

Special feature: Mid-term management plan (FY2022–FY2024)

Mid-term management plan

(FY2022–FY2024)

DANTOTSU Value

Together, to "The Next" for sustainable growth

To the next stage for the workplace of the future

Ensuring a sustainable future for the next generation

A new chapter of value creation to the next 100 years

In April 2022, Komatsu launched **DANTOTSU Value – Together, to "The Next" for Sustainable Growth**, its new mid-term management plan covering the three-year period from FY2022 to FY2024.

The period of this plan has been positioned for building foundations for supporting the creation of new value so that we can move on to the next stage toward achieving the workplaces of the future, work toward a better sustainable future for the next generation, and create new value for sustainable growth over the next 100 years.

Changes in external environment and of ESG issues

In recent years, Komatsu's external environment has been becoming increasingly volatile and opaque.

Achieving sustainable growth in this environment will require Komatsu to increase its resilience to changes in the

external environment and to business risks. We will also need to enhance our foundation for sustainable growth by positioning trends like digital transformation, carbon neutrality, and diversity and inclusion as business opportunities.

Politics & economy

- 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)



Environment & energy

- 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

- 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



Society & values

- 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



Revision of material issues (materiality)

Prior to the launch of the new mid-term management plan, Komatsu undertook a revision of its material issues over the period from November 2020 to February 2021 through which it sought to increase its resilience to changes in the operating environment and business risks.

Initiatives in areas deemed to be of high importance to accomplishing the goal of the growth strategies of the mid-term management plan—generating a positive cycle for resolving ESG issues and improving earnings to achieve sustainable growth—have been reflected in growth strategies.

Process of revising material issues

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

1. Identification of sustainability issues

Important issues 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 26 internal and external individuals (15 internal and 11 external)* 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).

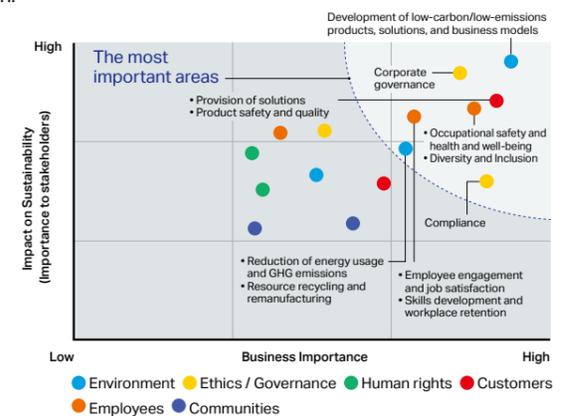
* External individuals included institutional investors and representatives from World Business Council for Sustainable Development, World Wide Fund for Nature Inc., Business & Human Rights Resource Centre, customers, and partners. Internal individuals included domestic and overseas officers (directors, global officers, and other executive officers).

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.

Material issues (materiality)	
Environment	<ul style="list-style-type: none"> • Development of low-carbon/low-emissions products, solutions, and business models • Resource recycling and remanufacturing • Reduction of energy usage and GHG emissions • Forest conservation through business activities
Customers	<ul style="list-style-type: none"> • Provision of solutions • Product safety and quality
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
Ethics / Governance	<ul style="list-style-type: none"> • Corporate governance • Compliance
Human Rights	<ul style="list-style-type: none"> • Respect for human rights
Communities	<ul style="list-style-type: none"> • Contributions to local communities



4. Approval of Mid-term management plan by board of directors

The mid-term management plan was approved by the Board of Directors as a plan for generating a positive cycle for resolving ESG issues and improving earnings to achieve sustainable growth by addressing material issues based on an understanding of the relationship between these issues, Komatsu's Sustainability Policy, and the United Nations Sustainable Development Goals (SDGs).*

Moreover, the Company will undertake regular materiality analyses and reflect the identified risks and opportunities into management in order to respond flexibly to changes in the operating and management environment.

* For information on the relationship between material issues, Komatsu's Sustainability Policy, priority measures of the mid-term management plan, and the SDGs, please refer to the list of key performance indicators on page 36.

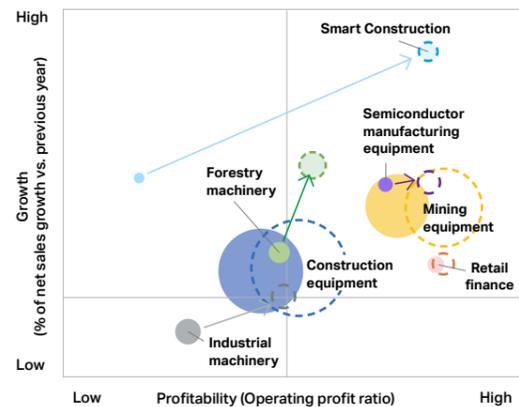
Review of business portfolio

In conjunction with the establishment of its new mid-term management plan, Komatsu also conducted a review of its business portfolio. This review entailed clarifying the medium- to long-term directives and issues for business segments and reflecting these in the priority initiatives of the mid-term management plan.

For our core business, the construction and mining equipment business, we will continue to focus investments on growth areas and control fixed costs. While also focusing on M&A activities, we will work toward sustainable business growth by increasing growth and profitability through the expansion of our solution and value chain businesses.

Business portfolio (Average for the past 10 years: FY2012–FY2021)

○ shows medium- to long-term direction of each business segment



- Colored bubbles indicate the size of 10-years average sales for each business segment.
- Smart Construction and forestry equipment indicates the direction from FY2021 with construction equipment in parentheses.
- Smart Construction indicates solutions related portion.

Business direction and main issues

Business segments	Business direction and main issues
Construction equipment	Strategic markets <ul style="list-style-type: none"> • Aggressive strategies in growth markets (Asia and Africa) • Increase sales of CE series excavators Traditional markets <ul style="list-style-type: none"> • Promote digital transformation Smart Construction • Develop automation / electrification technologies and form markets Global <ul style="list-style-type: none"> • Strengthen forestry machinery business and expand smart forestry • Expand value chain business (including mining)
Mining equipment	Surface mining <ul style="list-style-type: none"> • Promote open technology platforms • Strengthen AHS business and develop automated and remote-controlled technologies of mining equipment • Promote development of power agnostic trucks (Komatsu GHG alliance) Underground mining <ul style="list-style-type: none"> • Expand hard rock business • Continuous structural reforms in response to coal demand decrease
Retail finance	Expand coverage (regional and products) and maintain financial soundness
Industrial machinery and others	Semiconductor manufacturing equipment <ul style="list-style-type: none"> • Maintain and improve strong earnings structure and address speed of growth of the semiconductor market • Expand DUV light source equipment business for lithography • Expand temperature control equipment business
	Industrial machinery <ul style="list-style-type: none"> • Improve earnings structure and address customer changes (CASE) • Strengthen automotive battery manufacturing equipment business and expand smart line business • Strengthen after-sales service business and development of new products with new processing methods

Management tasks for achieving sustainable growth

Demand in the construction and mining equipment business, Komatsu's core business, is expected to increase moderately over the medium to long term because of population growth and urbanization in strategic markets and because of the steady pace of infrastructure replacement investments in traditional markets.

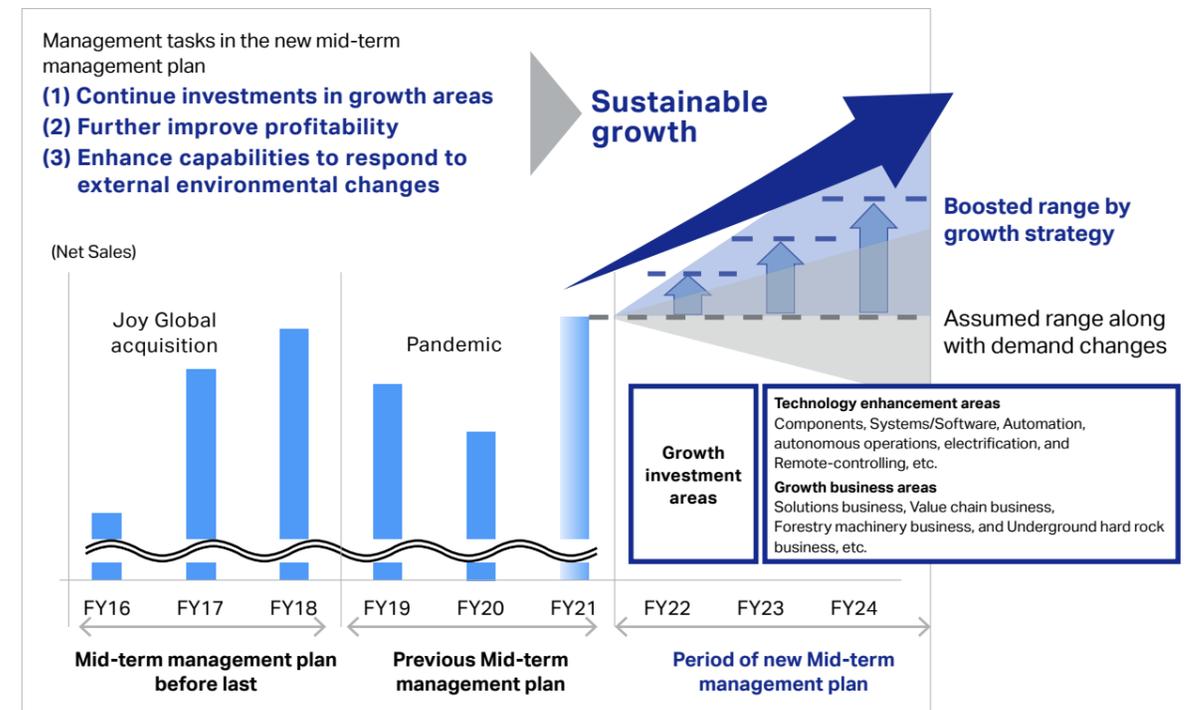
In the short term, meanwhile, demand volatility is expected to be extremely high due to various external environment risks.

Therefore, we recognize there are three challenges needing to be overcome in order to achieve sustainable growth. The first is to conduct continued investment in growth areas. The second is to achieve further improvements in profitability. The third is to strengthen our ability to address environmental changes.

By implementing our growth strategy, we strive to achieve growth surpassing the industry average, to secure the industry's top level of profitability, and to build a corporate structure that is resilient against demand volatility, and thereby accomplishing sustainable growth.

Growth areas where we are making focused investments include the technological areas such as automation, electrification, remote control, components and software, the solutions business for Smart Construction, and an open technology platform for mining and value chain businesses. In addition, we will also invest in businesses with high growth potential such as the forestry machinery business and the underground hard rock mining business.

Mid-term management plan (FY2022–2024): Approaches to growth strategy



Creation of DANTOTSU Value

By advancing the growth strategies of its mid-term management plan, Komatsu aims to create the safe, highly productive, smart and clean workplaces of the future together with customers.

The “workplaces of the future” that Komatsu aims to create in the 2030s will resolve customers’ workplace issues and optimize operations by means of partnership and advanced technologies, using open platforms connecting land data, people, machines, and materials through digitalization. This connectivity is expected to allow for advanced technologies to be utilized together with partners to resolve issues and pursue optimization at customer workplaces around the world.

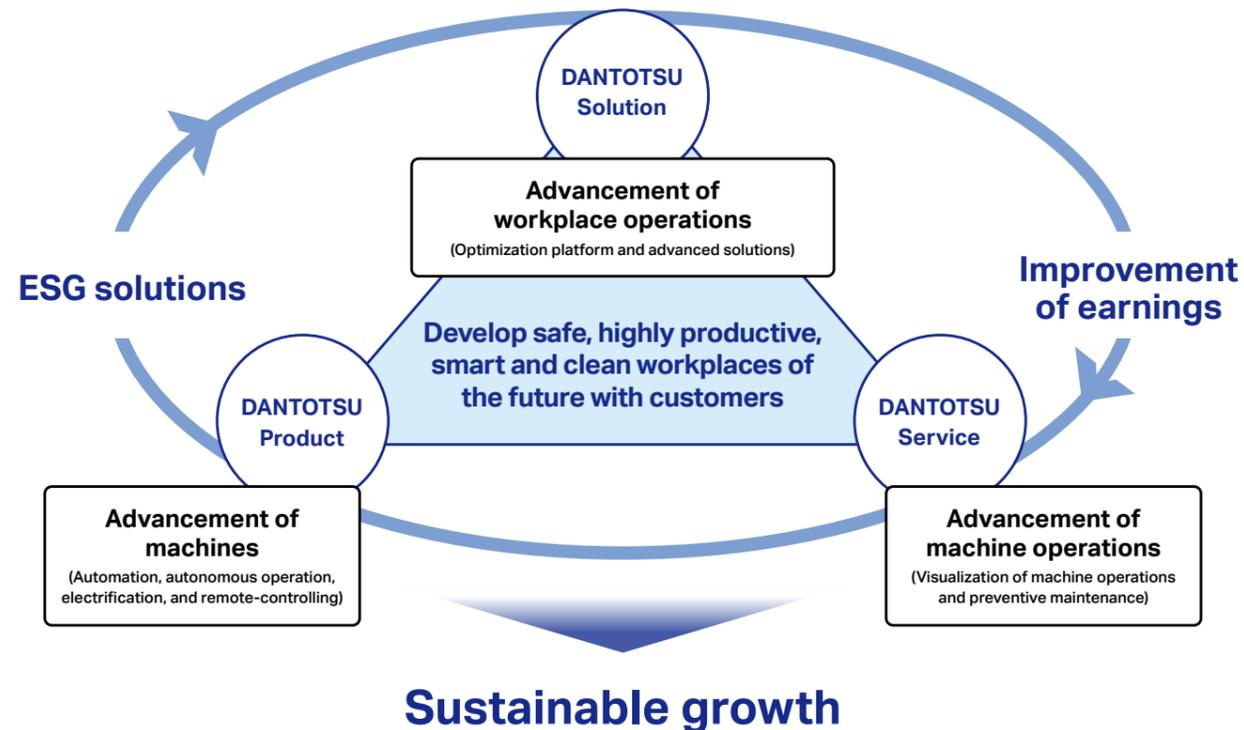
Komatsu aims to generate a positive cycle for resolving ESG issues and improving earnings to achieve sustainable growth through the supply of new customer value (DANTOTSU Value), by integrating DANTOTSU Products (advancement of machines), DANTOTSU Services (advancement of machine operations), and DANTOTSU Solutions (advancement of workplace operations).

As shown in our roadmap for the workplaces of the future, we aim to create new value through solutions; provide safe, environmentally friendly and highly efficient products that are highly compatible with those solutions; and connect all customer processes with digitalization. Through these efforts, we will strive to achieve the optimization of workplace operations from the perspectives of safety, efficiency, and the environment in order to create the workplaces of the future and achieve carbon neutrality.

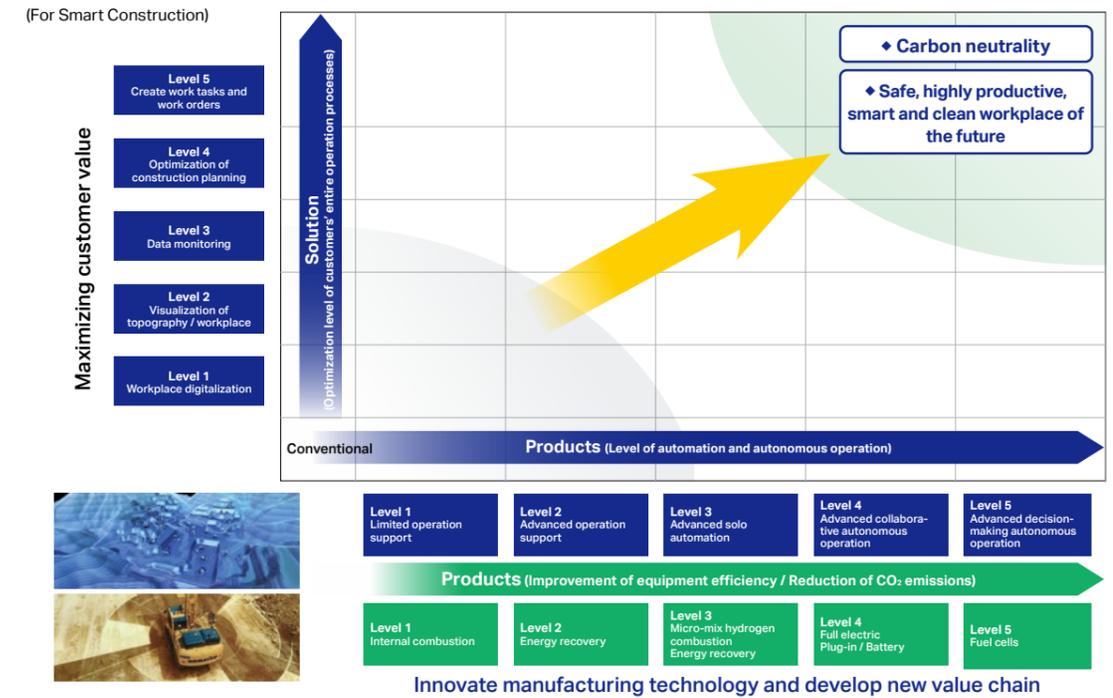
Furthermore, Komatsu announced its 2050 carbon neutral declaration stating its aim to achieve business growth while implementing measures to combat global warming. We will extend these efforts to reduce CO₂ emissions throughout customer workplaces, not just at our production sites and from the use of our products, by utilizing Smart Construction and other methods to optimize customers’ construction activities and to proactively contribute to CO₂ reductions across society.

DANTOTSU Value

Customer value creation that generates a positive cycle of ESG solutions and improvement of earnings



Roadmap to workplace of the future

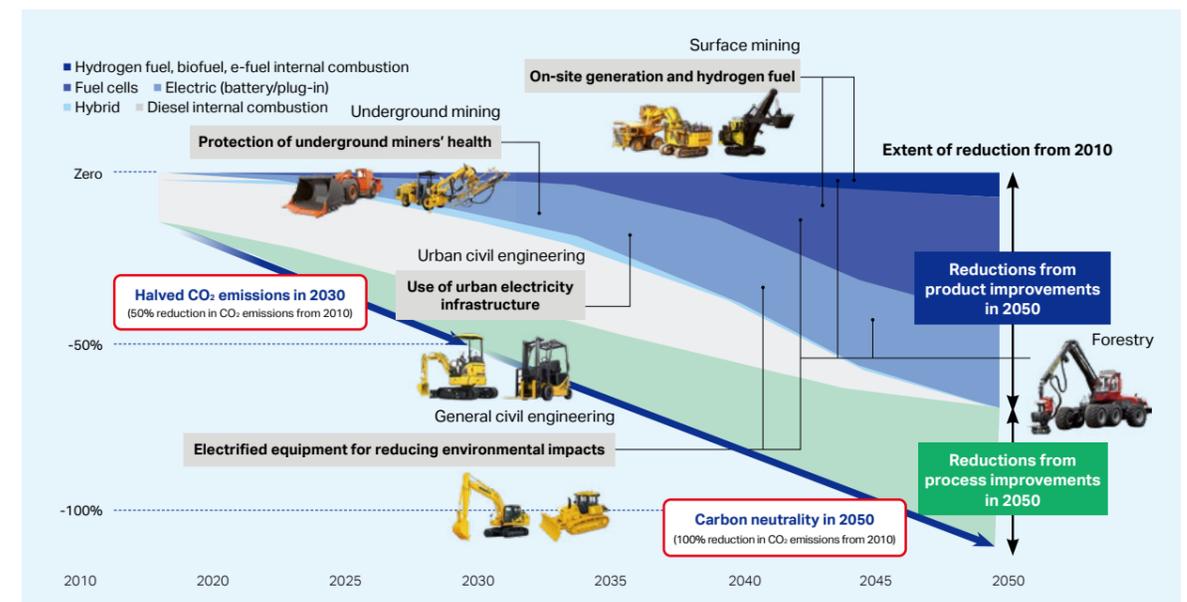


Product development roadmap for carbon neutrality

We will constantly update our product development roadmap so that we can provide customers with all options according to their environmental needs.

Reductions from product improvements: Reduce CO₂ emissions by increasing machine efficiency and improving low carbon levels (shift to cleaner power sources).

Reductions by solutions (process improvements): Reduce CO₂ emissions by optimizing and improving the efficiency of all jobs, construction, and operations at customers’ workplaces.



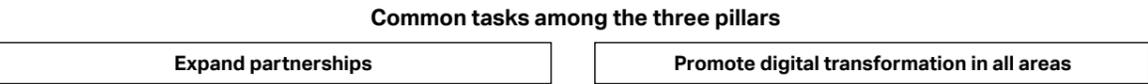
Three pillars of growth strategies

The new mid-term management plan 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 mid-term vision, as well as on various factors, such as the achievements and ongoing challenges from the previous mid-term management plan; changes in the external environment; and management issues.

Based on the pillars of growth strategies, the Company will continue to focus investment on growth areas to create new value. In addition, Komatsu will

target the maximization of earnings opportunities in existing business areas in order to improve profitability and build a business structure that is resilient to fluctuations in demand. The management foundations for supporting these activities will be reinforced by enhancing efficiency and improving responsiveness to changes in the external environment.

As common themes among three pillars, we will work to expand business partnerships, including through M&A and open innovation activities, while promoting digital transformation in all areas with the goal of improving productivity and efficiency.



1. Accelerate growth by means of innovation



- **Create new customer values by optimizing workplaces**
 - Promote digital transformation Smart Construction and its overseas expansion
 - Business promotion using mining open technology platforms
 - Advanced product development and market introduction with high compatibility with platforms
- **Tackling the challenge of crafting values (products and solutions) for carbon neutrality**
 - Develop and market introduction of electrified machinery
 - Promotion and expansion of Smart Forestry
 - Plants with zero environmental impacts

2. Maximize earnings power



- **Expand presence in key emerging markets**
 - Strengthening of marketing strategies in Asian and African markets
 - Expansion of forestry machinery and hard rock equipment businesses
 - Expansion of aftermarket business
- **Further growth from evolution of value chain business**
 - Development of data-driven business model
 - Promotion of differentiation through lifecycle support business
 - Expansion of Reman/rebuild businesses

3. Enhance corporate resilience



- **Drive efficient business operations and reinforce risk management**
 - Strengthening of production and procurement systems resistant to environmental changes (increase of multi-source ratio of parts)
 - Enhancing assessment of economic security risk and preparedness
 - Strengthening the corporate brand by developing a global brand strategy
- **Enrich human resources base with diversity**
 - Enhancement of diversity & inclusion
 - Offering of a variety of talent development opportunities and improvement of employee engagement
 - Human resources development for digital applications and open-innovation

1 Accelerate growth by means of innovation

Komatsu has defined areas in which it will cultivate businesses through strategic investment in pursuit of future growth. In these areas, we will expand the solutions business through the creation of new value that optimizes customer workplaces by accelerating innovation in both solutions and products.

For example, we will promote businesses related to the "Smart Construction Digital Transformation" solution and to mining open technology platforms.. At the same time, we will

accelerate development and practical application of sophisticated products (equipment) boasting automated, autonomous, and remote operation functions that make them highly compatible with our software, solutions, and platforms.

Meanwhile, carbon neutrality initiatives will include such ambitious undertakings as launching electrified equipment, promoting smart forestry, and creating plants with no environmental impacts.

Promotion of "Smart construction digital transformation"

The Japanese construction industry is suffering due to social issues like the aging of workers and the shrinking of the working-age population. The impacts of such issues are being further compounded by the COVID-19 pandemic, which is creating a pressing need for workstyle reforms at construction workplaces around the world.

To help address these issues, Komatsu evolved its prior Smart Construction solution to create the "Smart Construction Digital Transformation" solution, which is capable of contributing to further improvements to the safety, productivity, and eco-friendliness of construction workplaces.

In addition, we launched EARTHRAIN Ltd., a joint venture company, together with NTT DOCOMO, INC. Sony Semiconductor Solutions Corporation, and Nomura Research Institute, Ltd., in 2021. EARTHRAIN is tasked with developing devices and applications for the visualization of various construction workplace data. By combining the four companies' expertise, know-how and technologies, EARTHRAIN will provide the next-generation of Smart Construction.

The mid-term management plan positions the promotion of the "Smart Construction Digital Transformation" solution as a priority initiative, based on which we aim to help enhance and optimize construction workplaces. Moreover, the applications developed by EARTHRAIN will be combined with the ICT-intensive construction equipment of Komatsu to expand the use of this solution on a global scale in order to make greater contributions to productivity at construction workplaces around the world.

For information on key performance indicators for improving construction workplace productivity through Smart Construction, please refer to page 36.

Development and launch of electrified equipment

Komatsu is working together with various partners to develop and launch electrified equipment in order to provide various options that match customers' needs for environmental performance based on its outlook for the future of the market.

As one facet of these efforts, we aim to introduce equipment that can run on fuel cells, hydrogen engines, and various other power sources.

In June 2022, Komatsu signed a memorandum of understanding with Cummins Inc. to collaborate on the development of zero-emissions power sources for haulage equipment. This agreement also pertains to technologies including hydrogen fuel cell solutions.

By capitalizing on Cummins' wide-ranging technologies and expertise pertaining to batteries, fuel cell systems, and hydrogen production systems, we are moving ahead with the development of zero emissions power technologies. Komatsu is advancing to develop power agnostic trucks that can run on a variety of power sources. And targeting a commercial launch for these trucks to be achieved by 2030.

Komatsu is committed to contributing to carbon neutrality through the development of such eco-friendly products.



2 Maximize earnings power

Komatsu seeks to achieve further growth and improve its profitability by maximizing earnings opportunities in existing businesses through the expansion of its presence in growth markets and the evolution of value chain businesses.

Efforts for expanding our presence in growth markets, specifically those in Asia and Africa, will include promoting sales of the CE series hydraulic excavators for urban civil engineering applications launched in 2021, bolstering product planning systems tailored to regional characteristics, and augmenting our lineup of attachments.

Komatsu will also reinforce its operations in areas

expected to grow in the future, such as forestry machinery and hard rock mining.

Moreover, the next-generation Komtrax will be utilized to develop a data-driven business model that takes advantage of the strength of our in-house production of key components and because of the fact that we have deployed some 680,000 equipment units (as of March 31, 2022) around the world. With this model, we aim to bolster our support capabilities across equipment lifecycles in order to expand our remanufacturing (Reman) and rebuilding operations.

For more information on Komatsu's lifecycle support business, please refer to page 14.

Acceleration of initiatives in Asian and African markets

Komatsu is deploying a two-model line strategy to address the diverse needs of customers in the Asian market. Based on this strategy, we have introduced into this market the PC210-10M0 standard series hydraulic excavator, which excels when it comes to power and productivity in mining and quarrying work. We also, launched the PC200-10M0 CE series hydraulic excavator, which boasts specifications optimized for urban civil engineering work, such as residential land development and road construction, in 2021. The PC200-10M0 CE series hydraulic excavator features better fuel economy and a lower price than conventional models, achieved by optimizing specifications exclusively for urban civil engineering work with four-cylinder engines, while inheriting the quality and durability of conventional models.

By taking strategic advantage of its in-house development and production of key components, Komatsu is working to install a variety of sensors on the key components of equipment for strategic markets and to use monitoring technologies in order to predict mechanical failures and estimate product life. Just like the PC210-10M0 standard series hydraulic excavator, the PC200-10M0 CE series hydraulic excavator is equipped with a variety of sensors and is supported by the extended warranty program



(maximum 5 years or 10,000 hours), thereby maximizing the benefits for customers.

Going forward, Komatsu will extend its two-model line strategy using CE series models to other strategic markets in order to expand its presence in these markets.

In African markets, meanwhile, Komatsu is expanding its customer support operations. For example, we completed construction of a new remanufacturing (Reman) plant in South Africa in 2021. This base will be utilized as a central hub for our activities in southern Africa in order to reinforce our Reman operations (see page 15).

Advancement of forestry machinery business

Komatsu is ramping up its efforts in the forestry machinery business with the aim of growing it into a third pillar of business alongside its construction equipment and mining equipment businesses.

Seeking to encourage sustainable forestry, Komatsu is upholding not only the already-mechanized areas of harvesting and forwarding but also planting and cultivation. To aid it in these efforts, the Company acquired Bracke Forest AB, a Swedish-based developer, manufacturer, and seller of application-specific attachments for silviculture, in July 2022.

In addition to mechanizing forestry processes, we are developing forest management solutions for analyzing data on tree numbers, height, and other metrics measured using drones and satellites. Through such efforts, Komatsu is supporting



customers in improving safety and productivity at their workplaces while also contributing to carbon neutrality.

3 Enhance corporate resilience

The external environment has become increasingly uncertain in recent years, prompting Komatsu to pursue higher levels of resilience in the management foundations that support its pursuit of sustainable growth.

One area for the pursuit of higher resilience is initiatives for strengthening risk management and boosting operational efficiency. In this area, we are building supply chains that are resilient to changes in the operating environment by increasing the ratio of items we procure from multiple suppliers. We are also furnishing flexible responses to foreign exchange rate and demand fluctuations through cross-sourcing. Meanwhile, assessments are being conducted with regard to the emerging need to address economic security risks as we develop the necessary response frameworks.

Human resource measures, meanwhile, include bolstering our diverse staff to heighten engagement with employees boasting various expertise, in order to ensure that we are equipped to overcome challenges as a team.

Specifically, we are promoting diversity and inclusion while working to improve engagement by offering employees various opportunities to develop their skills. In addition, we are fostering human resources with skills pertaining to digital technologies and open innovation.



- For more information on production and procurement systems, please refer to page 16.
- For more information on human resource development initiatives, please refer to page 56.

Management targets

For more information on Komatsu's financial strategies, please refer to page 41.

Concerning management targets in the new mid-term management plan, while we are keeping the same targets from the previous plan, that is, "Growth," "Profitability," "Efficiency," "Financial Position," and "Retail finance business," we have set a new ESG target of the challenge to become carbon neutral by 2050.

With respect to shareholder return, while placing priority on focusing investments in growth areas, we will continue to work for stable dividends for shareholders.

Item	Index	Target
Growth	Sales growth rate	Growth rate above the industry's average
Profitability	Operating profit ratio	An industry's top-level profit ratio
Efficiency	ROE	10% or higher
Financial position	Net D/E Ratio	Industry's top-level financial position
Retail finance business	ROA	1.5% to 2.0%
	Net D/E Ratio	5 times or less
ESG	Reduction of environmental impact	<ul style="list-style-type: none"> CO₂ emissions: Decrease by 50% in 2030 from 2010 Become carbon neutral by 2050 (Challenging goal) Renewable energy use: Increase to 50% of total energy use in 2030
	Evaluation by external organizations	<ul style="list-style-type: none"> Selected for DJSI* (World & Asia Pacific) Selected for CDP** A List (Climate Changes and Water Risk)
Shareholder return	Consolidated payout ratio	<ul style="list-style-type: none"> Keep a fair balance between investment for growth and shareholder return (incl. share buybacks), while placing main priority on growth investment 40% or more

* Dow Jones Sustainability Indices: SRI indices generated by S&P Dow Jones of the United States and RobecoSAM of Switzerland
 ** International non-profit organization that advocates the reduction of greenhouse gas emissions and protection of water resources and forests by companies and governments