

Komatsu's Growth Strategies

Message from the President

At Komatsu, we aim to reach new, unrivaled heights of excellence in our products, services, and solutions and generate DANTOTSU Value, by which we refer to a positive cycle of resolving ESG issues and improving earnings through the creation of value for customers. This is the approach we will take toward pursuing sustainable growth with an eye to the 100th anniversary of our founding in 2021 and beyond.



Hiroyuki Ogawa
President and Chief Executive Officer

I would first like to take this opportunity to extend our sincere condolences and prayers to anyone who has lost loved ones to COVID-19 or has fallen victim to this virus. I also want to express our appreciation to all of the healthcare professionals and others who are working diligently to stop the spread of this virus.

Komatsu Group is combating the global COVID-19 pandemic based on the government policies of the relevant countries, with the

health and safety of our customers, business partners, community members, employees, and their families as our top priority. Recognizing we are positioned as an essential business that supports social infrastructure, and the obligation this represents to customers that are continuing their operations, we are committed to ensuring an ongoing supply of products, parts, services, and solutions while taking precautions against the spread of COVID-19.

Pursuit of DANTOTSU Value

Under DANTOTSU Value – *FORWARD* Together for Sustainable Growth, the three-year mid-term management plan covering the period from FY2019 to FY2021, we are moving forward with initiatives based on the three pillars of our growth strategies: 1) value creation by means of innovation, 2) growth strategies based on business reforms, and 3) structural reforms for growth.

Our greatest focus is to achieve DANTOTSU Value, which is the slogan of this plan. DANTOTSU Value entails the evolution of our

prior DANTOTSU Product (advancement of products), DANTOTSU Service (advancement of machine operations), and DANTOTSU Solution (advancement of construction) initiatives. Through these efforts, we aim to generate a positive cycle of resolving environmental, social, and governance (ESG) issues and improving earnings through the creation of value for customers. We thereby look to build the safe, highly productive, smart, and clean workplaces of the future together with customers.

Steady Progress in Priority Initiatives Pertaining to Three Pillars of Growth Strategies

We faced an opaque economic outlook in FY2019, the first year of the mid-term management plan, due to factors such as the trade friction between the United States and China and the United Kingdom's decision to withdraw from the European Union. Amid this uncertainty, the global COVID-19 pandemic that struck in the fourth quarter of the fiscal year drove down demand in China, North America, Europe, and Asia, resulting in declines in sales and income

and making for disappointing performance for the first year of the plan. In this environment, we made steady progress in advancing key initiatives based on the three pillars of growth strategies aimed at realizing DANTOTSU Value.

Looking first at value creation by means of innovation, we made substantial progress in developing SMARTCONSTRUCTION operations. At CONEXPO-CON/AGG 2020, a tradeshow held in Las Vegas

in March 2020, we announced our "SMARTCONSTRUCTION Digital Transformation." (Please see page 22) This solution comprises four new IoT devices and eight new applications that allow for digitization of entire construction and production processes ("horizontal digitization"). Through this "horizontal digitization," which connects all construction processes digitally, this solution allows for worksite operations to be optimized by synchronizing the real worksite with its digital twin, thereby realizing drastic improvement in the safety, productivity, and environmental performance of the entire worksite. We have also announced our plans to introduce the "SMARTCONSTRUCTION Digital Transformation" solution into the markets of the United States, the United Kingdom, Germany, France, and Denmark. In this manner, SMARTCONSTRUCTION, which has previously built its track record primarily in the Japanese market, is finally prepared for its global launch. With its ability to contribute to improved safety and productivity across construction and production processes spanning from measurement to inspection, SMARTCONSTRUCTION is a business model not found anywhere else. We therefore see substantial potential for SMARTCONSTRUCTION to be used as a tool for fostering relationships with customers. Furthermore, we introduced the SMARTCONSTRUCTION Retrofit Kit to the Japanese market in April 2020. This offering can be installed on conventional construction equipment to endow such equipment with the same ICT functions as ICT-intensive equipment, such as 3D machine guidance and payload functions. More than 98% of the equipment operating at construction worksites in Japan is conventional equipment without ICT functions. Accordingly, the SMARTCONSTRUCTION Retrofit Kit has the potential to quickly spread digital transformations throughout Japan's construction industry by installing digital functions into such

conventional equipment.

Next, I would like to discuss our initiatives pertaining to growth strategies based on business reforms. In April 2017, we acquired Joy Global Inc. (currently, Komatsu Mining Corp.). We have since been carrying out initiatives to create synergies between Komatsu and Komatsu Mining Corp. (KMC) by utilizing the management resources of both companies. A great deal of success has been generated through this approach. 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. We had originally put forth the target of achieving synergies that accounted for more than 10% of KMC's net sales. In FY2019, the third year since the acquisition of KMC, synergies produced benefits equivalent to ¥9.0 billion when including gross profit gains and cost reduction benefits. We have therefore judged that the efforts to integrate KMC into the Group are going smoothly.

We will also expand applications of our equipment by introducing the next-generation KOMTRAX construction equipment operation management system, engage in preventive maintenance by applying Internet of Things (IoT) and artificial intelligence (AI) prediction technologies, and introduce serial number-based management. These initiatives will enable us to provide lifecycle support (lifetime warranties) for our customers' machines, ranging from new machines to their disposal, and increase our after-sales service businesses that are resilient to fluctuations in demand.

Elsewhere, our remanufacturing operations for engines, axles, cylinders, and other components, are a business which we can pursue because of our ability to develop and produce key components in-house, a strength of Komatsu. These operations also constitute a

State of Progress of Focused Activity Items and Challenges from the Next Term Onward

Three Management Strategies		Examples of Activities
1. Value Creation by Means of Innovation	FY2019 achievements	<ul style="list-style-type: none"> Expanded deployments of SMARTCONSTRUCTION (cumulative number of sites in Japan now exceeds 10,000) Announced the provision of "SMARTCONSTRUCTION Digital Transformation," starting from April 2020 Announced the deployment of retrofit kits for hydraulic excavators to enable 3D construction, starting from April 2020 Achieved a total of 221 dump truck units operating under the Autonomous Haulage System (AHS) Acquired Immersive Corporation Pty Ltd, an operator training company for mining customers Exhibited a battery-powered mini excavator at bauma 2019, and rolled it out as a rental machine for the Japanese market
	Challenges for the Next Term and Onward	<ul style="list-style-type: none"> Expand SMARTCONSTRUCTION overseas Develop a new platform for mining Development of technology for automation, autonomous operation, electrification and remote control
2. Growth Strategies Based on Business Reforms	FY2019 achievements	<ul style="list-style-type: none"> Consolidation of facilities with Komatsu Mining Corp. ("KMC") Launched aggregate/cement models Made model changes for hydraulic excavator for strategic regions Introduced the KomVision Human Detection & Collision Mitigation System as a standard fitment to hydraulic excavators in the Japanese market
	Challenges for the Next Term and Onward	<ul style="list-style-type: none"> Improve the market position of the hard rock mining business Launch next-generation KOMTRAX Continue to promote value-chain reforms aimed at realizing full lifecycle support 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	FY2019 achievements	<ul style="list-style-type: none"> Steadily implemented cost improvement activities Won the Prime Minister's Prize at the Monodzukuri Nippon Grand Awards for KOM-MICS realizing "connected plants" Began construction on the new KMC Milwaukee plant and the new Komatsu Forest AB plant in Umeå, Sweden
	Challenges for the Next Term and Onward	<ul style="list-style-type: none"> Promote work reforms using ICT and IoT Promote continuous cost improvement activities Develop human resources with global perspective and promote diversity

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cyclical business that helps reduce waste and recycle and reuse components amid rising global environmental awareness. We therefore look to proactively strengthen our systems in this business.

Moving on to structural reforms for growth, a major initiative underway on this front is the promotion of KOM-MICS (KOMatsu Manufacturing Innovation Cloud System)—a proprietary developed production platform. KOM-MICS makes it possible to realize improvements in manufacturing sites using IoT technologies. These improvements are achieved through equipment operating status tracking and optimization made possible by collecting and analyzing data from machine tools and robots. The use of KOM-MICS allows

for efficient production control to be realized on a global scale by linking Komatsu factories with the factories of business partners, making it possible to understand the operating status of various factory equipment at a glance.

KOM-MICS won the Prime Minister's Prize in the manufacturing and production process categories of the Eighth Monodzukuri Nippon Grand Awards. This honor was a reflection of the system's contributions to the improvement and innovation of production processes at the Company's production sites as well as at business partners.

Issues Arising from the COVID-19 Pandemic

The global COVID-19 pandemic is impacting Komatsu in a variety of ways. Of these impacts, I have particularly noticed the way in which the pandemic has changed our customer worksites, workstyles, and how we engage with stakeholders.

With regard to customer worksites, there is a need to take steps to avoid crowded and confined spaces and close interactions. In terms of equipment, we can therefore expect rising demand for remote, automated, and unmanned operation. On the nontangible side of operations, it is likely that the use of construction digitization and digital twin methodologies will accelerate at customer workplaces. To swiftly respond to these needs, Komatsu will accelerate delivery of the "SMARTCONSTRUCTION Digital Transformation" and automation solutions in the construction equipment field, and provide solutions such as new platforms, the Autonomous Haulage System, and remote operation in the mining equipment field.

Moving on to workstyles, we had more than 90% of headquarters employees and over 50% of employees at indirect factory divisions telecommute during the period of Japan's state of emergency declaration. Going forward, we will plan to introduce a full-fledged

telecommuting system to streamline and revise work processes with the aim of realizing highly productive workstyles to facilitate operations during and after the global COVID-19 pandemic. In addition, we recognize that the change in the nature of meetings, which include embracing both web conferences and face-to-face meetings, represent opportunities for Komatsu. We will capitalize on such opportunities to realize further improvements in operation efficiency. We are also considering the distribution of wearable devices to employees for use in the management of their health.

Engagement with stakeholders is important to us. However, the ways of engaging are clearly changing. For example, we must be careful to avoid crowded and confined spaces and close interactions in our investor relations activities. To this end, we are examining the potential of arranging online events for institutional investors and private investors. We are also looking at the possibility of a virtual General Meeting of Shareholders, although we will have to wait until we can confirm the legality of such meetings before moving forward. We will work to achieve high levels of quality in our communication with stakeholders, even as we maintain safe physical distance.

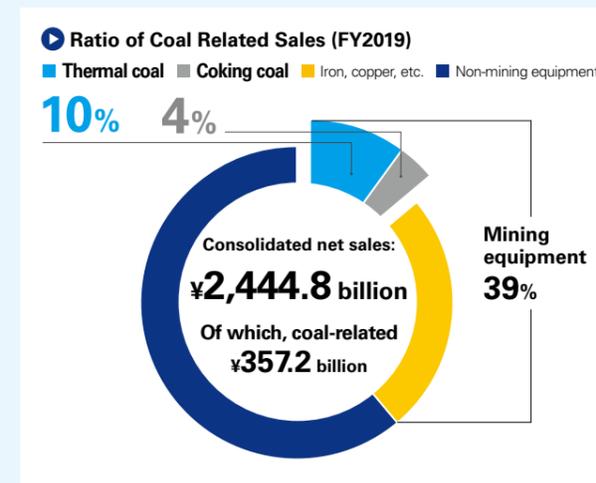
Acceleration of Growth Strategies toward the Solution of ESG Issues

Komatsu's mid-term management plan delineates our intent to address ESG issues through growth strategies in our core business. In accordance with this intent, we have defined material ESG issues in areas in which Komatsu is poised to make particularly large contributions through its business. Key performance indicators have been disclosed for these issues in our integrated reports, and we have also established new ESG management targets.

I would now like to explain some of our key initiatives for addressing climate change, an area in which there is a great deal of interest from investors.

The first of our initiatives on this front is to enhance our hard rock mining businesses. Hard rock mining is the process of excavating minerals other than coal, such as copper and nickel. In FY2019,

roughly 4% of the Company's total consolidated net sales came from coking coal used in iron refining processes and approximately 10% was attributable to thermal coal, which itself is viewed as problematic in terms of its contribution to CO₂ emissions. We do not expect any sharp declines in thermal coal demand to be seen over the short term as it is still functioning as an important source of energy underpinning people's daily lives in emerging countries. However, it can be anticipated that demand for thermal coal will decline gradually out of consideration for climate change and other environmental issues. Komatsu looks to counter the risk of future declines in thermal coal sales by expanding its hard rock mining businesses, in which we expect to see growth going forward, while also lowering the portion of net sales accounted for by thermal coal. In



order to do so, we will pursue synergies through joint development with KMC while launching products with characteristics that respond to customer needs.

Our second key initiative for addressing climate change is to launch and promote fuel-efficient products with low environmental impacts. In addition to our electric mini excavators and compact battery-powered forklifts, we also look to focus on the sale of hybrid excavators. Komatsu's hybrid excavators use our proprietary technologies to substantially reduce CO₂ emissions. Approximately 5,000 such excavators are currently in operation around the world, and we are gradually building our track record with regard to this equipment. In 2019, we launched a 30-ton hybrid excavator, and this product has already come to represent more than 40% of

Milestone of 100th Anniversary and Beyond

We will celebrate the 100th anniversary of Komatsu's founding in 2021. However, we recognize that this milestone is just that, a checkpoint to be passed. Accordingly, we remain committed to working toward the resolution of the issues faced by society and customers through flexible management in response to changes in the external environment.

One of the assumptions in the background of the formulation of the mid-term management plan was that we cannot anticipate significant growth in demand for construction equipment over the foreseeable future and must rather expect short-term fluctuations. As of today, demand has become highly volatile as a result of the global COVID-19 pandemic. Regardless, there will be no change to our basic approach during or after the pandemic. What will be important, however, will be the speed at which we act. Collaboration with partners who share our vision will be key to enhancing our products, services, and solutions. In launching the "SMARTCONSTRUCTION Digital Transformation," we are benefiting from collaboration with 20 start-up companies and other development partners located in Japan, the United States, and Europe. In addition, we have begun

sales of 30-ton class excavators in Europe, a market characterized by high environmental awareness. We believe that this is a product warranting attention amid the recent rise in the importance of environmental issues.

The third of our key initiatives for addressing climate change is to expand our forest machine business. While forestry work is increasingly being performed by machines in Europe and the United States, it is still common for such work to be conducted using manpower in Japan and Asia. I was positioned in Indonesia over the period from 2015 to 2016. During this period, I visited customers engaged in forestry work on several occasions. These visits made me aware of the large potential for forestry businesses, particularly in densely forested areas, while also giving me a strong interest in resolving the various issues faced by these businesses. Sustainable forestry businesses are circular businesses in which the CO₂ emitted into the atmosphere during the process of cultivating seedlings is then absorbed by trees to help mitigate climate change. Komatsu is supporting sustainable forestry with equipment that is capable of performing all processes from tree planting to harvesting grown trees, improving soil, and planting new trees. There currently exists demand for more than 10,000 forest machines on a global scale, and I therefore see the potential for consistent growth in this business going forward. Eventually, we will look to promote smart forestry by digitally linking all forestry processes through our SMARTCONSTRUCTION solution. In this manner, I hope to help address the various issues facing forestry businesses while cultivating new pillars of earnings.

offering electric mini excavators in the Japanese rental market. We have established a roadmap for promoting the spread of electric equipment going forward, and we look to make steady progress down this path through open innovation.

Komatsu is committed to sincerely addressing the issues faced by society and thereby raising its value as a company that grows together with society. We will also proactively participate in the United Nations Global Compact, the World Business Council for Sustainable Development, the Task Force on Climate-related Financial Disclosures, and other initiatives as we work to fulfill our obligations to society and the environment as a global company. I continue to thank all of our stakeholders and ask for your continued support.

Hiroyuki Ogawa
President and Chief Executive Officer