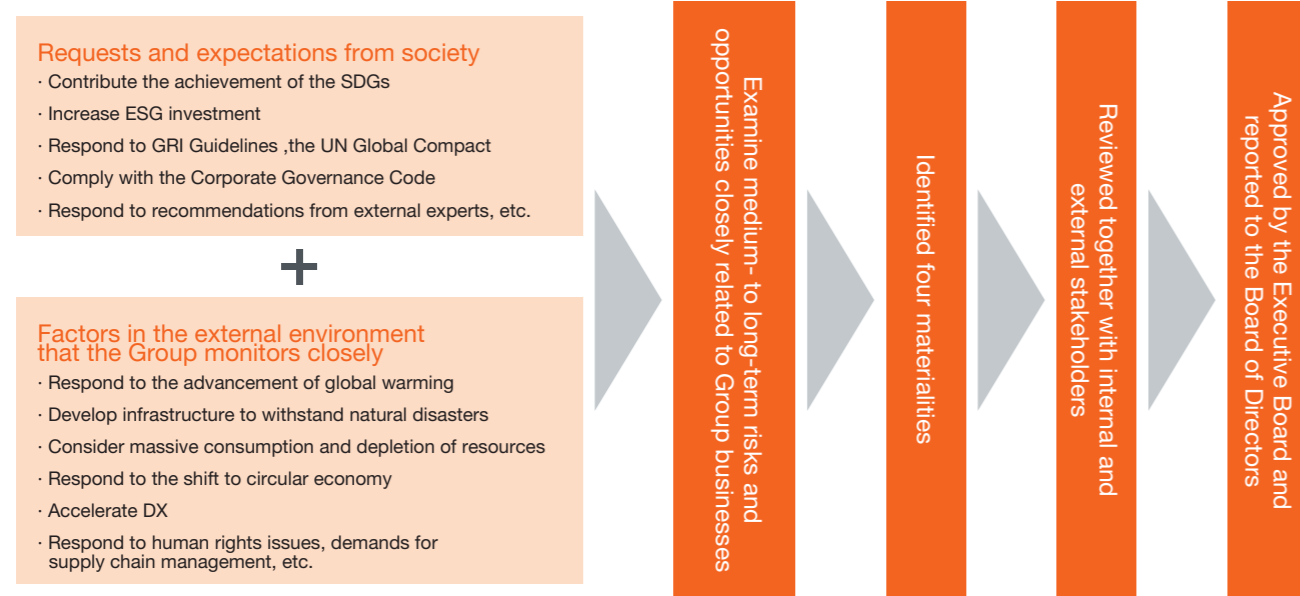


Hitachi Construction Machinery Group's Materiality

The Hitachi Construction Machinery Group reassessed materialities in fiscal 2021 in light of changes in social conditions, policies, and regulations in various countries. In the identification process, we examined medium- to long-term risks and opportunities from the perspectives of social issues, such as the SDGs and ESG, and the perspective of the external environment, which can enhance or damage corporate value. In this process, we identified four materialities. After repeated discussions, and tak-

ing into account the opinions of internal and external stakeholders, our Executive Board approved these four categories in July 2021, after which we reported the results in a Board of Directors meeting. We established key performance indicators (KPIs) for each materiality, managing progress a sustainability governance system. We will continue to reassess materialities as needed in light of changes in the external environment and other factors.

Materiality Identification Process



Major risks and opportunities associated with changes in the external environment

External Environment	Risks	Opportunities	Materialities
Respond to the advancement of global warming	<ul style="list-style-type: none"> Suspension of operations due to natural disasters Stricter environmental regulations in each country and region Changes in industrial structure due to the transition to low-carbon economies 	<ul style="list-style-type: none"> Increased demand for environmentally conscious products and services Attracting ESG investment 	Development of products and technology contributing to climate change mitigation and adaptation
Develop infrastructure to withstand natural disasters	<ul style="list-style-type: none"> Supply chain disruption due to lack of progress in infrastructure development Market contraction due to decline of local economies 	<ul style="list-style-type: none"> Increased demand for infrastructure maintenance and upgrades 	
Consider massive consumption and depletion of resources	<ul style="list-style-type: none"> Damage to corporate value due to delays in implementation of initiatives Increased costs for introducing resource-conserving machinery 	<ul style="list-style-type: none"> Expansion into new businesses Improvement of productivity via AI and IoT 	Conversion to recycling-oriented business model
Respond to the shift to circular economy	<ul style="list-style-type: none"> Increase in initial investment for conversion Increased product recovery and processing costs Increased procurement costs 	<ul style="list-style-type: none"> Increase in new business opportunities, markets, and demand Reduction of manufacturing costs 	
Accelerate DX	<ul style="list-style-type: none"> Expansion of competitors and new entrants 	<ul style="list-style-type: none"> Expansion of contacts with start-ups leading to deeper strategies 	Creating innovative solutions for challenges faced by customers supporting social infrastructure
Respond to human rights issues, demands for supply chain management, etc.	<ul style="list-style-type: none"> Loss of public trust due to human rights violations Loss of trust in business partners 	<ul style="list-style-type: none"> Gain social credibility through appropriate human rights initiatives 	Strengthening global governance

Materialities and KPIs

Materialities	Key Initiatives	KPIs	FY2021 Results	FY2022 Targets	FY2030 Goals			
Development of products and technology contributing to climate change mitigation and adaptation	<ul style="list-style-type: none"> Expand the development of decarbonization technologies such as electrification of machinery and hydrogen engines Develop highly efficient Fleet Management System Reduce CO₂ across the entire value chain Introduce renewable energy and systematically invest in high-efficiency facilities Provide optimal solutions for disaster prevention and mitigation, emergency response, and recovery and reconstruction 	Products (Scope 3)	CO ₂ Reduction (total): Compared to FY2010	-21.4%	-20.0%	-33.0%		
		Production (Scope 1 + 2)	CO ₂ Reduction (total): Compared to FY2010	-27.1%	-25.0%	-45.0%		
		Value Chain	Reduce CO ₂ via used equipment, parts remanufacturing	19,686t	23,800t	Minimize environmental load across the entire value chain		
Convert to a recycling-oriented business model	<ul style="list-style-type: none"> Expand parts remanufacturing business that performs on par with new products Develop branded used equipment that is well-maintained and include warranties Utilize data to differentiate in high-quality rental equipment 	Resource recycling	Waste reduction	7,868t	9,500t	Minimize environmental load across the entire value chain		
			Recycling rate (Japan)	83.9%	99.5%	Aiming for 99.5% or higher		
		Parts remanufacturing business, used equipment business	Water usage reduction (intensity): Compared to FY2010	-40.2%	-28.0%	Water reclamation advancements and minimization of impact on communities		
			Expand parts reclamation business sales revenue: Compared to FY2010	402%	420%	Spread the adoption of services that meet local needs		
Create innovative solutions for challenges faced by customers, supporting social infrastructure	<ul style="list-style-type: none"> Contribute to cooperative construction machinery, operation support systems, and site safety Expand machines, systems and solutions that improve construction efficiency Develop and provide labor-saving machines using unattended and robotized technology Reduce life cycle costs through stable machine operations 	Improve safety	Functions to reduce accidents caused by Hitachi Construction Machinery products	Develop operation support systems that contribute to reduced accidents	Create human-machine cooperative control technology	Contribute to zero overturns and fatal accidents		
			Increase productivity	Number of ICT machines adopted at target work sites	1,160 units (total; 3,704 work sites)	2,800 units (total; 5,000 work sites)	Standardize autonomous and labor-saving construction machinery	
		Reducing life cycle costs	Adoption rate of machinery status management systems (ConSite)	72%	90%	Aim for zero downtime		
			Research and development system	Research and development cost to sales ratio	2.5%	3.0%	3.0% or higher	
		Strengthen global governance	<ul style="list-style-type: none"> Respect human rights Global occupational safety and health management Develop diverse human resources locally and globally Establish fair sales partnerships Ensure management transparency Compliance 	Respect for Human Rights	Business and Human Rights e-learning course attendance	81.4%	100%	100%
				Occupational Accidents	0 incidents (vs. prior year)	157% (vs. FY2020; Japan)	-50% (vs. FY2021; Japan)	Aim for 0 accidents
Global Leadership	Leadership training attendance (global)			88% (cumulative)	100% (cumulative)	100% (cumulative)		
Diversity	Ratio of women in managerial positions (global)			10.4% (male 14.9%)	9.4% (male 13.3%)	Aim for gender parity		
Fair procurement	Conduct supplier sustainability survey			66%	72%	87%		
Corporate governance	Number of violations of corruption and bribery laws -	0	0	0				
	Outside directors, female directors, non-Japanese directors	Outside directors: 4 out of 10 Women, non-Japanese: 2	Outside directors: More than one-third of all directors Women, non-Japanese directors: 2 or more in total		Toward a structure suitable for strengthening business and improving governance			