

CEO message



*Together, to "The Next"
for sustainable growth*

*To achieve a sustainable future,
Komatsu is now advancing to the next stage
together with all of its stakeholders*

Hiroyuki Ogawa

President and Representative Director
Chief Executive Officer (CEO)

"Creating value through manufacturing and technology innovation to empower a sustainable future where people, businesses, and our planet thrive together"

Since its founding in 1921, Komatsu has continued to embrace its Management Principle, "We will maximize the trust given to us by our stakeholders and society through a commitment to Quality and Reliability." This principle has guided our growth to date through a process of rising to challenges by transforming adversity into opportunities. In 2021, when we celebrated the 100th anniversary of Komatsu's founding, we articulated our mission and vision as our purpose together with our long-standing values. Our purpose is meant to share with all of our stakeholders our commitment to fulfilling our mission and vision of creating value through manufacturing and technology innovation to empower a sustainable future where people, businesses, and our planet thrive together. This mission and vision will be a constant in Komatsu's operations, no matter how the times may change.

In addition, we have established our Sustainability policy, which is meant to guide us in practicing sustainability management for contributing to the realization of a sustainable society while growing our business as we aspire toward our purpose. Komatsu's Management Principle has always inspired our basic stance toward contributing to society through business activities. Today, further, we must acknowledge the increasing expectations for companies to contribute to the realization of a sustainable society. The Sustainability policy illustrates our earnest stance toward living up to the expectations of society while also representing our pledge to lend our strengths to the quest for a sustainable society.

Let me reiterate, under the guidance of the Management Principle that serves as our basic stance toward fulfilling our purpose as well as our Sustainability policy, we are dedicated to living up to the expectations of society and all other stakeholders and helping realize a sustainable society.

The previous mid-term management plan, which was launched in 2019, defines Komatsu's long-term vision as to create the safe, highly productive, smart and clean workplaces of the future together with customers and to generate a positive cycle for improvement of earnings and ESG resolutions to achieve sustainable growth through the creation of customer value. Our path toward this vision, which we refer to as our Roadmap to workplace of the future, forms the basis for Komatsu's long-term business strategies.

DANTOTSU Value – *Together, to "The Next" for sustainable growth*, the current mid-term management plan, which was launched in April 2022, is centered on three pillars of growth strategies: 1) Accelerate growth by means of innovation, 2) Maximize earnings power, and 3) Enhance corporate

resilience. The pillars were defined based on backcasting from Komatsu's vision and Roadmap to workplace of the future, the achievements and ongoing challenges from the previous mid-term management plan, and management issues stemming from changes in the external environment. The three pillars of growth strategies also incorporate Komatsu's material issues, which need to be addressed if we are to contribute to the realization of a sustainable society while achieving business growth, and medium- to long-term challenges identified for each business segment through business portfolio reviews.

Turning to Komatsu's operating environment, the global economy showed signs of recovery following the dissipation of the impacts of the COVID-19 pandemic. However, the outlook remains uncertain and opaque due to factors including the situation in Ukraine and other geopolitical risks, foreign exchange rate fluctuations, rising material prices and distribution costs, and supply chain instability. Under these conditions, Komatsu will need to address climate change and other social issues while also building frameworks for flexibly responding to various operating environment changes so that it can continue to chase its ambitions in its pursuit of growth. Our forebearers continued to tackle new challenges and grow, even in times of great uncertainty and volatility. We too must view such operating environment changes as opportunities, as opposed to risks, and capitalize on these opportunities to grow.

In this integrated report, Komatsu Report 2023, we will look at Komatsu's vision and its current position, as illustrated through its business activities and growth strategies, with our Roadmap to workplace of the future as a central focus. We will also examine Komatsu's sustainability initiatives in relation to people, business, and the planet as well as its corporate governance measures, which support its vision and position. I hope you will stick with us until the end so that this report can function as a tool for facilitating a constructive dialogue.

Impending future and growth through innovation today

In FY2022, the first year of the mid-term management plan, the construction, mining and utility equipment business benefited from strong demand for mining equipment seen centered on North America and Asia, although this business did feel some impacts from rising material prices and distribution costs. At the same time, we moved forward with cross-sourcing initiatives that allow us to change the manufacturing plants or product destinations in response to demand fluctuations as well as with multi-sourcing initiatives that entail procuring the same parts from multiple suppliers. These efforts to build a supply chain that is resilient to operating environmental changes enabled us to cater to demand for new equipment. Meanwhile, higher equipment operating rates

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led to increased sales of parts and service. The business results also benefited from increases to product selling prices instituted around the world and from the effects of yen depreciation. As a result, Komatsu was able to post new record highs for both net sales and operating profit in FY2022.

At the same time, the construction equipment industry is only growing by about 1% each year on average, which could lead one to conclude that this is a mature industry. Given this reality as well as the growing presence of Chinese manufacturers on the global stage, it is clear that Komatsu's survival will be called into question if we cannot move beyond our current business model, which is limited to the production and sales of construction equipment. This is where our Roadmap to workplace of the future comes in. As indicated by this map, the path toward Komatsu's ongoing growth lies in evolving our business model to resolve issues seen across customer workplaces by combining solutions that connect and optimize all customer processes with products that are highly compatible with those solutions. Of the three pillars of growth strategies of the mid-term management plan, accelerate growth by means of innovation is the most directly related the Roadmap to workplace of the future. Priority measures implemented in line with this strategy produced a certain degree of results in FY2022.

1. Promote DX Smart Construction and its overseas expansion / Business promotion using mining open technology platforms

Looking at our solutions businesses, Smart Construction, which we launched in 2015, has achieved rapid growth over the past eight years. In fact, this solution is currently used by over 10,000 companies in the Japanese market and has been introduced at more than 20,000 workplaces. This rapid growth has also driven increases in related products and services.

In 2020, the new and evolved version of this solution, "DX Smart Construction," was launched featuring new functions for linking all of the operation processes via data. "DX Smart Construction" is a revolutionary solution that organically links all stages of every construction process at a given workplace, and this solution represents a major business opportunity for Komatsu.

Overseas deployment will be key to the growth of "DX Smart Construction." Construction projects overseas tend to be larger than those in Japan, meaning that the introduction of this solution has the potential to realize even greater improvements in productivity in such projects. Specifically, the high level of digital literacy among customers in Europe and the United States is anticipated to be a boon to the growth of "DX Smart Construction." The overseas deployment of this solution is also a pressing task when it comes to differentiating ourselves from Chinese manufacturers.

In our mining equipment operations, meanwhile, we have completed phase one of the development of an open technology platform for optimizing all processes at mines. This platform combines our Autonomous Haulage System (AHS) with fleet management systems for assigning tasks to dump trucks.

Trials of this platform are currently underway at customer workplaces and we are planning a phased expansion of the number of customers using this platform. At the same time, we will look to develop a business model that combines this platform with relevant products and solutions to increase earnings.

2. Advanced product development and market introduction with high compatibility with platforms

In 2008, Komatsu launched the AHS, and this system has been used on more than 650 pieces of mining equipment to date. The demand for this system is so robust that it prompted us to institute upward revisions to the targets for key performance indicators (KPIs) set for FY2024, and we anticipate that the market for unmanned dump trucks will continue to grow going forward.

At the same time, we are moving forward with the development of mining equipment other than non-dump trucks that can be operated remotely or autonomously with the goal of automating mine operation in its entirety. We have completed development of a 700-ton class large-scale hydraulic excavator that can be operated remotely, and we are in the process of negotiating with customers to commence trial introduction of this piece of equipment at actual workplaces. This excavator is anticipated to contribute to further improvements in safety and productivity at customer workplaces when combined with our already available AHS.

3. Development and market introduction of electrified machinery

Komatsu is moving ahead with the development and market introduction of electrified equipment with the aim of accomplishing its management target of reducing CO₂ emissions from product use by 50% in FY2030 from FY2010 and the challenging goal of achieving carbon neutrality by 2050. In FY2022, we exhibited a 20-ton class electric hydraulic excavator at construction equipment trade show held in Germany and the United States. We also advanced development and early-stage research on new types of electrified equipment. FY2023 has been positioned as the first year for the market introduction of electric construction equipment, and we are accelerating market introductions and other electric equipment initiatives accordingly.

There is an incredibly broad scope of models when it comes to construction and mining equipment, ranging from the micro excavators used for urban civil engineering projects to the ultra-class dump trucks found at mines. The output levels, usage conditions, and daily operating hours of such equipment can vary radically by type. Accordingly, we will need to look at battery-powered equipment as well as equipment that uses fuel cells and hydrogen engines if we are going to achieve carbon neutrality while maintaining the levels of quality that customers demand of our products. The market for electrified equipment is still in its infancy, due in no small part to the massive technological hurdles presented by factors such as costs and the need to install

charging infrastructure. Nevertheless, Komatsu believes that it has a responsibility as a manufacturer to provide its customers with the widest possible range of options for the impending era of electrified equipment, and we are advancing research and development toward this end together with our partners.

We anticipate that markets for electrified equipment will first begin to take shape in the utility equipment sector, where the technological hurdles to be overcome are relatively low, and particularly in Europe, where environmental awareness is high. Accordingly, our first priority will be the development of utility equipment for the European market, where we will seek to secure a competitive advantage by being an early entrant into the emerging market. Our next priority will be the market introduction of middle-sized electric hydraulic excavators represented by our mainstay 20-ton class models. The development of models equipped with fuel cells, hydrogen engines, and other next-generation power sources will be advanced alongside these launches.

The development of next-generation models takes time. As we develop these new models, we will encourage customers to use our currently available hybrid, diesel-electric, tethered-electric, trolley, and other equipment that uses so-called bridge technologies meant to fill the gap between existing models and next-generation models. We will also utilize carbon-neutral fuels like hydrotreated vegetable oil and biodiesel to reduce CO₂ emissions from product use.

Changing component strategies and evolving value chain strategies

Up until now, we have been talking about Komatsu's position on our Roadmap to workplace of the future. Now, I would like to move on to talk about the future, specifically about the component and value chain strategies that relate to the roadmap.

1. Component strategies

A major strength of Komatsu is how it develops and produces the Key Components that determine the performance of equipment in-house. This allows us to incorporate technological progress to differentiate the performance of our products and also to manage quality, delivery timing, and costs on a global scale through means such as cross-sourcing. In addition, Komatsu remotely tracks the operating status of components to predict their lifespans. This information is used to generate stable earnings from post-sale equipment through aftermarket businesses, such as the remanufacturing components and the sale of genuine parts through extended warranty with maintenance contracts. I am confident that the strength granted by the in-house development and production of Key Components will translate to competitiveness and differentiation for Komatsu. Accordingly, this component strategy is something that Komatsu should continue going forward. However, I also cannot deny the possibility that progress in the automation and electrification of equipment could give rise to components for which Komatsu lacks technological insight. Such a situation would make it difficult to continue to develop and produce all components in-house. This recognition casts light on a need to make slight changes to our current component strategies.

For example, Komatsu does not have the insight necessary to produce batteries in-house. For this reason, we are currently conducting development and production of battery systems together with partners. As we take part in such partnerships, it will be important to think about the degree to which Komatsu can accumulate insight to be used for in-house production through these undertakings. I suspect that we will have no choice but to purchase automotive battery cells from somewhere. When it comes to modules and packs, however, I believe that we might be able to generate synergies between the construction equipment business and the industrial machinery business by capitalizing on the expertise of group company Komatsu NTC Ltd., which entered the automotive battery manufacturing equipment business in 2022.

Collaboration with partners and M&A activities will be more important than ever if we are going to work toward the in-house

Komatsu's component strategies are advancing to the next stage in conjunction with technological progress.



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production of batteries. It is anticipated that there will be competition from across the industrial sector to acquire battery cells in the future. There is usually demand for about 300,000 construction and mining equipment units each year. The figure for demand for automobiles is two digits more. For this reason, if we want to be able to source battery cells reliably, we are going to need to form relationships with dedicated manufacturers possessing such advanced technologies.

I used batteries as an example, but the truth is that we plan to use a combination of in-house production and partnerships with regard to other components as well. It will not be feasible to develop and produce all components entirely in-house. We may, therefore, adopt an approach of producing components for mainstay models with high sales volumes in-house to ensure that we can accommodate demand for after-sales services in aftermarket businesses, while also procuring from other companies. Such model-specific component strategies might be one way we can change. Flexible component strategies will, of course, create new business opportunities for our partners. In cases when we are unable to use the insight gained through partnerships to conduct in-house production, it may be an option of transitioning to external procurement for components previously developed and produced in-house. Going forward, we should continue partnering with other companies while maintaining a healthy sense of tension, in order to drive growth for both partners and Komatsu.

2. Value chain strategies

Komatsu is transitioning to a business model focused on combining solutions and products, but this change in approach will not change the fact that Komatsu's core offering—its source of earnings—is its products. We are working to improve the value of our products through means such as automation and electrification. However, if we are to ensure that customers can continue to use Komatsu products with peace of mind from the moment they purchase to the day they give away, we will need to develop value chain businesses in areas such as sales of parts for post-sale equipment and maintenance and repair services.

The next-generation Komtrax system, the latest iteration of the Komtrax system that has been standard on Komatsu products since 2001, allows for operating data on equipment and components to be acquired in essentially real time. This allows us to propose optimal preventive maintenance services based on the condition of each individual piece of equipment.

This data-based business is only possible because Komatsu develops and produces Key Components in-house, which allows us to design these components with monitoring technologies in mind. Thinking about future value chain strategies thus also points to the importance of continuing our current component strategies. However, the technological strength of Komtrax is not the only asset Komatsu has for evolving its value chain businesses; we can also capitalize on the last-mile contact points with customers provided by our distributor network. To ensure that Komatsu can always be an indispensable partner to customers, capable of resolving their issues through open communication, it will be crucial for us to ramp up our efforts across the value chain.

Role of the President in navigating uncertain waters to reach envisioned future

Since I assumed the role of the President in 2019, we have continued to face unexpected contingency, such as the COVID-19 pandemic and the materialization of geopolitical risks. In these uncertain situations, I have endeavored to quickly and flexibly judge the circumstances, make decisions, and then effectively explain these before enacting them and taking responsibility for creating results. This is the process I have emphasized in fulfilling my role as the President.

The Komatsu Way, which describes the guiding principles for our actions at Komatsu, stresses the importance of an emphasis on workplaces to exercise good judgment based on the reality thereof. Komatsu has continued to grow by

capitalizing on the strength of its frontline capabilities, which enable us to identify issues, exercise good judgment based on reality, make decisions, and execute reforms based on these decisions. If I look back at my career thus far, I cannot help but see that my capacity for judgment, decision-making, and action needed in corporate management was honed through the wisdom I gained from experience and from action, by immersing myself in a given situation and truly engaging with the reality of its conditions.

At the same time, the role of the President is not something I can carry out entirely on my own. Acting based on judgments and decisions requires that I comprehensively explain my reasons to the relevant parties. After the collapse of Japan's bubble economy, the decision was made to close a plant in response to the decline in demand in Japan and to transfer the production operations of this plant to another. I was the leader of this project. This gave me the opportunity to experience the perspectives of both those to be transferred and those at the plant set to receive this transfer. This experience taught me the true importance of thinking from the other party's perspective. I was later assigned to a position as the U.S. plant manager. In this position, I had to oversee all areas of management, not just the production technologies in which I specialized, but also tasks outside of my area of expertise like production, quality, and cost management. As I spoke with employees with various areas of expertise, I was always careful to turn an attentive ear toward their input, sometimes prioritize the proposals of others above my own. Through this process, I sought to ensure that we could function as a healthy team and organization.

As the President, I will seek to exercise flexible judgment and make quick decisions and to offer earnest explanations before moving to cooperative action, all while being mindful of the actual circumstances and taking responsibility for the results. This is how I will work to fulfill my role and ensure we can reach our envisioned future, even in the changing operating environment.

People as the drivers of sustainable growth

As Komatsu seeks to continue to create value and grow in the current era of volatility and uncertainty, there can be no doubt that its greatest asset will be its people. The ongoing growth of Komatsu will require that we can develop human resources with frontline capabilities built on the four Values (Ambition, Perseverance, Collaboration, and Authenticity) that support us in acting in accordance with the Komatsu Way and fulfilling our purpose. Just like the good judgment exercised in corporate management, frontline capabilities need to be honed through the act of accumulating wisdom based on experience and action taken by tackling new challenges in one's everyday work. I have had the opportunity to experience many such challenges. For my ability to grow through such varied experiences, I have my talented supervisors from the past to thank. All of my

supervisors were people who would give me challenging and ambitious goals while granting me a fair degree of responsibility and authority. This challenging and motivating environment helped me gain a great deal of insight while also feeling a strong sense of accomplishment. The growth of one's subordinates hinges on the degree to which a supervisor can prepare opportunities to tackle new challenges and entrust these to their subordinates. I believe that stimulating such growth is one of the most important tasks of management.

For creating new value it will be more essential to build a team assembled based on the principles of diversity and inclusion. Each member of this team should embrace the values handed down from our forebearers while also respecting the individuality and skills of their diverse team members. It is my hope that our employees will be able to work with satisfaction and pride and to grow together with Komatsu by creating new value through teamwork. For this reason, I am committed to advancing initiatives based on the priority measure of "enrich human resources base with diversity" defined in the mid-term management plan. We will thus be conducting ongoing investments in human capital, the human resources that are our most important management resource for creating new value.

Advancement to the next stage together with all stakeholders

It is my goal to cultivate within Komatsu a corporate culture in which diverse people—, each one capable of exercising autonomy in identifying issues and implementing the necessary reforms and improvements—, exercise teamwork to innovate our technologies and business model and thereby create new value and resolve social issues. To foster such a corporate culture, I will share information on a global basis and expedite the process of making and executing management decisions. This is how I aim to make Komatsu a company that maintains the trust of society and all of its other stakeholders as a leading global company.

Building on the foundations our forebearers fostered over the past century, Komatsu will continue to create new value through manufacturing and technology innovation as it pursues Quality and Reliability over the next century. On this quest, we will need to pursue "Creating value together" through working with all of our stakeholders. I hope you will join us in our ongoing efforts to advance to our next stage to empower a sustainable future for the next generation where people, businesses, and our planet thrive together.



Hiroyuki Ogawa
President and Representative Director
Chief Executive Officer (CEO)



History of value creation through ambition and collaboration

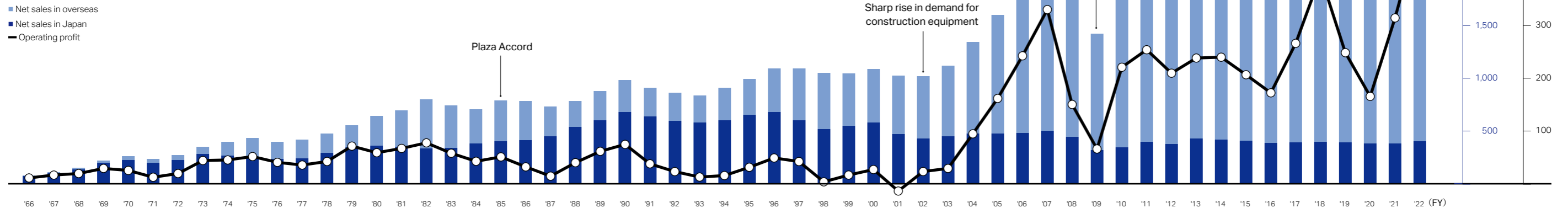
Since its founding in 1921, Komatsu has continued to adhere to its Management Principle, which states: "We will pursue "Quality and Reliability" and maximize the total trust of the society and all stakeholders."

By taking an earnest approach toward addressing the social issues that change with the times, we have kept growing until today through the creation of new value to resolve these issues.

Committed to improving lives and enriching societies around the world while preserving a sustainable environment for future generations, Komatsu will continue creating value through manufacturing and technology innovation to empower a sustainable future where people, businesses, and our planet thrive together.

History of global consolidated management

Net sales and operating profit in Japan and overseas



<p>1921 Founding</p> <p>Komatsu Ltd. was established to carry on the operations of Komatsu Iron Works Ltd. (established in 1917), which manufactured mining machines for use in the Yusenji copper mine located in Komatsu City, Ishikawa Prefecture developed by Meitaro Takeuchi, founder of Komatsu Ltd. Based on a firm belief that developing the machinery industry in rural areas and promoting its growth, as well as looking to transcend national boundaries with high-quality products, Meitaro Takeuchi emphasized the importance of developing technology and manufacturing products with an eye to international markets, even when he founded Komatsu. The four "Founding Principles" put forth by Takeuchi continue to live on in the DNA of Komatsu today.</p> <p>Founding Principles</p> <ul style="list-style-type: none"> • Global Expansion • Quality First • Technological Innovation • Employee Development 	<p>1931 Produced Japan's first crawler-type farm tractor</p> <p>In response to a request from the Ministry of Agriculture and Forestry, Komatsu succeeded in developing the Japan's first crawler-type farm tractor. While competitors gave up this challenge at the prototype stage, Komatsu continued its efforts with a strong commitment to developing a unique product that others could not imitate. Subsequently in 1932, Komatsu released the "G25 farming tractor" equipped with in-house developed engine, thereby creating the foundations for the construction equipment operations that are now Komatsu's core business.</p> <p>Challenge Development of Japan's first farm tractor</p> <p>Value Contribution to Japanese economy with the first made-in-Japan farm tractor</p>	<p>1961 Challenge to global level quality—Entry of U.S. construction equipment manufacturer into Japan</p> <p>As the Japanese economy became more global, market deregulation prompted the world's largest construction equipment manufacturer to enter the Japanese market. In order to compete against this major rival, Komatsu undertook the Project "A" quality improvement project with a Companywide commitment to improving everything, from the level of a single screw. This project culminated in the development of a bulldozer that could compete with the U.S.-made bulldozers in only two years. This commitment to overcoming adversity through Quality and Reliability has been passed down the generations in the form of our Management Principle.</p> <p>Challenge Realization of quality on par with global level for competing with overseas companies</p> <p>Value Improvement of global competitiveness of Japanese products</p>	<p>1972 Realignment of awareness toward customer perspective—Transition from Reliability of Machine to Reliability on Machine Availability</p> <p>As Komatsu began to expand its overseas operations in a full-fledged manner, it came to face a rising need from harsh overseas workplaces, of improving "Reliability on Machine Availability" that is a comprehensive reliability including after-sales service in addition to the reliability of machine such as durability. In the Project "B" activities that kicked off in 1972, Komatsu disassembled and analyzed equipment that had been operated for extended periods and otherwise collected actual operating data from the market for use in product development. These activities form the basis for the business model emphasizing relationships with customers that Komatsu uses today.</p> <p>Challenge Improvement of Reliability on Machine Availability (customer satisfaction)</p> <p>Value Expansion of presence in international market as Japan-based global company</p>	<p>2008 Succeeded in the world's first commercial deployment of the Autonomous Haulage System (AHS)</p> <p>Komatsu's Autonomous Haulage System (AHS) is the world's first unmanned trucks with high-precision GPS and obstacle detection sensors and controlled remotely from the central control room. Previously, the mining operation required multiple operator changes to operate dump trucks on a 24-hour basis, but the introduction of AHS has both ensured safety and improved productivity under harsh operating conditions by eliminating operators. Today, more than 650 AHS-equipped units are in operation at large-scale mines in Chile, Australia, and other locations, where they are contributing to massive improvements in the safety, productivity, and eco-friendliness of customer workplaces.</p> <p>Challenge Improvement of safety and productivity at mine sites</p> <p>Value</p> <ul style="list-style-type: none"> • Mitigation of accident risks through unmanned equipment • Contribution to reliable resource supplies by addressing labor shortages at mines • Reduction of CO₂ emissions from mine site operation 	<p>2015 Starting Smart Construction digital solutions for a workplace of the future</p> <p>Smart Construction is solutions that organically connects construction workplaces data such as land features, people, equipment, and materials through ICT and visualize the customers' entire operation processes from survey to inspection. This solution thereby contributes to the creation of the safe, highly productive, smart and clean workplaces of the future. Through the combination of 3D data surveyed and generated by drones and other IoT devices with high-quality operations performed by ICT-intensive equipment, Smart Construction helps address various issues surrounding customers' workplaces such as labor shortages.</p> <p>Challenge Response to labor shortages and improvement of safety and productivity at construction job sites</p> <p>Value</p> <ul style="list-style-type: none"> • Enhancement of process efficiency to reduce accident risks • Improvement of supply-demand balance of construction industry by addressing labor shortages • Reduction of CO₂ emissions from construction job site operation 	<p>2023 Challenges to carbon neutrality The first year for the market introduction of electric construction equipment</p> <p>To guide its efforts to contribute to the realization of a decarbonized society, Komatsu declared its challenging goal of achieving carbon neutrality, virtually zero carbon emissions, by 2050. To accomplish this goal, we are advancing various initiatives, especially in electrification of construction equipment. Through the introduction of electric construction equipment that uses new batteries and high voltage conversion units developed based on the insights and technologies accumulated through the development of hybrid equipment and electric forklifts, we are contributing to reductions in society's CO₂ emissions.</p> <p>Challenge Contribution to the realization of a decarbonized society</p> <p>Value Reduction of CO₂ emissions through development and market introduction of low-carbon products</p>
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Corporate identity

As our business and strategies diversify further, we will strive to deliver our corporate identity through our global operation.



Our purpose Our mission and vision

Creating value through manufacturing and technology innovation to empower a sustainable future where people, businesses and our planet thrive together.

Our values The values we cherish

Ambition Perseverance Collaboration Authenticity

Strategy and Action Guidelines shaping shared understanding behind business activities

Strategy	Action
<p>Management Principle We will maximize the trust given to us by our stakeholders and society through a commitment to quality and reliability. Management Principle shows our basic stance regarding business administration.</p>	<p>Founding Principles "Global Expansion," "Quality First," "Technological Innovation," and "Employee Development." These are the founding principles laid out by our founder, Meitaro Takeuchi (1860–1928), and they continue to be upheld by our organization to this day.</p>
<p>Management Strategy Our current mid-term management plan, DANTOTSU Value— <i>Together, to "The Next" for sustainable growth</i> (FY2022–FY2024), aims to generate a positive cycle for resolving ESG issues and improving earnings to achieve sustainable growth.</p>	<p>The Komatsu Way The Komatsu Way was developed to convey our shared values and practices across different cultures, customs, and generations.</p>
<p>Corporate Social Responsibility We believe that our very business is a Corporate Social Responsibility. The work that we do directly supports the growth and improvement of our communities and society in general.</p>	<p>Komatsu's Worldwide Code of Business Conduct Compliance with the rules of business community is considered a top priority at Komatsu. The rules are not limited to laws and regulations but also include rules that are generally recognized and respected in society.</p>

Sustainability policy Business continuity guidelines for business activities

Since Komatsu's founding, we have always pursued "Quality and Reliability", and have made efforts to build strong relationships of trust with our stakeholders based on our "Management Principle" of maximizing the total sum of trust from all stakeholders, including society. Our pursuit of coexistence has been handed down through generations, and our basic stance is to contribute to society through business activities.

Our purpose is "Creating value through manufacturing and technology innovation to empower a sustainable future where people, businesses, and our planet thrive together".

We will continue to address issues that are important to both a sustainable society and our business, grow as a corporate group that can flexibly respond to changes in society and the external environment, further enhance our corporate governance, and contribute to society with our stakeholders.

What we do to empower a sustainable future where people, businesses, and our planet thrive together

With people	With business	With the planet
<ul style="list-style-type: none"> We provide an environment where diverse and global employees can work safely and healthily as one team, with respect for each individual, and with satisfaction and pride. We nurture employees who can take on challenges in various jobsites and regions, create new value together with customers, and contribute to the realization of a sustainable society. As Komatsu Group, we shall respect human rights related to all of our business activities. 	<ul style="list-style-type: none"> We contribute to society through our business activities by providing our customers with safe and highly productive products, services, and solutions that realize sustainable infrastructure development, resource development, and a recycling-oriented society. We build relationships with our business partners and local communities that enable mutual trust, fairness, co-existence, and co-prosperity. We comply with the rules of society, including laws and regulations, and strive to respond sincerely to the requests and expectations of all stakeholders, including society. 	<ul style="list-style-type: none"> Through all of our business activities, we strive to reduce our environmental impact and preserve the global environment through the use of advanced technologies. We strive to increase both global environmental conservation and business growth through manufacturing and technological innovation. We pursue collaboration and value creation with our stakeholders toward a sustainable planet and future.

Komatsu Ltd.
President and Chief Executive Officer

Material issues for sustainability (Materiality)

In recent years, Komatsu's operating environment has been becoming increasingly volatile and opaque. Trends seen in this changing environment include the moves to promote digital transformation, carbon neutrality, and diversity and inclusion. Komatsu views these trends as representing business opportunities, and we are developing foundations for sustainable growth based on this understanding. At the same time, we recognize the growing importance for us to contribute to the resolution of social issues through our business activities.





Based on this outlook, we revised our material issues over the three-month period from November 2020 to February 2021, prior to the launch of the current mid-term management plan. Through this revision, Komatsu sought to increase its resilience to changes in the operating environment and to business risks.

Initiatives for addressing these material issues have been reflected in the growth strategies of the mid-term management plan in order to speed us toward our business goal of generating a positive cycle for resolving ESG issues and improving earnings to achieve sustainable growth.





















Moreover, we examined the identified material issues from the perspective of compatibility between our Sustainability Policy and the United Nations Sustainable Development Goals (SDGs). Through this process, we indicated relationships between 10 goals from among the 17 goals of the SDGs that have a strong connection to the Komatsu Group's material issues.

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

Changes in external environment and of ESG issues

Politics & economy	Environment & energy
<ul style="list-style-type: none"> • Growing competition between US and China and economic security risks • China: impacts of domestic policies and economic/diplomatic policies • Growing geopolitical risks (Ukraine situation etc.) • Unstable supply chains • Need to increase ability to address contingencies (including infectious diseases and natural disasters) 	<ul style="list-style-type: none"> • 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	Society & values
<ul style="list-style-type: none"> • 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 	<ul style="list-style-type: none"> • Prevalence of diversity and inclusion (gender, 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 

Komatsu's material issues (materiality)

	Relationship with SDGs	Material issues (materiality)
With people	   	<div style="border: 1px solid #003366; padding: 5px; margin-bottom: 5px;">  Employees <ul style="list-style-type: none"> • Occupational safety and health and well-being • Employee engagement and job satisfaction • Diversity and Inclusion • Skills development and workplace retention </div> <div style="border: 1px solid #003366; padding: 5px;">  Human Rights <ul style="list-style-type: none"> • Respect for human rights </div>
With business	   	<div style="border: 1px solid #003366; padding: 5px; margin-bottom: 5px;">  Customers <ul style="list-style-type: none"> • Product safety and quality • Provision of solutions </div> <div style="border: 1px solid #003366; padding: 5px; margin-bottom: 5px;">  Ethics / Governance <ul style="list-style-type: none"> • Corporate governance • Compliance </div> <div style="border: 1px solid #003366; padding: 5px;">  Communities <ul style="list-style-type: none"> • Contributions to local communities </div>
With the planet	     	<div style="border: 1px solid #003366; padding: 5px;">  Environment <ul style="list-style-type: none"> • Reduction of energy usage and GHG emissions • Development of low-carbon/low-emissions products, solutions, and business models • Forest conservation through business activities • Resource recycling and remanufacturing </div>

Process of revising material issues

Komatsu utilized the following process in establishing its material issues while receiving third-party aid from Business for Social Responsibility, a U.S.-based NPO.

1. Identification of sustainability issues

From a medium- to long-term perspective, sustainability issues that could have a material impact on corporate value creation activities and business performance were identified based on past materiality analyses, international targets and standards, reporting frameworks, management philosophy and strategies, and the importance and relevance to stakeholders, resulting in the compilation of a list of 46 items.

2. Evaluation of identified sustainability issues

Meetings were held with the internal and external individuals* with regard to the identified sustainability issues in order to assess and map the issues from the perspectives of business importance and impacts on sustainability (importance to stakeholders + environmental, social, and economic impact).

* The internal individuals included domestic and overseas officers (Directors, Global Officers, and other executive officers). The external individuals included institutional investors and representatives from World Business Council for Sustainable Development, World Wide Fund for Nature Inc., Business & Human Rights Resource Centre, customers, and partners.

3. Definition of material issues

Based on these analyses, the Company defined six material issues—environment, customers, employees, ethics and governance, human rights, and communities—that were deemed to have material importance in terms of their impact on sustainability and their business importance.

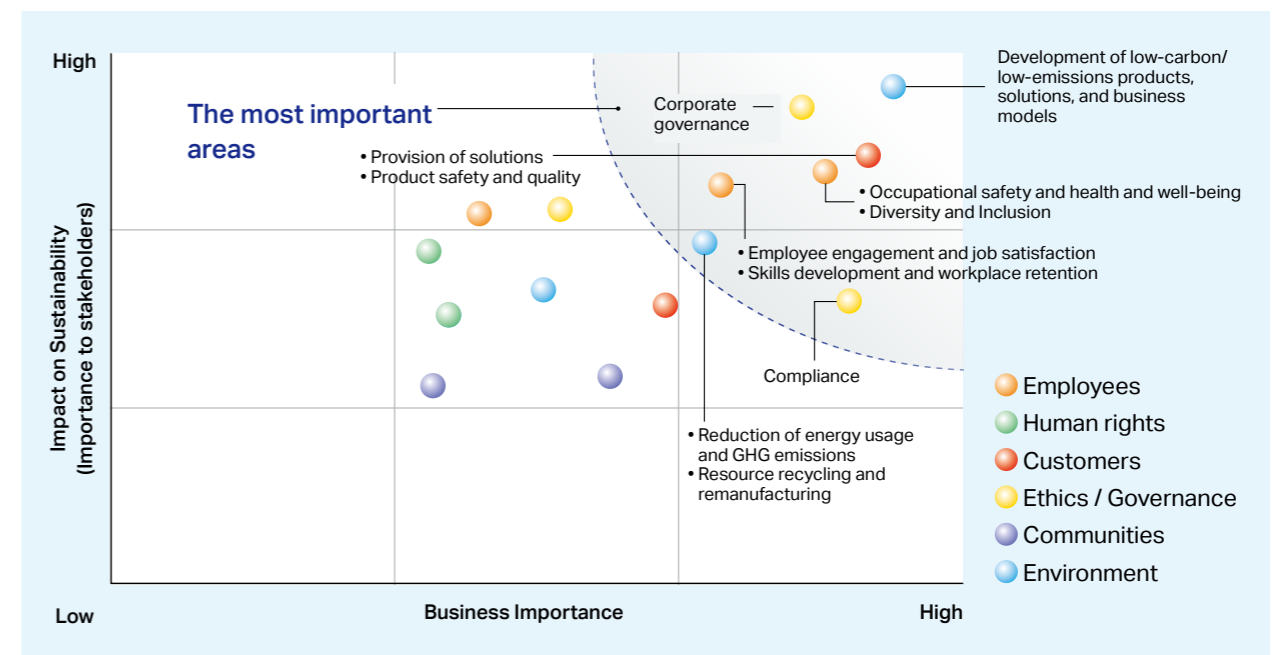
Furthermore, the four areas of environment, customers, employees, and ethics and governance were identified as being of particularly high priority among these issues, and initiatives for addressing these areas have been incorporated into the growth strategies of the mid-term management plan.

4. Approval of mid-term management plan by Board of Directors

The identified material issues were examined from the perspective of compatibility between our Sustainability Policy and the SDGs. The issues were then approved by the Board of Directors based on the judgment that they were issues needing to be addressed in order for Komatsu to achieve its business goal of generating a positive cycle for resolving ESG issues and improving earnings to achieve sustainable growth.

Furthermore, key performance indicators (KPIs) were identified to guide progress toward the resolution of ESG issues through the advancement of growth strategies. The degree of accomplishment of targets for these KPIs is disclosed via the Company's integrated reports.

[The KPIs of the mid-term management plan page 44](#)



Business portfolio

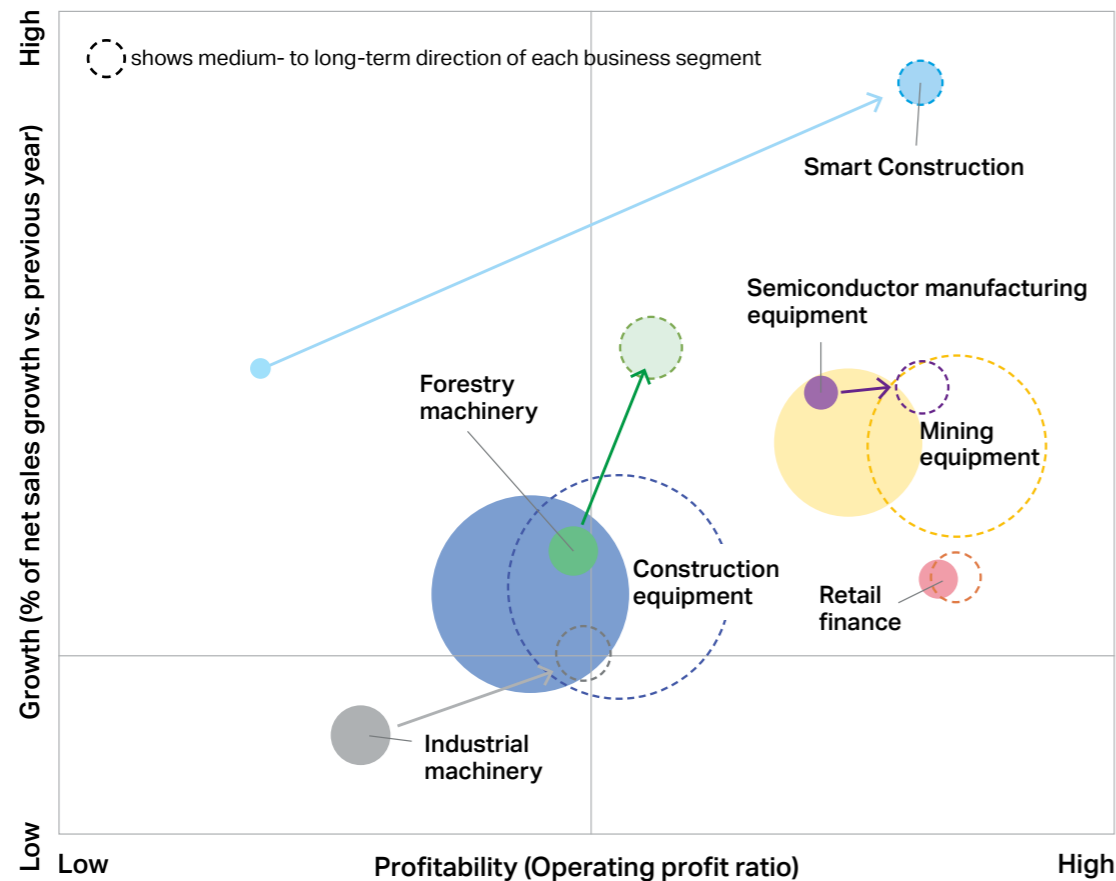
We have continued to promote the selection and concentration of businesses since early 2000s. Today, we are working to improve growth and profitability by concentrating our management resources on Construction, Mining and Utility Equipment; Retail Finance; and Industrial Machinery and Others. Especially, for evaluating profitability, we emphasize the operating profit ratio as an indicator of the earnings power of our business.

In our mainstay construction, mining and utility equipment business, we are continuing both investments in growth areas and fixed cost management. At the same time, we are advancing toward sustainable growth by improving growth and profitability through the expansion of solutions business and value chain business. We are also considering M&A as one of the options to achieve this goal. In particular, we will cultivate the forestry machinery business into a third pillar of our businesses, following the construction equipment business and mining equipment business.

In the semiconductor manufacturing equipment business, we are working to maintain and improve our high-profitability foundations by promoting investment to capitalize on sharp rise in demand for the semiconductor manufacturing equipment.

In the industrial machinery business, our central customers are in the automotive industry. Accordingly, we are striving to enhance our earnings through incorporating the new demand arising from the changes in the external environment represented by CASE (connected driving, autonomous driving, sharing, and electrification).

Medium- to long-term direction of business portfolio transformation



- The size of the colored bubbles indicates average sales for each business segment over the past 10 years (FY2012–2021).
- Forestry machinery and Smart Construction indicates the direction from FY2021 with construction equipment in parentheses.
- Smart Construction indicates solutions-related portion.

Major initiatives of each business segment

Construction equipment

In traditional markets, we are promoting the electrification of construction equipment to achieve carbon neutrality and focusing efforts for the joint developments with our partners and the early market introduction of different models. At the same time, research and development is being advanced on fuel cells, hydrogen engines, and other new power sources.

As for strategic markets, sales promotions for CE series hydraulic excavators designed for urban civil engineering were conducted centered on Asia. We also reviewed our organizational structure in Africa to transition to a structure that allows for quick responses to customer needs.



Medium-sized hydraulic excavator equipped with a hydrogen fuel cell (concept machine)

Mining equipment

By promoting the introduction of mining equipment with automation technologies, the mining equipment business is steadily expanding. We have deployed more than 650 units of Autonomous Haulage System (AHS) have been deployed (aggregate as of June 30, 2023) and started automated operation trials of a large ICT bulldozer at customers' site.

Meanwhile, we have formed the Komatsu GHG Alliance together with mining industry leaders to work toward a shared goal of delivering zero-emissions equipment solutions. Alliance members have since been working to advance Komatsu's power agnostic truck concept for a haulage vehicle that can run on a variety of power sources. In addition, we are also working to expand solutions business by developing mining open technology platforms, which optimize the entire mining operations.

In the underground mining field, we have advanced M&A related to hard rock mining equipment, the development of new products including new mining methods, and the structural reforms, including the partial sale of production facilities for the underground coal (soft rock) business, which are expected to shrink over the medium to long term.



Battery-powered mining haul truck and members of Komatsu GHG Alliance

Forestry machinery

To contribute to sustainable, recycling-oriented forestry business, we are working on mechanization of all processes other than harvesting and forwarding, which have conventionally been manufactured and sold, such as planting and silviculture. In July 2022, we acquired Bracke Forest AB, a manufacturer of tree-planting attachments.



Mining Tunnel Boring Machine (TBM) for underground hard rock mining

Smart Construction

We have introduced new applications, and developed the system for overseas expansion of Smart Construction. In addition, we have developed a remote control system for medium-sized hydraulic excavators, which can be linked with Smart Construction, and begun offering to customers.



Crawler planter equipped with Bracke-made attachments on Komatsu-made bulldozer

Retail finance

The retail finance business is expanding its coverage of growth markets in Europe as well as in Asia, Africa, and Latin America. Financing of forestry machinery is also being accelerated as we endeavor to expand the retail finance business in step with the growth of the construction, mining and utility equipment business while maintaining sound financial position.

Semiconductor manufacturing equipment

In response to global demand growth, semiconductor lithography light source production company Gigaphoton Inc., a Group company, constructed a new production facility that is anticipated to its total production capacity by 2.5 times in comparison to the level from FY2020.



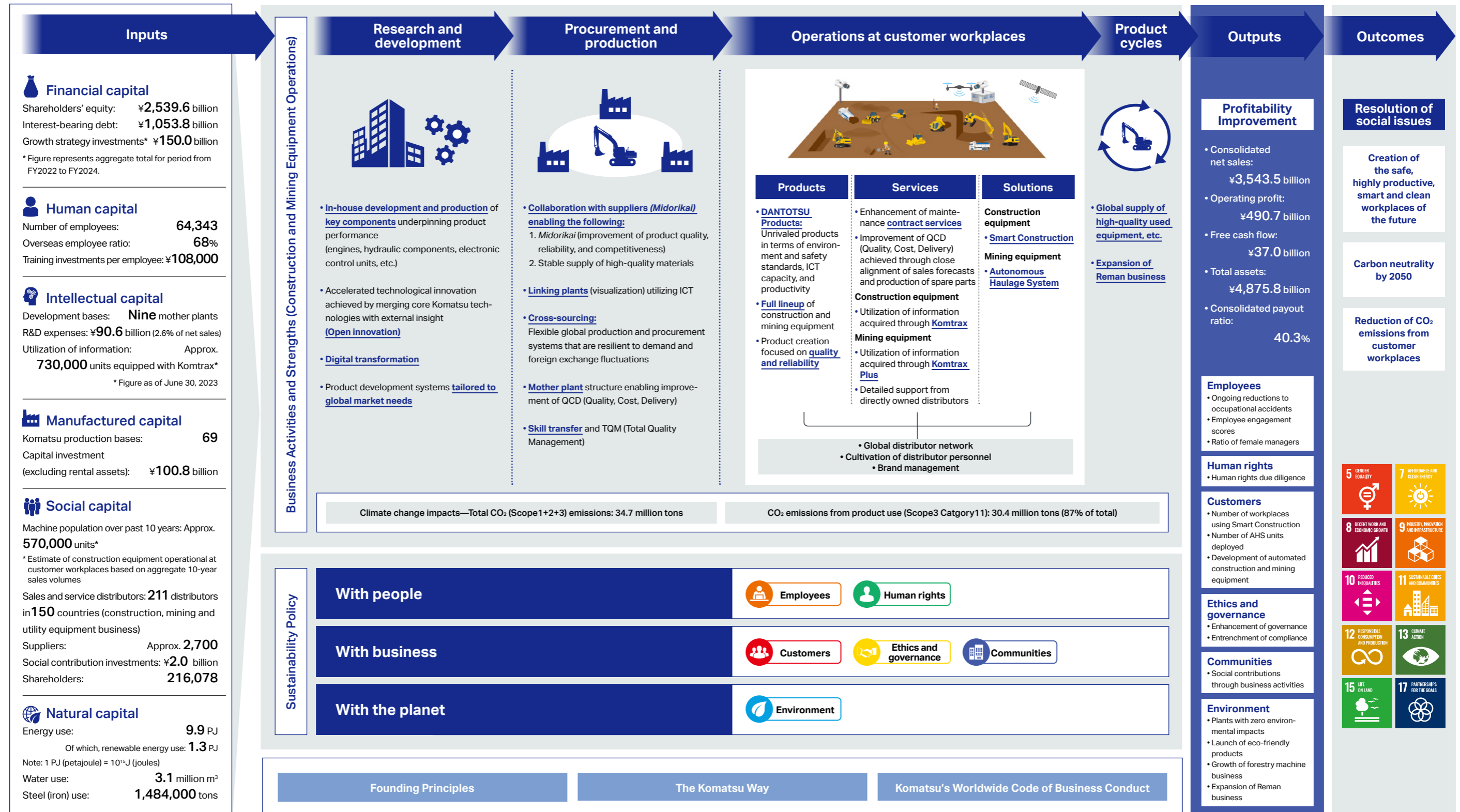
IL221-7 cell tab molder with slitter

Industrial machinery

Group company Komatsu NTC Ltd., a manufacturer of machine tools and industrial machinery, received its first order for multiple cell tab molders and module production lines following its full-fledged entry into the automotive battery manufacturing equipment business.

Value creation process

In the pursuit of sustainable growth, companies are expected to build robust yet flexible earnings structures that respond to changes in the operating environment while addressing the increasingly more important ESG issues. With the strength of the manufacturing platform it has forged over the years, Komatsu will respond to social needs by linking customers, distributors, partners, and communities and all Komatsu workplaces through its DANTOTSU excellence.



Note: Amounts are consolidated-basis and either for FY2022 or as of March 31, 2023, unless otherwise noted.