

ESG briefing: « Komatsu's Efforts to Promote Sustainability Q&A»

Q1: Regarding TCFD, please elaborate on what kind of discussions took place about external conditions and earnings, particularly in the mining equipment business, when you conducted 1.5-degree scenario-based analyses.

A1: First, let me touch upon something like our stance on the TCFD. We have been working on CO2 reduction and environmental issues even before the TCFD disclosure, but I believe that the endorsement of TCFD in 2019 has further advanced a framework for discussions within the company.

We are closely watching the scenarios of both 1.5 and 4 degrees, and apart from whether it actually becomes such a world, we consider it a useful framework in the significance of sharing with top management what kind of worldview it will be.

Demand for mineral resources is one of those disclosed in the 1.5-degree scenario, and it is shared with top management. We have confirmed that the direction in which the mining equipment business should move forward is correct.

On that basis, we will continue to discuss the priorities and sense of speed in our initiatives.

With regard to financial impact, our business is significantly affected by global economic trends and changes in resource demand, and it is highly volatile. Accordingly, we do not disclose numerical targets such as sales and profit margins in our medium-term management plan.

TCFD analyzes the financial impact over a longer time span, so quantitative disclosures are very difficult, but we are working hard to communicate it to our stakeholders in an easy-to-understand manner, and we will continue to consider the issue.

Q2: Please introduce any changes in Komatsu's management before and after the TCFD scenario analysis and disclosure, such as those that have changed from the past, issues that have been noticed, and new targets.

A2: It's very significant for us that TCFD scenario-based analyses have shown, for example, in the 1.5-degree scenario, that changes in resource demand, carbon tax, fuel prices, etc. are expressed in figures. As a result, we have become able to imagine a concrete world.

One of the roles of the Sustainability Promotion Division is to present the results of the analysis to top management, discuss future initiatives, and realize them. Thus, we have become able to engage in more in-depth discussions to develop future strategies.

In addition, as the framework for our disclosure expands, we have become able to see the initiatives of other companies. This is also beneficial.

Q3: Concerning the KPIs on page 16 (KPIs of the Sustainability Policy and the Medium-Term Management Plan), which ones do you feel are challenging to achieve?

Please also tell us about the initiatives needed to achieve those KPIs.

A3: We have disclosed 29 KPIs of ESG, and I recognize that all of them were challenging when we were developing them.

We started setting ESG-related KPIs in the previous mid-term management plan, and some of them have finished their roles and are no longer continued. On the other hand, we have developed new KPIs for the current medium-term management plan, taking into account the results of materiality analyses and the sustainability policy.

We believe the newly announced KPIs are of great interest to our stakeholders. They include, for example, the results of the engagement survey, the frequency of accidents in safe workplaces, human rights due diligence, promotion of electrification, and strengthening of the forest machine business.

In addition to what is shown in the slide, there are more business-oriented KPIs.

For example, we have set a sales target of the forest machine business as a KPI.

Some of them are not things that can be achieved only within the company, but are things that can be realized on the market. We have set a variety of extremely challenging KPI.

Q4: Is M&A and the use of external resources in the forest machine business one of the key initiatives?

A4: That's right. It bought a company for attachments to forestry equipment in Sweden, As announced in a news release earlier this year, we have acquired a Swedish maker of forest machine attachments.

Q5: I understand that you consider the acquisition of carbon credits as one way to achieve carbon neutrality. What are your current efforts and how are you planning to utilize carbon credits in the future?

A5: We are closely watching trends in carbon pricing, including carbon credits.

Currently, there are no cases in which Komatsu's businesses are applicable in the regions where cap-and-trade schemes have been introduced, such as EU-ETS (EU Area Emissions Trading Scheme).

Carbon prices of credit trading vary depending on the region, the method of creation, and the year of creation. Therefore, the Sustainability Promotion Committee will also closely monitor the trends and discuss them.

With regard to carbon pricing, we intend to invest in reducing CO2 emissions by utilizing internal carbon pricing in order to place a top priority on the internal reduction of CO2 emissions as a manufacturer's responsibility.

On the other hand, to achieve carbon neutrality, we need to offset CO2 emissions. We will also need to offset CO2 emissions with activities related to carbon negatives and the purchase of credits.

Currently, we are not actively considering the purchase of carbon credits, but are aware of the need to conduct activities related to carbon negatives in the future.

Q6: Komatsu conducts business worldwide. What is the frameworks for human rights due diligence with respect to scale and duration?

A6: This year, we conducted a field survey on mining businesses in South Africa on a trial basis. We also conducted a web-based survey of Komatsu Group suppliers.

Both activities are under consideration from the next fiscal year onward.

The key to promoting human rights due diligence is stakeholder engagement, in which the opinions of stakeholders are reflected in the company's efforts through dialogue and other means of communication. In this regard, we consider both activities are meaningful.

The purpose of web-based surveys conducted to suppliers and within the Komatsu Group is not only to evaluate quantitative figures, but also to provide easy-to-understand feedback to each company that responds to the surveys. We hope these efforts will lead to future improvements and responses as an opportunity to recognize and learn about human rights.

Q7: Are there regional priorities in advancing human rights due diligence?

A7: We are aware that there are differences in histories, cultures, and values among different regions. Given these circumstances, we intend to better address human rights issues by steadily advancing human rights due diligence in line with international standards.

In addition, there are some different aspects that need to be kept in mind when engaging in initiatives in different layers, such as within the Komatsu Group, suppliers, customers, and distributors. Therefore, we are repeatedly examining how to proceed in each case.

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