

Global Review

Hitachi Construction Machinery Group gathered opinions and considered evaluations of the Hitachi Construction Machinery Group Integrated Report 2021 to respond to requests for sustainability from a wide range of perspectives.



Hidemi Tomita

Lloyd's Register Japan K.K.
Representative Director

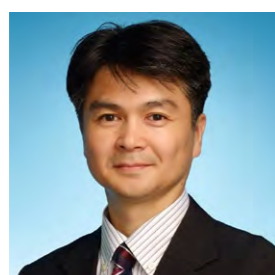
About the Materiality of the Group

We are experiencing a time of rapid change in external factors such as climate change, a shift to a circular economy, and a pandemic that have had a significant impact on business, and the clarification of materiality and business strategies has become increasingly important. It has become increasingly important to understand the short-, mid-, and long-term changes in society and recognize issues to bolster both the internal and external reliability of the Group.

I highly regard that the Group reviewed its materiality and clarified the definition. While a wide range of standards and guidelines regarding the disclosure of sustainability information abound, some companies have failed to engage in meaningful discussion and have limited their actions to organizing issues because materiality standards, guidelines, and definitions vary greatly from company to company. The Group clearly defines materiality as a priority issue for each group company with consideration for both the internal and external environment, and clarifies the relationship between the materiality identified by each group company and its business.

Materiality has become the starting point for the establishment of business strategies. In the midst of significant changes in priority issues for business operations along with the trend of ESG, a wide range of approaches employed by the Group to respond to immediate customer needs have been systematically organized through the reorganization of materiality.

In future, I expect that the Group will apply specific business strategies such as expanding its business while addressing identified issues regarding materiality through the strategic leveraging of its strengths and by proactively changing its business model to anticipate the needs of the times. Based on this review and reorganization of materiality, I expect the continued success of the Group business and a positive impact on social issues.



Takeshi Shimotaya

Sustainavision Ltd.
Managing Director

Response to ESG Issues

The importance of ESG information disclosure has been increasing. From the viewpoint of ESG, many investors have been focusing on ESG issues, climate change, circular economy, and human rights in supply chains. After approval of its CO₂ reduction targets based on science-based targets (SBT) in 2019, Hitachi Construction Machinery announced its agreement with the Task Force on Climate-related Financial Disclosures (TCFD), and has advanced scenario analysis and company-wide responses to climate change. In addition, the Company is establishing a business model for the industry through better approaches to the circular economy. I expect Hitachi Construction Machinery to continue contributing to the life-cycle of machinery focusing on the effective use of limited resources, a need accelerated by the global population growth. In accordance with the Guiding Principles on Business and Human Rights established by the United Nations, the Company has continued working to improve its unique due diligence structure since FY2020. As respect

for human rights is the foundation of SDGs, it is very important for the CEO to announce that they will take a leading role in eliminating forced labour and ensuring the fair treatment of immigrant worker throughout the supply chain through top-down approaches.

Hitachi Construction Machinery also plans to review and reorganize materiality in 2021 to ensure that its action plans are based on the current status. The identification of materiality requires the input of stakeholder opinion, the disclosure of information to stakeholders, and the promotion of engagement with stakeholders. I expect that Hitachi Construction Machinery will promote solutions to materiality issues through outside-in approaches and contribute to the achievement of SDG targets based on respect for human rights.



Peter D. Pedersen

Professor, Shizenkan University
Graduate School of Leadership & Innovation
Representative Director, NELIS (NPO)
External Director, Marui Group Co., Ltd.

Digital Transformation (DX) and Organizational Culture & Relationship with Sustainability Transformation (SX)

I feel the extraordinary ambition of the Company in its approaches to DX. Although many companies use "DX" as a buzzword in their business targets, there are only a few companies that continue to try different approaches until they achieve good results, in other words, until real transformation is made. I think continual efforts to achieve transformation (qualitative changes) are essential in ensuring that companies become resilient. (It's one of the keys to establishing a flexible and strong corporate structure.)

In order to pursue qualitative changes in business through DX, it is extremely important to create the corporate climate described in the Feature 2 (p.23). I believe that what Japanese companies really need is management innovation rather than innovation management. This means innovation in the operational methods of organizations. Deadlocked organizations with sections that are isolated from others cannot achieve good results even with DX as a goal. The Company has placed an emphasis on the evolution of the corporate climate and on cultivating the dynamic capabilities of employees, which I strongly support.

For successful DX, contributions to changes in sustainability in society, in other words, contributions to SX, will be extremely important in future. I believe the Company has already instituted approaches for SX, and I believe if all employees share the viewpoint of SX through DX, our goal will be clear and employee motivation to work on DX will increase.



B. Lorraine Smith

Advisor on regenerative business,
former Associate Director at
Volans, former Board Member of
CBSR

Feedback on Hitachi Construction Machinery TCFD Response

The application of the TCFD framework is an important signal to financial markets and other stakeholders that executives and boards are taking climate change seriously. It remains a challenge to ensure it is a useful tool for change versus simply more disclosures. This is the spirit in which my comments are intended, to encourage the shift towards a thriving society within a healthy biosphere i.e. a Regenerative Economy.

Strengths

Application of the four-part framework: Hitachi Construction Machinery has done a thorough job of providing high-level responses to all four aspects of the framework, including accessible supporting visuals.

Commitment to engaging more stakeholders: I was pleased to see this in the Roadmap for FY2022 as it is an essential element of change. In particular, customers in industries undergoing rapid transformation due to climate risk – e.g. coal and other mining and energy sector players

– will be important collaborators, as well as municipal leaders and influencers in regions where Hitachi Construction Machinery's customers operate.

Areas For Improvement

More details on scenarios: The diagram and table help illustrate impacts based on two warming scenarios. However, additional context and a more human-centric approach to the disclosures could offer readers a better sense of the disruptions ahead. For example, it would be helpful to include more commentary on how customer sectors and social systems will likely change.

There is sufficient evidence that the best case scenario (i.e. the 2-degree scenario) is highly unlikely and yet even it entails serious volatility in biological and social systems. Hitachi Construction Machinery's current disclosures downplay the likely level of disruption and severity of the impacts. Future disclosures will ideally offer a more candid and realistic view of the path ahead.

Thank you again for the opportunity to provide feedback. I look forward to seeing the evolution of your approach.