New Mid-Term Management Plan (FY2019–FY2021)

DANTOTSU Value
FORWARD Together for Sustainable Growth

Komatsu’s External Environment

Today, protectionism is growing around the world, and multipolarity is becoming evident. We are also witnessing growing concerns over climate change. As the external environment is changing dynamically, in the construction, mining, and utility equipment business, we assume gradual growth of the demand in the medium to long term, but the volatility will remain high in the short term. In the industrial machinery and others business, we anticipate a structural change of demand in the automobile manufacturing industry, mainly resulting from ongoing progress toward electric vehicles. In addition, we anticipate assured growth in demand in the semiconductor manufacturing industry over the medium to long term, while a temporary adjustment phase is also expected. Achieving sustainable growth in this environment will require growth strategies that are not affected by demand fluctuations.

Changes in the External Environment and of ESG Issues

Politics & economy
- Multipolarization of the world
- Emergence of protectionism
- Growth of emerging economies

Technologies
- Further spread of IoT, AI, and big data
- The progress of electric and autonomous vehicles

Environment & energy
- Climate change
- Growing demand for energy, foods and water
- Decarbonization & renewable energy

Society & values
- Acceleration of diversity in advanced countries
- A decline of working-age populations
- Achievement of a recycling-oriented society by accelerating the pace of sharing
- Growing pursuit and needs for safety and comfort

Our Tasks in the Growth Strategies

1. To solve ESG issues through the growth strategies of our core business
2. To promote sustainable growth based on our profit structure which is free of changes in the external environment and market demand
Overview of the New Mid-Term Management Plan

The new mid-term management plan sets forth the future vision Komatsu should aspire to and hope to accomplish as it approaches and moves beyond the 100th anniversary of its founding in 2021. As part of this vision, we seek to become a company that can help realize the safe, highly productive, smart, and clean workplaces of the future together with customers while generating a positive cycle of resolving ESG issues through the creation of value for customers and improving earnings.

Management Principle

Make commitment to Quality and Reliability and maximize corporate value
(the total sum of trust from society and all stakeholders)

New Mid-Term Management Plan

FY2019–FY2021

Future Vision

Positive cycle = Sustainable growth

ESG Solutions

Workplaces of the future: Safe, highly productive, smart and clean

Integration of Komatsu Mining Corp.

(FY2017)

Process of earnest catering toward the needs of their customers. As we
accumulated extensive experience and expertise cultivated over the
sales and services systems of Komatsu and KMC, both of which has
lacked offerings.

At the same time, we will go a step further, to merge and reinforce the
emphasizes quality and reliability, will be integrated with those KMC.

Going forward, the manufacturing technologies of Komatsu, which
lacked offerings.

ESG Issues

Outline of Operations

Komatsu’s Growth Strategies

Corporate Profile

Review of the Previous Mid-Term Management Plan

Demand for construction and mining equipment had remained in an adjustment phase, as affected by sluggish prices of commodities and the economic slowdown of emerging countries since around 2013. However, it began a recovery from 2017, earlier than what we assumed, at the time we developed the previous mid-term management plan of FY2016-2018. Under such an environment, we steadily captured demand while working to strengthen our corporate constitution, and integrated Komatsu Mining Corp. (hereafter “KMC”) into the Komatsu Group. As a result, we posted expanded sales and profits for the last two consecutive years of FY2017 and FY2018. For FY2018, the final year of the previous mid-term management plan, we also achieved record-high sales and profits. Management targets were accomplished for all indicators with the exception of ROA (return on assets) in the retail finance business.

Management Targets of the Previous Mid-Term Management Plan and Related Performance

<table>
<thead>
<tr>
<th>Indicator</th>
<th>FY2016–FY2018</th>
<th>FY2019</th>
<th>FY2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales growth rate</td>
<td>9.0%</td>
<td>15.0%</td>
<td></td>
</tr>
<tr>
<td>ROE</td>
<td>14.7%</td>
<td>11.4%</td>
<td></td>
</tr>
<tr>
<td>Operating income ratio</td>
<td>14.6%</td>
<td>11.7%</td>
<td></td>
</tr>
<tr>
<td>ROA</td>
<td>2.2%</td>
<td>1.6%</td>
<td></td>
</tr>
<tr>
<td>Net debt-to-equity ratio</td>
<td>3.64</td>
<td>3.60</td>
<td></td>
</tr>
<tr>
<td>Consolidated payout ratio</td>
<td>40.5%</td>
<td>43.0%</td>
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Formulation of New Mid-Term Management Plan through Backcasting

In formulating the new mid-term management plan, we first decided on the future vision Komatsu should pursue from a long-term perspective and then drafted a roadmap toward this vision. Afterward, a backcasting approach was taken to examine what Komatsu should do in the present in order to move forward with this vision. Clarifying our vision enabled us to establish a better understanding of the strengths that can be exercised toward the realization of this vision, the existing businesses needing to be reinforced, and the lacking resources. The scenario based on this understanding was discussed exhaustively, and growth strategies and management targets were set based on this scenario.

Integration of Komatsu Mining Corp.

Former Joy Global Inc. (currently KMC) was acquired in April 2017, and it has since been working to create synergies using KMC’s management resources together with those of Komatsu. With a history in the mining equipment business spanning more than a century, KMC is a global manufacturer, seller, and service provider dealing in super-large surface and underground mining equipment, an area in which Komatsu previously lacked offerings.

Going forward, the manufacturing technologies of Komatsu, which emphasizes quality and reliability, will be integrated with those KMC. At the same time, we will go a step further, to merge and reinforce the sales and services systems of Komatsu and KMC, both of which has accumulated extensive experience and expertise cultivated over the process of earnest catering toward the needs of their customers. As we leverage the strengths of Komatsu and KMC, we will look to generate synergies equivalent to 10% or more of KMC’s sales in FY2021.

* Average for period from FY2016 to FY2020
Three Pillars of Growth Strategies to Achieve Sustainable Growth

Komatsu has defined three pillars of growth strategies in reflection of its operating environment and the challenges it faces. By advancing these three pillars of growth strategies, we will pursue sustainable growth.

1. Value creation by means of innovation
   - Optimization platform and solutions business strategies
   - Smart Construction, Autonomous Haulage System (AHS), and platforms like LANDLOG and IntelliMine
   - Automation, autonomous operation, electrification and remote-controlling of construction, mining and utility (compact) equipment
   - Smart forestry and agriculture

2. Growth strategies based on business reforms
   - KMC integration synergies and business reinforcement
   - Value chain reforms and redefinition of the aftermarket business
   - Preventive maintenance by applying IoT and AI, and Lifecycle support under serial number-based management; logistics reforms; and next-generation key components
   - Next-generation KOMTRAX
   - Stronger focus on aggregate & cement, forestry, agriculture and other segments
   - Efforts for "DANTOTSU No. 1 in Asia" and in the growing markets of India and Africa
   - Reforms of the industrial machinery business (Expansion of synergy with the construction equipment business and growth by capitalizing on core technologies)

3. Structural reforms for growth
   - Business reforms by means of ICT and IoT
   - Structural reforms of development operations
   - Model-based development
   - Open innovation
   - Connected plants with Zero impact on environment and workers
   - Global human resource development

Concepts and Stance of the New Mid-Term Management Plan

The new mid-term management plan defines three pillars of growth strategies: 1) value creation by means of innovation, 2) growth strategies based on business reforms, and 3) structural reforms for growth. By prioritizing investment on growth areas based on the three pillars of growth strategies, we will seek to achieve sustainable growth through a positive cycle of improving earnings and solving ESG issues that is resilient to fluctuations in demand.
Value Creation by means of Innovation

For construction workplaces, Komatsu will utilize the LANDLOG open platform along with ICT-intensive construction and other equipment as it steps up development of construction simulations and promotes SMARTCONSTRUCTION on a global basis. Since the launch of the SMARTCONSTRUCTION solution for construction workplaces in 2015, this solution has been introduced at an aggregate total of more than 8,700 sites in Japan (as of August 2019). Moreover, this solution led to a sharp increase in the digitization of processes through means such as condition surveys by drones. Going forward, we will link the 3D workplace information gained from digitized processes with our LANDLOG platform (product digitization) to promote the automation and optimization of entire workplaces.

For mining workplaces, we will develop new optimization platforms and grow the AHS Center of Excellence, which was established in April 2019, into an organization to oversee the mining solutions businesses in the future. Komatsu has formulated a vision for the workplaces of the future. In these workplaces, soil quantities and other data collected at workplaces will be utilized to optimize construction plans through cloud computing to send work instructions to ICT-intensive equipment. Information will also be used to automatically issue instructions for all other areas of the construction projects, including ordering of additional construction materials and dump trucks, through the platform.

Processes – Optimization Level of Construction

At the workplaces of the future, all construction equipment will receive work instructions from the platform and then carry out these instructions autonomously while collaborating with other equipment at the workplace in order to realize safety along with high levels of productivity.

To make these workplaces a reality, Komatsu will need to complete the development of Retrofit Kit (provisional name), a product that will be designed to install ICT functionality into existing equipment and thereby increase the amount of ICT-intensive equipment in use at workplaces. At the same time, it will be crucial to enhance ICT-intensive equipment, specifically through increased automation and through autonomy achieved via communication and coordination among equipment. Komatsu is moving ahead with research and development on sophisticated automation and autonomy technologies with an eye to the introduction of 5G and other ultrahigh-speed mobile communications systems and the utilization of high-precision global navigation satellite system technologies.

Products – Level of Automation and Autonomous Operation

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2 Growth Strategies Based on Business Reforms

In the construction, mining, and utility equipment business, in addition to engaging in the development of new products, production, and sales, Komatsu intends to strengthen its value chain business, which utilizes Internet of Things (IoT) and artificial intelligence (AI) technologies. We will also seek to realize full lifecycle-support from our products, from when they are new to when they are retired. In mining equipment operations, we will accelerate the integration and production of synergies with KMC when they are retired. In mining equipment operations, we will work to generate synergy effects with the construction, mining, and utility equipment business and develop new products. For the semiconductor manufacturing industry, we will accelerate the speed of our efforts to promote further growth by utilizing our core technologies.

The rising trend toward decarbonization. Meanwhile, in emerging countries and other growth markets, we will reinforce operation systems in accordance with the different market environments and structural changes of our regions of operation.

In the industrial machinery and others business, we will work to decrease CO2 emissions and increase the rate of renewable energy use by promoting next-generation connected plants that provide a solution to labor shortages as well as zero environmental and workload impact plants. We also continue to advance global human resource and diversity initiatives.

Topic: Connected Plants with Zero Impact on Environment and Workers

It is anticipated that, over the long term, the Asian region will grow to form one large economic sphere and that demand for construction and mining equipment will increase as such equipment becomes necessary for developing social infrastructure. The promotion of “DANTOTSU No. 1 in Asia” initiatives have once again been positioned as a priority, as was the case under the previous mid-term management plan. In these initiatives, we aim to elevate Komatsu’s strengths in this region to an unrivaled level.

Komatsu established the Asia Development Center in Indonesia in October 2016 and then the Asia Training & Demonstration Center in Thailand in November of the same year. These facilities helped us form the necessary development and distributor networks for solidifying our operations in this region. Other strengths in this region include the strong reputation among customers for the quality and reliability of our products as well as the amount of Komatsu equipment delivered until operating in this region. By effectively utilizing these strengths, we will develop equipment with specifications that match the needs of the region while enhancing our lifecycle support, including support for rentals and used equipment, in order to heighten our presence in this market. In the future, we will look to grow operations in aggregate and cement, forestry, agriculture, and other market segments while promoting the introduction of SMARTCONSTRUCTION to create greater value.

3 Structural Reforms for Growth

Komatsu is moving ahead with Companywide structural reforms driven by ICI and IoT. In addition, production divisions are seeking to decrease CO2 emissions and increase the rate of renewable energy use by promoting next-generation connected plants that provide a solution to labor shortages as well as zero environmental and workload impact plants. We also continue to advance global human resource and diversity initiatives.

Structural Reforms for Growth

Komatsu is committed to further advancing and enhancing the DANTOTSU Product, DANTOTSU Service, and DANTOTSU Solution initiatives that have supported its growth thus far. At the same time, we will accelerate efforts to realize the safe, highly productive, smart, and clean workplaces of the future with customers. The resolution of ESG issues and improvement of earnings achieved through the creation of this customer value constitutes Komatsu’s DANTOTSU Value. We will strive for sustainable growth through linking every workplace and generate value through DANTOTSU with our global teams, customers, distributors, partners and communities.

4 Growth Strategies Based on Business Reforms

In regard to the reduction of environmental impacts, Komatsu has set the targets of reducing CO2 emissions from production by 50% from 2010 level and of increasing the rate of renewable energy use to 50% by 2030 (see page 34). Meanwhile, new initiatives have been launched to use ICT to track data related to workplace environments and employee health.

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Under the previous mid-term management plan, Komatsu endeavored to create connected plants in which all processes, spanning from production to sales, were linked using IoT technologies and coordinated into cycles in real time. Through these activities, data from the machinery tools and welding robots of Komatsu and of suppliers is being collected via the KOM-MICS to be used to track metrics and improve efficiency across the entire value chain.

The new mid-term management plan calls on us to continue and build upon our connected plant activities while also beginning initiatives for realizing future plants that will address long-term social issues.

For example, Komatsu seeks to address labor shortages through the extensive utilization of automated and unmanned production lines. One facet of these efforts is the Smart Line installed at Komatsu’s Oyama Plant (see page 34). We will also endeavor to automate quality management at all bases to augment our quality assurance system with digital inspections that are not dependent on human judgment.

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ESG Solutions through Three Pillars of Growth Strategies

Komatsu seeks to help resolve ESG issues by promoting the three pillars of growth strategies defined in the new mid-term management plan. We strive to realize a positive cycle of sustainable growth through improvements of earnings and resolutions to ESG issues. Our initiatives include reducing environmental impacts to combat climate change and supplying high-quality, high-performance products, services, and solutions ensuring safety, KPIs have been set to guide these initiatives solving ESG issues through our core business.

**CSR Themes**
- **Enhancing Quality of Life —Providing Products Required by Society—
- **Developing People
- **Growing with Society

### Key Initiatives under New Mid-Term Management Plan

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<th>CSR Themes</th>
<th>ESG Solutions through Three Pillars of Growth Strategies</th>
<th>Relevant SDGs</th>
<th>FY2021 KPIs</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Growing with Society</strong></td>
<td>Offer resolutions for social issues through collaboration with stakeholders.</td>
<td>[<strong>SDG</strong> 10: Reduced inequalities]</td>
<td><strong>60%</strong></td>
</tr>
<tr>
<td></td>
<td>Act as a responsible corporate citizen ensuring corporate governance, compliance, and human rights.</td>
<td>[<strong>SDG</strong> 8: Decent work and economic growth]</td>
<td><strong>70 units</strong></td>
</tr>
</tbody>
</table>

### Relevant SDGs
- **SDG 10: Reduced inequalities**
- **SDG 8: Decent work and economic growth**

### FY2021 KPIs
- **60%**
- **70 units**