Komatsu's Management Principle

The cornerstone of Komatsu’s management principle is to commit ourselves to quality and reliability and maximize the total sum of trust given to us by all stakeholders and society, which it defines as corporate value. Maximizing trust requires corporate activities that are founded on social responsibility along with efforts to strengthen corporate governance and enhance manufacturing competitiveness. With the addition of Komatsu Brand Management into this principle, we are promoting awareness reforms that inspire all Komatsu Group employees to adopt the perspective of the customer from their standpoint in the Company as we move forward with human resource development to become a stronger company.

Cautionary Notice regarding Forward-Looking Statements
This report contains predictions, plans, forecasts, and other forward-looking statements that have been judged by management to be rational based on the information available at the time of publication. Factors that may cause actual results to differ materially from those predicted by such forward-looking statements include, but are not limited to, changes in economic conditions or product demand in major markets, foreign exchange rate fluctuations, domestic or overseas regulatory revisions, or changes to accounting standards or practices.

Reporting Period: April 1, 2018–March 31, 2019

• This report also includes information on activities after the reporting period in order to provide readers with the latest information.
• "FY2018" refers to the period from April 1, 2018 to March 31, 2019, unless otherwise noted.
• Performance forecasts for FY2019 are the forecasts announced together with the financial results for FY2018 on April 26, 2019.

Editorial Policy
KOMATSU REPORT 2019 was published for the purpose of providing clear explanations for all stakeholders on Komatsu’s medium- to long-term business strategies and the virtuous cycle generated as the Company resolves environmental, social, and governance (ESG) issues through its business. In preparation of this report, we referenced the International Integrated Reporting Framework released by the International Integrated Reporting Council and the Guidance for Integrated Corporate Disclosures and Company–Investor Dialogue for Collaborative Value Creation; ESG Integration, Non-Financial Information Disclosure, and Intangible Assets into Investment released by the Ministry of Economy, Trade, and Industry.

Global Principles and International Standards
• The U.N. Global Compact
• ISO 26000
• Keidanren (Japan Business Federation)
• Charter of Corporate Behavior
• The U.N. Sustainable Development Goals (SDGs)
**Major Historical Events**

- 1918: End of World War I
- 1921: Komatsu was established in Komatsu City, Ishikawa Prefecture in Japan.
- 1924: Produced first commercially available press
- 1931: Produced Japan's first crawler-type farm tractor
- 1951: Relocated head office to Tokyo
- 1961: Quality
- 1968: Production of hydraulic excavators
- 1972: Entered into small press field
- 1985: Plaza Agreement (yen appreciation trend)
- 1991: Dissolution of the Soviet Union
- 1993: Komatsu Cummins Engine Co., Ltd.
- 1994: Spun-off of industrial machinery operations to form

**Major Milestones for Komatsu**

- 1921: Established Komatsu Ltd.
- 1924: Produced first commercially available press
- 1929: Great Depression
- 1931: Produced Japan's first crawler-type farm tractor
- 1939: Entered into small press field
- 1940: Foundation and Establishment of Position in Japan
- 1941: Established Komatsu Ltd.
- 1942: PT Komatsu Indonesia
- 1943: Produced Komatsu Model 1 Ground-Leveling Machine (prototype of Japan's bulldozer)
- 1945: End of World War II
- 2003: Quest to Secure DANTOTSU

**Subsidiaries and Affiliates**

- N.V. Komatsu Europe S.A.
- Komatsu America Corp.
- Komatsu do Brasil Ltda.
- Komatsu Australia Pty., Ltd.
- Komatsu Mining Corp.
- Komatsu Pacific Asia Co., Ltd.
- Komatsu America Inc.
- Komatsu (Europe) NV

**Strengths of Komatsu**

Komatsu adheres to a basic strategy of manufacturing its products in the areas to which they will be supplied and has therefore established a global network of production and sales bases. The Company employs a mother plant system in which plants with development manufacturing in Japan are positioned as “mother plants” and assigned responsibility for safety, quality, costs, and delivery schedules at overseas plants manufacturing the same products (“child plants”). Leveraging the strengths of a flexible manufacturing system, we develop a business that is at the same time global as well as matched to our customers and to the communities that we serve.

**Global Production and Sales Systems**

<table>
<thead>
<tr>
<th>Strategic Markets</th>
<th>Traditional Markets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Latin America</td>
<td>54%</td>
</tr>
<tr>
<td>CIS</td>
<td>¥235.6 billion</td>
</tr>
<tr>
<td>Asia</td>
<td>¥134.6 billion</td>
</tr>
<tr>
<td>China</td>
<td>¥164.8 billion</td>
</tr>
<tr>
<td>Europe / CIS</td>
<td>46%</td>
</tr>
<tr>
<td>Japan</td>
<td>¥122.7 billion</td>
</tr>
<tr>
<td>North America</td>
<td>¥12.2 billion</td>
</tr>
<tr>
<td>Europe</td>
<td>¥207.5 billion</td>
</tr>
<tr>
<td>Americas</td>
<td>35</td>
</tr>
<tr>
<td>Americas</td>
<td>35</td>
</tr>
</tbody>
</table>

**Production and Sales Bases (as of April 1, 2019)**

<table>
<thead>
<tr>
<th>Region</th>
<th>Number of Operations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Americas</td>
<td>35</td>
</tr>
<tr>
<td>Europe / CIS</td>
<td>14</td>
</tr>
<tr>
<td>Asia*</td>
<td>14</td>
</tr>
<tr>
<td>Middle East / Africa</td>
<td>5</td>
</tr>
<tr>
<td>China</td>
<td>14</td>
</tr>
<tr>
<td>Japan</td>
<td>12</td>
</tr>
<tr>
<td>Total</td>
<td>95</td>
</tr>
</tbody>
</table>

* Excluding Komatsu Mining Corp. *2 Excluding Japan and China
Strengths of Komatsu

Business Segments

Focused on its core construction, mining, and utility equipment business and industrial machinery and others business, Komatsu is building upon the DANTOTSU Product, DANTOTSU Service, and DANTOTSU Solution that represent its distinctive strengths as it seeks to realize the safe, highly productive, smart, and clean workplaces of the future.

Construction, Mining, and Utility Equipment Business
¥2,466.6 billion

Komatsu supplies a wide range of products, services, and solutions including construction and mining equipment for use in construction and mining workplaces around the world as well as forklift trucks, forest machines, recycling equipment, and tunneling machines. We have established a position as the international leader in the construction and mining equipment field by delivering unrivaled quality and technological innovation together with this full lineup.

Retail Finance
¥57.3 billion

Komatsu conducts a retail finance business aimed at helping reduce customers’ funding burdens and otherwise assisting in the purchase of its DANTOTSU products. Our strengths in this field include the prevention of overdue debt through effective utilization of KOMTRAX (location information, operating status information, engine locks, etc.) technologies, swift inspections, and competitive financing conditions. These strengths have enabled us to build long-term relationships with customers.

Industrial Machinery and Others
¥201.2 billion

The industrial machinery and others business stands alongside the construction, mining, and utility equipment business as a core business of Komatsu. Offerings in this business include the large presses used to mold automobile hoods and side panels as well as sheet-metal machines, machine tools, and light sources for semiconductor lithography systems (excimer lasers). In this business, we also contribute to the business activities of various customers through distribution of construction equipment and other goods and production of specialty equipment for Japan’s Ministry of Defense.

Products

- Hydraulic excavator
- Wheel loader
- Electric rope shovel
- Forklift truck
- Mobile crusher/recycler
- Fiber laser cutting machine
- Excimer laser

Retail Finance

- Dump truck
- Large press
- Dump truck

Net Income Attributable to Komatsu Ltd. / Return on Equity

Thoroughly committed to quality and reliability, Komatsu seeks to supply safe and creative products to provide optimal responses to the needs and expectations of customers worldwide. In the future, we will utilize production automation, autonomous operation, electrification, remote control, and other technologies to create more sophisticated products in order to promote, on a global basis, SMARTCONSTRUCTION, a solution that organically links entire workplaces through ICT.

- SMARTCONSTRUCTION is a Komatsu DANTOTSU solution that organically links entire workplaces through ICT to resolve construction workplace issues, such as those related to labor shortages and the aging of operators. Through this solution, we link information pertaining to all people and objects (equipment, soil, etc.) at construction workplaces through ICT, performance analyses and simulations, and offer proposals.

Consolidated Net Sales

Consolidated Net Sales (Before adjustment for intersegment transactions) ¥2,725.2 billion

Operating Income / Operating Income Ratio

Operating Income / Operating Income Ratio FY2016 FY2017 FY2018
174.0 208.5 ¥297.8 billion
9.7 10.7 14.6%

Net Income Attributable to Komatsu Ltd. / Return on Equity

Net Income Attributable to Komatsu Ltd. / Return on Equity FY2016 FY2017 FY2018
113.3 196.4 ¥216.4 billion
7.3 12.1 14.7%

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Outlook on Human Resources

Developing Human Resources

Founder Meitaro Takeuchi established Komatsu Ltd. in Komatsu City, Ishikawa Prefecture roughly a century ago. Having witnessed Europe’s cutting-edge technologies at that time, Takeuchi put forth the four management principles of global expansion, quality first, technological innovation, and human resource development. The commitment to the development of human resources, an invaluable asset to Komatsu, lives on in the Company today.

Developing Human Resources

The KOMATSU Way

The KOMATSU Way is the very DNA of Komatsu, an expression of the strengths of Komatsu, the beliefs supporting these strengths, the basic attitudes and patterns of behaviors established based on the experiences of our predecessors as they proceeded to tackle the challenges facing them.

As the operating environment changes, Komatsu seeks to develop its operations on a global scale and to become a stronger company and grow. To accomplish these objectives, it will be crucial for us to transmit the KOMATSU Way to employees with different cultures and customs around the world and to implement these principles in a manner that aligns employees along the same vector.

Human Resource Development through Quality Control Activities

Komatsu began implementing quality control activities in 1961, and today these activities are being carried out worldwide. Our quality control activities entail an ongoing cycle of improvement in which we examine issues at the actual workplaces instituting corrective measures addressing the origin of issues. These activities underpin Komatsu’s unparalleled quality and reliability and spur improvements in productivity. Furthermore, workplace-driven quality control activities are entrenched as venues for human resource development that heighten employees’ on-site capabilities, communication skills, and leadership qualities.

Komatsu’s quality control activities focus on total quality management—improving both product quality and the quality of all work processes. These activities are conducted on a global, Companywide basis including administration and back-office divisions. These activities will be continued going forward to help Komatsu employees improve their on-site capabilities and develop their careers.

Employees Supporting Komatsu as a Global Company

Komatsu develops its operations around the world, and approximately 70% of its employees are not Japanese. Accordingly, developing human resources that are rooted in the communities they serve while promoting mutual acceptance of the values and cultures of various countries and regions is becoming increasingly important. Operations around the world must be instilled with Komatsu’s manufacturing competitiveness, which includes the values that support Komatsu and the workplace improvement, driven by employees.

Improvement and Transmission of Workplace Skills

It is the exceptional skills accumulated at workplaces that enable Komatsu to deliver high-quality and highly reliable products built on cutting-edge technologies as well as services that offer peace of mind to customers. For further global development of its business, we work to improve and transfer workplace skills internally as well as at our suppliers and distributors worldwide.

Komatsu’s production divisions have long been engaged in such skill improvement and transfer activities, and now Komatsu’s competitiveness and support growth. We look to transmit these principles through a joint effort encompassing all internal divisions as well as our suppliers, distributors, and partners and to continue promoting involvement by all of these parties.

Overview of Operations

<table>
<thead>
<tr>
<th>Japanese</th>
<th>Non-Japanese</th>
</tr>
</thead>
<tbody>
<tr>
<td>32%</td>
<td>68%</td>
</tr>
</tbody>
</table>

The number of employees as of March 31, 2019.

Leadership/Top Management

Leaders must be directly involved in the workplaces and manage businesses with an emphasis on contributing to the entire Group, including distributors and suppliers. We have also defined guidelines for leaders related to actively engaging in regular board meetings, communicating with stakeholders, complying with rules of the business community, managing risks, and grooming successors for management positions.

“Monozukuri” for All Employees

Komatsu aims to pass on the manufacturing competitiveness, perspectives, and values that, based on total quality management, have continued to drive Komatsu’s competitiveness and support its growth. We look to transmit these principles through a joint effort encompassing all internal divisions as well as our suppliers, distributors, and partners.

Brand Management (Customer Value Creation Activities)

Komatsu defines “Brand Management” as all the activities that make Komatsu indispensable to our customers. This objective is accomplished by visiting customer workplaces to understand the ideal state of these customers and to build relationships that enable us to work together with them to help achieve their goals through concerted efforts by the Group and its distributors.

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Overview of Komatsu’s Business

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.

Major Inputs

- Production / Logistics
  Komatsu production bases: 85*
  Parts distribution bases: 48*
  * as of April 1, 2019
  Investment in production: ¥675 billion

- Intellectual Properties
  Development bases:
  Nine mother plants and
  Asia Development Center
  R&D expenses: ¥73.4 billion
  (2.7% of net sales)
  Utilization of Information:
  Equipment with KOMTRAX:
  Approx. 95%

- Human Resources
  Number of consolidated employees:
  61,908

- Partners
  Machine population over past 10 years:
  Approx. 570,000 units*
  * Estimate of construction equipment operational at customer workplaces based on aggregate 10-year sales volumes
  Sales and service distributors:
  208 distributors in 146 countries
  (construction, mining and utility equipment business)
  Suppliers: Approx. 2,700
  Shareholders: 103,434

Environment

- Energy use: 9.2 PJ
  Including renewable energy use: 711 TJ
  Note: 1 PJ (petajoule) = 10¹² J (joules)
  1 TJ (terajoule) = 10¹² J
  Water use: 3.7 million m³
  Steel (iron) use: 1,054,700 tons

Finance

- Consolidated net sales: ¥2,725.2 billion
  Operating income: ¥397.8 billion
  Free cash flow: ¥15.3 billion
  Total assets: ¥3,638.2 billion

Note: Above amounts are either for FY2018 or as of March 31, 2019.