

Business overview

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Komatsu at a glance

Business

Founding

May 13, 1921

Komatsu was founded in Komatsu City, Ishikawa Prefecture by Meitaro Takeuchi, whose aim was to contribute to the local economy.



Consolidated net sales

¥3,543.5 billion

Komatsu's consolidated net sales have tripled since FY2001. Approximately 90% of these sales are attributable to the construction, mining and utility equipment business.



Global network

239 bases*1

Komatsu has developed a global business through a network comprising 69 production bases, 89 sales bases, and 81 parts, training, and remanufacturing bases.



*1 Total for the construction, mining and utility equipment business and the industrial machinery and others business

Global operations

Start of exports from Japan

1955

Komatsu was quick to advance onto the global stage beginning with the export of construction equipment to Argentina and continuing with the establishment of the first overseas liaison office in India in 1964 and then the start of overseas production in Brazil in 1975.



Ratio of overseas sales

90%*2

Traditional markets: 46%; Strategic markets: 54%*3
Komatsu is characterized by a globally balanced distribution of sales.



*2 Construction, Mining and Utility Equipment
*3 Traditional markets: Japan, North America, Europe; Strategic markets: Latin America, CIS, China, Asia, Oceania, Middle East, Africa

Consolidated number of employees

64,343

70% of employees are non-Japanese, and 70% of Global Officers are foreign nationals (locally hired). We contribute to the success of customers through coordination among our global team of diverse individuals.



Innovation

Number of units equipped with Komtrax

730,000

(As of June 30, 2023)

Komatsu introduced its first piece of equipment with the Komtrax construction equipment operation management system in 2001, and this system has been supporting global traceability of vehicle information and efficient operation for customers ever since.



Aggregate number of units equipped with Autonomous Haulage System (AHS)

661

(As of June 30, 2023)

Komatsu launched the world's first AHS in 2008, after which this system has continued to contribute to the safety and productivity at many mines.



Aggregate number of workplaces using Smart Construction

28,514

(As of June 30, 2023)

Since being introduced as an industry-first in 2015, Smart Construction has continued to help address various issues surrounding workplaces such as labor shortages.



Sustainability

Decision-guiding priority

SLQDC

Komatsu makes decisions prioritizing the principles of SLQDC (Safety, Law, Quality, Delivery, and Cost) to maximize the total sum of trust given to it by all stakeholders.



CO₂ emissions from product use

Down 21%

(Compared with 2010)

Komatsu is proactive in its efforts to develop electrified equipment and other low-carbon products for contributing to reduced environmental impacts. We aim to achieve a 50% reduction from FY2010 by FY2030 and carbon neutrality by 2050.



Selected for the Dow Jones Sustainability World Index*4

17 consecutive years

Komatsu has been recognized as a company exhibiting excellence in terms of economic performance, environmental conservation efforts, and social activities.



*4 A leading socially responsible investment index compiled by S&P Global Inc. of the United States

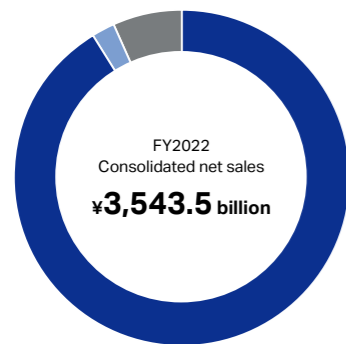
Business overview

Business outline of Komatsu

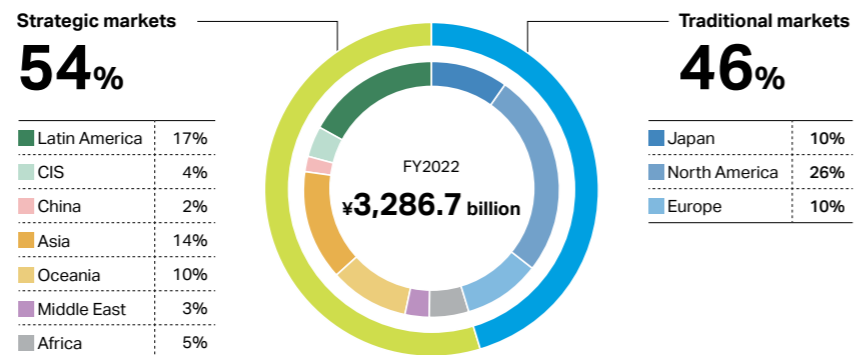
The Komatsu Group develops a global business centered on the manufacturing and selling machinery that is used in construction and mining workplaces around the world. In FY2022, consolidated net sales amounted to ¥3,543.5 billion, of which more than 90% was generated by Construction, Mining and Utility Equipment. The remaining amount was attributable to Retail Finance and to Industrial Machinery and Others, which provides equipment for semiconductor and automobile industry.

In Construction, Mining and Utility Equipment, we have 60 production bases around the world. The hallmark of the business is an appropriate global balance with approx.90% of sales coming from overseas and 10% generated in Japan. Komatsu positions Japan, North America, and Europe as traditional markets while Latin America, CIS, China, Asia, Oceania, Middle East, and Africa are considered strategic markets. Product and sales strategies are tailored to the characteristics of the respective regions. Of the ¥3,286.7 billion in net sales for Construction, Mining and Utility Equipment in FY2022, 46% came from traditional markets while 54% was associated with strategic markets.

Breakdown of net sales by segment



Sales by region for FY2022 Construction, Mining and Utility Equipment (to outside customers)



Construction, Mining, and Utility Equipment

¥3,286.7 billion*

Construction, Mining and Utility Equipment conducts the manufacture and sale of machinery used at a variety of workplaces such as construction and mining equipment, forklift trucks, forestry equipment. In addition to the equipment itself, we also provide maintenance, repair, and other services as well as solutions that improve workplace productivity. Komatsu has thereby been able to establish a solid position as a global leader in the construction and mining equipment field.



Retail Finance

¥67.8 billion*

Komatsu conducts a retail finance business to help customers reduce their financing burdens when purchasing products. We are able to offer optimal financial plans because we are an expert in construction equipment, and we are exercising our unique strength in credit management by utilizing data from Komtrax, the system that collects machine location and operating status.



Industrial Machinery and Others

¥188.9 billion*

Komatsu supplies light sources for semiconductor lithography system (Excimer lasers), temperature-control equipment for semiconductor manufacturing, and wire saws for cutting silicon wafers to the semiconductor industry. We also manufacture and sell machinery for the automotive industry such as large size presses, sheet-metal machines. Others include the production of ammunition for Japan Ministry of Defense.



* Net sales to outside customers

Komatsu's strengths

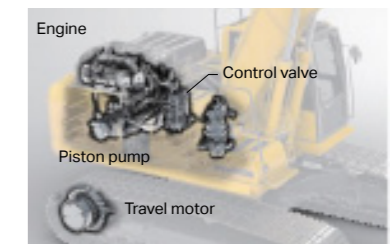
Competitive position established by developing and producing "Key Components" in-house



1. In-house development and production of Key Components

Komatsu defines important components that determine the performance of equipment, such as engines, power trains, and hydraulic equipment, as "Key Components." These components are developed and produced in-house, and this policy on components has enabled us to improve their performance like durability and fuel efficiency ourselves by incorporating various innovative technologies, and to add value enhancing the Quality and Reliability of our products such as the monitoring of component conditions by using ICT technologies.

Our policy on components has also been linked to our customer-centered development and production system. In-house development and production of Key Components allows us to produce the same quality products anywhere in the world, and to feedback customers' evaluations and requirements for components to development promptly.

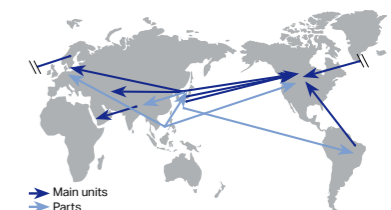


Major Key Components

2. Production system resilient to environment changes

By preparing a system to produce the same quality products at each plant around the world, we are able to flexibly alter manufacturing plants or product destinations in response to changes in the external environment. With this operation we call "Global cross-sourcing," we are minimizing the impact of changes in the external environment on production and sales.

The benefits of this operation extend beyond ensuring business continuity in the event of contingencies such as natural disasters. Global cross-sourcing also enables strategic sourcing in response to fluctuations in regional demand, foreign exchange rates, or production loads. When demand for a given product suddenly spikes, we can avoid losses of sales opportunities by supplementing products from another plant in addition to those from the default plant. When exchange rates increase manufacturing costs at a particular plant, we can mitigate the impacts by altering the manufacturing plant.



Global cross-sourcing

3. Profitability of aftermarket business

Construction and mining equipment is generally used for around 10 to 15 years, and periodic maintenance and repairs are imperative over this period. The monitoring technologies installed in in-house-developed components enable us to offer extended warranty program with maintenance contracts, and to propose parts replacements or overhauls at the ideal timing according to the condition of a given piece of equipment. These measures reduce the risks of sudden breakdowns and contribute to flattening operating costs.

The aftermarket business through these measures is highly profitable, and its business model, which generates stable revenues after equipment sales, is one of our strengths.



4. Reman (Remanufacturing components) business

We promote the "Reman business" at our Reman plants and centers in 11 countries around the world. In this business, we collect components like engines and transmissions from construction and mining equipment that has been operating at customer sites for long periods of time. Through various processes involving disassembly, cleaning, salvage or replacement of parts, reassembly, painting, and shipping inspections, these components are restored to be like-new.

The Reman business is possible because we develop and produce Key Components in-house. By supplying Reman components with the same quality assurance as new components at a lower cost, we contribute to both our customers' business and the reduction of environmental burden, such as the reduction of waste and CO₂ emissions.



Business overview

Overview by business segment

Construction, Mining and Utility Equipment

Construction equipment

Business characteristics and strengths

Construction equipment represents a large portion of the demand for the construction, mining and utility equipment business, and is used at a wide range of workplaces such as civil engineering and construction, etc. We offer products in a variety of models with diverse specifications in classes ranging from less than one ton to more than 50 tons.

In hydraulic excavators, our mainstay product of this business, we deploy a product strategy to provide standard series model demonstrating power and productivity also in high-burden workplaces, and CE series model centering on operations in low-burden workplaces according to customer applications. We are also introducing advanced models that use automation and electrification technologies.

We also supply Smart Construction, a solution that improves safety, productivity, and eco-friendliness on customer workplaces through the combination of 3D data surveyed and generated by drones and other IoT devices with high-quality operations performed by ICT-intensive equipment.

Main products



Topics

- Electric equipment launches **8 models** (FY2021-2023*) * Includes projected launches
- Availability of "CE series" hydraulic excavators **26 countries** (As of June 30, 2023)
- Overseas sales of ICT-intensive equipment **2,448 units** (FY2022)
- Aggregate number of job site using Smart Construction **28,514** (As of June 30, 2023)

Parts and service (aftermarket business)

Business characteristics and strengths

Our aftermarket business is the provision of various service for the equipment on site such as parts sales, periodic maintenance, overhauls, etc. Compared to construction and mining equipment itself, the aftermarket business has less fluctuation in demand. Over the past decade, its sales have come to represent around half of the total sales of the construction, mining and utility equipment business and have become a stable source of revenue.

We are witnessing growth in the Reman business and genuine parts sales through extended warranties with maintenance contracts, both of which are made possible by our in-house development and production of Key Components.

In addition, our service proposal at the ideal timings that utilize the machine operating data collected through Komtrax is a source of strength.

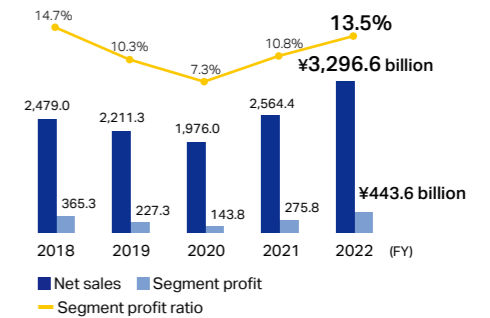
Main products



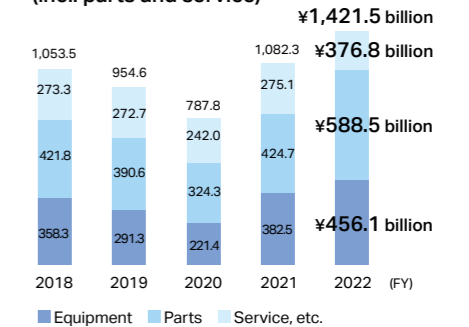
Topics

- Portion of net sales for Construction, Mining and Utility Equipment **48%** (FY2022)
- Sales growth rate **13.5%** (Compared with FY2021, foreign exchange rates fixed)
- Growth rate of Reman business **Approx. 3 times** (Compared with FY2010)

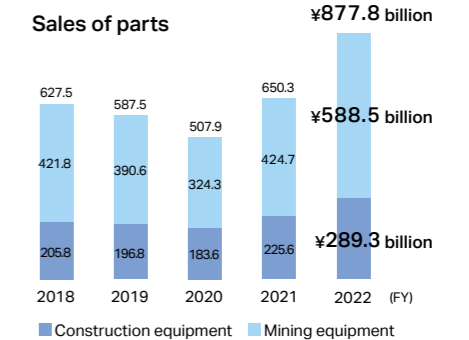
Segment sales and profits



Sales of mining equipment (incl. parts and service)



Sales of parts



Mining equipment

Business characteristics and strengths

In the mining equipment market, there are fewer competitors than in the construction equipment market, and the demand is centered on large-sized equipment such as dump trucks. We have been growing sales of high-value-added solutions such as our Autonomous Haulage System (AHS).

Mining methods include "surface mining" used when ore deposits are near the ground surface, and "underground mining" used when they are in the deep strata. Depending on mining methods, the necessary mining equipment differs.

In the medium to long term, demand for coal (soft rock) is expected to shrink, while that for hard rock such as copper and nickel will increase and its deposits will move deeper underground. In response to these changes in mining method and resource demand, we are strengthening the underground hard rock mining business by developing new products and mining methods and expanding our product lineup through M&A.

Main products



Topics

- Sales growth rate (incl. parts and service) **11.8%** (Compared with FY2021, foreign exchange rates fixed)
- Aggregate number of units equipped with AHS **661 units** (As of June 30, 2023)
- Komatsu GHG Alliance* members **10 companies** (As of June 30, 2023)
- Underground hard rock mining product launches **9 models** (Aggregate as of March 31, 2023)

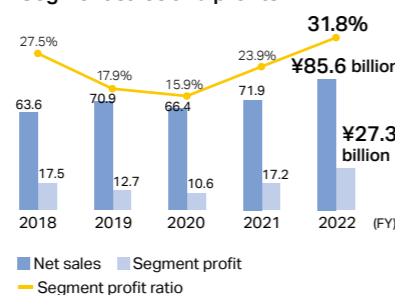
* Framework for sharing information and practicing coordination among Komatsu and major mining companies with the goal of realizing zero-emissions mining operations

Retail Finance

Business characteristics and strengths

Through sales activities conducted in the construction, mining and utility equipment business, we are able to identify our customers' financing needs in a timely manner. In addition, Komtrax, which monitors equipment location and operating status and remotely stops engines, is our unique risk mitigation measure. We also have unique channels for reselling end-of-lease equipment. As indicated above, the greatest strength of our retail finance business is its synergistic operation with our core business.

Segment sales and profits



Industrial Machinery and Others

Business characteristics and strengths

In the semiconductor manufacturing equipment field, we anticipate medium- to long-term growth centered on excimer lasers. This growth is projected to be driven by the popularization of 5G, AI, and Advanced Driver-Assistance Systems and three-dimensional structures for semiconductors.

As for the automobile manufacturing equipment field, the automotive market is changing amid trends like the rising investment in EV-related equipment. We are responding to these trends through developing new products and entering into new businesses.

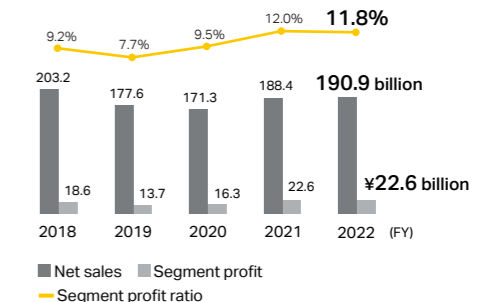
Main products



Topics

- GIGAPHOTON INC. production capacity after construction of new production facility **Approx. 2.5 times** (Compared with level from FY2020)
- Komatsu NTC Ltd. **Entry into EV battery manufacturing equipment business**

Segment sales and profits



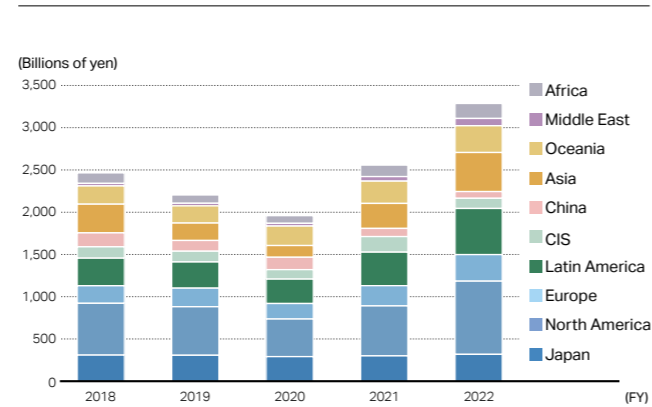
Business overview

Overview by region (Construction, Mining and Utility Equipment)

In traditional markets, we are aiming to further expanding our presence through providing customer value by introducing automated, electrified, and other high-value-added products, generating earnings through the aftermarket business, and transitioning toward solution business.

In strategic markets, we are maintaining the high profitability of our mining equipment business. At the same time, we are deploying product and sales strategies matched to market characteristics of each region in order to steadily capture the increasing demand for construction equipment due to population growth and urbanization.

Sales by region (to outside customers)



Yasuji Nishiura
Senior Executive Officer
President, Construction Equipment Marketing Division

We are committed to delivering new value by taking an earnest approach toward addressing customer needs. To ensure it can always be an indispensable partner to customers, Komatsu will continue to march toward the future together with its customers.

In FY2022, sales to outside customers in the construction, mining and utility equipment business amounted to ¥3,286.7 billion, a year-on-year increase of 28.4%. We faced a challenging operating environment due to factors including the ongoing serious consequences of the situation in Ukraine as well as supply chain disruptions, rising energy and raw material prices, and the global inflation trend. Even faced with these challenges, the construction, mining and utility equipment business was able to achieve sales growth in all regions, except for China and Russia, by improving product selling prices and practicing cross-sourcing.

In this business, 46% of sales come from traditional markets while the remaining 54% is generated in strategic markets. The construction equipment business is expected to be a growth business. This outlook is based on the projected demand for maintaining and upgrading basic infrastructure in traditional markets as well as the rising demand associated with population growth and urbanization in strategic markets.

Higher safety and productivity as well as lower lifecycle costs have always been things customers in traditional markets expect. Recently, however, we have also been seeing a rise in demand from these customers for eco-friendliness and improved workplace efficiency through ICT usage and digital transformation. To accommodate the increasingly sophisticated and complex needs of such customers, Komatsu is working toward the automation, autonomous operation, electrification, and remote control of construction equipment with a focus on eco-friendliness, safety, and ICT. We are also endeavoring to optimize all processes across customer workplaces. Smart Construction, a solution we first launched in the Japanese market, is a prime example of these efforts. This solution is now being used to provide new value to customers in a myriad of overseas markets, including North America, Europe, and Australia.

Customers in strategic markets, meanwhile, primarily care about fuel efficiency, costs, and durability. In certain regions, we are seeing a rise in market participation by Chinese manufacturers, who compete by capitalizing on their low-price products. Komatsu, however, seeks to remain above the fray of price competition by maintaining the same focus on improving value across the value chain, encompassing financing, parts and services, and rental and secondhand

equipment, as it does in traditional markets. Asia and Africa are the strategic markets where we expect to see the most pronounced growth. This is why strengthening of marketing strategies in Asian and African markets has been defined as a priority under the mid-term management plan.

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 20-ton class hydraulic excavator as well as the PC200-10M0 CE series hydraulic excavator, which boasts specifications optimized for urban civil engineering and other work. We have received a great deal of praise from customers for our provision of multiple high-quality and reliable options that can be chosen based on workplace application needs. Based on this praise, we have introduced these products in China, Latin America, and other regions.

Africa is a market anticipated to experience rapid economic growth fueled by its rising population numbers and wealth of resources. To allow us to better cater to this market, the Africa Division was set up at Komatsu Europe International N.V. in FY2022. This department integrates organizations and functions related to main equipment units, parts and services, and financing to provide swift, one-stop support to customers with a wide range of solutions.

Meanwhile, in our aftermarket business, which deals in parts and services and thereby generates 48% of the sales of the construction, mining and utility equipment business, we are promoting global efforts to enhance digital marketing through the use of ICT such as online parts sales. At the same time, we aspire to improve value across the entirety of the value chain for aftermarket service by promoting digital transformation for purposes such as AI-powered failure diagnoses.

Lastly, I would like to talk about Komatsu's Brand Management activities. These activities are part of our efforts to make Komatsu an indispensable partner to customers and a fundamental aspect of our marketing efforts across the globe. Going forward, Komatsu will continue these activities based on the perspective of the customer and a commitment to aiding in the achievement of its customers' goals with the aim of realizing the safe, highly productive, smart and clean workplaces of the future.

Market characteristics and Komatsu's initiatives by region

Region	Market characteristics / Komatsu's initiatives
Japan	Japan is a mature and relatively stable market with low volatility in demand. Here, Komatsu is deploying sales strategies focused on value chain businesses that take advantage of previously sold equipment. For example, we are steadily incorporating demand for aftermarket services with Komtrax and our extended warranties with maintenance plans. At the same time, we are transitioning to solutions businesses centered on the Smart Construction solution, used and rental businesses.
North America	North America is a market where customers are eager to pay high prices for high-value products and in which companies are rated not just based on new equipment but on their total value proposition, including services, secondhand equipment, and financing. The construction, mining and utility equipment business accounts for a large portion of Komatsu's sales in this market, where we are promoting sales of ICT-intensive equipment for construction, road, rental, and energy applications while also introducing the Smart Construction solution.
Europe	Europe is a market with high awareness of and interest in CO ₂ emissions and other environmental issues as well as cutting-edge technologies. Komatsu premiered electrified equipment models that use lithium-ion batteries in this market. This is also the first market in which we began using hydrotreated vegetable oil, biodiesel, and other carbon-neutral fuels. Meanwhile, Smart Construction is being introduced into countries such as Germany, France, and England.
Latin America	Brazil accounts for the majority of demand in the Latin American market. When including other countries, overall economic growth in Latin America is being driven by resource development, agriculture, and infrastructure investment. In Chile, the world's foremost producer of copper, Komatsu is strengthening component, service, and other aspects of the mining equipment business that is a major source of its earnings. We thereby aim to capitalize on the robust demand for copper anticipated to emerge in conjunction with the global trend toward electrification.
CIS	With its rich mineral resources, the CIS region is a market representing substantial potential for Komatsu's mining equipment business. The region is also expected to see growth in demand for infrastructure development in conjunction with the urbanization trends being seen in CIS countries. Seeking to capitalize on this demand, we established Komatsu Central Asia LLP in Kazakhstan in 2023, thereby strengthening our structures for providing sales and services to CIS countries and other countries in central Asia.
China	China is a market populated by a wide range of manufacturers, including local Chinese manufacturers as well as foreign manufacturers from Japan, the United States, Europe, and South Korea. Moreover, demand in this market is heavily influenced by government policy. Komatsu's sales strategies are focused on promoting sales of medium-sized and large equipment and on expanding its value chain businesses.
Asia	In Indonesia, the largest market in the Asia region, demand is centered on mining equipment, whereas construction equipment is the primary focus of demand in markets such as Thailand, Malaysia, and the Philippines. Demand in the region is easily influenced by the economic measures of the region's various countries. Komatsu seeks to accommodate the needs of a wide range of customers in Asia through a product strategy that includes both standard models for high-burden work as well as models specially designed for low-burden jobs.
Oceania	A majority of demand in the Oceania region is attributable to Australia. Komatsu caters to more than half of the construction equipment demand in Australia associated with major urban centers in the southeast portion of the country. There is also strong demand for mining equipment in the mineral-rich northeastern and western portions of Australia. Komatsu is serving this market by promoting sales of ICT-intensive construction equipment in urban areas and introducing its autonomous haulage system (AHS) for mining operations.
Middle East	Demand in the Middle East is focused on construction equipment. There is a strong correlation between the price of crude oil and demand for construction equipment in this region. Accordingly, brisk demand is being seen for construction equipment centered on oil-producing countries against the backdrop of the soaring price of crude oil. In this region, Komatsu is taking an aggressive approach toward sales activities targeting infrastructure development and other large-scale land-forming projects spearheaded by the national governments of countries such as United Arab Emirates, Egypt, and Saudi Arabia.
Africa	Africa is an important market where sales of both construction equipment and mining equipment are expected to show strong growth. Factors behind this growth are anticipated to include demand for developing road, power, and other infrastructure in conjunction with population growth and urbanization. Another factor will be demand for development of the region's wealth of mineral resources. Moreover, many customers from areas outside of Africa, including Europe, China, and Turkey, are entering the African market. Accordingly, Komatsu is working to accommodate such customers through the establishment of global support systems that spread across the boundaries of different countries and regions.

CFO Message



Takeshi Horikoshi

Director and Senior Executive Officer
Chief Financial Officer (CFO)

1. Review of FY2022 and Outlook for FY2023

(1) Overview

In FY2022, the first year of our mid-term management plan, DANTOTSU Value – *Together, to "The Next" for sustainable growth*, we were forced to operate under difficult conditions, particularly in terms of production. These conditions were a result of global supply chain disruptions and rising material prices and distribution costs seen against the backdrop created by the war in Ukraine and the economic recovery in conjunction with the dissipation of the impacts of the COVID-19 pandemic. Nevertheless, Komatsu was able to deliver a record-breaking performance with new highs of ¥3,543.5 billion for consolidated net sales and ¥490.7 billion for

operating profit, because of the strong demand in the construction, mining and utility equipment business centered on North America and Asia as well as improved selling prices and yen depreciation.

As for FY2023, the second year of the mid-term management plan, we intend to once again institute large increases to product selling prices in order to further heighten profitability. This move will be made in light of the conservative foreign exchange outlook projecting yen appreciation, the expected growth in wages in reflection of inflation, and the forecast rise in forward-looking project expenses.

Figure 1: Business results

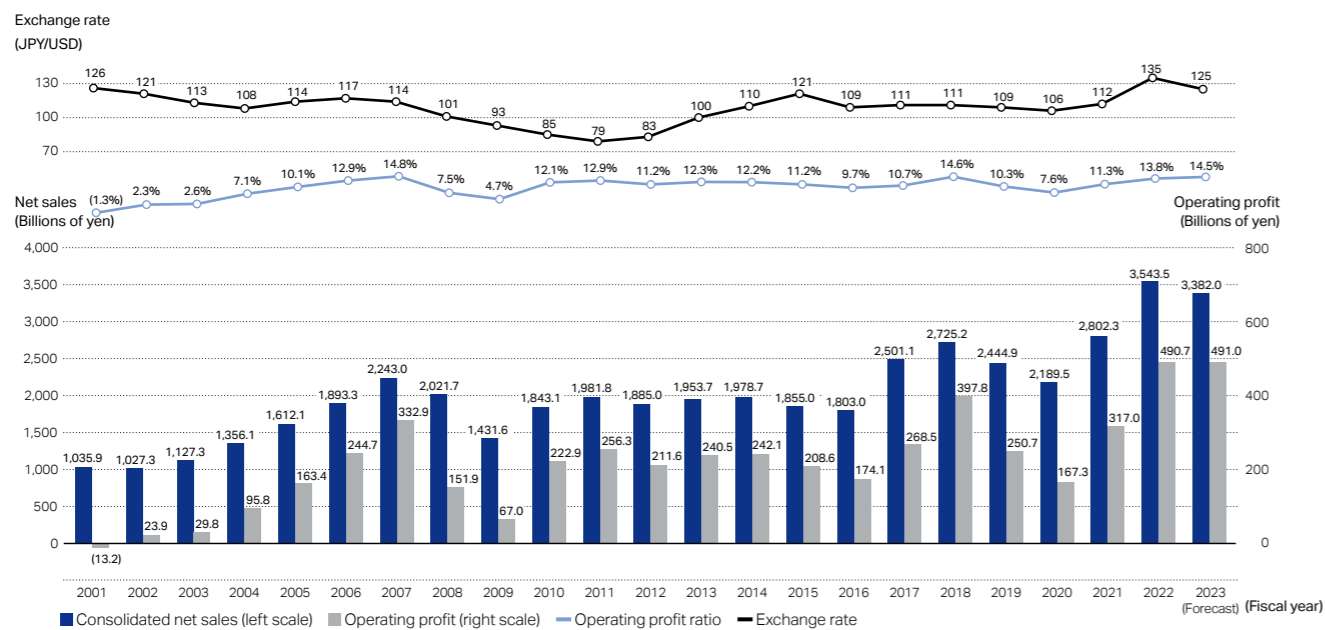


Figure 2: Factors influencing net sales in construction, mining and utility equipment business from FY2021 result to FY2023 projection

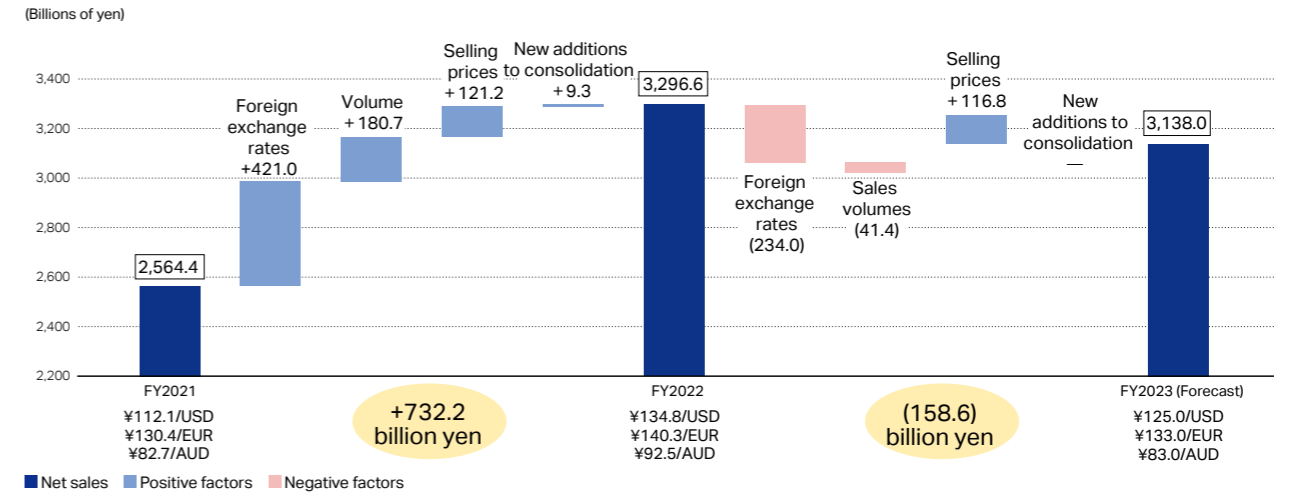
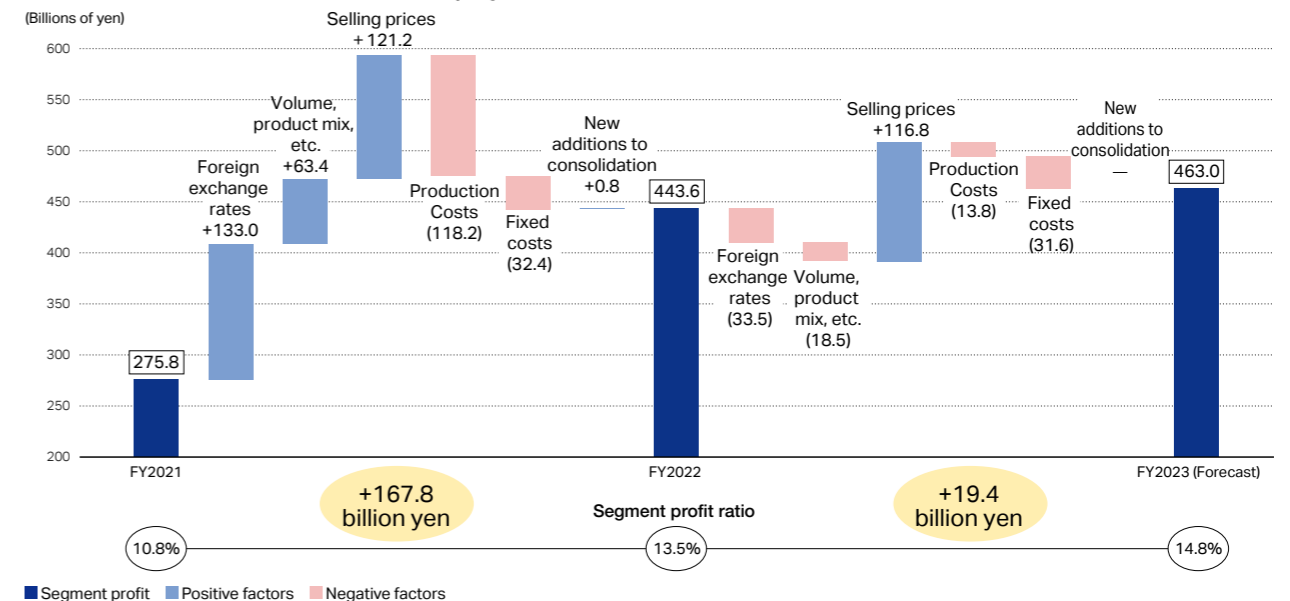


Figure 3: Factors influencing segment profit in construction, mining and utility equipment business from FY2021 result to FY2023 projection



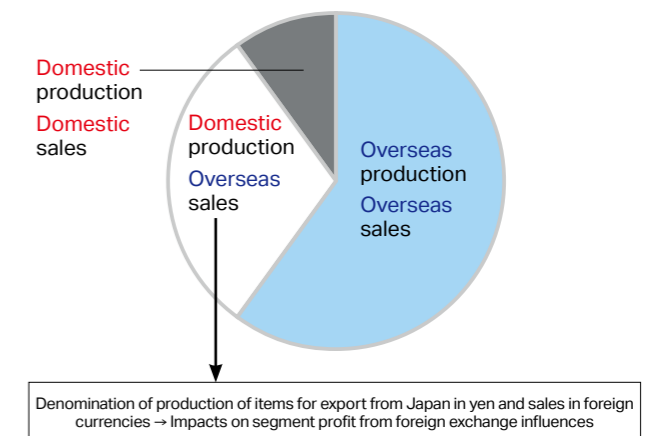
(2) Analysis of segment profit in construction, mining and utility equipment business

I would now like to explain our analysis of segment profit in the construction, mining and utility equipment business from the perspectives of foreign exchange influences, increase in selling prices and production costs, and fixed cost management..

A. Foreign exchange influences

In FY2022, the rapid yen depreciation trend sparked by the worldwide inflation and the policy interest rate hikes instituted in multiple countries was beneficial to our financial result. Currently, sales to Japan only accounts for about 10% of net sales in the construction, mining and utility equipment business. Conversely, around 40% of production is conducted in Japan where we produce key components like engines and hydraulic equipment. This difference between the 40% for production and the 10% for sales in Japan is the reason why foreign exchange influences have such a notable impact on export sales denominated in foreign currencies (overseas sales). In terms of the value of the yen against the U.S. dollar, a fluctuation in the exchange rate of ¥1 is estimated to have an impact of ¥4.0 billion on segment profit. Komatsu's accounting and finance divisions are thus taking steps to mitigate the impacts of foreign exchange rate fluctuations by developing local financing frameworks to match assets and liabilities based on currency.

Figure 4: Impact of foreign exchange influences on segment profit in construction, mining and utility equipment business



CFO Message

B. Increase in selling prices and production costs

Turning next to Increase in selling prices and production costs, the rise in material prices that began in the second half of FY2021 drove up production costs, and thus had a negative impact on financial result. Komatsu began instituting increases to the selling prices of its products in FY2022 to counter the rising material prices, and, by late in the fiscal year, the increase in selling prices had come to surpass that of cost of sales. However, selling price increases had not yet been able to absorb the entirety of the impact of higher cost of sales from the period encompassing both FY2021 and FY2022. Accordingly, in FY2023 we intend to institute selling price increases of a similar level to those conducted in FY2022, and these increases are expected to produce benefits that exceed the aggregate impacts of the rise in cost of sales when looked at over the three-year period from FY2021 to FY2023.

C. Fixed cost management

Last in our analysis of segment profit in the construction, mining and utility equipment business, I would like to talk about fixed costs. Sales have fluctuated over the period from FY2017 to FY2021. Komatsu has managed to keep fixed costs flat, regardless of fluctuations in sales. Wage increases and inflation are pushing up fixed costs with each coming year. Even though, we have been able to absorb the impacts of the rising costs by pooling the insight of both frontline and management organizations to move forward with steadfast structural reforms and rationalization.

However, we are unable to completely mitigate the impact of massive increases in personnel and other expenses that stemmed from the global inflation trend seen in FY2022 and FY2023. At the same time, there is a need for us to steadily invest in future growth to accelerate the growth strategies of the mid-term management plan. We will thus be prioritizing the allocation of our funds to the development of electrified equipment to achieve carbon neutrality as well as to products-automation and the DX Smart Construction solution. The rise in fixed costs associated with these investments will also be a major reason that we need to institute increases to selling prices. In fact, Komatsu's ability to secure profitability thus far has been the result of instituting selling price increases in reflection of rises in fixed costs and cost of sales.

(3) Development of structure that is resilient to demand fluctuations

Komatsu has continued to develop an earnings structure that is resilient to fluctuations in demand. Looking back at this history, we will see that sales of parts and other products have grown to represent an increasingly larger portion of the sales of the construction, mining and utility equipment business over the period from FY2010 to FY2022, while the portion represented by sales of construction equipment to strategic markets has gradually shrunk. This change is a result of a rise in the portion of sales attributable to parts, which see reliable sales volumes even in the construction and mining equipment markets that generally experience high demand volatility. The increased emphasis on parts has helped us develop an earnings structure that is resilient to fluctuations in demand. Going forward, we will further expand aftermarket businesses in order to reinforce our value chain to grant it even greater resilience to demand fluctuations.

Figure 5: Increase in selling prices and production costs

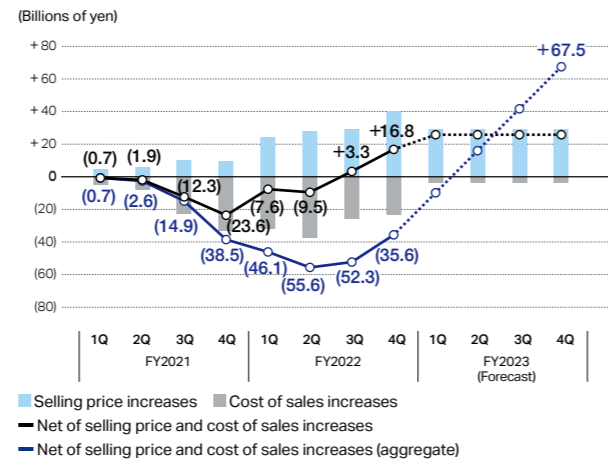


Figure 6: Fixed costs

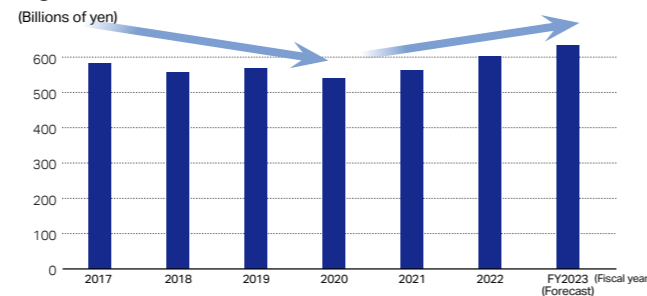


Figure 7: Inflation rates

(Source: International Monetary Fund)

	2022	2023
Japan	2.0%	1.4%
North America	7.5%	3.9%
Latin America	9.7%	6.7%
Europe	8.3%	6.2%
Asia	5.7%	4.3%
Oceania	6.5%	4.8%
China	2.2%	2.2%
Other	8.2%	5.5%

Figure 8: R&D expenses

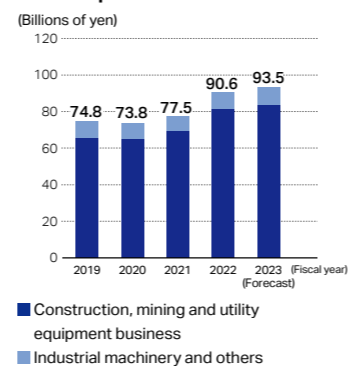
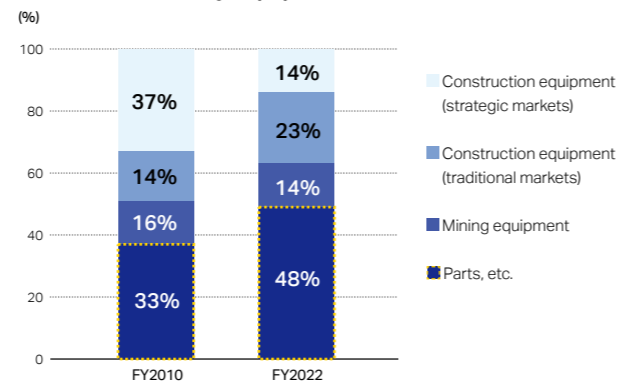


Figure 9: Distribution of sales in construction, mining and utility equipment business



2. Corporate value improvement initiatives of accounting and finance divisions

(1) Financial initiatives—Improvement of ROE

A. Verification of corporate value

We took an accounting approach toward verifying improvements in corporate value. In this verification process, we looked at two indicators: the increase in the total of market capitalization and net interest-bearing debt with a focus on invested capital and aggregate EVA® (Economic Value Added; Net Operating Profit After Tax – Cost of capital) with a focus on ROIC and WACC (Weighted Average Cost of Capital). We were thereby able to verify that corporate value was indeed improving from a long-term perspective as well as on a single-year basis in FY2022.

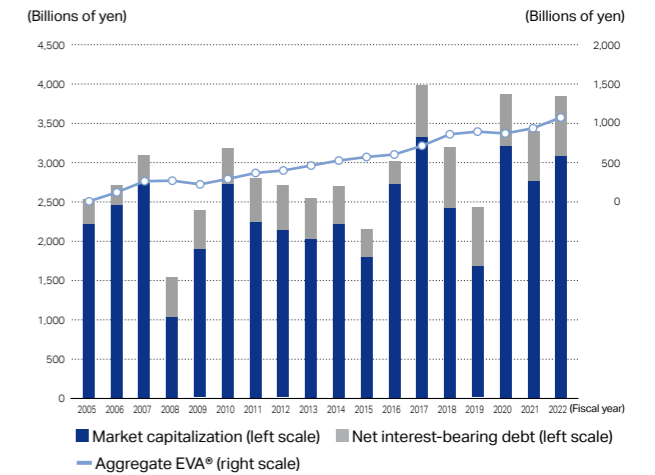
B. Improvement of free cash flow

To improve Komatsu's corporate value, we remain mindful of cost of equity as we monitor return on equity (ROE), a comprehensive indicator that accounts for profitability, asset efficiency, and financial leverage, as our management indicator. Accordingly, estimating that our cost of equity is around 8% on a global level, we have set up ROE of 10% or higher as the management target, which is exceeded the cost of equity estimated. To expand equity spread (ROE – cost of shareholders' equity), Komatsu works to both improve ROE and reduce cost of shareholders' equity.

As part of our pursuit of ongoing improvements to ROE, we have used ROIC as an internal management indicator to measure improvements to asset efficiency since FY2017. To control working capital appropriately in response to the volatility of market demand, we periodically monitor the cash conversion cycle of working capital through ROIC, for which invested capital in the ROIC formula is defined by the corresponding working capital plus property, plant and equipment.

Looking at our balance sheet for FY2022, a massive increase in inventories was seen due to production hikes meant to accommodate sales growth as well as to supply chain disruptions. The higher inventories had an adverse impact on free cash flow.

Figure 10: Corporate value and EVA®



In light of this situation, free cash flow was introduced among the internal management indicator used by Group companies in FY2023 in order to facilitate improvements in ROIC. The goal of this move was to make group companies more conscious of changes to their asset efficiency in terms of rate, or better yet, amounts. As ROIC is an indicator that combines both profitability and efficiency, it has the flaw of showing improvements even in cases when profitability has increased but asset efficiency has decreased. We break free cash flow down to its components, namely 1) profit, 2) working capital, 3) investments in fixed assets, and 4) M&A investments. This clarifies the absolute amounts and sources of free cash flow needing to be improved. We will therefore be focusing on improvements with regard to these components as we seek to maximize future cash flows. Through this approach, we expect to be able to generate free cash flow of approximately ¥350.0 billion in FY2023.

Figure 11: Inventories

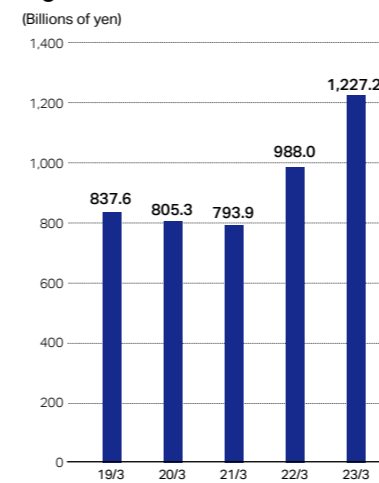
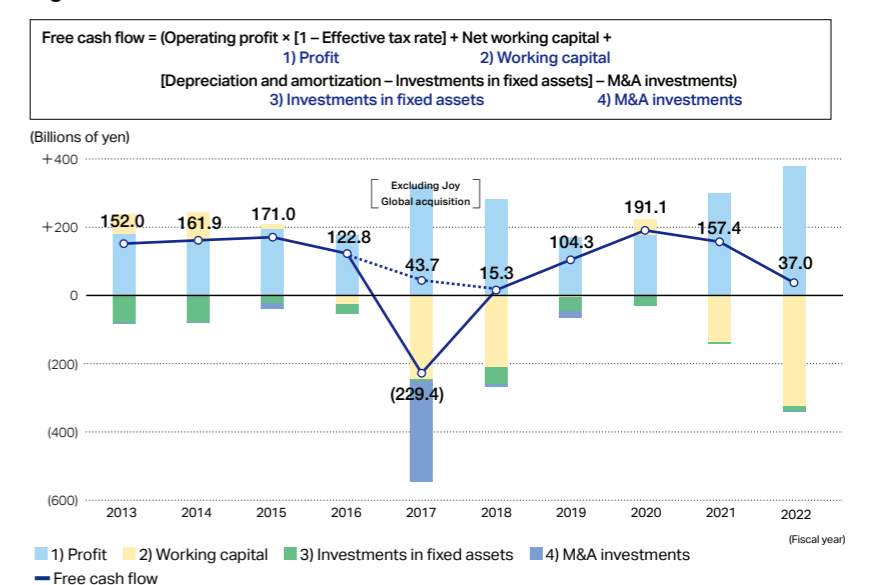


Figure 12: Free cash flow



CFO Message

C. Cash allocation policy

Komatsu has continued to act in accordance with a cash allocation policy of allocating the cash we have generated in well balanced manner to 1) capital investments (growth strategies), 2) debt reduction (maintaining financial soundness), and 3) shareholder returns. Investments for growth are imperative to our ability to continue issuing consistent shareholder returns. For this reason, our basic approach is to allocate around 50% of operating cash flow to capital investments. In addition to these investments, we will conduct shareholder returns targeting a consolidated payout ratio of 40% or more while maintaining our industry's top-level financial position.

Komatsu also recognizes that M&A activities are an important option for pursuing growth and therefore takes a proactive approach toward M&A activities. We will not rely purely on internal resources to address any insufficiencies in our business portfolio when compared to the portfolio we envision; technical partnerships, M&A activities, and other means of incorporating external resources are also constantly examined as a viable option for addressing such

insufficiencies. At the moment, the principal targets for M&A activities are solutions business, the underground hard rock mining business, the Forestry machinery business, and electrification and other components.

Hard rock refers to minerals other than coal, such as copper or nickel. Demand for hard rock minerals is expected to grow in the future. Forestry, meanwhile, is drawing global attention as a growth industry. This is because of the steady increase in global timber production volumes anticipated for purposes such as securing alternative materials to plastic amid rising environmental awareness. In FY2022, we announced a total of three M&A activities in these two fields. Komatsu will continue to aggressively expand its business through M&A activities based on the principle of choosing candidates that promise synergies with its existing business portfolio. After an acquisition, we compare the ROI and WACC of the acquired company and confirm the synergy benefits as part of the process of monitoring their contributions to improvements in corporate value.

Figure 13: Basic cash allocation policy for period of mid-term management plan (FY2022–2024)

Operating cash flow	Capital investments	Standard investments	35–45%	Allocate 50% of operating cash flow to investments for growth
		Lease/rental investments	5–15%	
		Total	50%	
	Shareholder returns	25–35%	Consolidated payout ratio of 40% or more	
	Debt repayment	15–25%	Industry's top-level financial position	
		+		
	M&A activities	+α	Constant examination of possibility of utilizing external resources	

Figure 14: M&A activities announced in FY2022

Field	Company name	Overview	Location
Underground hard rock mining	GHH Group GmbH	Manufacture of underground hard rock mining equipment	Germany
	Mine Site Technologies Pty Ltd	Provider of operational optimization platforms for underground mining that leverage communication devices and position tracking systems	Australia
Forestry equipment	Bracke Forest AB	Development, manufacture, and sale of application-specific attachments for silviculture	Sweden

D. Support for suppliers related to funds

A standard approach toward improving cash flows is to extend payment terms for payables. Komatsu, however, actually shortens the terms on which it pays suppliers. In FY2023, we stopped issuing notes and checks to suppliers applicable under subcontractor-related legislation and transitioned to 100% cash payments. This may seem to be a move that is disadvantageous in terms of cash flows. However, at Komatsu, we recognize that the suppliers of the materials, parts, components, and other items we use are important partners underpinning the success of our manufacturing operations. Particularly critical suppliers have been invited to join the *Midorikai*, a collaborative organization comprised of Komatsu and key suppliers. Of our roughly 1,400 suppliers across Japan, 156 are members of the *Midorikai*, and items sourced from these members account for around 80% of

total procurement amounts. Moreover, roughly 60% of these members are applicable under subcontractor-related legislation. Based on its vision of working toward growth together with the important partners that are its suppliers, Komatsu takes a number of steps to aid these partners. Shortening payment terms is a means of supporting our partners. Looking ahead, we will continue to work together with *Midorikai* members to achieve higher levels of quality, reliability, and product competitiveness.

Moreover, the transition to 100% cash payments to suppliers applicable under subcontractor-related legislation lines up with the policies for payments to subcontractors described in the future-oriented transaction practices proposed by the Ministry of Economy, Trade and Industry and the Japan Fair Trade Commission.

(2) Non-financial initiatives—Resolution of ESG issues

A. First foreign currency-denominated Sustainability-Linked Bonds issued by a Japanese company

As part of its efforts toward the challenging goal of achieving carbon neutrality by 2050, Komatsu became the first Japanese company to issue foreign currency-denominated Sustainability-Linked Bonds (U.S. dollar-denominated senior unsecured straight bonds) in October 2022. Sustainability-Linked Bonds are bonds for which the terms and conditions are subject to change depending on the achievement status of the targets for key performance indicators (KPIs) predetermined by the issuer. Through its growth strategies, Komatsu aims to generate a positive cycle for resolving ESG issues and improving earnings by creating value for customers. The issuance of Sustainability-Linked Bonds is anticipated to help accelerate sustainability management for the purpose of achieving sustainable growth. The KPIs defined for these bonds relate not just to reduction of CO₂ emissions from Komatsu bases and use of Komatsu products but also to contributions to reduction of CO₂ emissions from the greater society, which is to be achieved by extending our efforts throughout customer workplaces to optimize the processes thereat.

We believe that corporate value represents the total trust from society at large and all stakeholders surrounding us. This principle coincides with the idea that management emphasizing both financial and non-financial information is more effective at improving corporate value, an idea that has been gaining traction amid the shift away from focusing primarily on financial information to place greater importance on ESG and other non-financial information.

Based on this recognition, we use the Yanagi Model, which looks at the relationship between ESG factors and a company's price-to-book ratio, to determine how Komatsu's efforts to address ESG issues are contributing to its corporate value. Analyses based on this model have revealed a correlation between Komatsu's corporate value and a part of non-financial initiatives like human capital investments and CO₂ emissions reductions.*

At the moment, we are utilizing the impact-weighted accounts approach proposed by Harvard Business School to measure the monetary impact on society from Komatsu's business. I believe that tracking the impacts of our ESG initiatives in such manners and using this information to propel efforts to resolve ESG issues and thereby drive improvements in corporate value is a new and important role for our accounting and finance divisions.

* Analyses conducted jointly with ABeam Consulting Ltd.

B. Quantification of ESG impact

The foundation of Komatsu's management is to maximize its corporate value through the pursuit of Quality and Reliability.

Figure 15: Overview of Sustainability-Linked Bonds

1. Currency	U.S. dollars
2. Issuance amount / term	US\$600 million / 5 years
3. Format	144A / Reg S
4. Type of bonds	ESG bonds (Sustainability-Linked Bonds)
5. Issuance date / payment date	October 6, 2022 / April 6 and October 6 every year beginning with April 6, 2023
6. KPI / SPT*	SPT1.1: 45% reduction of the Scope 1+2 CO ₂ emissions (Intensity) (KPI1) from production by March 31, 2025 from 2010 baseline SPT2.1: 24% reduction of the Scope 3 CO ₂ emissions (Intensity) (KPI2) from use of products by March 31, 2025 from 2010 baseline
7. Interest rate	5.499% per year during the period from and including October 6, 2022 until October 5, 2025 From and including October 6, 2025, the interest rate shall be increased by 10 bps if SPT 1.1 has not been satisfied and increased by 15 bps if SPT 2.1 has not been satisfied as of March 31, 2025.
8. Credit rating	A2 (Moody's Investors Service) A (S&P Global Ratings)

* Sustainability performance targets, which are measurable target figures of KPIs over the specific time period as stated by the issuer.

Figure 16: Impact-weighted accounts calculation framework for products

Framework	Major impact indicators		Impact assessment dimensions				
	Reach		Dimensions of customer usage			Environmental use	
	Quantity	Duration	Access	Quality	Optionality	Use	Post use
Impact type	• Sales volume	• Period of impact (period of use)	• Affordability • Additional impact on socially disadvantaged individuals	• Basic needs • Effectiveness • Health and safety	• Alterability of products • Availability of information • Excessiveness of profits due to market monopolization	• Gas emissions • Environmental pollution	• Recyclability

Note: Prepared by ABeam Consulting Ltd. based on *A Framework for Product Impact- Weighted Accounts*, George Serafeim and Katie Trinh, 2020, and *Accounting for Product Impact in the Consumer-Packaged Foods Industry*, Amanda Rischbieth, George Serafeim, and Katie Trinh, 2020 and 2021