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Mid-term management plan

In April 2022, Komatsu launched DANTOTSU Value – *Together, to “The Next” for sustainable growth*, its new mid-term management plan scheduled to conclude with FY2024, to create new value for the next 100 years. This section contains explanations of the process of formulating the new mid-term management plan along with introduction on the growth strategies for generating a positive cycle for resolving environmental, social, and governance (ESG) issues and improving earnings to achieve sustainable growth.

Readers will also find messages from the president and the CFO in which they talk about their thoughts regarding the Company’s new mid-term management plan and financial strategies.

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Develop safe, highly productive, smart and clean workplaces of the future with customers



Please refer to the following video for more information on Komatsu future 203X, which describes what Komatsu wants to look like in the future.

https://www.youtube.com/watch?v=_hZao9jei5s



Message from the president



Hiroyuki Ogawa

President and Chief Executive Officer
Representative Director

Strive to create new value over the next 100 Years: Launch of the New Mid-term management plan "DANTOTSU Value –Together, to 'The Next' for Sustainable Growth"

Starting point for pursuit of sustainable growth over the next 100 years after celebrating 100th anniversary of founding in 2021

Komatsu celebrated the 100th anniversary of its founding in May 2021. Since its inception in Ishikawa Prefecture's Komatsu City, Komatsu has continued to respond to the needs of customers and society based on its management principle of "We will maximize the trust given to us by our stakeholders and society through a commitment to quality and reliability." In this manner, the Company has sought to develop the ideal workplaces.

As part of the commemoration of our 100th anniversary in FY2021, Komatsu has defined its corporate identity by reflecting on its corporate growth built by its forerunners and its relations with society. Specifically, Komatsu has articulated its mission and vision as its purpose, together with its values. The corporate identity also incorporates pieces that have been created over the Company's history: founding principles, The Komatsu Way, Komatsu's Worldwide Code of Business Conduct, and strategies including the mid-term management plan. (please see page 2). We also established our Sustainability Policy, which is designed to achieve a sustainable society and to improve business continuity, amid the rising social interest in companies' sustainability impacts on

climate change and other concerns (please see page 4).

Based on these elements, we engaged in an ongoing series of discussions about DANTOTSU Value – *Together, to 'The Next' for Sustainable Growth*, our new three-year mid-term management plan throughout FY2021. This new plan encapsulates our desire to make the coming three years a period as our springboard for creating new value so that we can advance to the next stage toward achieving the workplaces of the future, ensure a sustainable future for the next generation, and for sustainable growth over the next 100 years.

Komatsu Report 2022 provides a look at the course Komatsu will take in pursuing sustainable growth over the next 100 years with a focus on the new mid-term management plan. This will include how we aim to "continue creating new value" together with customers through the consistent supply of DANTOTSU Products, DANTOTSU Services, and DANTOTSU Solutions to customers engaging social infrastructure business based on our DNA of "manufacturing and technology innovation" and "the commitment to quality and reliability."

Steady implementation of growth strategies and structural reforms and a difficult external environment during period of previous Mid-term management plan

I was the Senior Executive officer responsible for formulating DANTOTSU Value – *FORWARD Together for Sustainable Growth*, the previous mid-term management plan, which covered the period from FY2019 to FY2021. This was before I became president. At the time of the formulation of this plan, we had a sense of crisis regarding the medium- to long-term outlook for the construction and mining equipment market. It was projected that demand would not see significant growth in this market, and that Komatsu would not be able to survive the next century if it did not change. This was also the time when rising concern for climate change started making coal exposure an issue. In formulating the plan, we discussed the types of strategies that would be necessary to drive sustainable growth with the goal of generating a positive cycle for resolving ESG issues and improving earnings to achieve sustainable growth. These discussions led us to embark on strategies based on the recognition that ESG issues do not only represent risks; they also present opportunities. We

remain this basic approach in the new mid-term management plan. It was also with the previous mid-term management plan that we first set ESG-related management targets and introduced frameworks for linking director remuneration to the accomplishment of ESG and other management targets.

Looking back at the previous mid-term management plan, Komatsu faced a difficult external environment throughout the three-year period of the plan. Demand started to decline in FY2019, which was further compounded by the global COVID-19 pandemic, something that we had not predicted when formulating the plan, resulting in a massive slump in demand for construction and mining equipment during the first two years of the plan. Nevertheless, we continued to make steady progress in our growth strategies and structural reforms while seeking to enhance corporate value through improved earnings and the resolution of ESG issues.

Noteworthy successes included to further strengthen its developing operation for electrification technologies together with customers or technical partners, the founding of the Komatsu GHG Alliance, the reformation of our underground soft rock business, the promotion of next-generation and carbon-neutral factories, and other measures to fight climate change.

Review of previous Mid-term management plan

Three growth strategies	Initiatives
1. Value creation by means of innovation	<ul style="list-style-type: none"> • Launched "digital transformation Smart Construction" • Started installation of Smart Construction Retrofit Kit • Conducted joint proof of concept test of electrified hydraulic excavators together with Proterra Inc. of the United States • Promoted Autonomous Haulage System • Electrified equipment for underground hard rock mining together with Proterra Inc. • Jointly developed electrified micro excavators with Honda Motor Co., Ltd., and launched these in the Japanese market • Founded the Komatsu GHG Alliance
2. Growth strategies based on business reform	<ul style="list-style-type: none"> • Expanded forestry machine business • Introduced next-generation Komtrax • Developed products for underground hard rock mining • Launched new electrified forklifts • Developed and launched electric vehicle battery production equipment • Launched new CE series hydraulic excavators for urban civil engineering applications • Established EARTHBRAIN Ltd. to promote improved safety, productivity, and eco-friendliness through digital transformation
3. Structural reforms for growth	<ul style="list-style-type: none"> • Completed new remanufacturing factory in South Africa • Reformed structure of underground soft rock business • Commenced operation of new seal ring factory at Himi Plant • Promoted carbon neutral plants

Changes in external environment and Revised material issues and reflecting them in our management strategies

Komatsu's external environment is increasingly being characterized by uncertainty and opaqueness. In this environment, we must address new issues related to carbon neutrality, digital transformation, and diversity, equity, and inclusion. At the same time, there is no end in sight for the COVID-19 pandemic, and raw material prices and logistics costs remain high. Komatsu operates a global business, and this means that we need to further bolster our responsiveness toward changes in the external environment and business risks associated with geopolitical risks, cybersecurity, pandemics, natural disasters, and other extreme circumstances.

Against this backdrop, Komatsu undertook an analysis of its material issues (materiality) in advance of the formulation of the new mid-term management plan. This analysis was aimed at reinforcing our responsiveness toward changes in the external environment and business risks. Through these analyses, we recognized four areas with particularly high business importance and impacts on sustainability. These four areas—environment, customers, employees, and ethics and governance—have been positioned as high-priority material issues, and initiatives in these areas have been incorporated into the growth strategies of the mid-term management plan (please see page 27).

Material issues represent issues needing to be addressed while also offering a glimpse at potential opportunities for growth. What is important is for us to recognize the rising level of uncertainty and to make steady progress in our initiatives for sustainable growth while advancing growth strategies and heightening our responsiveness toward risks.

Komatsu is gravely concerned about the current situation in Ukraine and sincerely hopes that the situation will be settled peacefully as soon as possible. Due to the situation in Ukraine, the disruption in the supply chain surrounding Komatsu has remained serious, and the impact on the financial and economic situation remains uncertain. Komatsu continues to develop its business with the safety and health of its customers and suppliers, residents of local communities, and employees and their families as its top priority. This will be our guiding policy as we carefully monitor the situation with the decision of responding in the most appropriate manner.

Clarification of medium- to long-term directives and issues of segments to review business portfolio featuring higher growth and profitability

In conjunction with the formulation of the new mid-term management plan, we reviewed our business portfolio (please see page 28). Komatsu have promoted selective focus on business at the start of the 2000s, and today we are concentrating our management resources primarily on our construction, mining and utility equipment, retail finance, and industrial machinery and others businesses. The establishment of the new mid-term management plan was used as an opportunity to try new initiatives to clarify the medium- to long-term directives and issues of individual business segments reflect these points in priority initiatives. In the construction, mining and utility equipment business, for example, we will invest in growth areas to enhance our solutions and value chain operations in pursuit of higher growth potential and profitability. M&A activities will be examined as one option for these investments.

Start of new three-year Mid-term management plan—strive to create new value over the next 100 years

Based on these considerations, Komatsu launched DANTOTSU Value – *Together, to "The Next" for Sustainable Growth*, its new three-year mid-term management plan, in April 2022 (please see page 26).

This new plan builds upon the concepts of the previous plan, calling on us to generate a positive cycle for resolving ESG issues and improving earnings to achieve sustainable growth through the supply of DANTOTSU Value, comprising DANTOTSU Products (advancement of machines), DANTOTSU Services (advancement of machine operations), and DANTOTSU Solutions (advancement of workplace operations). Through this approach, we are working to realize our ideal of creating the safe, highly productive, smart and clean workplaces of the future together with customers.

Moreover, the plan is upheld on three pillars of growth strategies: 1) Accelerate growth by means of innovation; 2) Maximize earnings power; and 3) Enhance corporate resilience. Based on these growth strategies, we will continue to focus investment on growth areas to create new value. At the same time, we will seek to maximize growth opportunities in existing business areas in order to improve profitability and build a business structure that is resilient to fluctuations in demand.

Ongoing focus on sustainability management to achieve sustainable growth over the next 100 years

Based on the Sustainability Policy, Komatsu aims to contribute to society through its business activities over the next 100 years. In the new mid-term management plan, we have continued to emphasize the previous plan's sustainability management in which we work for sustainable growth through a positive cycle for resolving ESG issues and improving earnings. With this emphasis, we have selected 10 new goals from among the 17 goals of the United Nations Sustainable Development Goals that are strongly related to material issues (materiality). We have also set key performance indicators (KPIs) aimed at resolving ESG issues through the three pillars of our growth strategies. Selected through discussion among the Board of Directors, these KPIs have been deemed to be viable for promoting the advancement of our growth strategies and for indicating the progress of the mid-term management plan to stakeholders (please see page 36). Komatsu will continue to disclose information on its progress toward the KPIs in its integrated reports, as it has done since the period of the previous mid-term management plan. By presenting this information in a clear form for stakeholders, we expect to boost the motivation of internal departments to achieve our KPIs and thereby accelerate the advancement of our growth strategies.

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 responsible global company.



Komatsu's current need for ongoing ambition to supply customers with new value

As was the case when formulating the previous mid-term management plan, we project that Komatsu's mainstay construction, mining and utility equipment business will continue to see gradual growth of market demand over the medium to long term. However, we cannot expect a massive spike in growth. We also have to recognize that we will continue to face a highly volatile market. When looking forward to the next century, it becomes clear that we must continue our prior approach, as well as, forge new relationships with customers and build a business structure that is resilient to changes in demand.

We made a certain degree of progress in priority initiatives of growth strategies under the previous mid-term management plan. However, there are still issues that we need to address in order to boost our growth potential and profitability. Areas of these issues include promoting to introduce electrified equipment, evolution value chains business, and expanding our underground hard rock and forestry machine businesses (please see page 32).

Message from the president

Advancing these growth strategies will require us to exercise ongoing ambition to capitalize on our possibilities and deliver new value to customers. We also must foster people who can boldly tackle new challenges without fear of failure. I too was provided with various opportunities to tackle new challenges throughout my career. I learned a lot from these opportunities, even when I failed, and this experience made me what I am today. For example, I was involved in projects for transferring production operations as part of our reorganization of Komatsu's domestic plants. I had the opportunity to experience this process at both plant transferring the operations and the plant to which operations were being transferred, and both sides of this experience contributed to my growth. I also gained a lot from my time overseas. Over the period from 2004 to 2007, I served as plant manager of the Chattanooga Plant, and I was able to experience and study various areas of management in this position. At that time, demand in the United States was brisk, and production could not keep up with this demand. To address this demand, we set up a system through which PC200s manufactured in Bangkok, Thailand, would be shipped to the U.S. This allowed us to respond to fluctuations in demand without incurring additional fixed costs. Today, this type of approach has come to be known as cross-sourcing. Through this experience, I learned that undertaking new endeavors overseas, even more so than other ambitious ventures, requires the skills of local staff and support from Japan. This taught me the importance of teamwork.

Expanding partnerships has been upheld as one of the common efforts needing to be addressed to advance the growth strategies of the mid-term management plan. When attempting to automate or electrify equipment, for example, it is important to absorb as much insight as possible from the partners we work with so that this insight can be used to foster our own employees. Komatsu does not have a substantial amount of insight in the fields of automation and electrification, meaning that it would be difficult for us to train experts in these fields on our own.

At the same time, management has the important responsibility of providing employees with opportunities to tackle new challenges. The practical skills and experience that subordinates acquire through such undertakings will contribute directly to their development. Based on my own

experience, it is crucial to delegate a certain degree of responsibility to these employees when having them try to tackle new challenges.

The Komatsu Way is an expression of the strengths of Komatsu, the beliefs supporting our corporate strengths, the basic attitudes, and a manner of action established based on the experiences of our predecessors as they proceeded to tackle the challenges facing them. We distribute this statement to Komatsu employees around the world and teach them its values. Instilling these values, which could be said to be the very DNA of Komatsu, in employees requires that they act and gain experience based on our emphasis on actual workplaces. A look back at our century-long history will show that Komatsu has often found itself faced with trials. When rival U.S. manufacturers sought to compete with us in Japan, we rose to the challenge and claimed victory through quality control measures to undertake the project "A". We have also had the experience of advancing into the global market, ramping up local production overseas, achieving a rapid recovery after posting an operating loss in 2001, and overcoming the adversity created by the 2008 financial crisis and the Great East Japan Earthquake in 2011. Our predecessors boldly tackled these challenges, without fear of failure. It is this history of overcoming hardship that has led Komatsu to grow into the company it is today.

Moreover, this history has formed the foundation on which we will grow in the future. The new mid-term management plan positions the next three years as a period for building the foundations for advancing to the next stage for the workplaces of the future and ensuring a sustainable future for the next generation through manufacturing and technology innovation and quality and reliability. I hope you will continue to support us as we enter a new stage.



Hiroyuki Ogawa
President and Chief Executive Officer
Representative Director

Online meetings with individual shareholders (Japanese only)

In order to help shareholders gain a better understanding of Komatsu's business activities, we will hold an online meeting for individual shareholders as detailed below.

At this meeting, members of senior management will provide an overview of the Komatsu Group and discuss the progress of our mid-term management plan as well as the Company's interim financial outlook and full-year financial outlook. We also ask for input from shareholders.

Details of FY2022 online meeting with individual shareholders (plan)

Time and date	7 p.m.–8 p.m. (JST), December 20, 2022 (Tuesday)
Method	The viewing website and viewing methods will be described in the interim business reports scheduled for distribution in early December 2022 (in Japanese only) and the Shareholder Events section of our corporate website (in Japanese only). The briefing will be viewable from computers, smartphones, and tablets.
Attendance requirements	Open to shareholders of the Company as of September 30, 2022
Agenda	1. Explanation of mid-term management plan progress, interim financial results, and full-year financial outlook 2. Question and answer session

Note: The meeting will be held in Japanese only. The materials in English will be posted on Komatsu's corporate website after the meeting. Please visit our website and refer to the Interview with the President section of our Investor Relations page.

Reference

FY2021 online meeting with individual shareholders

• Presenters

Hiroyuki Ogawa, President and Chief Executive Officer
Takeshi Horikoshi, Director, Senior Executive Officer, and CFO



For videos and materials from the FY2021 online shareholder meeting, please refer to the Shareholder Events section of our corporate website (in Japanese only).
<https://www.komatsu.jp/ja/ir/shareholder/event>



Video interviews with the president

For materials from the FY2021 online shareholder meeting, please refer to the Interview with the President section of our corporate website.

<https://www.komatsu.jp/en/ir/library/interview-movie>

