

Komatsu Green Bond Framework

1. Introduction

1.1 Outline of the issuer

Komatsu Ltd. (hereafter “Komatsu”), founded in Komatsu City, Ishikawa Prefecture in May 1921, engages in an extensive range of operations from research and development, production, marketing, sales and service to retail financing in three business segments of Construction, Mining and Utility Equipment, Retail Finance, and Industrial Machinery and Others in Japan and abroad. Komatsu upholds the management principle of maximizing its corporate value, i.e., the total sum of trust from society and all its stakeholders, as it remains committed to Quality and Reliability. Through its business operations, together with its customers, Komatsu is working to achieve safe, highly productive, smart and clean workplaces of the future.

1.2 Responses to environmental problems

1.2.1 Mid-term management plan

Under the three-year mid-term management plan, “DANTOTSU Value - FORWARD Together for Sustainable Growth”, to be completed in the fiscal year ending March 31, 2022, Komatsu is upholding three pillars of growth strategies, namely, “Value Creation by Means of Innovation”, “Growth Strategies Based on Business Reforms”, and “Structural Reforms for Growth.” Komatsu is making efforts for sustainable growth through a positive cycle of improving earnings and solving ESG issues. Starting with this mid-term management plan, Komatsu has added new ESG management targets and clearly defined the relationships between the efforts of focus in three pillars of growth strategies and SDGs.

1.2.2 Environmental efforts under the mid-term management plan

With the increasing frequency of abnormal weather events, climate change is having an ever-greater impact on our lives. The adoption of the Paris Agreement sparked a large global movement toward the realization of a low-carbon society. In recognition of this issue, Komatsu has added new ESG management targets in the current mid-term management plan, upholding the targets of reducing environmental impact. Specifically, Komatsu is working to reduce CO2 emissions to 50% in 2030 from 2010 and to increase the ratio of using renewable energy to 50% of total energy use in 2030.

For four consecutive years until 2019, Komatsu has been identified as a Climate "A" List company by CDP*, the non-profit global environmental disclosure platforms.

【Environmental responses in the use of products】

Approximately 90% of CO2 emissions in the lifecycle of construction equipment is generated by machines in use. Accordingly, Komatsu is working to reduce CO2 emissions from products in use to 50% by 2030 from 2010, by offering high-quality, high-efficiency products, service and solutions, which emphasize the reduction of environmental impact and safety.

【Environmental responses in production】

Komatsu has set the following targets to reduce CO2 emissions and increase the ratio of using renewable energy by the end of 2030. Komatsu is also working to reduce the emission of industrial waste and use of water.

- 1) Reduce CO2 emissions per unit of production at major production sites worldwide by 50% (in comparison with 2010).
- 2) Source 50% of the electricity used at major production sites worldwide from renewable energy.

2. Komatsu Green Bond framework

For the issuance of its green bond, Komatsu has formulated a Komatsu Green Bond Framework in accordance with the four pillars (use of proceeds, process for project evaluation and selection, management of proceeds, and reporting) as specified in the 2018 Green Bond Principles and the Green Bond Guidelines 2020 from Japan's Ministry of the Environment. Komatsu is going to upload the framework on its website. Komatsu also plans to include part or all information in the legal documents at the time of issuing the green bond.

2.1 Use of proceeds

Based on the Framework, Komatsu plans to allocate the proceeds (JPY10 billion planned in 2020 and redeemable in five years) to expenditures related to new or existing eligible projects. In the event that Komatsu allocates them to refinancing existing expenditures, such expenditures are defined as those that have been made within 24 months prior to the date of the Bond issuance.

[Eligible projects]

A. Expenditures related to responding to environmental problems resulting from the use of products

GBP category: Energy savings



Approximately 90% of CO2 emissions in the lifecycle of construction equipment is generated by machines in use. Accordingly, Komatsu is of course working to not only make its products fuel efficient by developing high-efficiency engines, hybrid systems and electric models, but also reduce total CO2 emissions from construction sites by automating construction or promoting autonomous operation of construction equipment to make the entire process of construction efficient. In other words, Komatsu works to reduce CO2 emissions from construction equipment in use by not only improving hardware but also innovating processes.

<Eligibility criteria>

Expenditures related to research and development, as well as the provision and dissemination of the following products, services and solutions, will be applicable to Komatsu's contributing efforts to reduce CO2 emissions from products in use to 50% from 2010's level by 2030.

- 1) Products: Hybrid hydraulic excavators and electric construction equipment.
- 2) Services: Support for fuel-economy machine operation by using IoT.
- 3) Solutions: Reduction of CO2 emissions by promoting wide use of ICT-intensive construction equipment and providing applications which support optimization of construction as a whole.

Concerning hybrid hydraulic excavators in 1) above, those which satisfy the criterion below will be applicable.

- The models certified by Japan's Ministry of Land, Infrastructure, Transport and Tourism as Low Carbon Type Construction Equipment.

B. Expenditures related to responding to environmental problems resulting from production

GBP categories: renewable energy and energy savings



Concerning the reduction of CO2 emissions at its manufacturing plants, Komatsu is reducing CO2 emissions by cutting down energy consumption through not only making equipment more efficient, but also streamlining production lines and making entire manufacturing operations more efficient by using IoT as well as making the entire production process more efficient by including suppliers. Furthermore, having defined the use of renewable energy as an important task for reducing CO2 emissions, Komatsu has set the target of increasing the use of renewable energy to 50% of total energy use by 2030.

<Eligibility criteria>

Capital investment and/or expenditures related to the following efforts will be applicable, as they are expected to contribute to reducing CO2 emissions in production and increasing the ratio of using renewable energy to 50% of total energy use by 2030 from 2010.

- 1) Energy-savings of factories and equipment in plants.
- 2) Power generation by using solar panels and biomass as well as purchase of renewable energies.

Concerning the making of factory buildings and equipment more energy-saving in 1) above, those which satisfy the criterion below will be applicable.

- Reduction of CO2 emissions by 30% or more.

[Exclusionary criteria]

Products and services designed for exclusive use in mining fossil fuels.

2.2 Process for project evaluation and selection

Departments engaging in respective eligible projects will select candidate projects from the viewpoint of eligibility. The Environmental Affairs Department and Finance & Treasury Department of Komatsu will evaluate their eligibility and select eligible projects based on their consistency with Komatsu Group's

management principles and vision. The final decision will be made by CFO.

When determining the eligibility of the project, Komatsu will verify that the candidate project meets the following requirements to reduce environmental and social risks.

- The environmental laws and regulations enforced by the government and/or the local government of the location of the project are complied with and an environmental impact assessment is performed where necessary.

【Items to check】

- ✓ Soil, underground water pollution
- ✓ Waste management of PCB
- ✓ Chemical substance management and prevention of pollution.
- ✓ Reduction of environmental load
- ✓ Water risk control

- Environmental efforts are made in view of the supply chain.

【Items to check】

- ✓ Compliance with Komatsu procurement policy
- ✓ Support supplier for its ISO 14001 certification and its holdings

2.3 Management of proceeds

The Finance & Treasury Department of Komatsu will allocate an amount equivalent to the green bond proceeds to eligible projects in accordance with the proceeds management flow. Concerning the green bond proceeds, the Finance & Treasury Department will track the used amount of the proceeds quarterly by using internal management systems. The Finance & Treasury Department will manage the amount equal to net proceeds in cash or cash equivalents until they are allocated. Komatsu plans to complete allocation of most the net proceeds in around three years of the issuance.

2.4 Reporting

Komatsu will report on the allocation and environmental and social impacts of the proceeds on its website, and in either the Komatsu Report or the ESG Data Book on an annual basis. Komatsu plans to make the first report in 2021.

Allocation reporting

Until the proceeds are fully allocated to eligible projects, Komatsu will disclose the following information, to the extent possible in light of confidentiality requirements, on an annual basis.

- Funds amount of the capital investment to eligible projects (amount/percentage)
- Outline of the allocated eligible projects
- Ratio of Finance and refinance
- The amount of unallocated proceeds

Komatsu will timely disclose information on the allocation of proceeds in the event that material changes to the allocation occur.

Impact reporting

Until the maturity of the green bond, Komatsu will annually disclose the following indexes related to the eligible projects to the extent disclosable in light of confidential and confidentiality obligations. The following indexes evaluate and disclose Komatsu Group's global business efforts, including the use of green bond proceeds.

- CO2 emission reduction by products use (amount or ratio) in comparison with 2010
- CO2 emission reduction by production process (amount or ratio) in comparison with 2010
- Ratio (%) of using renewable energy and annual use (MWh/GWh or GJ/TJ/PJ)

CDP*: CDP is a global non-profit that drives companies and governments to reduce their greenhouse gas emissions, safeguard water resources and protect forests. Voted number one climate research provider by investors and working with institutional investors with assets of US\$96 trillion, we leverage investor and buyer power to motivate companies to disclose and manage their environmental impacts. Over 8,400 companies with over 50% of global market capitalization disclosed environmental data through CDP in 2019. This is in addition to the over 920 cities, states and regions who disclosed, making CDP's platform one of the richest sources of information globally on how companies and governments are driving environmental change.

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