

Respect for Human Rights

Human Rights Due Diligence Initiatives

The Group has clarified the Hitachi Construction Machinery Group Codes of Conduct and the “Hitachi Construction Machinery Group Human Rights Policy. This is in line with the Hitachi Construction Machinery Group Human Rights Policy. We are promoting initiatives for the respect of human rights. It also mentions human rights due diligence based on the UN Guiding Principles on Business and Human Rights and clearly stipulates implementation of appropriate education for employees, compliance with the laws and regulations of the countries and regions where we do business. Furthermore, if there are any discrepancies between internationally recognized human rights and the domestic laws of each country or region, we will pursue ways to respect international human rights principles.

With this in mind, the Group is actively promoting the exchange of human resources among its global bases. In May 2021, we held our first meeting promoting human rights due diligence. The president and other relevant officers attended this meeting and discussed understanding the human rights risks in our company, the identification of priority risks and measures to be taken. Going forward, we will establish a system to promote human rights due diligence. At the same time, we plan to conduct surveys on the status of forced labor and migrant labor responses at Group companies and suppliers.

Supply Chain Management

As corporate social responsibility increases in the international community, we need to share CSR awareness with our business partners and prevent risks in the supply chain. The Group distributes the Hitachi Group Sustainable Procurement Guidelines (Fourth Edition) to ensure that all suppliers are aware of the guidelines. These are the CSR codes of conduct and standards that all suppliers are required to follow. In addition, we have created the Basic Policy for Procurement of Materials and the Action Guidelines for Purchasing Transactions which we have made widely available to the public through our Web site.

The procurement department conducts rigorous screening when selecting new suppliers. We give full consideration to whether they fulfill their social responsibilities, such as sharing awareness of social responsibility with their business partners.

Reference Hitachi Group Sustainable Procurement Guidelines
https://www.hitachi.com/procurement/csr/EN_HG_SPG_1.pdf

Reference Basic Policy for Procurement of Materials
<https://www.hitachicm.com/global/corporate/procurement/>

Reference Guidelines for Procurement Activities
<https://www.hitachicm.com/global/wp-content/uploads/2017/09/guidelines.pdf>

Human Rights Education and Training

To raise the awareness of human rights among each employee, we continuously provide human rights enlightenment education as part of training by job level. In addition, we have an internal reporting system for employees to report human rights issues. For external stakeholders, we respond through the “Contact Us” section of our website.

We will continue to incorporate human rights initiatives into our work at the individual level. We will also continue to create an environment in which diverse human resources can play an active role.

Results of Human Rights Training in FY2020 (Number of People)

	Overall Number of Participants	Manager and above	General employees
Hitachi Construction Machinery	1,433	52	1,381
Group companies*	1,121	221	900
Total	2,554	273	2,281

*Group companies are the sum of seven domestic companies.

Implementation of Fair Trade with Suppliers

To ensure fair transactions, we are focusing on auditing the status of transactions and providing legal education to employees. We conduct self-audits twice a year to audit the status of our transactions. In addition to this, we conduct a mutual audit within the Group once a year. By doing so, we are enhancing the transparency of our audits. We also provide education and training on the Act against Delay in Payment of Subcontract Proceeds, Etc. to Subcontractors for all employees involved in consignment acceptance. Employees responsible consignment acceptance and inspection must attend the training.

We plan to continue auditing transactions and educating employees on legal compliance in FY2021 and beyond.

Message from Outside Directors



Kazushige Okuhara
 Outside Director

In 1970, Mr. Okuhara joined Fuji Heavy Industries, Ltd. (currently Subaru Corporation). He served as the Director of the Board, Corporate Executive Vice President, and General Manager of Human Resources Dept. at Fuji Heavy Industries, Ltd., President and Chairman of the Business Reforms Promotion Committee at Subaru System Service Co., Ltd. Representative Director of the Board and Deputy President of Fuji Heavy Industries Ltd., and Representative Director of the Board and President of Subaru Kohsan Co., Ltd., before joining Hitachi Construction Machinery Co., Ltd. in June 2016.



Maoko Kikuchi
 Outside Director

In 1992, Ms. Kikuchi was appointed as a prosecutor in the Public Prosecutor's Office of the Ministry of Justice. After serving as a lawyer at law firms in U.S and Japan, and the Japan Fair Trade Commission, she worked for Softbank Corp. as its COO, Microsoft Japan Co., Ltd. as an Executive officer, and Mitsui-Soko Holdings Co., Ltd., as a Member of Audit and Supervisory Board. She has been an Outside Director of the Company (since July 2020), an Outside Director of Mitsui-Soko Holdings Co., Ltd., and a Member of Audit and Supervisory Board of KADOKAWA Corporation.



Haruyuki Toyama
 Outside Director

Mr. Toyama joined the Bank of Japan in 1982. After serving as Director General of the Financial Markets Dept., General Manager for the Americas, and Director General of the International Dept. there, he retired from the Bank in 2014. He got registered as an attorney-at-law in 2015. Since January 2019, he has been Special Counsel at IWATA GODO (current position), and since March 2021, Non-executive Director of Horiba, Ltd. (current position). He has been an outside director of the Company since June 2015.



Toshiko Oka
 Outside Director (Newly Appointed)

In 1986, Ms. Oka joined Tohmatsu Touche Ross Consulting Ltd. She had served as President and Representative Director of ABeam M&A Consulting Ltd., after Asahi Arthur Andersen Ltd. She also had served as Partner at PwC Advisory LLC., Currently, she is Outside Director at Sony Group Corporation, Outside Director at Hapinet Corporation, Outside Director at ENEOS Holdings, Inc., and full-time professor at Meiji University Graduate School of Global Business, and has been an Outside Director of the Company since June 2021.

Kazushige Okuhara: Outside Director

Role as an Outside Director, and Activities of the Nominating Committee

Hitachi Construction Machinery Outside Directors include those with specialized skills in legal affairs and finance, however in my case, my experience is in the automotive industry where I have worked on management issues such as manufacturing, procurement, and sales. An important function of the Board of Directors is to monitor business execution, however my position is that I would like to monitor business execution from a practical perspective and provide suitable advice with empathy.

Since assuming this office in 2016, I have served on the Nominating Committee, and I feel that this role has become more fulfilling every year. For example, management has requested that during our day-to-day duties, we keep an eye out for candidates who could be future management personnel. As the Nominating Committee, we receive a variety of reports on execution status, and conduct on-site audits as necessary. Information is provided in a timely fashion, and we have in place a system for selecting management candidates and executives. However, the promotion of women to managerial positions is a significant issue. The reality is that not only Hitachi Construction Machinery, but other manufacturing companies tend to be behind in promoting women, with barriers existing that include mismatches between positions and human resources. However, even if we get past these issues, I think we will need a strong will to promote women.

Issues in Human Resources and Labor Relations

Hitachi Construction Machinery Co., Ltd. has a fantastic sys-

tem of sending young employees to our overseas bases in Russia, Indonesia, and Africa, etc., where they have opportunities to show their abilities and gain practical education—this leads to the development of the Kenkijin spirit. As well as this, I believe that if the human resource department can better exercise its leadership role in finding and promoting human resources both globally and locally, this will be of great benefit as an organization. In this, the management of the organization cannot be considered in isolation. From my experience, the more simplified an organization can be, the better. This simplification leads to a reallocation and refinement of human resources, and lets us direct outstanding human resources to new important issues and management tasks. I'm sure that such a system will lead to a positive growth cycle of furthering the development of human resources.

Approaches and Responses to Human rights Risks

Recent years have seen cases of issues concerning human rights come to light unexpectedly, to which companies have been compelled to respond. I feel that communication is vital as a foundation for respecting human rights. An organization that lacks a human type of sensitivity is at great risk. An organization comprises many relationships, between employees and with suppliers and stakeholders, but with an openness to discuss and anything it is possible to recover quickly from any issues that may arise. Communication is one of the "Three Cs" that comprise the Kenkijin Spirit, and I feel that if we all communicate with a high level of sensitivity, this will engender respect and in turn naturally bring about a stance of protecting human rights.

The role of the Compensation Committee is to formulate, and put into practice a remuneration standard that looks fair in the eyes of our stakeholders, and provides motivations to our executives. The performance of the construction machinery business fluctuates significantly due to external factors, meaning that evaluations spanning only a single year may not be equitable, and so I would like to adopt evaluations spanning multiple years.

The Audit Committee is central to management monitoring, and all Outside Directors are members of this committee. Agendas for the Board of Director's meetings are proposed by the executive directors and thus the information provided may have come through some sort of screening albeit unconsciously. Accordingly, we fully recognize the importance of collecting information using our own eyes and ears through on-site audits, and engaging in discussions of the committee from a wide-ranging perspective over a long term.

Initiatives to Address Climate Change

The Hitachi Construction Machinery Group has committed to implementing TCFD recommendations, but achieving carbon neutrality by 2050 will be no easy task. There is a pressing need to present concrete measures towards achieving carbon neutrality throughout our whole supply chain including customers and suppliers, at a level above and beyond hitherto-implemented CO2 reduction activities. At the same time, we need to highlight the role played by construction machinery in responding to natural disasters caused by climate change, and position this as a social mandate for continuing business operations. Accordingly, I feel it is the mission of the Hitachi Construction Machinery Group to take the lead in creating a new ecosystem together with our stakeholders.

Maoko Kikuchi: Outside Director

The future of Corporate Governance

Listed companies have in recent years been required to address the topic of ESG. This is of high importance in defensive governance, and I think that action plans should be formulated as ESG Compliance, with their implementation incorporated into company internal controls. For example, the U.S. Securities and Exchange Commission has put in place a system to investigate and rectify errors and discrepancies in published ESG information. Within the EU, companies are now required to identify risks to human rights, the environment, and governance in their businesses and supply chains, and to create policies and plans to eliminate these—failure to do so may result in fines and penalties. In Japan, the Corporate Governance Code has been revised in order to require companies to disclose their sustainability initiatives as a part of their management strategy, and listed companies in particular are required to collect and analyze climate change-related data. No penalties have as yet been imposed, but we need to be cognizant of this possibility in the future.

Corporate Governance Issues Facing the Hitachi Construction Machinery Group

When compared to companies in the West, Japanese companies are behind when it comes to corporate governance, however because around 80% of the Hitachi Construction Machinery Group's sales are generated overseas, simply following Japanese rules is not enough—we need to pay close attention to overseas trends. This requires that we bring on broad information and regulations from overseas, and reflect these in our management. So that we can link sustainability to Hitachi Construction Machinery's CSV (Creating Shared Value), we need to do more than just follow environmental regulations and reduce waste and CO₂ emissions. We also need to have the creativity

and development capabilities to become a disrupter, and to remake the market. We will draw up an image of where society should be 20 to 30 years hence, and after reviewing the very presence of the Hitachi Construction Machinery Group, will give our all to making this a reality.

Board of Directors' Effectiveness

Governance at Hitachi Construction Machinery is based upon the Hitachi Group's basic corporate governance policy, and its institutional design is based on the global standard of a company using a nominating committee system, highly regarded by overseas investors. Of the 10 members of the Board of Directors, seven are either independent outside directors or directors who are not serving concurrently as executive officers, and active discussions are conducted mainly with the independent outside directors. In addition to audits by the Audit Office under the direct control of the Representative Executive Officer, the Audit Committee in the Board of Director, and the auditing firm, there are multiple other rigorous audits, including environmental audits conducted by Hitachi, Ltd. When formulating management strategies that include policies on investment and dividends, the emphasis is always upon increasing both corporate value and shareholder value. The revision to the Corporate Governance Code allows companies to choose parent-subsidiary listings as a group strategy providing certain measures are taken to protect minority shareholders, a good example of group governance that is of benefit to all shareholders.

The impact of the COVID-19 pandemic in fiscal 2020 required a review of management by the Board of Directors, however Hitachi Construction Machinery was able to in principle keep the Board of Directors and the Audit Committee online, providing effective and efficient management. Fiscal 2021 will not see us moving backwards, and we will further strive to improve the effectiveness of the Board of Directors.

Haruyuki Toyama: Outside Director

Strengths of the Hitachi Construction Machinery Group, and Challenges ahead for it

The business of the Hitachi Construction Machinery Group has a number of unique characteristics, and while these features could lead to business opportunities, they could also pose risks to its business. An example of this is having our major production bases concentrated in Ibaraki Prefecture. This gives rise to very efficient operation, but carries with it a significant risk in the event of natural disasters and the like. The company has also managed to offer high productivity and quality through various innovations within our plants, but there is still room for improvements in deploying these innovations across the overseas production sites.

One of Hitachi Construction Machinery's strengths is the fact that it has been expanding overseas operations since an early stage, thereby gaining firsthand experiences, but in developing our business with a focus on value chain operations, the issue of how to balance global governance and localization will be of major challenge moving forward.

Roles of Outside Directors in Committees

The main role of the Nominating Committee is to formulate and implement a succession plan, and it is important for outside directors to put forth their ideas with a view to long-term business strategies. The qualifications required for the management change over time along with the changing business conditions, so I would like to secure multiple candidates with diverse strengths, and when time comes, select the most appropriate candidate apt for the situation at that time.

Toshiko Oka: Outside Director (Newly Appointed)

It is a great honor for me to be appointed to the position of independent outside director of Hitachi Construction Machinery Co., Ltd.

I have been working in mergers and acquisitions consulting for some time, and have served on committees including at the Ministry of Economy, Trade and Industry and at the Cabinet Office. Since April this year, I have been teaching M&A and management at Meiji Business School (Global Business Research).

I first entered the workforce in 1986, the year after the Plaza Accord—35 years have since elapsed. At that time, the theory of a 30-year corporate lifespan was popular. This postulated that companies have a lifespan of 30 years. In 2020, Hitachi Construction Machinery celebrated not its 30th anniversary, but its 70th. This could be because the ideals of our predecessors at Hitachi Construction Machinery have been passed down over long years, while we continue with ongoing changes.

Looking forward, companies will operate in ever more

differing environments including the promotion of digitization, switching to carbon neutrality and other green technologies, and the trend of investors moving towards ESG investment. How we survive when confronted by such environmental changes will require constant innovations. I feel that key to this will be continuing to reinvent ourselves, and how we use M&A methods such as acquisitions and divestitures in order to effectively make use of help from outside. However, many mergers and acquisitions involving Japanese companies tend to fail. The probability of success with overseas M&A is even lower in spite of the large size of the transactions, and many companies end up being stuck with massive impairment losses after a few years.

In the future, Hitachi Construction Machinery may well find itself in the position of using M&A to redo its business portfolio, and to expand its scope of business. In such an instance, it is my hope that the Board of Directors will exhaustively discuss which issues are of importance, as well as how we can reduce risk and maximize corporate value.

I look forward to your continued support.