

# Materiality

In recent years, the external environment has been becoming increasingly volatile and uncertain. Trends seen in this changing environment include digital transformation, carbon neutrality and diversity and inclusion. We see these trends as business opportunities, and it is increasingly important that we enhance our foundation for sustainable growth as well as contribute to solving issues through our business activities.

To this end, we revised our materialities from November 2020 to February 2021, set prior to the development of the current mid-term management plan, to strengthen our responsibilities to address changes in external environment business risks.

We reflect initiatives for addressing these material issues in the growth strategies of the mid-term management plan to achieve our vision to generate a positive cycle for solving ESG issues and improving earnings to achieve sustainable growth.

Moreover, we examined the identified materialities from the perspective of compatibility with our sustainability policy and the sustainable development goals (SDGs). Through this process, we defined 10 of the 17 SDG goals that have a strong connection to the Komatsu Group's materialities.

Going forward, we will conduct regular materiality analyses and reflect identified sustainability-related business risks and opportunities in management initiatives to respond flexibly to changes in the management environment.

## Changes in the external environment and of ESG issues

### Politics and economy

- Growing competition between the U.S. and China and economic security risks
- Impacts of domestic, economic and diplomatic policies in China
- Growing geopolitical risks (the situation in Ukraine, etc.)
- Unstable supply chains
- Need to increase our ability to address contingencies (including infectious diseases and natural disasters)



### Environment and energy

- Growing momentum toward climate change and decarbonization (COP26: 1.5°Celsius target confirmed)
- Acceleration of carbon neutrality
- Shift to EVs (automobile industry)
- Water security and biodiversity conservation
- Growing green investments and rising demand for information disclosure



### Technologies

- Acceleration of digital transformation
- Advancements in leading technologies and open innovation (automation, electrification, and remote-controlling, AI, etc.)
- Expansion of SaaS (Software as a service)
- Evolution of data analytics
- Growing cybersecurity risks



### Society and values

- Prevalence of diversity and inclusion (gender equality, people with disabilities, LGBTQ, etc.)
- Progress with diverse workstyles
- Growing importance of employee engagement
- Rising societal demands for human rights and corporate ethics
- Strengthened governance and risk management



Figure: Komatsu materiality

	Relationship with the SDGs				Material issues (materiality)			
With people	 5 GENDER EQUALITY Gender equality	 8 DECENT WORK AND ECONOMIC GROWTH Decent work and economic growth	 10 REDUCED INEQUALITIES Reduced inequalities	 17 PARTNERSHIPS FOR THE GOALS Partnerships for the goals	Employees	<ul style="list-style-type: none"> <li>• Occupational safety and health and well-being</li> <li>• Employee engagement and job satisfaction</li> <li>• Diversity and inclusion</li> <li>• Skills development and workplace retention</li> </ul>		
					Human rights	<ul style="list-style-type: none"> <li>• Respect for human rights</li> </ul>		
With business	 9 INDUSTRY INNOVATION AND INFRASTRUCTURE Industry, innovation and infrastructure	 11 SUSTAINABLE CITIES AND COMMUNITIES Sustainable cities and communities	 12 RESPONSIBLE CONSUMPTION AND PRODUCTION Responsible consumption and production	 17 PARTNERSHIPS FOR THE GOALS Partnerships for the goals	Customers	<ul style="list-style-type: none"> <li>• Product safety and quality</li> <li>• Provision of solutions</li> </ul>		
					Ethics / Governance	<ul style="list-style-type: none"> <li>• Corporate governance</li> <li>• Compliance</li> </ul>		
					Communities	<ul style="list-style-type: none"> <li>• Contribution to local communities</li> </ul>		
With the planet	 7 AFFORDABLE AND CLEAN ENERGY Clean energy industry and innovation	 9 INDUSTRY INNOVATION AND INFRASTRUCTURE Industry, innovation, and infrastructure	 12 RESPONSIBLE CONSUMPTION AND PRODUCTION Responsible consumption and production	 13 CLIMATE ACTION Climate action	 15 LIFE ON LAND Life on land	 17 PARTNERSHIPS FOR THE GOALS Partnerships for the goals	Environment	<ul style="list-style-type: none"> <li>• Reduction of energy usage and GHG emissions</li> <li>• Development of low-carbon and low-emissions products, solutions and business models</li> <li>• Forest conservation through business activities</li> <li>• Resource recycling and remanufacturing</li> </ul>

## Materiality

### ■ Process of revising materialities

Komatsu followed the processes to revise and identify our materialities with support from the Business for Social Responsibility (BSR; a U.S.-based NPO), as a third-party aid.

#### 1. Identification of sustainability issues

From a medium- to long-term perspective, we identified sustainability issues that could have a material impact on corporate value-creation activities and business performance. Our identification process referenced past materiality analysis, international targets and standards, reporting frameworks, management philosophy and strategies and the importance and relevance to stakeholders. As a result, we identified 46 items as sustainability issues.

#### 2. Evaluation of identified sustainability issues

We held meetings with internal and external stakeholders\* concerning the identified sustainability issues. These discussions aimed to assess and map the issues from the perspectives of business importance and impacts on sustainability (importance to stakeholders + environmental, social and economic impact).

\*External individuals include institutional investors and representatives from the World Business Council for Sustainable Development, the World Wide Fund for Nature Inc., the Business & Human Rights Resource Centre, customers and suppliers.

\*Directors, Executive Officers and Global Officers

#### 3. Definition of material issues

Based on these analyses, Komatsu defined six material issues that we deem to have material importance in terms of their impact on sustainability and their importance to business. These material issues include employees, human rights, customers, ethics and governance, communities and the environment.

Furthermore, we identified the four areas of environment, customers, employees and ethics and governance to be of particularly high priority among these issues. We also incorporated initiatives to address these areas into the growth strategies of our mid-term management plan.

#### 4. Board of Director approval of the mid-term management plan (including materiality)

The Board of Directors approved the revised materialities as a part of the mid-term management plan. The plan regards material issues as items we must address to generate a positive cycle of solving ESG issues and improving earnings through sustainable growth, based on the examination of our sustainability policy from an SDGs perspective.

Furthermore, we set KPIs (key performance indicators) to solve ESG issues steadily through the implementation of growth strategies. The Komatsu Report discloses the degree to which we accomplish such targets.

Figure: Importance assessment mapping

