D/E ratio, 0.4 or below is ideal for us, but if it is below 0.5, we will work to ensure the flexibility of our capital policies and the improvement of our shareholder value while considering a further increase in shareholder returns.

Cash Allocation (Comparison between Current and Previous MTMPs)

Previous medium-term management plan (for three years from FY2020 to FY2022)



Current medium-term management plan (For two years from FY2023 to FY2024 [results])



Operating cash flow doubled during the period of two years under the current MTMP relative to the result under the previous three-year MTMP. This was due to the effective suppression of increase in working capital.

Interest-bearing debt also decreased, and the amount of dividends paid to shareholders during the period of two years is more than the amount paid during the period of three years under the previous MTMP.