Message from CFO

To strive for the sustainable increase of our corporate value, we are building a sound financial position and strengthen our competitiveness, which are resilient to changes in the external environment and market demand fluctuations.

Takeshi Horikoshi
Executive Officer and CFO

Our management principle is to maximize corporate value, as we are committed to Quality and Reliability. We believe the maximization of our corporate value should result from balanced dialogues with an extensive range of stakeholders, from customers, distributors, suppliers, business partners and communities to employees, shareholders and investors.

To strive for the sustainable increase of our corporate value, we are building a sound financial position and strengthen our competitiveness, which are resilient to changes in the external environment and market demand fluctuations. To maximize growth and profits, our accounting and finance departments play the responsible roles of developing business plans, managing business performance and studying indices and methods thereof, as well as setting up investment decision-making criteria and making judgement on investment projects. They also strive to engage in a well-balanced allocation of our funds to 1) investment for growth, 2) improvement of the balance sheet (maintaining financial soundness), and 3) shareholder return. In the following pages, I am going to explain our efforts according to the items upheld as our management targets in our new mid-term management plan.

Growth

Sales growth rate

We believe it is important for us to achieve sustainable growth staying free from demand changes in spite of the fact that the construction and mining equipment business is highly volatile. Having designated sales growth rate as a management index, we have set the target to achieve a higher rate than the industry’s average.

Selective focus

Since the start of the 2000s, we have promoted selective focus on business, allocating and shifting management resources, mainly to the construction, mining and utility equipment business, the retail finance business for our customers, and the industrial machinery business, the initial business of Komatsu, which we expect to generate synergy with the construction, mining and utility equipment business.

Under the new mid-term management plan, we are going to place priority on allocating management resources to the three pillars of growth strategies, 1) value creation by means of innovation, 2) growth strategies based on business reforms, and 3) structural reforms for growth. In this way we will work to achieve growth above the industry’s average.

M&A

By positioning M&A as one of the means of growth, we have actively engaged in M&As under the policy of selective focus. Examples include Partek Forest AB (currently, Komatsu Forest AB) in 2004, NIPPEI TOYAMA Corporation (currently, Komatsu NTC Ltd.) in 2008, and Joy Global Inc. (currently, Komatsu Mining Corp. or “KMC” hereafter) in 2017. When we consider M&A, in addition to the importance on our business strategies, we emphasize ROI (Return on Investment) being above WACC (Weighted Average Cost of Capital) as one of our decision-making criteria. Even after closing the acquisitions, we regularly monitor their contributions to improving our group-wide corporate value as we compare ROI and WACC of the acquired companies, and check on synergy effects on consolidated business results. We believe M&A will remain an important means of growth strategies of our core businesses in the new mid-term management plan.

Net Sales and Operating Income Ratio

Note: Concerning the figures for the fiscal year ended March 31, 2002 and earlier, Komatsu Electronic metals Co., Ltd. and its subsidiaries and outdoor power equipment (OPE) of Komatsu Zenoah Co. and its subsidiaries engaging in the OPE business were not reclassified as discontinued operations resulting from the sale thereof.
Message from CFO

**Profitability**

**Operating income ratio**
It is important for us as a leader of the industry to maintain and improve selling prices and continuously reduce production and fixed costs. As the operating income ratio reflects those efforts comprehensively, we believe it is an important index which evaluates the value of our corporate existence. As the management target for our operating income ratio, we will aim at the industry’s top level.

**Cost control**
While making investment needed for growth, we have thoroughly ensured the unflinching reduction of costs simultaneously, thereby working to secure profitability (separation of costs from growth). To build a financial position capable of weathering drastic market changes, we will continue to thoroughly control fixed costs.

**Decision-making of investment**
While seeding steadily for future growth, such as investment and R&D in growth areas, we will shift investment from conventional areas to growth areas, thereby working to suppress the increase of fixed costs. Concerning specific investment projects, we make careful decisions after considering payback periods in our Strategy Review Committee and Steering Committee. Based on these efforts, we are working to achieve growth and improve profitability above the industry’s average.

**Investments in Production facilities and others and Depreciation**
(Billions of yen)

**R&D Expenses**
(Billions of yen)

**Fixed Costs**
(Billions of yen)

**Cost control**
will continue to thoroughly control fixed costs.

**Efficiency**

**ROE (Return on Equity)** is a general index, covering profitability, asset efficiency and financial leverage. Thus, we monitor it as one of our management index while continuously keeping close attention to cost of shareholders’ equity.

We estimate that our cost of equity is around 8% on a global basis. Thus, we have set up an ROE of 10% or higher as the management target. To expand equity spread (ROE – cost of shareholders’ equity), we will work to both improve ROE and reduce cost of shareholders’ equity.

To promote sustainable improvement of ROE, as I have already mentioned, we will work to improve profitability by giving weight to growth. Concerning asset efficiency, we apply ROIC (Return on Invested Capital) to internal control. 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 tangible fixed assets. Meanwhile, for suppliers, we conduct early payment in line with the Future-oriented Trade Practices required by the Japanese government. For employees, we return as a business results-linked bonus. In this manner, we are working to improve ROE and vitalize employees’ motivation at the same time.

For shareholders and investors, we are working to become a company, which they can invest in at ease, by improving IR programs and information disclosure. We are also working to reduce cost of shareholders’ equity through a positive cycle of solving ESG issues and improving and stabilizing earnings in our core businesses, as we strengthen our governance in compliance with Japan’s corporate governance code, and provide high-quality, high-efficiency products, services and solutions, reducing environmental impact and ensuring safety.

**Cross-Shareholdings (Non-Consolidated)**
(Number of holdings)

Concerning cross-shareholdings, unless they are necessary due to business relations or collaboration with Komatsu, under the policy of not owning stocks of listed companies in light of avoiding the risk of stock price fluctuation as well as ensuring the efficiency of assets, we had sold all concerned stocks by the end of FY2018 (ended March 31, 2019).
Financial Position

Monitoring of net debt-to-equity ratio
We believe it is important to maintain a sound financial position in order for us to achieve sustainable growth, being free from changes in market demand. Taking into account of business characteristics of retail finance and future investment opportunities, we monitor net debt-to-equity ratio as an index of soundness.

Interest-Bearing Debt and Net Debt-to-Equity Ratio

Optimization of funding on a consolidated basis
To optimize funding on a group-wide basis and reduce foreign exchange risks by matching assets and liabilities in each currency, we have built a funding operation by region and maintain the policy of local funding. Equipped with a local funding function, each regional headquarters advances funds to Komatsu Group companies regardless of business segment in the corresponding region mainly through the cash management system (CMS) for the region. Furthermore, through the global CMS, we are making efforts for funding efficiency on a consolidated basis, as we complement funding means in each region.

Concerning each business base of KMC which became a wholly owned subsidiary in FY2017, we have been integrating them into the CMS in each region. We will continue efforts to enhance asset efficiency on a consolidated basis into the future.

Improvement of financial positions of subsidiaries
We have set up the guidelines for subsidiaries to achieve their financial indexes. Having set up those, specifically, concerning soundness, safety and the ability to fulfill obligations, we strive to maintain and improve their financial position.

Concerning the debt of subsidiaries, we set the upper limit for each subsidiary. By doing so, we can not only help them improve their safety and the ability to fulfill obligations, we strive to maintain and improve their financial position.

We have set up the guidelines for subsidiaries to achieve their financial indexes. Having set up those, specifically, concerning soundness, safety and the ability to fulfill obligations, we strive to maintain and improve their financial position.

Retail Finance Business

Segmentation of the retail finance business
Our retail finance business, which handles financial products for customers to purchase our products, is responsible for promoting sales of construction and mining equipment by placing importance on efficiency and soundness in operation (management targets in the new mid-term management plan: 1.5%–2.0% for ROA and 5 or under for net debt-to-equity ratio). In FY2016, we created the retail finance business as an independent business segment, ensuring transparency of profitability and financial conditions.

Risk management of the retail finance business
In an effort to reduce risks in the retail finance business, we diversify portfolios, match the interest rates and periods of lending and funding, and match the currencies of lending and funding.

In addition, we also work to safeguard our credits by taking advantage of our strengths, for example, by using KOMTRAX (Komatsu Machine Tracking System), installed in our construction equipment as a standard feature, for credit management (monitoring on the location and operating conditions of construction equipment).

Shareholder Return

Concerning cash dividends, we have the policy of continuing stable payment of dividends after comprehensively considering consolidated business results and reviewing future investment plans, cash flows and the like. Specifically, we have the policy of maintaining a consolidated payout ratio of 40% or higher. Concerning stock buyback, we plan to do so timely and flexibly in response to market and financial conditions.

Looking ahead, we will promote efforts to achieve management targets of the new mid-term management plan and maximize our corporate value, as we play the roles of accounting and finance departments.

Cash Dividends per Share

Stock buyback of approx. ¥30.0 billion (conducted in FY2008, FY2011, and FY2014 in addition to dividend payments)

Cash Dividends per Share

<table>
<thead>
<tr>
<th>Year</th>
<th>Shares (Billions)</th>
<th>Dividends per Share (¥)</th>
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<tr>
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<tr>
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<tr>
<td>2020</td>
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Dividend policy
- 20%–40% (consolidated)
- 30%–60% (consolidated)
- 40%–60% (consolidated)
- 40% (projection)

* Excluding structure reform expenses

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Komatsu's Growth Strategies
Outline of Operations
ESG Issues
Corporate Profile