Business Risks

1. Economic and market conditions
The business environment in which Komatsu operates and the market demand for its products may change substantially as a result of economic and market conditions, political and social circumstances, competitive conditions, or the like, which differ from region to region. In economically developed countries in which Komatsu operates, Komatsu’s business is generally affected by cyclical changes in the economies of such regions. Therefore, factors which are beyond Komatsu’s control, such as levels of housing starts, industrial production, public investments in infrastructure development and private-sector capital outlays, may affect demand for Komatsu’s products. In newly developing countries in which Komatsu operates, Komatsu constantly pays attention to the changes in demand for its products. However, these economies are impacted by a number of unstable factors, such as sudden changes of commodity prices and in the value of currencies and thus, changes in these factors could adversely affect Komatsu’s business results. Furthermore, when economic and market conditions change more drastically than expected, Komatsu may also experience, among other things, lower order quantities, fewer orders of its products, an increase in cancellation of orders by customers and a delay in the collection of receivables. These changes in the business environment in which Komatsu operates may lead to a decline in sales, and insufficient inventory levels and/or production capacities, thereby causing Komatsu to record lower profitability and incur additional expenses and losses. As a result, Komatsu’s results of operations may be adversely affected.

2. Foreign currency exchange rate fluctuations
A substantial portion of Komatsu’s overseas sales is affected by foreign currency exchange rate fluctuations. In general, an appreciation of the Japanese yen against another currency would adversely affect Komatsu’s results of operations, while a depreciation of the Japanese yen against another currency would have a favorable impact thereon. In addition, foreign currency exchange rate fluctuations may also affect the competitive prices between products sold by Komatsu and products sold by its foreign competitors in the same market, as well as the cost of materials used in the production of such products. Komatsu strives to alleviate the effect of such foreign currency exchange rate fluctuations by locating its production bases globally and engaging in production locally. Komatsu also engages in hedging activities to minimize the effects of short-term foreign currency exchange rate fluctuations. Despite Komatsu’s efforts, if the foreign currency exchange rates fluctuate beyond Komatsu’s expectations, Komatsu’s results of operations may be adversely affected.

3. Fluctuations in financial markets
While Komatsu is currently improving the efficiency of its asset management, its aggregate short- and long-term interest bearing debt was ¥393.7 billion as of March 31, 2019. Although Komatsu has strived to reduce the effect of interest rate fluctuations using various measures, including procuring funds at fixed interest rates, an increase in interest rates may increase Komatsu’s interest expenses and thereby adversely affect Komatsu’s results of operations. In addition, fluctuations in the financial markets, such as fluctuations in the fair value of marketable securities and interest rates, may also increase the unfunded obligation portion of Komatsu’s pension plans or pension liabilities, which may result in an increase in pension expenses. Such an increase in interest expenses and pension expenses may adversely affect Komatsu’s results of operations and financial condition.

4. Laws and regulations of different countries
Komatsu is subject to relevant regulations and approval procedures in the countries in which it operates. If any new laws and regulations or amendments to existing laws and regulations relating to customs duties, currency restrictions and other legal requirements are implemented in the countries where Komatsu operates, Komatsu may incur expenses in order to comply with such laws and regulations or its development, production, sales and service operations may be adversely affected by them. With respect to transfer pricing between Komatsu and its affiliated companies, Komatsu is careful to comply with applicable taxation laws of Japan and the concerned foreign governments. Nevertheless, it is possible that Komatsu may be viewed by the concerned tax authorities as having used inappropriate pricing. Furthermore, if intergovernmental negotiations were to fail, Komatsu may be charged with double or additional taxation. When facing such an unexpected situation, Komatsu may experience an unfavorable impact on its business results.

5. Environmental laws and regulations
Komatsu’s products and business operations are required to meet increasingly stringent environmental laws and regulations in the numerous countries in which Komatsu operates. To this end, Komatsu expends a significant share of its management resources, such as research and development expenses, to comply with environmental and other related regulations. If Komatsu is required to incur additional expenses and make additional capital investments due to revised environmental regulations adopted in the future, or if its development, production, sales and service operations are adversely affected by such revised regulations, Komatsu may experience an unfavorable impact on its business results.

6. Product and quality liability
While Komatsu endeavors to sustain and improve the quality and reliability of its operations and products based on stringent standards established internally, Komatsu may face product and quality liability claims including recalls or become exposed to other liabilities due to unexpected defect in its products or systems or accidents. If the costs for addressing such claims or other liabilities are not covered by Komatsu’s existing insurance policies or other protective measures, such claims may adversely affect its financial condition.

7. Alliances, collaborations, mergers and acquisitions, etc.
Komatsu has entered into and implemented alliances, collaborations, mergers and acquisitions, etc., with various business partners to reinforce its international competitiveness. Through such arrangements, Komatsu is working to improve and expand its product development, production, sales and service capabilities as well as its solutions business. However, Komatsu’s failure to attain expected results or the termination of such alliances or collaborative relationships may adversely affect Komatsu’s results of operations.

8. Procurement, production and other matters
Komatsu’s procurement of parts and materials for its products is exposed to fluctuations in commodity and energy prices. Price increases in commodities, such as steel materials, as well as energies, such as crude oil and electricity, may increase the production cost of Komatsu’s products. In addition, a shortage of product parts and materials, bankruptcies of suppliers or production discontinuation by suppliers of products used by Komatsu may make it difficult for Komatsu to engage in the timely procurement of parts and materials and manufacture of its products, thereby lowering Komatsu’s production efficiency. With respect to an increase in the cost of production as mainly affected by an increase in the cost of materials, Komatsu mainly strives to reduce costs and make price adjustments of its products.

9. Information security, intellectual property and other matters
Komatsu may obtain confidential information concerning its customers and individuals in the normal course of its business. Komatsu also holds confidential business and technological information. Komatsu safeguards such confidential information with the utmost care. To forestall unauthorized access by means of cyber-attacks, tampering, destruction, leakage and losses, Komatsu employs appropriate safety measures, including implementing technological safety measures and strengthening its information management capabilities. However, when a leak or loss of confidential information concerning customers and individuals occurs, Komatsu may become liable for damages, or its reputation or its customers’ confidence in Komatsu may be adversely affected. In addition, if Komatsu’s confidential business and technological information were leaked or lost, or misused by a third party, or Komatsu’s intellectual properties were infringed upon by a third party, or Komatsu were held liable for infringing on a third party’s intellectual property rights, Komatsu’s business results may be adversely affected.

10. Natural calamities, wars, terrorism, accidents and other matters
If natural disasters (such as earthquakes, tsunamis and floods), epidemics, radioactive contamination, wars, terrorist acts, riots, accidents (such as fires and explosions), unforeseeable criticism or interference by third parties or computer virus infections were to occur in the regions in which Komatsu operates, Komatsu may incur extensive damage to one or more of its facilities that then could not become fully operational within a short period of time. Even if Komatsu’s operations were not directly harmed by such events, confusion in logistics and supply networks, shortages in the supply of electric power, gas and other utilities, telecommunication problems and/or problems of supplier’s production may continue for a long period of time. Accordingly, if delays or disruption in the procurement of materials and parts, or the production and sales of Komatsu’s products and services, or deterioration of the capital-raising environment or other adverse developments were to take place as a result of such events, Komatsu’s business results may be adversely affected.