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. Furthermore, we have set key performance indicators (KPIs) for each of the issues, and are managing progress under our sustainability governance system, aiming to steadily implement action plans to achieve these targets.

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

- Contribute to the achievement of the SDGs
- Increase ESG investment
- Respond to the GRI Guidelines and 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

- Progress of global warming
- Need to develop infrastructure to withstand natural disasters
- Mass consumption and depletion of resources
- Shift to a circular economy
- Acceleration of DX
- Human rights issues, expectation for supply chain management, etc.

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Examination of medium- to long-term risks and opportunities closely related to the Group's business

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Identification of four issues of materiality

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Examination of the issues with internal and external stakeholders

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Approval of the issues by the Executive Committee and reporting to the Board of Directors

Risks and Opportunities

External Environment	Risks	Opportunities	Materiality
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	• Increased demand for environmentally conscious products and services • Positive investor assessments of our environmental initiatives, which will lead to more ESG investment in our Group	**Product and technology development contributing to climate change mitigation and adaptation**
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	
Loss of biodiversity	• Impact of business activities on biodiversity	• Contribution to biodiversity through the development 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 product 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 as well as a failure to promote the effective use of AI • 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, including AI	**Creating innovative solutions for challenges faced by customers supporting social infrastructure**
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	
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	**Strengthening global governance**
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	
Need to ensure transparency in corporate governance	• Decrease in competitiveness caused by lack of transparency	• Higher corporate value and sustainable growth	

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Materiality and ESG-related KPIs

Materiality	Priority Measures	Key Performance Indicators (KPIs)			FY2023 Results	FY2024 Results	FY2025 Targets	FY2030 Targets
Product and technology development contributing to climate change mitigation and adaptation	Accelerate the development of decarbonization technologies	CO_2 emissions reduction	Product use (Scope 3, Category 11)	CO_2 emissions reduction (absolute emissions): Compared to FY2010	-20.1%	-24.0%	-22%	-33%
	Make proactive use of renewable energy and systematically invest in high efficiency facilities		Production (Scope 1 + 2)	CO_2 emissions reduction (absolute emissions): Compared to FY2010	-40.4%	-43.0%	-40%	-45%
Conversion to a recycling-oriented business model	Promote the parts reuse and recycling business in the trend toward a circular economy	Resource recycling	Value chain	Growth rate of reused parts (weight basis) via remanufacturing: Compared to FY2022	+7.4%	+1.0%	+40%	+150%
	Waste reduction		Waste	Waste recycling rate (in Japan)	92.9%	93.8%	94%	Aim for 99.5% or higher
	Effective use of water resources		Water	Reduction of use (intensity): Compared to FY2010	-39.9%	-37.6%	-34%	Advance water reuse and minimize the regional impacts of water use
	Sell branded, well-maintained used equipment with a warranty	Promotion of a circular economy for coexistence in each region		Expansion of sales revenue in the used equipment business: Compared to FY2022	-3.3%	-15.3%	+8%	Availability of products that meet regional needs
				Growth rate for the quantity of used equipment sold with a warranty[*1]: Compared to FY2022	+24.7%	+10.2%	+5%	+10%
	Increase the operation rate of rental equipment by the effective use of data			Expansion of sales revenue in the rental business: Compared to FY2022	+10.3%	+32.0%	+30%	Availability of products that meet regional needs
				Rental equipment operation rate in Japan (total for three products[*2]): Compared to FY2022	-0.2%	+0.3%	+4%	+9%
Creating innovative solutions for challenges faced by customers supporting social infrastructure	Contribute to cooperative construction machinery, operation support systems and site safety	Improve safety	Functions to reduce accidents caused by Hitachi Construction Machinery products		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	Developed a "real-time digital twin platform" that virtually reproduces what is going on at a construction site	Achieve "cooperative control" between humans and machinery	Contribute to zero overturns and fatal accidents
	Accelerate the development of automated and remotely operated construction machinery	Improve productivity	Development and expansion of products and systems that contribute to higher productivity		Developed the RBT Series hydraulic excavators for remote operation (released in May 2024) and developed a new remote operation solution	Added RBT Core Connect hydraulic excavators, which can be connected to customers' systems, to the lineup of RBT series	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
	Reduce life cycle costs of construction machinery by stabilizing their operation	Reduce life cycle costs	Monthly active users of ConSite Pocket[*3]		4,470 users	6,702 users	5,500 users	7,000 users
			Number of status changes[*4] made for used equipment		2,391	1,197	3,000	4,200
			Engine oil change implementation rate by "ConSite OIL[*5]" condition monitoring		72%	69%	80%	90%
	Accelerate the development of products and solutions	R&D system	Ratio of R&D costs to sales revenue		2.2%	2.7%	3% or higher	3% or higher

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Materiality and ESG-related KPIs

Materiality	Priority Measures	Key Performance Indicators (KPIs)		FY2023 Results	FY2024 Results	FY2025 Targets	FY2030 Targets
Strengthening global governance	Respect human rights in the value chain	Respect for human rights	Attendance rate for education on "Business and Human Rights"	95.0%	96.7%	100%	100%
	Promote global human resource management	Global leaders	Global leadership training attendance rate (global rate)	82% (cumulative total)	77% (cumulative total)	85% (cumulative total)	100% (cumulative total)
	Diversity, equity & inclusion (DE&I)	Diversity initiatives	Ratio of managers by gender (consolidated)	Female: 10.8% Male: 15.8%	Female: 10.8% Male: 16.5%	Female: 13% Male: 15%	Aim for gender parity
			Localization ratio of GM or higher in overseas group companies	71%	72%	75%	87%
	Global occupational safety and health management	Occupational hazards	Zero occupational hazards (compared to the previous FY)	135% (compared to FY2022, in Japan)	Down 38% (compared to FY2023, in Japan)	Down 50% (compared to FY2024)	Aim for zero
	Fair and responsible procurement	Fair and responsible procurement	Implementation of a supply chain sustainability survey	93%	76%	95%	Increase the response rate to 100% by making it a regular survey
	Increase the transparency of management decision-making and the process leading to the results	Corporate governance	Outside directors, female directors, non-Japanese directors	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	Achieved the targets for FY2025 by increasing the number of outside directors to 7 out of 10 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	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