Komatsu Ltd.
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Date: April 27th, 2016
URL: http://www.komatsu.com/

Notice: Development of Mid-range Management Plan

Please be informed that Komatsu Ltd. developed the new mid-range management plan, "Together We Innovate GEMBA Worldwide: Growth Toward Our 100th Anniversary (2021) and Beyond", and the plan was resolved by the Board of Directors in its meeting held today. For more information, please see the attachment.
(end)

For Immediate Release

April 27, 2016
Komatsu Ltd.
No.015(2577)

Together We Innovate GEMBA Worldwide: Growth Toward Our 100th Anniversary (2021) and Beyond

Komatsu Launches on New Mid-range Management Plan (FY2016 – 18)

To welcome our 100th anniversary in 2021 and continue to grow beyond 2021, Komatsu Ltd. (President and CEO: Tetsuji Ohashi) launched the new three-year (FY2016 – FY2018) mid-range management plan, "Together We Innovate GEMBA Worldwide: Growth Toward Our 100th Anniversary (2021) and Beyond" in April this year.

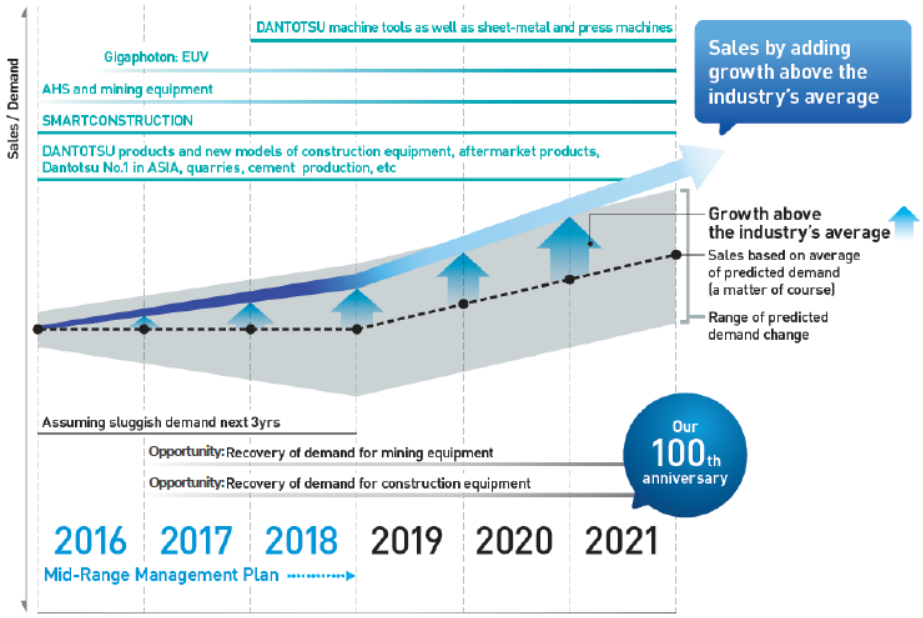
Since the beginning of the 2000s, demand for construction and mining equipment expanded, temporarily registering a record-high level, supported by the economic growth of emerging countries. Today, however, it has remained in an adjustment phase, centering on Strategic Markets, as adversely affected by slowing growth of emerging countries and sluggish prices of commodities, such as crude oil. While we project that demand will remain standing still for a while, we understand that it will grow in the long term, reflecting the growth of the global population and urbanization rate. Concerning demand for industrial machinery, we expect that it will grow firmly in a few years, albeit with small changes, as we can look forward to an increase of facilities investment in the automobile and semiconductor manufacturing industries, our main clients.

The new mid-range management plan continues to center on 1) Growth strategies based on innovation, 2) Growth strategies of existing businesses, and 3) Structural reforms designed to reinforce the business foundation. In this framework, we will strive to accelerate growth by not only working to sow the seeds for future growth, but also taking further advantage of our group-wide strength of IoT (Internet of Things), even while demand for construction and mining equipment will remain sluggish. With our IoT commitment, including the KOMTRAX (Komatsu Machine Tracking System), SMARTCONSTRUCTION, Autonomous Haulage System (AHS) and KOM-MICS (Komatsu Manufacturing Innovation Cloud System), we will work to connect customers' and distributors' workplaces as well as our production workplaces, including suppliers. In this manner, we will strive to improve safety and productivity of all workplaces and become an indispensable partner of our customers with a greater degree of their dependence on us more than ever before.

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For Immediate Release

Growth Toward Our 100th Anniversary and Beyond



We are going to separate the retail finance business as a new independent operating segment in order to increase the transparency of the financial position of the retail finance business. We will further develop the retail finance business which originally applies information about machine operations and locations via KOMTRAX to crediting.

In the final three years, we reduced our debt of all operations, except for the retail finance business, as planned. Concerning the future use of funds, we will further consider the redistribution of profits to shareholders, including stock buybacks, while keeping investment for growth in the center. Specifically, we have set the policy of a consolidated payout ratio of 40% or higher and no decrease of dividends, as long as the consolidated payout ratio does not surpass 60%

The cornerstone of Komatsu's management lies in commitment to Quality and Reliability and maximization of its corporate value. We at Komatsu define our corporate value as the total sum of trust given to us by society and all stakeholders. In this new mid-range management plan as well, all of us at the Komatsu Group will work to improve business performance, further strengthen our corporate foundation and achieve our social mission in a well-balanced manner, as we make teamwork efforts in the following focused activities by sharing The KOMATSU Way and paying more attention to ESG (Environment, Society and Governance).

■ Markets as Positioned by Komatsu

Traditional Markets	Japan, North America and Europe
Strategic Markets	China, Latin America, Asia, Oceania, Africa, Middle East and CIS

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【Targets】

We have newly added Growth to the previous targets of Profitability, Efficiency, Redistribution of Profits to Shareholders and Financial position. Retail finance business as an independent operating segment, has set its own targets in light of management efficiency and financial position.

Growth	Aim at a growth rate above the industry's average.
Profitability	Aim at an Industry's top-level operating income ratio.
Efficiency	Aim at 10%-level ROE.
Shareholder return	1. Keep a fair balance between investment for growth and shareholder return (incl. stock buyback), while placing main priority on investment. 2. Set the goal of a consolidated payout ratio of 40% or higher, and maintain the policy of not decreasing dividends as long as the ratio does not surpass 60%.
Financial position	Aim at industry's top-level financial position.

Retail finance business	1. ROA: 2.0% or above 2. 5.0 or under for net debt-to-equity ratio

Notes:

*ROE=Net income attributable to Komatsu Ltd. for the year/[(Komatsu Ltd. shareholders' equity at the beginning + Komatsu Ltd. shareholders' equity at the end of the fiscal year)/2]

*ROA=Income before income taxes and equity in earnings of affiliated companies/[(total assets at the beginning + total assets at the end of the fiscal year)/2]

* Net debt-to-equity ratio = (Interest-bearing debt – Cash and cash equivalents – Time deposits) / Komatsu Ltd. shareholders' equity

【Three Strategies and Focused Efforts】

1. Growth strategies based on innovation

We will develop DANTOTSU products, DANTOTSU service and DANTOTSU solutions based on our proprietary competitive manufacturing aimed at Quality and Reliability and by proactively incorporating technologies, which we cannot obtain in the Komatsu Group, through industrial-academic and industrial-industrial collaborations. Accordingly we will continue to generate innovation in a speedy manner, which is designed to create new value to customers' jobsite operations.

In the construction, mining and utility equipment business, to substantially improve safety, environmental friendliness and productivity of customers' jobsite operations, we will develop

and launch next-generation equipment which will achieve further automation and unmanned operation by means of cutting-edge ICT utilization. At the same time, we will also work to develop next-generation components designed to dynamically uplift basic mechanical performance of equipment itself and will mount them on new products, including forklift trucks.

To thoroughly “visualize” machine and jobsite operations, which is indispensable for improvement of jobsite operations, while further advancing KOMTRAX versions, we will also develop and provide a platform where we can share information about personnel, “things” (construction equipment, trucks, etc.) and topography of construction and mining jobsites.

Our two DANTOTSU solutions, namely SMARTCONSTRUCTION for construction jobsites and Autonomous Haulage System (AHS) for mining jobsites, are designed to contribute to solving problems of customers’ jobsite operations based on “visualized” information. We will nurture the growth of these two solution models by further improving our service contents and expanding the areas and scale of their deployment.

In the industrial machinery and others business, we will promote in-house production of key components of machine tools and sheet-metal and press machines and develop DANTOTSU products which will feature outstanding productivity. GIGAPHOTON INC. will work to commercialize cutting-edge Extreme Ultraviolet (EUV) light sources used for lithography tools in the near future.

2. Growth strategies of existing businesses

In addition to developing, producing and selling new products, we will expand our entire value chain, consisting of the aftermarket business which distributes spare parts and provides service, the rental-to-used equipment business and the retail finance business, by strengthening business, including mergers and acquisitions. By converging Komatsu Group’s integrated strengths, we will propose to customers our recommendations to reduce their lifecycle costs of construction and mining equipment as well as industrial machinery, thereby promoting our existing businesses by staying away from pricing competition.

Development of new products is the most important of all in our value chain. While making more efforts than before to develop DANTOTSU products, we will not only work to develop models compliant to new emission controls in Traditional Markets, and construction and mining equipment designed to meet different needs of Strategic Markets, but also broaden our product mix for use in demolition, industrial waste management, agricultural engineering and dredging. In the forklift truck business, we will work to expand the range of FE series electric models and FH series hydrostatic drive models. To establish DANTOTSU No. 1 position in Asia, where we expect big market growth, we will newly open development and training centers to develop locally-tailored products and distributors’ human resource.

Focusing our efforts on quarry and cement industries, where their machines are classified between construction and mining equipment according to their size and applications, we will capitalize on our know-how accumulated in construction and mining solutions and help customers solve

problems of their jobsite operations in order to enhance our presence in these industries around the world. With respect to forest machinery, we will not only broaden our offering of products and attachments, but also offer solutions to the industry for growing and tending forest crops in addition to felling.

3. Structural reforms designed to reinforce the business foundation

While we have about doubled sales of Komatsu from the early FY2000s, we have controlled fixed costs at about a constant level. By separating costs from growth as our policy, we will strive to aggressively cut down on production costs and maintain an appropriate level of fixed costs, while investing for growth.

With respect to development, we will work for 30% reduction of time and costs from conventional amounts, partly by improving measurement, computation and simulation technologies. We will also promote production reforms by means of KOM-MICS, which networks manufacturing equipment of not only Komatsu plants but also suppliers for real-time “visualization” of production on the shop floor. Furthermore, we will increase the speed of supplying products and parts and optimize inventories by connecting market information directly to plants.

When each and every employee of the Komatsu Group refines individual talents and demonstrates their strengths in an environment where all respect each other, we will be able to create our next DANTOTSU products and promote the sustainable growth of each company of the Group. By recognizing diversity as the source of individual and corporate growth, we will continue to emphasize human resource development while providing a work environment and framework where each and every employee can maximize performance through full motivation and with pride.



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