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 taking into account the opinions of internal and external stakeholders, our Executive Board approved these four categories of materiality in July 2021, after which we reported the results in a Board of Directors meeting. We established key performance indicators (KPIs) for each materiality, and are managing progress under our 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

Requests and expectations from society

- Contribute the achievement of the SDGs
- Increase ESG investment
- Respond to GRI Guidelines, the UN Global Compact
- Comply with the Corporate Governance Code
- Respond to recommendations from external experts, etc.

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Factors in the external environment that the Group monitors closely

- Respond to the advancement of global warming
- Develop infrastructure to withstand natural disasters
- Consider over consumption and the depletion of resources
- Respond to the shift to circular economy
- Accelerate DX
- Respond to human rights issues, demands for supply chain management, etc.

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Examine medium- to long-term risks and opportunities closely related to Group businesses

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Identified four materialities

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Reviewed together with internal and external stakeholders

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Approved by the Executive Board and reported to the Board of Directors

Major Risks and Opportunities Associated with Changes in the External Environment

External Environment	Risks	Opportunities	Materialities
Respond to the advancement 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	•Increased demand for environmentally conscious products and services •Attracting ESG investment due to positive investor assessments of our initiatives to address environmental concerns	**Development of products and technology contributing to climate change mitigation and adaptation**
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	
Consider over consumption and the 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**
Respond to the shift to circular economy	•Increase in initial investment for conversion •Increased product recovery and processing costs •Increased procurement costs	•Increase in new business opportunities, markets, and demand •Reduction of manufacturing costs	
Accelerate DX	•Decline in competitiveness due to the expansion of competitors and new entrants	•Expansion of contacts with start-ups leading to deeper strategies as well as collaboration involving companies equipped with unique technologies	**Creating innovative solutions for challenges faced by customers supporting social infrastructure**
Respond to human rights issues, demands for supply chain management, etc.	•Loss of public trust due to human rights violations •Loss of trust in business partners	•Gaining social credibility through appropriate human rights initiatives	**Strengthen global governance**

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Materialities and KPIs

Materialities	Key Initiatives	KPIs			FY2021 Results	FY2022 Results	FY2030 Goals
Development of products and technology contributing to climate change mitigation and adaptation	•Expand the development of decarbonization technologies such as the electrification of machinery and hydrogen engines •Develop a highly efficient Fleet Management System •Reduce CO_2 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	CO_2 Reduction	Products (Scope 3)	CO_2 Reduction (total): Compared to FY2010	-21.4%	-21.9%	-33.0%
			Production (Scope 1+2)	CO_2 Reduction (total): Compared to FY2010	-27.1%	-33.0%	-45.0%
			Value Chain	Reduce CO_2 via used equipment, parts remanufacturing	19,686t	22,037t	Minimize environmental load across the entire value chain
		Disaster-response, recovery, reconstruction support		Convert to a recycling-oriented business model	114	138	Partnerships and support for major municipalities and industry groups
Convert to a recycling-oriented business model	•Expand parts remanufacturing business to bring performance on par with new products •Develop branded used equipment that is well-maintained and include warranties •Utilize data to differentiate our high-quality rental equipment	Resource recycling		Waste reduction	7,868t	8,787t	Minimize environmental load across the entire value chain
				Recycling rate (Japan)	83.9%	93.7%	Aiming for 99.5% or higher
				Water usage reduction(intensity): Compared to FY2010	-40.2%	-31.7%	Water reclamation advancements and minimization of impact on communities
		Parts remanufacturing business, used equipment business		Expand parts reclamation business sales revenue: Compared to FY2010	402%	488%	Spread the adoption of services that meet local needs
				Expand used equipment business sales revenue: Compared to FY2010	104%	138%	Spread the adoption of products that meet local needs
Creating innovative solutions for challenges faced by customers supporting social infrastructure	•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	Release assistance equipment designed to reduce collision damage (small-size road construction machines)	Contribute to zero overturns and fatal accidents
		Increase productivity		Number of ICT machines adopted at target worksites	1,160 units (total; 3,704 worksites)	1,656 units (total; 5,177 worksites)	Standardize autonomous and labor-saving construction machinery
		Reducing life cycle costs		Adoption rate of machinery status management systems (ConSite)	72%	73%	Aim for zero downtime
		Research and development system		Research and development cost to sales ratio	2.5%	1.9%	3.0% or higher
Strengthen global governance	•Respect human rights •Global occupational safety and health management •Develop diverse human resources locally and globally •Establish fair sales partnerships •Ensure management transparency •Ensure compliance	Respect for human rights		Business and Human Rights e-learning course attendance	81.4%	94.6%	100%
		Occupational accidents		0 incidents (vs. prior year)	157% (vs. FY2020; Japan)	145% (vs. FY2021; Japan)	Aim for 0 accidents
		Global leadership		Leadership training attendance (global)	88% (cumulative)	84% (cumulative)	100% (cumulative)
		Diversity		Ratio of women in managerial positions (global)	10.4% (male 14.9%)	11.2% (male 16.0%)	Aim for gender parity
				Ratio of local managers in general managerial positions at overseas group companies (global)	71%	72%	87%
		Fair procurement		Conduct supplier sustainability survey	66%	84%	Aim for 100% recovery through stable operations
		Eradicate corruption and bribery		Number of violations of corruption and bribery laws	0	0	0
		Corporate governance		Outside directors, female directors, non-Japanese directors	Outside directors: 4 out of 10 Women, non-Japanese: 2	Outside directors: 6 out of 10 Women, non-Japanese: 2	Toward a structure suitable for strengthening business and improving governance