

Discussion with Outside Board Members

Two Outside Directors discussed the Komatsu medium- and long-term challenges to create new value, the effectiveness of the Board of Directors, and their expectations for the Komatsu Group. (This dialogue was held in June 2024)



Naoko Saiki
Outside Director

Naoko Saiki possesses a high degree of insight and extensive experience in international affairs, international law, and economics, having served as Director General of the Economic Affairs Bureau and the International Legal Affairs Bureau in the Ministry of Foreign Affairs. She took office as an Outside Director of the Komatsu in June 2021.

Tatsuro Kosaka
Outside Audit & Supervisory Board Member

Tatsuro Kosaka possesses a high degree of insight and extensive experience in the business world, having engaged in global corporate management as President and Representative Director and Chaired the Board of Directors of Chugai Pharmaceutical Co., Ltd. He took office as an Audit & Supervisory Board Member of the Komatsu in June 2022.

Changes in the business environment and issues to be addressed

Saiki: I recognize that the future external environment surrounding Komatsu will become increasingly uncertain and unpredictable. This is particularly true for divisions in international communities. Across the globe, we see conflicts between democracies and autocracies and rifts between developed countries and the Global South. Countries of

the Global South are of course not monolithic. In any one country, conflict and strife arise throughout the various social classes. To this end, international divisions are expected to become more radicalized going forward. In other words, the free trade system can no longer be guaranteed. This implies a possibility that supply chains may be disrupted easily. Moreover, there are too many risks to keep an eye on such as carbon neutrality, digital transformation (DX), pandemics, natural disasters, and geopolitical risks. I think it has become an emerging major issue for Komatsu to consider how to respond to the external environ-

ment changes keeping those various risks in mind, given that our business model is based on global cross-sourcing.

Kosaka: Speaking from my many years of experience in the business world, there are several changes in society that have a particularly large impact on Komatsu. The first is green transformation (GX). As the world transitions to carbon neutrality, I have no doubt that initiatives to advance electrification and hydrogen and ammonia engines will be a major key to future growth. The second change is DX. Komatsu must make full use of digital technologies such as automation, remote oper-

Discussion with Outside Board Members

ation of company equipment, digital twins, and, above all, generative AI. The third change is in declining birthrates, aging populations and population declines. The Company must address the underlying issue behind digital transformation: how to increase productivity in the midst of a labor shortage. Finally, the fourth change is diversity. To create innovation, Komatsu needs to not only focus on women's empowerment and the development and utilization of human resources within the company but also recruit and promote talented human resources from outside the company.

Saiki: As you mentioned, declining birthrates and aging populations put severe pressure on the competition for talent acquisition, making it extremely difficult to secure talented personnel. Addressing issues related to human resources is unavoidable to achieve sustainable growth for the future.

Kosaka: Competition against rival companies is another crucial point to address. It is true that Chinese manufacturers have the potential to be game changers in the future, especially in emerging markets such as Asia, which is Komatsu's main battlefield. In this light, I think Komatsu must approach this competition with a sense of urgency. The same could be applied to any industry.

Saiki: Under such circumstances, Komatsu has implemented a two-line model strategy in strategic markets in response to competitors that focus on low-cost strategies. This two-line model strategy is a product strategy to sell standard models for high-load applications and specific models for light-load applications such as urban civil engineering. I think Komatsu has taken appropriate measures in response to its competitive environment. Looking at the medium- to long-term perspective, however, I also believe that it Komatsu must also prepare for multiple other scenarios and increase readiness to put them into practice.

Komatsu's strengths and areas for enhancement

Kosaka: I think one of Komatsu's greatest strengths is the corporate culture. A few key phrases come to mind when I think of Komatsu, including DANTOTSU, quality and reliability, SLQDC (safety, law, quality, delivery, and cost), and the 5 Gs principle: *gemba* (workplaces), *genbutsu* (real things), *genjitsu* (real situation), *genten* (origin) and *kenzaika* (visualization). I believe these phrases are more than just words to Komatsu, and they are fully disseminated throughout the organizations. I believe that this corporate culture is not something that can be cultivated in one generation, rather that is cultivated as a result of successive management leadership demonstrated with a strong will.



Saiki: From my perspective, I believe one of the major strengths of Komatsu lies in a strong determination to take on changes in the business environment, such as those I had previously mentioned, as business opportunities and to respond to these changes to grow. For example, Komatsu sets its long-term vision, which is to create safe, highly productive, smart and clean workplaces of the future with customers, while generating a positive cycle of solving ESG issues and improving profitability. Top management verbalizes the purpose and values of Komatsu, which employees equally share, enabling each employee to focus on what they have to accomplish in their own duties with pride. I believe this earnestness of the organization shows the characteristics of Komatsu.

Kosaka: On the contrary, it seems that society may not be fully aware of this outstanding corporate culture and the foresight the Company possesses when doing business. Komatsu signed a sponsorship agreement with the Williams F1 racing team, striving to strengthen communication of the corporate brand. I think the Company could take more aggressive measures to promote its brand. Such measures would increase global recognition and help attract more talented human resources.

Saiki: Komatsu established a new business model to solve issues at

customer sites by combining products and solutions to optimize the entire construction processes of customers. The company also makes continuous efforts to evolve this business model. I think evolving to create workplaces of the future is quite inspiring. Komatsu aspires to create workplaces of the future, maintains high profitability and engages in various meaningful activities for society, including activities to remove land mines. Given the wonderful nature of the Company, it would be unfortunate if students had little interest in working for Komatsu. Unfortunate for both Komatsu and the students. Komatsu has the virtue of being earnest and sturdy, and at the same time, it is a Company that dreams of exploring the future. I feel these characteristics could also contribute to talent attraction and acquisition by communicating these points more proactively.

Kosaka: I agree. Currently, Komatsu is discussing the next mid-term management plan. Through discussions, I have high expectations for the Company to depict who they want to be in 2040 and 2050, back-cast the vision and communicate this vision proactively.

Saiki: Looking at the strengths of Komatsu from a strategy perspective, it is a significant strength of the Company to conduct the in-house development and production of key components. However, developing and producing everything in-house is not suitable from a cost and

Discussion with Outside Board Members

efficiency standpoint. It remains important to develop a strategy for acquiring technology by clearly defining technologies that should be in-house and those that can be outsourced utilizing M&A and through collaboration with partners. I believe that the Company may face the risk of losing competitiveness without defining such matters.

Kosaka: Even if the strategies have the right directions, the Company could lose to competitors if its speed of execution is insufficient. I would like to expect Komatsu to execute the strategies with a sense of speed.

Komatsu's approach to new value creation

Saiki: The forestry machinery business will be one of the focus areas going forward. While the scale of the business remains moderate, I believe that the forestry machinery business has great potential to

contribute to society. This is because the business can contribute to a circulating forestry industry by providing total support for forest management through tree-planting mechanization and solutions for forest resources management. The forestry machinery business has the potential to expand further in terms of maximizing earning power in the future as well. Komatsu established the Forest and Agriculture Business Division in fiscal 2023 to oversee the forestry machinery business globally. It is my understanding that the establishment of the division expresses the strong commitment of the Company to the forestry machinery business. I have high expectations for the forestry machinery business to symbolize Komatsu's commitment to addressing broad environmental issues toward a carbon-free society, as well as for biodiversity in the future.

Kosaka: Looking at construction materials for high-rise buildings, for instance, we see fire-resistant, strong materials made by layering wood as an alternative to concrete. In this regard, I have great expect-

tations for the forestry machinery business as a new growth area. In terms of absorbing and storing CO₂, the roles of the forestry machinery business will be quite significant, too.

Saiki: In addition to the forestry machinery business, I also pay attention to the underground hard rock mining equipment business. Komatsu should make significant investments in the underground hard rock mining business to address the two seemingly incompatible challenges of increasing demand for resources and achieving zero emissions. I see this business as a very significant area in the sense that Komatsu promotes solving customer issues through innovations such as automation, remote control and electrification, while striving to work together with customers to solve such issues. Komatsu has expanded the scale of the underground hard rock mining equipment business through M&A in recent years. I hope that the business will engage in more diverse cooperations and collaborations to achieve a decarbonized society.

Kosaka: When it comes to what kind of values Komatsu can provide, I believe it boils down to innovation. The most important thing for the Company is to focus on the development of products and services based on technology. Komatsu already has solid strengths in terms of products and solutions. Accordingly, I think the Company should further develop these strengths. In this sense, it will be necessary for Komatsu to steadily strengthen R&D expenditures and further promote open innovation, without limiting themselves to closed innovation.

Saiki: In my understanding, one of the biggest risks Komatsu currently recognizes is the risk of being unable to provide products and services to meet market needs. Innovation is the best way to avoid such risks. This point reflects back to the importance of acquiring and developing talented human resources to enable Komatsu to create innovation.

Kosaka: This is especially true for digital talent. Competition to acquire digital talent is intensifying throughout the world, making the recruitment of such human resources a difficult task. One way to support the acquisition of digital talent is to develop such individuals within the company. Since Komatsu also has excellent engineers, the Company can develop them internally as a role model for digital talent, while also making parallel efforts to recruit from outside the company. There is also another way to develop employees in-house who specialize in physics or mathematics as a digital engineer, not limited to IT-related personnel. This way of human resources development can be applied not only in Japan, but also outside of Japan.

Saiki: To this end, strengthening the corporate brand and improving corporate recognition becomes more important than ever.



Discussion with Outside Board Members

Assessing the effectiveness of corporate governance

Kosaka: As to the effectiveness of the Board of Directors, I think Komatsu's Board of Directors is excellent. There are no gaps in the coordination processes of the Board of Directors. In addition, I feel it is also excellent that the secretariat of the Board of Directors plays a solid role in enhancing proactive deliberations at the Board, including through the support of outside directors.

Saiki: I agree. Komatsu's Board of Directors is extremely effective. I recognize that very active and frank discussions take place among the members of the Board. In particular, at the beginning of the Board of Directors meeting, the President reports on a wide range of topics in detail. These topics include incidents and accidents related to safety and compliance, matters that may require attention in the future, dialogue with stakeholders (such as investors, shareholders and partners) and recent important events. I highly value the Company's sincere stance to explain and share bad news with outside directors as quickly as possible.

Kosaka: I see the executive management team always takes into account outside directors' awareness of issues when addressing management issues. For example, the Company makes considerable progress in utilizing global human resources.

Saiki: Peter Salditt, President of Komatsu Mining Corp. (a U.S. subsidiary) was appointed as President of Komatsu's Mining Business Division in April 2024. He currently attends the Board meeting as an observer. This decision has been made based on discussions at the Board on how Komatsu should utilize human resources globally to strengthen its corporate governance. I believe the Company placed the right person in the right position in this case. I look forward to seeing the Company utilize global human resources further from now on.

Kosaka: Komatsu has introduced an enterprise risk management system (ERM) in fiscal 2023 based on Board discussions. This system is another important point to touch on in discussing Board effectiveness. I think Komatsu must keep a close eye on risk management from a company-wide perspective and ensure measures to respond to various risks are in place across organizations.

Saiki: I also think ERM is extremely important. Among such enterprise risks, there are various incidents that may occur with regard to information security, especially in terms of cyber security. I understand that Komatsu is establishing a system to respond flexibly to such incidents. Unfortunately, cybersecurity has an aspect of a speed battle

with attackers. Accordingly, protecting company information against cyber-attacks requires constant system upgrades, as such attacks are not preventable with a one-time protective measure.

Kosaka: While managing risks, it is also important to consider opportunities within the same context. As I mentioned earlier, GX is not solely for the planetary health. Rather, GX particularly presents great business opportunities for Komatsu's businesses.

Saiki: Definitely, I expect Komatsu to take the risks which the Company should take to seize opportunities firmly. As outside directors, we are responsible for overseeing the execution of management duties from an objective perspective and improving the transparency of the Board of Directors. We are dedicated to fulfilling these roles. We also strive to leverage our knowledge and experiences to date to make proactive recommendations, through which we would like to support the management team.

Expectations of the Komatsu Group

Saiki: I expect Komatsu to innovate by acquiring and developing the right human resources to explore the future in these uncertain and unpredictable times. Evolving the business model as Komatsu's strength by creating new customer values in both products and solutions by means of technologies will lead to contributions to a decarbonized and recycling-oriented society. I believe that Komatsu has sufficient capabilities to make this happen. I will continue to support the Company to enhance its corporate value further.

Kosaka: What I admire most about Komatsu is its unique ability to enhance globalization led by Japanese professionals. In this regard, Komatsu is truly one of a kind. I feel that this ability is the result of the strong will and foresight of successive top management passed down through generations. I expect Komatsu will continue to maintain such visions and strive to become the world's leading construction and mining equipment manufacturer.

