

Growth strategies

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CFO message



Takeshi Horikoshi
 Representative Director
 Senior Executive Officer (Senmu)
 Chief Financial Officer (CFO)

Review of FY2023

In fiscal year 2023 (from April 1, 2023 to March 31, 2024), marks the second year of our mid-term management plan, "DANTOTSU Value - Together to *"The Next"* for sustainable growth". we achieved record-high sales and operating profit for the second consecutive year, mainly due to high demand for mining equipment mainly in North America and Oceania and the positive effect of yen depreciation (Figure 1). In addition, cost increases due to inflation and material price hikes were absorbed by improved selling prices, and the operating profit ratio reached a record high of 15.7%, breaking the 14.8% of FY2007 after interval of 16 years (Figure 2).

Figure 1: Business results

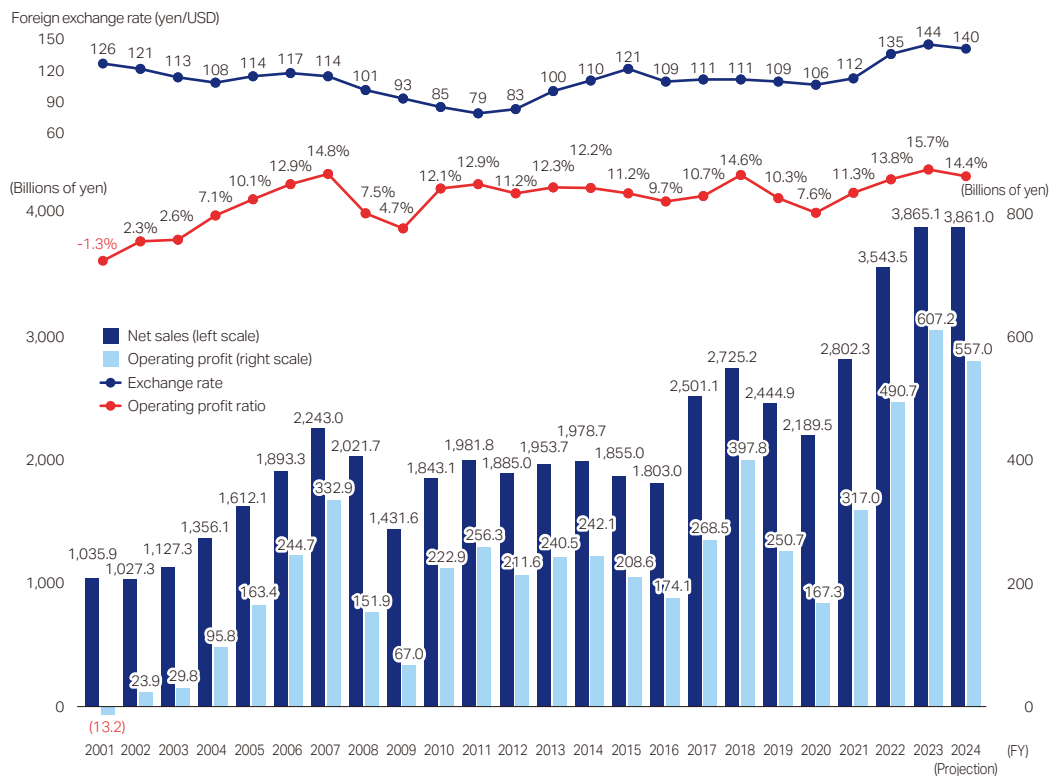
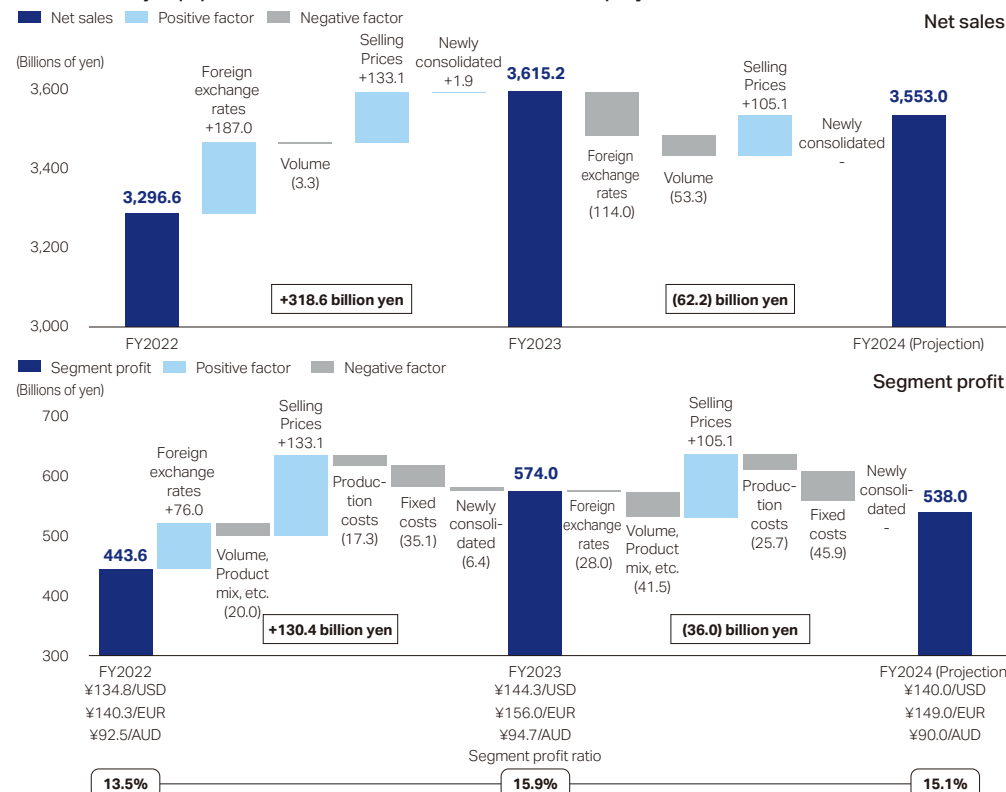


Figure 2: Factors influencing net sales and segment profit in the construction, mining and utility equipment business (FY2022 results - FY2024 projections)



CFO message

Outlook for FY2024 (final year of the mid-term management plan)

(1) Selling price increases

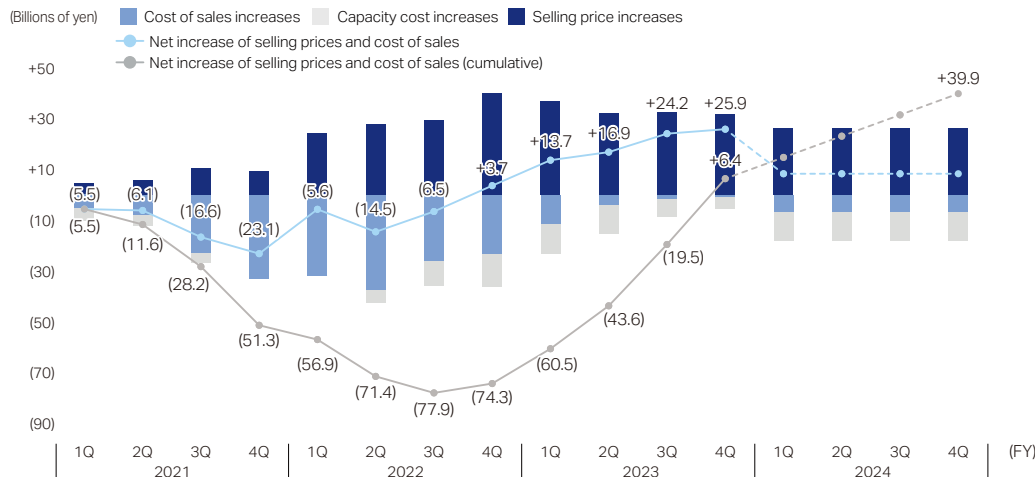
In fiscal year 2024 (from April 1, 2024 to March 31, 2025), we forecast lower sales and profits based on the assumption that the exchange rate will be 140 yen to the US dollar and expectations that demand for construction and mining equipment will decline due to persistently high interest rates and the economic slowdown. However, we plan to increase selling prices further by 100 billion yen, the same level as in the past two years. From FY2023, we began disclosing consolidated profit and loss by location and destination at meetings attended by regional managers, making it possible to compare consolidated profit and loss for each region under the same conditions. These disclosures further incentivized regional managers to increase selling prices. From FY2024, we will link the compensation of the top management of group companies to the consolidated results of each region, thereby further promoting the increase of selling prices.

Comparing the changes in selling price with changes in production costs since FY2021 (Figure 3), the increase in selling price exceeded the increase in production costs cumulatively for the first time in the fourth quarter of FY2023. We will reap the benefits of the increases in selling prices further in FY2024.

(2) Fixed cost control

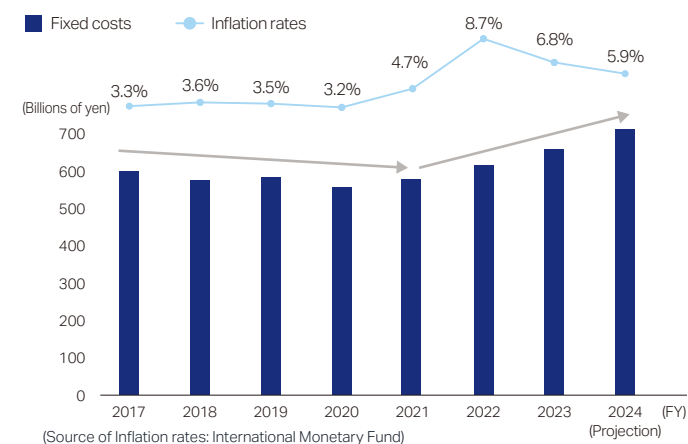
On the other hand, our basic policy regarding fixed costs is to keep them flat, regardless of sales fluctuation. In fact, for the five years from FY2017 to FY2021, despite various changes in the business environment and increases and decreases in sales, Komatsu has controlled fixed costs at a flat level through structural reforms and efficiency improvements. However, from the second half of FY2021, fixed costs increased due to rapid increases in labor costs and expenses against the backdrop of global inflation, in addition to accelerated strategic investments for future growth with an eye to carbon neutrality (Figure 4).

Figure 3: Increase in selling prices and production costs



Fixed costs in FY2024 are also expected to increase due to higher labor costs in each region caused by inflation and growth strategy investments in R&D and other growth areas. The cumulative fixed costs over the three years from FY2022 to FY2024 are expected to increase by more than 100 billion yen. In determining the level of fixed costs, we carefully check the breakeven point and marginal profit margin on an ongoing basis, as well as inflation, cost-effectiveness, and other external environment factors.

Figure 4: Fixed costs and global inflation

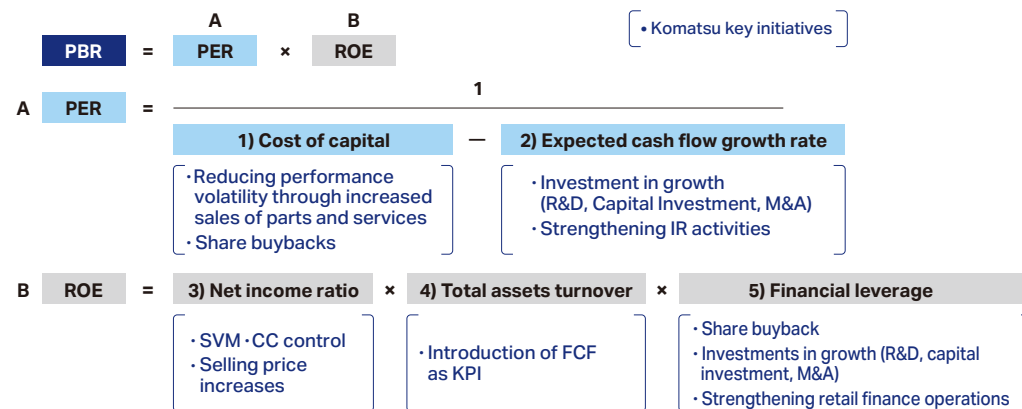


Initiatives corporate value improvement

(1) Initiatives PBR improvement

Komatsu breaks down PBR (Price Book-value Ratio) into PER (Price Earnings Ratio) and ROE (Return on Equity). We then break down PER into its components 1) cost of capital and 2) expected cash flow growth rate, and ROE into 3) net income ratio, 4) total assets turnover, and 5) financial leverage. Finally, we compare each item with competitors to discuss and implement measures to improve PBR (Figure 5). In each item from 1) to 5), we explain our initiatives to improve corporate value at Komatsu.

Figure 5: PBR decomposition formula



CFO message

1) Cost of capital

We assume that Komatsu’s global level of cost of shareholders’ equity has been around 8%. We set a management target of ROE of 10% or more, which is higher than the global level, and are work on both improving ROE and reducing cost of shareholders’ equity to increase the equity spread (ROE - cost of shareholders’ equity). In terms of the cost of capital reduction, our main initiatives are composed of reducing business volatility and conducting share buybacks.

First, in the construction and mining equipment business, we are building a business structure to maintain consistent high revenue without being affected by fluctuations in demand. Specifically, in order to increase the ratio of "parts and service (aftermarket business)," which is expected to generate stable sales volume and high profit margins, we are making operational improvements, such as promoting sales of genuine parts through warranty with maintenance contracts at the time of new car sales (Figure 6).

Secondly, as for share buyback, the Board of Directors fully discusses and establishes criteria for implementation consideration to avoid unbalanced and unsustainable decisions (Figure 7). The two required criteria include financial soundness and the shareholders’ equity ratio, while the five supplementary criteria include ROE, free cash flow (FCF), net cash, dividend payout ratio, and PER. The Company resolved to implemented a share buyback program of up to 100 billion yen between April and September 2024 upon comprehensively considering the status of fulfillment of the above criteria.

Figure 6: Distribution of sales in the construction, mining and utility equipment business

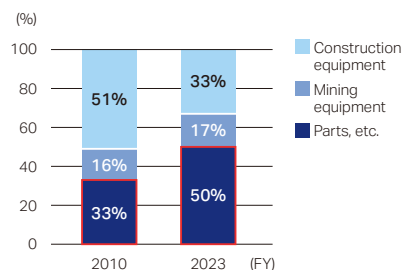


Figure 7: Criteria for share buybacks

	Item	Criteria
Mandatory criteria	1) Financial soundness	Rating
	2) Capital	Shareholders' equity ratio
Supplementary criteria	1) Efficiency	ROE
	2) Ability to generate source of funds (projection)	Consolidated FCF
	3) Ability to generate source of funds (current)	Net cash
	4) Total dividend amount	Dividend payout ratio
	5) PER	Same as left

2) Expected cash flow growth rate

Our internal analysis indicates that this item, "Expected cash flow growth rate," is the one that needs the most improvement compared to competitors. To accelerate growth, Komatsu allocates management resources to growth areas with an emphasis on R&D investments, capital investment, and M&A.

Based on our cash allocation policy, we allocate cash for the following three purposes: (1) capital investments (growth strategies), (2) shareholder returns, and (3) balance sheet improvements (preparation for future M&A activities) (Figure 8). We believe that growth investments are the most important factor to continue stable shareholder returns. To this end, our policy aims to allocate approximately 50% of operating cash flow to capital expenditures and to always be prepared for future M&A.

Figure 8: Basic cash allocation policy for period of mid-term management plan (FY2022–FY2024)

Operating cash flow	Capital investments	Standard investments	35-45%	Allocate around 50% of operating cash flow to investments for growth
		Lease/rental investments	5-15%	
		Total	Around 50%	
	Shareholder returns	Around 40%	Consolidated payout ratio of 40% or more	
	Preparation for future M&A	Around 10%	Constant examination of possibility of utilizing external resources	

In FY2023, Komatsu acquired American Battery Solutions (ABS), a U.S. battery manufacturer, to accelerate our electrification business and achieve carbon neutrality. We also acquired iVolve, an Australian provider of operation management systems for construction and mining equipment, to create smart and clean workplaces of the future at small and medium-sized mining sites. Komatsu conducts M&A every year and will continue to actively utilize M&A as one of the important means of growth to fill the shortfalls in the future vision of our business portfolio (Figure 9). After conducting acquisitions, we monitor the contribution of the acquired companies on a regular basis to increasing our corporate value by comparing the ROI of the acquired company with WACC and the synergistic effects on our consolidated performance.

Figure 9: M&As executed in FY2019-FY2023 (the construction, mining and utility equipment business)

FY of announcement	Field	Company name	Overview	Location
2019	Underground hard rock mining	Timberock International Ltd.	Manufacture of underground hard rock drilling and bolting products	Canada
	Mining equipment business	Immersive Technologies Pty Ltd.	Mining equipment simulators for training machine operators	Australia
	Forestry equipment business	TimberPro, Inc.	Forestry machine and attachments manufacturer	U.S.A
2021	Mining equipment business	Tramac corporation Ltd.	North American mining equipment attachment distributor	Canada
2022	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 business	Bracke Forest AB	Development, manufacture, and sale of application-specific attachments for silviculture	Sweden
2023	Battery manufacturer	American Battery Solutions, Inc.	Development and manufactures a wide variety of heavy-duty and industrial battery packs, using lithium-ion batteries for commercial vehicles	U.S.A
	Surface Mining and Quarrying	iVolve Holdings Pty Ltd	Development and sales of fleet management system for small to mid-tier miners, contractors, and quarries	Australia

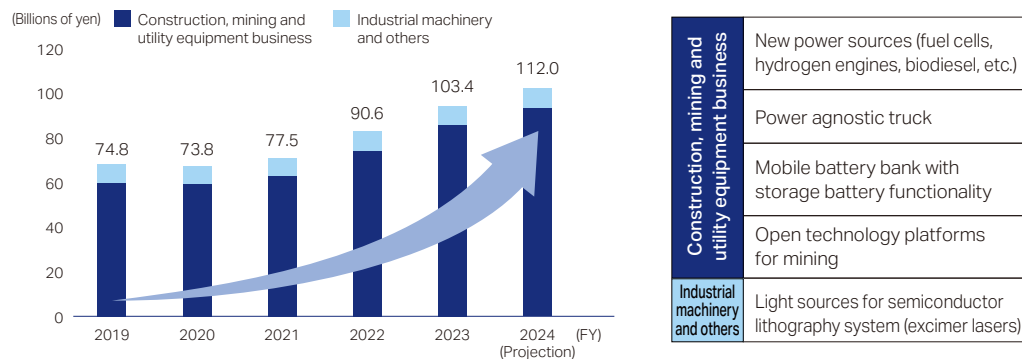
*The acquisition completed in 2024.

CFO message

Komatsu aims to reduce CO₂ emission by 50% in 2023 from 2010 levels. We also aim to achieve carbon neutrality by 2050 (challenging goal). To achieve these goals, Komatsu invests heavily in research and development for the future, including for fuel cells, hydrogen engines, and biodiesel engines. We also research and develop hybrid technology, diesel electric, tethered electric, and battery electric, which are already in practical use (Figure 10). These important investment projects are managed separately as mid-term management plan projects. Budgets are allocated to these projects on a priority basis due to the risk that future growth may be significantly impeded if ordinary fixed cost management is applied to reduce these investments.

We will further strengthen our IR activities to clarify the Komatsu growth strategies described above and facilitate understanding among investors.

Figure 10: R&D expenses and major R&D themes



3) Net income ratio

In profitability management, we use direct cost accounting, which clarifies the definitions of variable and fixed cost items and applies them consistently to the entire group, enabling us to compare profitability in each region. This is the basis of our global cross-sourcing operation for production, which enables us to produce products with the same specifications and quality at production bases around the world.

Overseas markets account for 90% of Komatsu's sales, and 70% of our employees work outside of Japan. The number of top management of overseas subsidiaries has also increased to national employees. We keep management indicators as simple as possible so that they can be intuitively understood by diverse nationalities and employees who are not in accounting positions. For example, in profit and loss calculation, we define SVM (Standard Variable Margin), CC (Capacity Cost), and CC headcount (headcount considered as fixed cost) as management indicators to improve profitability through continuous sales price increases, fixed cost management, and cost reduction. We will continue to improve profitability by continuously increasing sales prices, managing fixed costs, and reducing costs.

4) Total asset turnover ratio

Komatsu introduced ROIC in FY2017. To properly manage working capital, we have been monitoring the cash conversion cycle on a regular basis by expanding and implementing the invested capital in the ROIC calculation formula to *working capital + property, plant and equipment*. However, ROIC has the disadvantage that the impact of earnings is so large that the indicator improves even if asset efficiency deteriorates if earnings improve, and that the business units cannot directly perceive the improvement due to the "ratio" display. In addition, the ratio display meant that business divisions could not directly perceive the improvement.

From FY2023, we introduced free cash flow (FCF) as a management indicator for each group company with the aim of further improving ROIC for the entire company. The purpose of this measure is to enable each group company to realize whether its asset efficiency is good or bad in terms of the amount of money rather than the rate.

The plan is to add a twist to the standard cash flow statement and break down the sources of FCF generation into four categories: (1) profit, (2) working capital, (3) fixed assets (depreciation - investment), and (4) M&A. We aim to clarify the sources and absolute amounts that should be improved directly and focus on improvements while maximizing future cash flow. The plan is to maximize future cash flows while focusing on improvements by clarifying the "sources" and "absolute amounts" that should be improved directly (Figure 11).

The plan is to have the managers in charge of each region plot the position of each company on the axis of profit and FCF on a four-quadrant chart to help managers a sense of urgency and drive cash flow generation (Figure 12).

Figure 11: Free cash flow

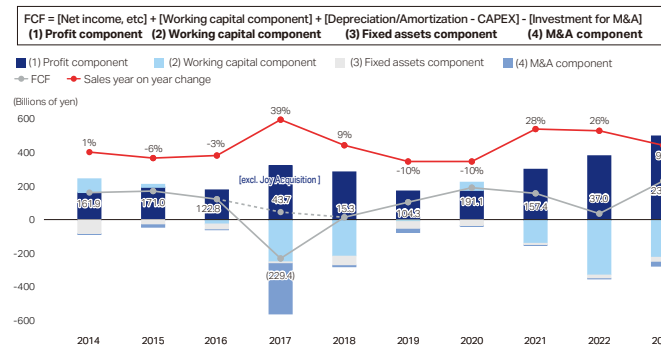
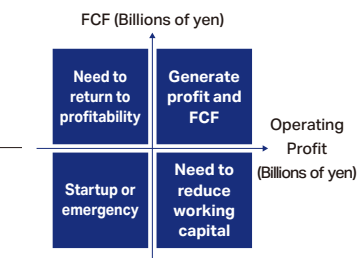


Figure 12: Free cash flow by company four-quadrant graph



5) Financial leverage

In terms of the balance sheet management, we intend to keep our debt at a level that will enable us to maintain our current S&P and Moody's single-A ratings (Figure 13). In FY2023, our rating improved from AA- (stable) to AA (stable) under the R&I rating agency. We believe this is due to the progress in our geographic diversification of sales and the increased depth of earnings derived from the parts and service business (aftermarket business), which is less susceptible to economic downturns.

Regarding dividends, we will continue our policy of maintaining a stable dividend payout ratio of 40% or more on a consolidated basis, taking into account consolidated financial results, future investment plans, cash flow, and other factors. As in the past, we intend to flexibly implement share buybacks based on the comprehensive consideration of fulfillment status of the above criteria. (Figure 14).

CFO message

Figure 13: Komatsu ratings

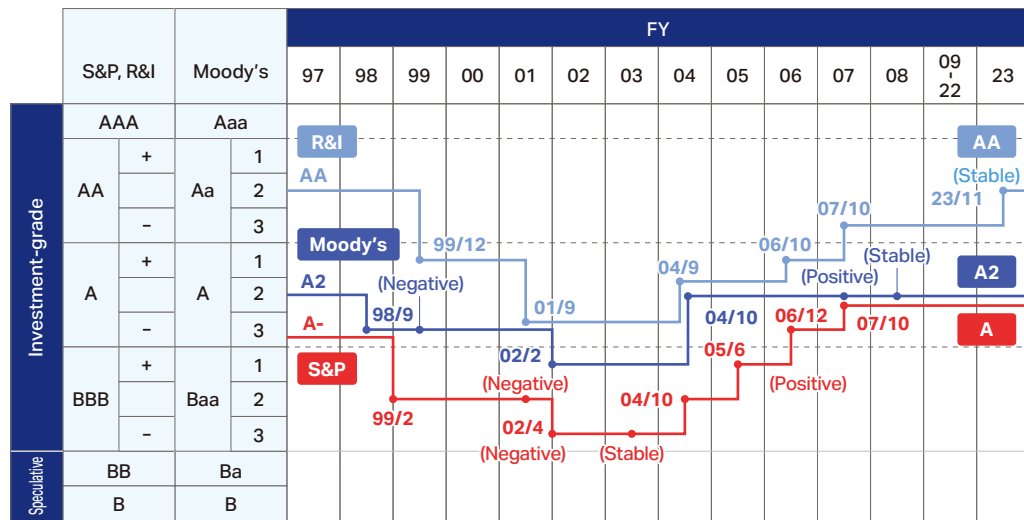
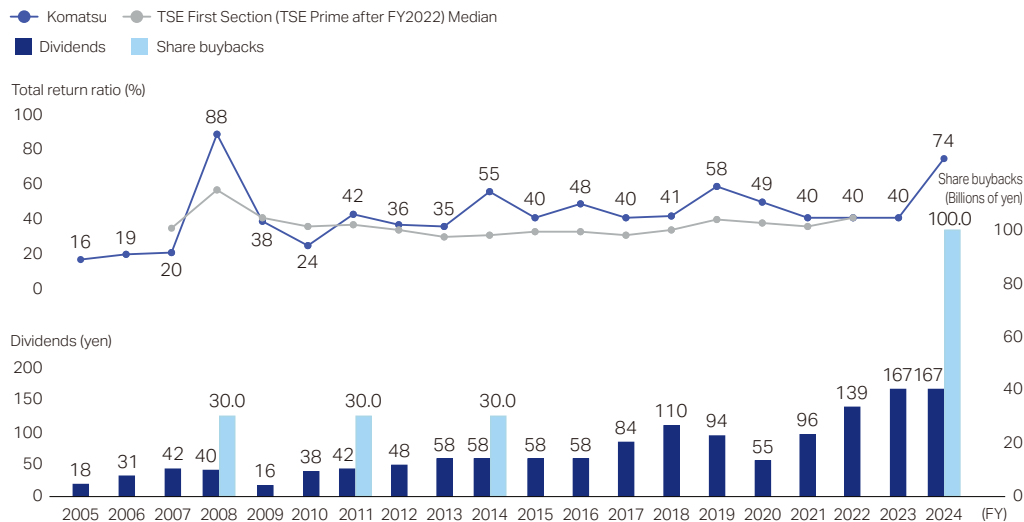


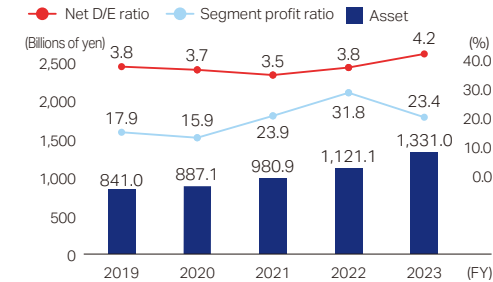
Figure 14: Dividends, share buybacks and total return



Komatsu has regarded our retail finance business as an important sales promotion tool for construction and mining equipment. The business has expanded progressively to strategically important regions, with its asset size increasing 1.6 times over the past five years.

The retail finance business is relatively profitable. Due to its financial nature, the net debt-to-equity ratio of the business is at a higher level than that of the construction equipment and vehicles business. This indicates that Komatsu can improve ROE in two ways: by improving profitability and by expanding financial leverage. We will continue to strengthen our retail finance business while monitoring the soundness of the business (Figure 15).

Figure 15: Retail finance business performance



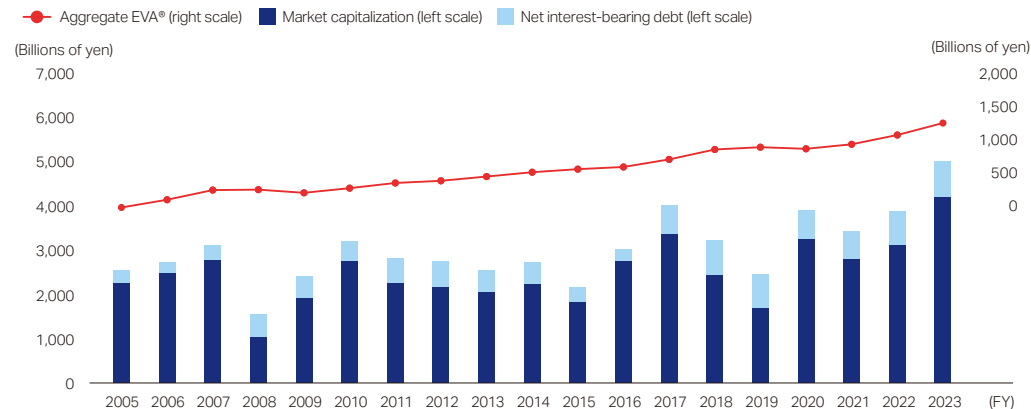
(2) Verification of corporate value

Komatsu verifies regularly our improvement of corporate value from a finance and accounting perspective using two indicators. One is the total of market capitalization and net interest-bearing debt, which focuses on invested capital. The other method is the cumulative EVA® (Economic value added; net operating profit after tax – cost of capital), which focuses on ROIC and WACC (weighted average cost of capital). In both cases, we confirmed improvement in FY2023.

We also conducted a quantitative analysis of social impact of our core business in FY2023 using Impact-weighted accounts, proposed by Harvard Business School*. We calculated the impact for the Autonomous Haulage System (AHS) and DX Smart Construction, which are priority activities in the mid-term management plan. Our calculations confirmed that we have achieved significant effect. We believe one of the roles of the finance and accounting division is clarify the impact of such ESG investments to help resolve ESG issues and enhance corporate value.

* Joint analysis with ABeam Consulting Ltd. Impact-weighted accounts has evolved from the Harvard Business School's Impact-Weighted Accounts Initiative to now the International Foundation for Valuing Impacts (IFVI).

Figure 16: Changes in corporate value and EVA



Mid-term management plan (FY2022 - FY2024)

DANTOTSU Value Together, to "The Next" for sustainable growth

To the next stage for workplaces of the future
Ensuring a sustainable future for the next generation
A new chapter of value creation to the next 100 years

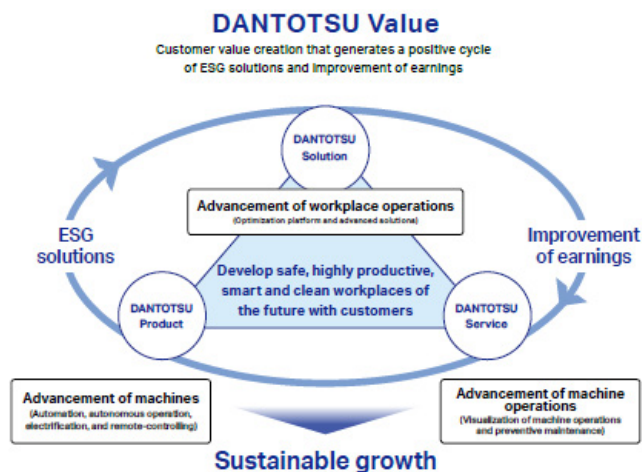
We defined our purpose as creating value through manufacturing and technology innovation to empower a sustainable future where people, businesses and our planet thrive together. Our basic approach to achieving this purpose is through our management principle to commit ourselves to quality and reliability to maximize the total sum of trust given to us by society and our stakeholders.

We formulated our mid-term management plan as a strategy to implement this management principle. In the mid-term management plan, we defined our vision to create safe, highly productive, smart and clean workplaces of the future with customers. Our basic concept is to achieve sustainable growth by generating a positive cycle of solving ESG issues and improving profitability through the creation of customer value.

■ Toward achievement of our vision DANTOTSU Value and the roadmap to workplaces of the future

To achieve our vision, we are working to create DANTOTSU Value (new customer value), integrating DANTOTSU Products, DANTOTSU Service and DANTOTSU Solutions.

Figure: DANTOTSU Value



As shown in the roadmap to workplaces of the future, it is our value to solve our customers' issues by providing solutions that optimize their entire operation processes at customer's job sites and products that are highly compatible with those solutions, aiming for workplaces of the future and carbon neutrality.

■ Approaches to growth strategy

As we progress toward our vision, the current external environment has been becoming increasingly volatile and uncertain.

We expect demand for construction and mining equipment, our mainstay business, to increase moderately in the medium- to long-term. This increase stems from population growth and urbanization, primarily in emerging countries, and steady investment in infrastructure renewal in developed countries. In the short term, however, we expect demand to be highly volatile due to various external environmental risks.

To achieve sustainable growth in this environment, we recognize that the key to growth strategies will be responding to the following three management tasks: 1) Continuing investments in technology areas (electrification, automation, etc.) and growth business areas (forestry machinery, underground hard rock mining equipment business, etc.), 2) Improving profitability further in existing businesses and 3) Enhancing corporate structure resilience to demand fluctuations and other changes in the external environment.

Figure: Key growth strategies



Mid-term management plan

■ Three pillars of growth strategies

Komatsu formulated the three pillars of growth strategies in the mid-term management plan in light of the achievements and challenges from the previous mid-term management plan, backcasting from our vision and roadmap to workplaces of the future. We also considered the management issues arising from changes in the external environment.

We enhance our foundation for sustainable growth by recognizing trends like digital transformation (DX), carbon neutrality and diversity and inclusion as business opportunities, incorporating them into growth strategies.

Figure: Three pillars of growth strategies



1) Accelerate growth by means of innovation

In our pursuit of future growth, we continue to focus investment on strategically critical technologies and business areas. We also accelerate initiatives to turn such efforts into practical and commercialized use.

As to Smart Construction, a digital solution that optimizes construction processes on the job sites, the number of job sites where it has been installed is steadily increasing. It creates new value in combination with ICT construction equipment and remote control technologies. For mines, a number of Autonomous Haulage Systems (AHS), one of the most important solutions for improving safety and achieving GHG (greenhouse gas) reduction, reached 754 units installed (as of June 30, 2024). In addition, we have completed the development of an open technology platform that optimizes mine processes and develop software such as fleet optimization, proceeding with test introduction at major mines. Furthermore, we have begun commercial operation of large ICT bulldozers with remote control to improve safety and productivity at mine sites. In the forestry machinery business, we are working on the solution development to support circulating forest management through combining the visualization of forest resources using drones and satellites, and information on the operation of forestry machinery.

To meet our customers' diverse environmental needs toward carbon neutrality, we develop technology in all directions, not only through in-house development but also through open innovation and partnerships. As part of these efforts, we acquired American Battery Solutions Inc. (ABS), a U.S. battery manufacturer. We will develop and produce batteries optimized for our construction and mining equipment by integrating ABS' experience in battery technologies with Komatsu's knowledge and network. We also entered into a joint development contract with General Motors Company to co-develop a hydrogen fuel cell for the electric drive mining truck. Furthermore, we are developing a medium-sized hydraulic excavator with a hydrogen fuel cell.



Medium-sized hydraulic excavator equipped with a hydrogen fuel cell (Concept machine)



Bulldozer D375Ai-8 remotely operated at Minas-Rio iron mine in Brazil

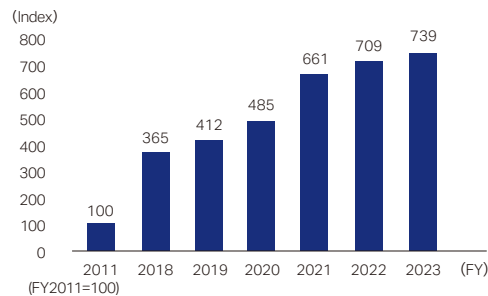
Mid-term management plan

2) Maximize earnings power

To achieve further growth and improve profitability, we will maximize revenue-generating opportunities in our existing businesses by expanding our presence in growth markets and advancing our value chain business.

We will strive to expand sales of hydraulic excavators with civil engineering specifications (CE series) introduced mainly in Asian markets. In our aftermarket business, we will leverage our strengths of in-house development and production of key components and next-generation Komtrax (machine tracking system). Komtrax enables the acquisition of detailed machine condition data to further enhance our profitability by expanding extended warranty contracts with maintenance, and expanding our remanufacturing and rebuilding businesses, thereby further building a business structure that is resilient to fluctuations in demand.

Figure: Quantity of equipment with extended warranty contracts with maintenance



CE series hydraulic excavator

P.41 Special feature 2 Contributing to a sustainable and circulating forestry industry

3) Enhance corporate resilience

Corporate resilience is a growing uncertainty. In response, we work on company integration, operational integration and other structural reforms. We also work to establish a supply chain resilient to environmental changes by further strengthening the cross-sourcing system and increasing the multi-source ratio of parts. We make continuous efforts to improve business operation efficiency and enhance our risk management system by introducing the ERM (enterprise Risk management).

Regarding human resources, we conduct a global engagement survey every two years. We review the degree of improvement from the previous survey results (2021) and reflect these results into action plans in each department. Recent survey results showed that the score of diversity and inclusion has improved significantly since the previous survey.

We will continue to manage talent with a focus on diversity and inclusion, while also actively working to develop talent for digital transformation to generate innovation.



Seminar for developing female executives (diversity and inclusion development seminar)

P.46 Special feature 3 Promotion of human capital management

Management targets

Management targets in the mid-term management plan are the same targets as the previous plan. These targets are growth above the industry average, top-level profitability in the industry, and targets for efficiency and our financial position in light of the highly volatile market environment over the short term. In the retail finance business, we kept the same targets for financial position and efficiency as in the previous mid-term management plan. In addition, we included environmental impact reduction targets and external evaluations into our management targets. We also set a challenging goal of achieving carbon neutrality by 2050. With respect to shareholder returns, we will prioritize focused investments in growth strategies, while aiming to maintain stable dividends for shareholders and a consolidated payout divided ratio of 40% or higher.

Item	Index	Target	FY2023 results
Growth	Sales growth rate	Growth rate above the industry's average	+9.1%
Profitability	Operating profit ratio	Top-level profit ratio in the industry	15.7%
Efficiency	ROE	10% or higher	14.1%
Financial position	Net D/E ratio	Top-level financial position in the industry	0.26
Retail finance business	ROA	1.5% to 2.0	2.0%
	Net D/E ratio	5 times or less	4.24



ESG	Reduce environmental impact	<ul style="list-style-type: none"> CO₂ emissions: Decrease by 50% by 2030 (compared to 2010 levels) Reduce CO₂ from product use Reduce CO₂ from production Become carbon neutral by 2050 (challenging goal) Renewable energy use : Increase to 50% of total energy use by 2030 	22% reduction 51% reduction 25%
	External organization evaluations	<ul style="list-style-type: none"> Selected for DJSI* (World & Asia-Pacific) Selected for CDP** A List (Climate Changes & Water Security) 	Selected for DJSI Selected for CDP A List
Shareholder return	Consolidated payout ratio	<ul style="list-style-type: none"> Keep a fair balance between investment for growth and shareholder return (including share buybacks), while prioritizing growth investment. 40% or more 	40.1%

* Dow Jones Sustainability Indices: SRI index by S&P Dow Jones & Company of the United States and Robeco Sam of Switzerland.

** International non-profit organization that promotes the reduction of greenhouse gas emissions and the protection of water resources and forests by companies and governments.

KPIs of the mid-term management plan

Based on our sustainability policy, Komatsu seeks to contribute to society through our business. We defined KPIs (Key performance indicators) under the current mid-term management plan to guide our efforts for solving ESG issues aligned with Komatsu's three pillars of growth strategies. We also disclose our progress toward accomplishing these KPI targets on this report.

	SDGs	No.	KPIs	FY2022 results	FY2023 results	FY2024 targets			
With people		Employees	1	Frequency rate of lost work time accidents (per 1 million hours)	0.80	0.62	Continue to decrease from the three-year average frequency rate of 0.65 during the previous mid-term management plan period (performance disclosed)		
			2	Global engagement survey score	Implemented action plan based on FY2021 survey results	Conducted second global engagement survey 1) 69 (Japan score) 2) 80 (global score)	1) Japan score: 75 or more 2) Global score: 85 or more * Scores represents the rate of positive responses. * These surveys are conducted once every two years. (next : FY25)		
			3	Indicators related to female employees ① Ratio of full-time female employees (consolidated) ② Ratio of female managers (consolidated)	1) 14.1% (as of March 31, 2024) 2) 10.3% (as of March 31, 2024)	1) 14.5% (as of March 31, 2024) 2) 11.1% (as of March 31, 2024)	1) 17.0% or more (as of March 30, 2025) 2) 13.0% or more (as of March 30, 2025)		
			4	Ratio of employees with disabilities	2.42%	2.48%	2.5% or more (single year, Japan)		
			5	Succession plans	Defined global key position (GKP) and formulated succession plans	Support development and provide opportunities for global key position (GKP)	Increased succession planning for senior management positions at Komatsu group companies outside of Japan		
			6	Development of human resources with digital transformation and AI skills	Number of training recipients 1) Digital transformation: 5,341 for entry-level*, 44 for practical 2) AI: 30 for entry-level, 10 for practical * We administer the entry-level digital transformation course to a wider range of employees via video lectures	Number of training recipients (two-year aggregate) 1) Digital transformation: 5,643 for entry-level*, 84 for practical 2) AI: 60 for entry-level, 20 for practical * We administer the entry-level digital transformation course administered to a wider range of employees via video lectures	Numbers of training recipients (three-year aggregate) 1) Digital transformation: 900 for entry-level, 180 for practical 2) AI: 90 for entry-level, 30 for practical		
			7	Cultivation of Smart Construction consultants	867	953	1,000 (aggregate)		
With business		Customers	8	Human rights due diligence activities	1) Internal: Online surveys targeting all Group companies 2) Procurement supply chain: Online surveys targeting major suppliers 3) Sales: On-site impact assessments in South Africa	1) Internal: Basic training on business and human rights 2) Procurement supply chain: i. Training for the Procurement Division ii. Interviews with major suppliers 3) Sales: Discussions with the marketing department	Conducted due diligence activities for the following three areas 1) Internal 2) Procurement supply chain 3) Sales		
			9	Development of safety devices and expansion of our range of marketed models equipped with safety devices (KomVision, etc.)	Completed of introduction in three small-sized wheel loader models	Drowsiness detection system: Installed in HD785-7 retrofit in Europe and Southeast Asia (Philippines) Already deployed on current rigid dump trucks, except for some models	Expand range of marketed models equipped with safety devices		
			10	Overseas sales of ICT-intensive models	2,448	2,038	2,700 units (single year)		
			11	Number of workplaces using Smart Construction (global total)	8,955	11,740	13,000 workplaces (single year)		
			12	Enhancement and optimization of processes of construction workplaces	20%	22%	Ratio of workplaces using Smart Construction that implement solutions Level 3 or higher: 15% (single year)		
			13	Aggregate number of AHS units deployed	643	727	790 units (aggregate, upward revision from prior target of 740 units)		
			14	Optimization of operations at mine sites	Completed phase one development and commenced trials at customer workplaces	Conducted trials at multiple customer workplaces	Introduce and promote open technology platforms		
			15	Augmentation of hard rock mining product lineup	• Load haul dump machines: Completed of development of one model • Mechanical cutters: Advanced trials at customer workplaces and launched for specific customers • Mining tunnel boring machine: Production of trial unit assembly	• Mechanical cutters: Continued operation at customer workplaces with trial units and completed the first commercial unit assembly • Mining tunnel boring machine: Completion of trial unit assembly	Expand product lineup and execute trials, including those for new methods (mechanical cutting)		
			16	Expansion of hard rock mining business	Net sales: US\$100 million	Net sales: US\$ 80 million	Net sales: US\$300 million (threefold increase from FY2021)		
			17	Development of automated construction and mining equipment	• Hydraulic excavators: Tests conducted on equipment jointly developed with customers • Mining bulldozers: Completed remote control trials at customer workplaces and conducted automated operation trials	• Hydraulic excavator: Tests conducted on equipment jointly developed with automatic excavation function for specific locations • Mining bulldozers: Advanced research on linking bulldozers with a remote control system with Autonomous Haulage System (AHS) for mines underway	Expand the number of marketed models (including new developments)		
			18	Expansion of aftermarket business (pursuit of business growth and response to volatility)	Sales growth rate: 13.5% (compared with FY2021, foreign exchange rates fixed)	Sales growth rate 20% (compared with FY2021, foreign exchange rates fixed)	Sales growth rate: 15% (compared with FY2021, foreign exchange rates fixed)		
			19	Multi-sourcing ratio (implementation of business continuity measures across the supply chain)	85%	91%	92% (82% in FY2021)		
			Ethics and governance	Communities	20	Enhanced governance and enforced compliance	• Enhanced disclosures based on Japan's Corporate Governance Code (business portfolio, skill matrix) • Conducted global e-learning program on Komatsu's Worldwide Code of Business (in 12 languages)	• Appointed a third party to the evaluation analysis process of the effectiveness of the Board of Directors • Conducted global e-learning program on Komatsu's Worldwide Code of Business (in 12 languages)	Disclose initiative results
					21	Ongoing social contribution activities	• Continued demining project • Provided ¥30 million in relief support following the earthquakes in Turkey and Syria • Continued forest restoration projects at former mine sites in North America • Continued providing support for regional human resource development programs with Cummins Inc. (Chile, Peru, South Africa and Australia)	• Continued demining project • Provided relief support following the Noto Peninsula earthquake 1) Donated ¥600 million 2) Lent equipment in affected areas free-of-charge 3) Provided disaster supplies (emergency food, etc.) • Continued forest reforestation projects at former mine sites in North America • Continued providing support for regional human resource development programs with Cummins, Inc. (Chile, Peru, South Africa, Australia)	Disclose activity results

	SDGs	No.	KPIs	FY2022 results	FY2023 results	FY2024 targets	
With the planet		Environment	22	CO ₂ emissions from production (compared with FY2010 levels)	Reduced by 43%	Reduced by 51%	Reduce by 45% (compared with FY2010 levels)
			23	Water consumption (compared with FY2010 level)	Reduced by 69%	Reduced by 67%	Reduce by 70% (compared with FY2010 levels)
			24	Rate of renewable energy use	17%	25%	20%
			25	CO ₂ emissions from product use (compared with FY2010 levels)	Reduced by 21%	Reduced by 22%	Reduce by 24% (compared with FY2010 levels)
			26	Electrification of construction and mining equipment	<ul style="list-style-type: none"> Launched one model Completed development of two models 	<ul style="list-style-type: none"> Launched three models 	Expand models in the development phase and on the market
			27	Growth of forestry machinery business (process mechanization)	1) Sales growth rate: 22.1% (compared with FY2021, foreign exchange rates fixed) 2) Number of tree planting machines introduced: 5 units	1) Sales growth rate: 28% (compared with FY2021, foreign exchange rates fixed) 2) Number of tree planting machines introduced: 9 units	1) Sales growth rate: 50% (compared with FY2021; fixed foreign exchange rates) 2) Number of tree planting machines introduced: 30 (single year)
			28	Promotion of forest management solutions (development of a business model combining forestry and decarbonization)	Completed proof-of-concept tests for remote sensing solutions and selected partners	Forest area 23,705 ha	Forest area: 60,000 ha (forest management solutions applied)
			29	Expansion of Reman business	Sales growth rate: 16.5% (compared with FY2021; fixed foreign exchange rates fixed)	Sales growth rate: 35% (compared with FY2021; fixed foreign exchange rates fixed)	Sales growth rate: 25% (compared with FY2021; fixed foreign exchange rates fixed)

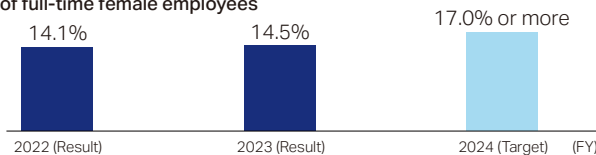
■ KPIs pick up

Of the 29 mid-term management plan KPIs related to growth strategies, we selected certain KPIs that have indicators with global numerical targets, presenting the status of our efforts in easy-to-understand graphs.

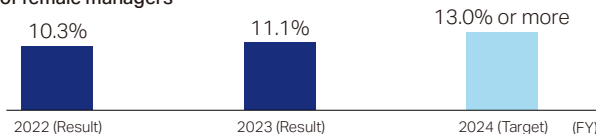
With people

Indicators related to female employee (consolidated, as of March 31 each FY)

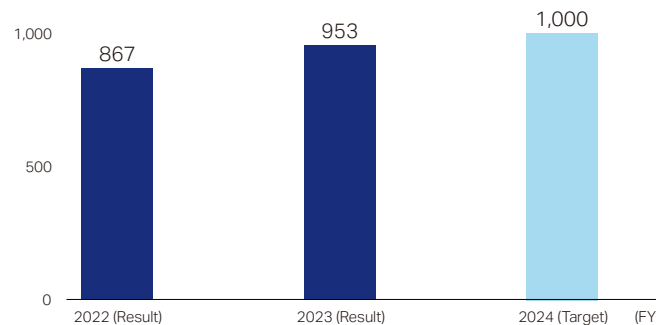
Ratio of full-time female employees



Ratio of female managers

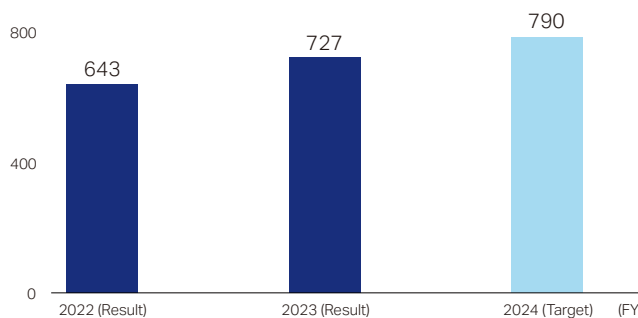


Number of Smart Construction consultants (aggregate)

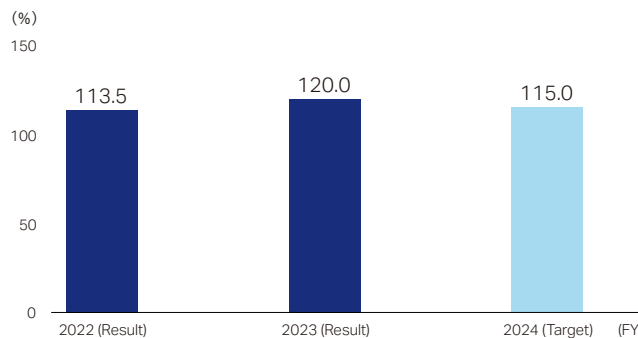


With business

Aggregate number of AHS (Autonomous Haulage System) units installed

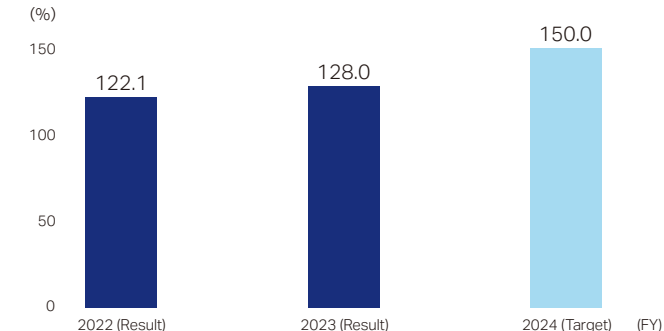


Sales growth rate of aftermarket business (FY2021=100; foreign exchange rate is fixed)

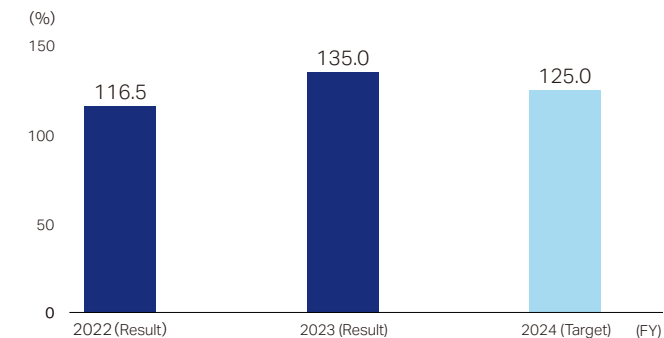


With the planet

Sales growth rate of forestry machinery business (FY2021=100; foreign exchange rate is fixed)



Sales growth rate of Reman business (FY2021=100; foreign exchange rate is fixed)



Special feature 1

Medium- to long-term R&D strategies

Komatsu has created new technologies throughout our history based on our commitments to quality and reliability and to manufacturing and technology innovation. This special feature introduces our medium- to long-term R&D (research and development) strategy to continue to meet customer expectations and create the safe, highly productive, smart and clean workplaces of the future.



Taisuke Kusaba
Senior Executive Officer (Jomu)
Chief Technology Officer (CTO)
President, Development Division

■ A global R&D structure that provides customers with the best value

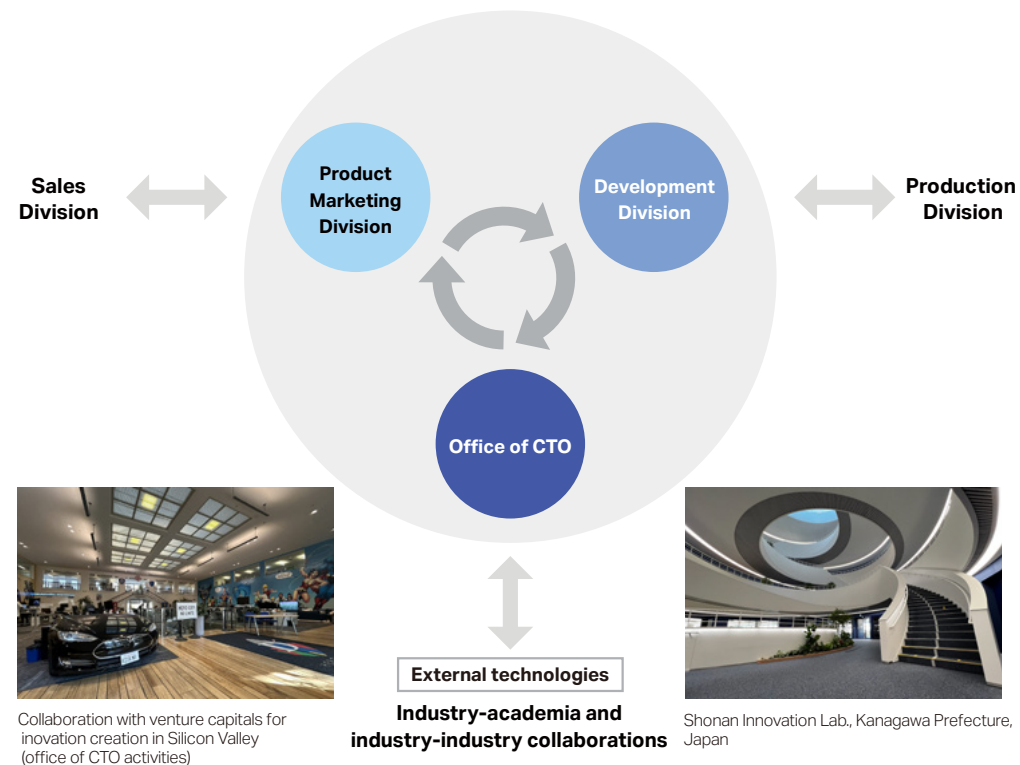
Our R&D structure consists of three main functions. The first is the Product Marketing Division. This division is responsible for planning and profit management. Duties include planning products in line with customer needs and planning sales and profits. The second is Office of CTO. The office is responsible for discovering new technologies to be applied to product development and determining the direction of research and development strategies. The third is the Development Division. This division is responsible for the two major tasks of improving the quality of existing products in mass production and developing new products. All three functions work together in R&D.

Komatsu has 24 development bases for construction and mining equipment worldwide, seven of which are located in Japan. Our production and development functions in Japan are located in the same locations to adopt advanced technologies into production and respond to quality issues in a timely and flexible manner. Our overseas development functions are operated in a similar manner. In this way, we conduct R&D on a global basis.

R&D of construction equipment, some mining equipment, and components is primarily conducted in Japan. On the other hand, we collaborate with the product marketing functions in each region to conduct product planning according to market characteristics in each region and the regulations and standards in each country. Surface mining equipment is mainly developed by our development centers in North America (three locations) and Europe (one location). To control quality, cost and delivery at the development stage, we hold product planning review meetings regularly. In this meeting, we evaluate and deliberate all development projects at their start and completion timing, and determine whether or not the product under review can be put into mass-production.

A major goal of R&D at Komatsu is to create innovation through collaboration among these three functions, combining our technologies with the cutting-edge technologies of the world and maximizing the value we provide customers.

Figure: R&D structure



Special feature 1 Medium- to long-term R&D strategies

Technology strategies to achieve carbon neutrality

Komatsu engages in R&D in various areas to achieve our vision of creating the safe, highly productive, smart and clean workplaces of the future. Among various R&D activities, our effort to become carbon neutral is our answer to the major social issue of global warming, and we are working on this issue as the most important theme in our mid-term management plan.

There are various power sources to achieve carbon neutrality ranging from batteries, trolleys/cable, fuel cells, hydrogen engines, to hybrids, diesel-electric, biodiesel fuel and existing diesel engines with improved fuel efficiency. At present, countries around the world have different technological directions and policies for carbon neutrality. Considering the future, Komatsu has not narrowed down our technology options. Instead, we work on technology development from all directions. Looking at electrified construction equipment, for example, the first markets are being formed in Europe, where environmental awareness is high. Komatsu has introduced seven models of electrified construction equipment since 2020, mainly in the European and Japanese markets. In the future, we plan to expand our electrified product line-up to provide customers with more choices. With regard to power supply infrastructure, which is an issue in installing electrified construction equipment, we have partnered with other companies in a joint development to develop a generator using a hydrogen-mixed combustion engine. Proof-of-concept (PoC) experiments are underway to verify the use of this generator as a power supply device for electric mini excavators.



Battery-electric trolley mining truck (Concept machine)



New 20-ton class electric excavator equipped with lithium-ion battery (PC200LCE-11)

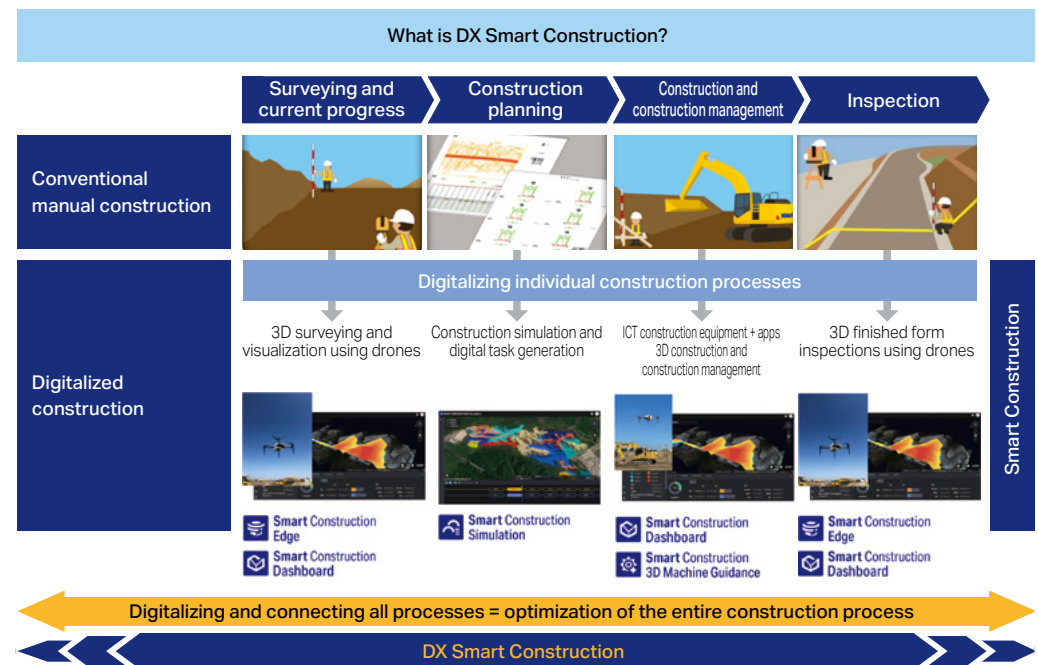


Portable hydrogen-mixed combustion generator for use in powering electric mini excavators (Concept machine)

Since in-house development and production of components is one of our strengths, our core technologies include components for internal combustion engines, such as diesel engines. However, we do not have enough knowledge of battery technology. To this end, we acquired American Battery Solutions, Inc. ("ABS"; USA), a battery manufacturer, in 2023 to accelerate technological innovation. Though ABS is a start-up company, it possesses advanced technologies and facilities for prototype testing and mass production. Moreover, company employees are highly motivated to take on the social issue of carbon neutrality. We will work with ABS to develop battery modules optimized for our construction and mining equipment. At the same time, we will continue to collaborate with various battery manufacturers, as we have a wide range of models and machine sizes.

As stated in the CEO Message, it is essential for Komatsu to not only take a product-based approach but also take a solution-based approach like Smart Construction to achieve carbon neutrality. Streamlining construction processes at job site will help reduce the amount of fuel used, thereby reducing CO₂ emissions. We will strive to make customer workplaces carbon neutral by combining our solutions for CO₂ reduction with the products most compatible with such solutions.

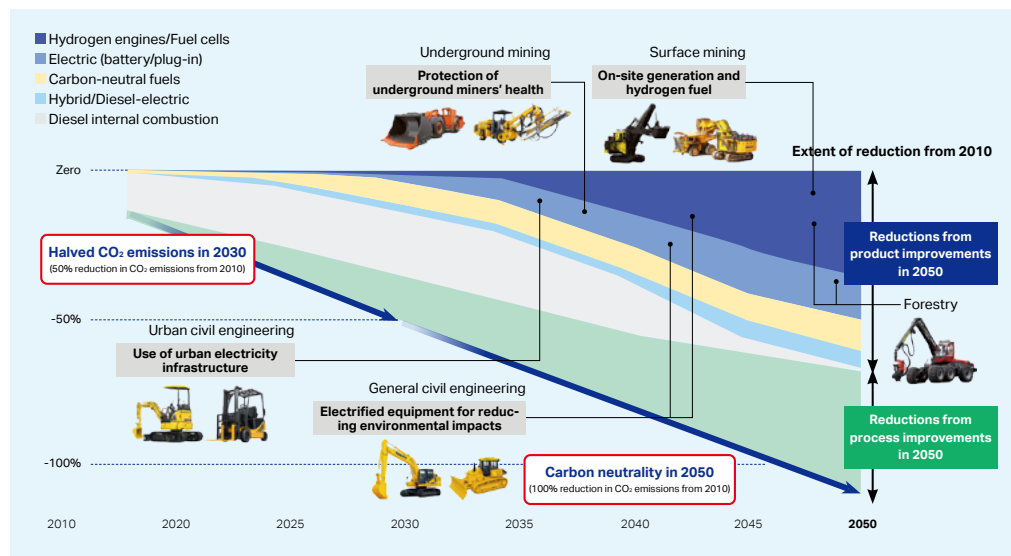
Figure: Approaches through Smart Construction and other solutions



Special feature 1 Medium- to long-term R&D strategies

Komatsu sets our management goal to reduce CO₂ emissions from our products in use by 50% (compared to 2010 levels) by 2030 and by 100% by 2050. We are currently verifying our efforts on the visualization of CO₂ reduction effects by combining our products with solutions. We believe that we have almost reached the current targets in our roadmap (24% reduction (compared to 2010 levels) by FY2024, a KPI of the current mid-term management plan). The Office of CTO monitors technology trends around the world, while our marketing functions in each country keep a close eye on policy directions in their respective countries. Komatsu takes this information into account and updates our roadmap as we work to reach our targets.

Figure: Roadmap to carbon neutrality



Planting seeds for the Office of CTO to accelerate future innovation

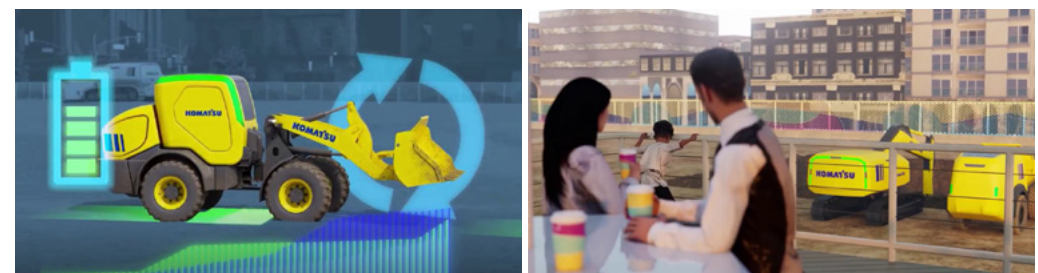
The Office of CTO plays an important role in ensuring that Komatsu makes steady milestones. Particularly important is the activities of the Office of CTO in exploring and acquiring cutting-edge technologies necessary for innovation.

Komatsu has engaged in collaborating with universities, research institutes, and venture companies around the world to create new value through the integration of in-house core technologies and external knowledge (i.e., open innovation). The main focus of industry-academia and industry-industry collaborations is to work together to create products while respecting the research themes and businesses of the other parties. We leverage the partnerships we have built in such collaborations to send our employees to collaboration partners to study abroad or for project assignments.

In addition, the Office of CTO holds an annual Technology International Advisory Board (IAB) meeting, a camp-type meeting attended by concerned Directors and Executives. We invite external experts and startup companies to our Technology IAB meeting to receive lectures on the latest technologies and technology trends and discuss medium- to long-term technology strategies.

The Office of CTO also assumes the responsibility to develop human resources with digital expertise. The office began focusing on the development of human resources with AI expertise five years ago. We select approximately 20 people a year from various functions, including development, sales, and aftermarket, and have them participate in a one-year in-house training program. There are several ideas discussed in this program which have led to practical applications. One such case is the development of an automatic detection support system using AI image analysis.

The activities to translate our vision for the future into a short film are also extremely important. We release at least one film a year featuring cutting-edge and sharp visions of the future that involve technological leaps. The topic of our fiscal 2023 film was *Social transformation through electric construction equipment*. The video is made public to all Komatsu Group employees to inspire them and promote the creation of new ideas. This video also serves to present the Komatsu vision to those outside the company in search of open innovation partners.



Social transformation through electric construction equipment (short film)

Web Short film *Social transformation through electric construction equipment*

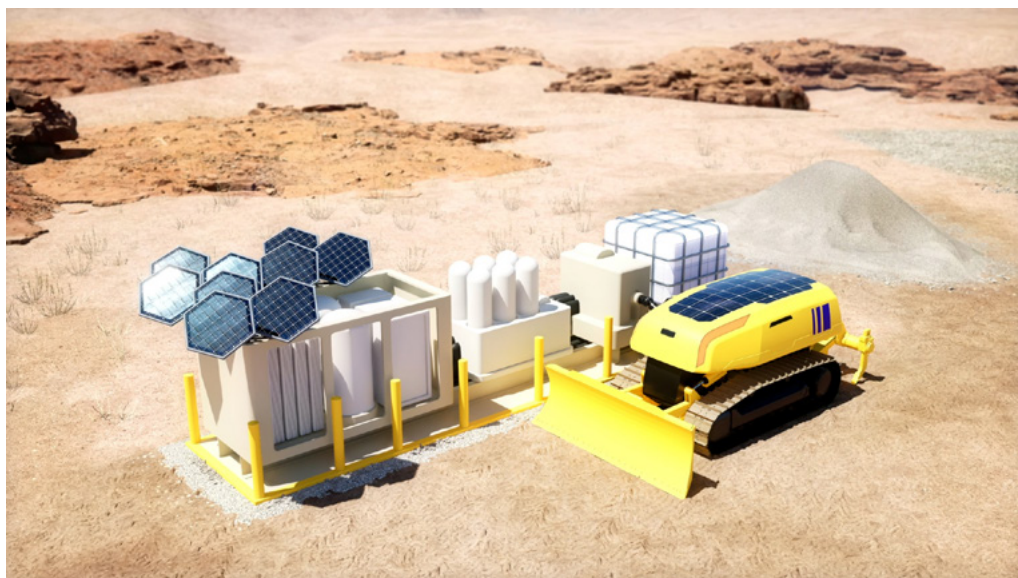
Special feature 1 Medium- to long-term R&D strategies

Members of the Office of CTO travel around the world to present this short film to research institutes and venture companies and discuss future possible collaborations. The most important aspect of these conversations is relaying any knowledge and information on advanced technologies gained back to the development team so that the team can apply such technologies to actual product and services. The drone surveying technology introduced in Smart Construction is one example of how an encounter with a startup company in Silicon Valley led to practical application in our solution services.

We have been increasing R&D expenses gradually each year. These expenses amounted to ¥103.4 billion in fiscal 2023, which is approximately 3% of our consolidated net sales. We are working to allocate resources primarily to improve the equipment efficiency and electrification for carbon neutrality. We also strive to enhance automation, autonomous operation, and remote operation to address labor shortages.

Leveraging our strengths of in-house component development and production is significant. To this end, we also continue to allocate a large portion of our R&D expenses to the development of components and software.

Figure: Construction equipment of the future (excerpt from short film "All-around carbon neutral strategy")



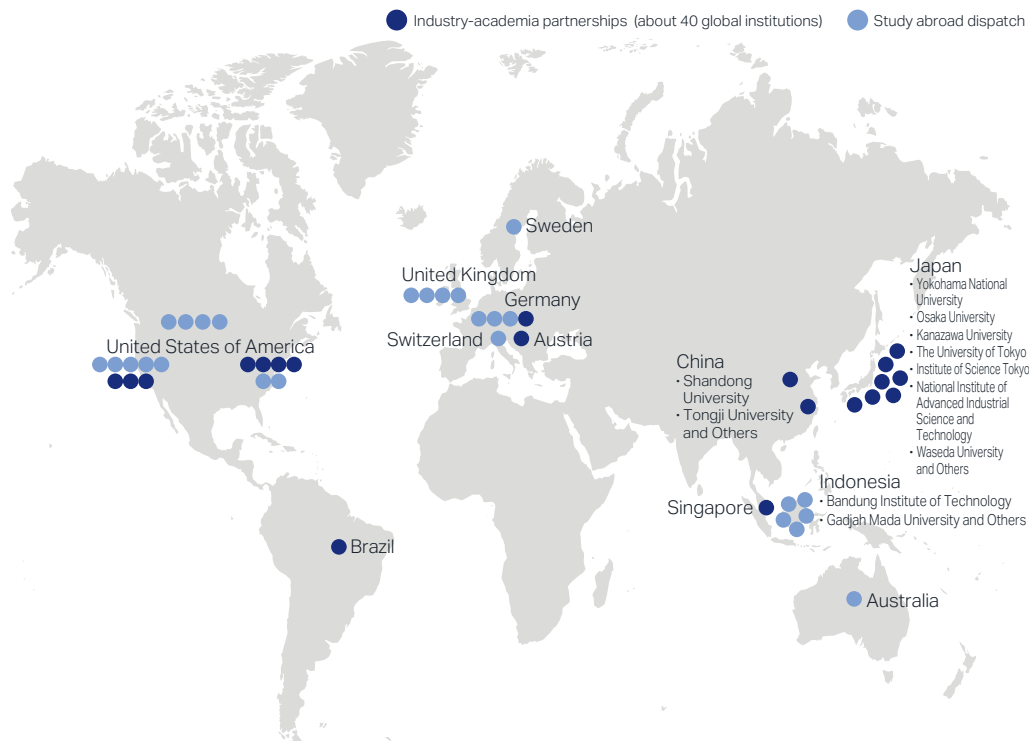
Storing sunlight as hydrogen to convert into electricity to charge construction equipment

Resolving customer issues with Komatsu products and solutions

As a manufacturing company, our management is based in development and production, and our management value chain starts in the development functions. We view our technologies in terms of prioritizing the needs of job sites. To this end, we are confident in our technology, products, and solutions to solve customer issues. Without a strong passion, we would not be able to convince customers of our values and they would not choose Komatsu products. We believe that our most important mission is to devote our maximum effort to the pursuit of technology, convert that technology to customer value, and ensure customers continue to choose Komatsu as a partner. We will work with our customers to approach and solve the various issues they face at their workplaces by optimizing construction processes at their job sites and providing advanced products highly compatible with such process optimization solutions.

However, as society changes and technology advances, it has become increasingly difficult to create maximum value with our capabilities alone. Komatsu is committed to pursuing technologies by respecting and collaborating with various partners and transforming such technologies into our products and services, thereby providing higher value-added offerings.

Figure: Overview of industry-academia collaborations



Special feature 2

Contributing to a sustainable and circulating forestry industry

As global warming accelerates, there is a need for sustainable use of forest resources, which are a source of CO₂ absorption. Komatsu contributes to creating decarbonized societies through sustainable and circulating forestry. To this end, we combine forest machine that improve safety and productivity, which are issues in the forestry industry, and solutions to improve efficiency in forest management through data visualization of machine operations and forest resources. At the same time, we will strengthen the forest machine business by positioning the business as the third pillar of the Komatsu Group's businesses, following the construction equipment and mining equipment businesses.



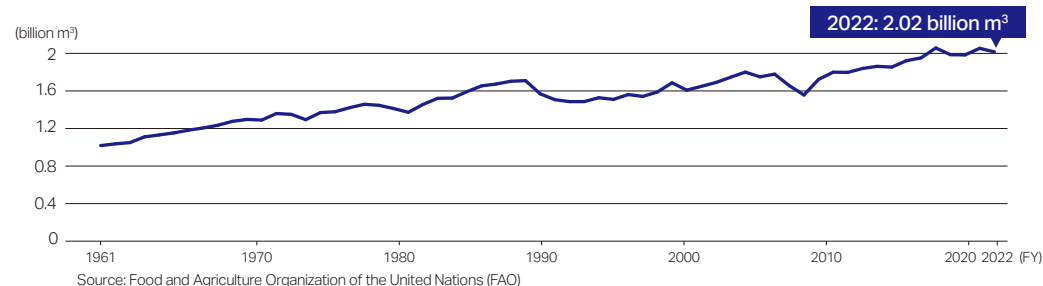
■ Growth potential of the forest machine business

Demand for wood continues to rise as the world population increases. Global roundwood production is increasing at an average annual rate of about 1% and expected to increase from 2.02 billion m³ in 2022 to 2.12 billion m³ in 2027 (Komatsu internal forecast). This increase is mainly due to the increasing demand for timber for construction in emerging countries, the spread of sanitary products (e.g., paper diapers), and rising environmental awareness, all of which drive the use of biomass materials and pulpwood as alternatives to plastics. In addition to conventional wood production, tree-planting projects are also growing worldwide, aiming for decarbonization, natural environment conservation, and wood utilization.

Certain regions are facing labor shortages and an aging forestry workforce on top of the increasing wood demand. These circumstances increased the demand for forest machine that ensures worker safety, reduces the burden on workers, improves work process efficiency, and increases productivity at job sites.

Furthermore, mechanization rates in the forest industry are increasing in emerging countries, which have conventionally relied on human labor. We expect demand for forest machine to grow at an average annual rate of 2% to 3% and market size to expand from approximately US\$7.5 billion in 2021 to US\$8 billion in 2024 (Komatsu internal forecast).

Figure: Industrial roundwood production volume



■ Necessity of forest resources and resolving issues with forest machine

Forest and timber resources contribute significantly to global warming prevention depending on how such resources are used. Trees grow and store CO₂ while absorbing CO₂ from the atmosphere, and they can continue to store CO₂ for a long time even after they are turned into wood products. Moreover, by using harvested wood as woody biomass fuel (carbon neutral fuel), it is possible to reduce fossil fuel usage and CO₂ emissions leveraging the effects of CO₂ absorption through trees. To maintain this cycle, it is necessary to promote a circulating forestry industry which involves managing forests appropriately, using appropriate methods to harvest grown trees, and planting and cultivating new trees.



Komatsu Forest AB head office. The timber used in wooden buildings and other structures stores carbon for long periods of time

However, the forestry industry has many sites with steep slopes and poor footholds, and is prone to serious accidents compared to other industries. In some countries and regions in particular, they still rely on human labor to fell trees using chainsaws and other processes. Therefore, the importance of safety and efficiency by means of mechanization and systemization of work processes is advocated. It is important to keep workers off the ground and out of direct contact with trees to ensure safe job sites with as few accidents as possible. Komatsu works continuously to improve the safety of customers' workplaces by providing forest machines for harvesting and extracting processes.

Special feature 2 Contributing to a sustainable and circulating forestry industry

■ Cultivating the forest machine business as the third pillar of our businesses

Komatsu contributes to solving customer safety, production, and environmental issues globally by providing forest machines. We believe that the forest machine business is an area where Komatsu contributes to solving the major social issue of decarbonization through our business activities, and we have been conducting focused activities to create a positive cycle of solving ESG issues and improving profitability. We also defined the forest machine business as one of the growth areas in the mid-term management plan (FY2022-FY2024), under which we set KPIs for the business and monitor our progress. We provide total support for our customers' sustainable and circulating forestry management by mechanizing processes and providing solutions, while growing this business as the third pillar of our business, following the construction equipment and mining equipment businesses.

Figure: Komatsu forest machine business sales and forecasts

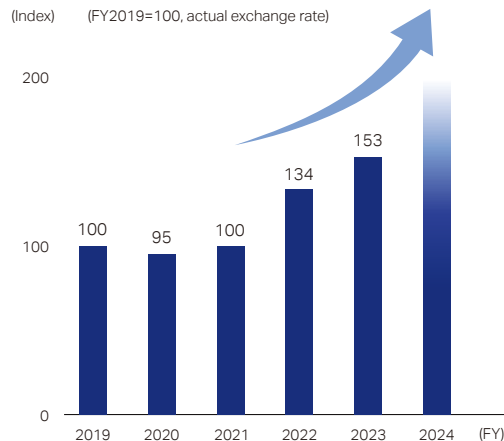
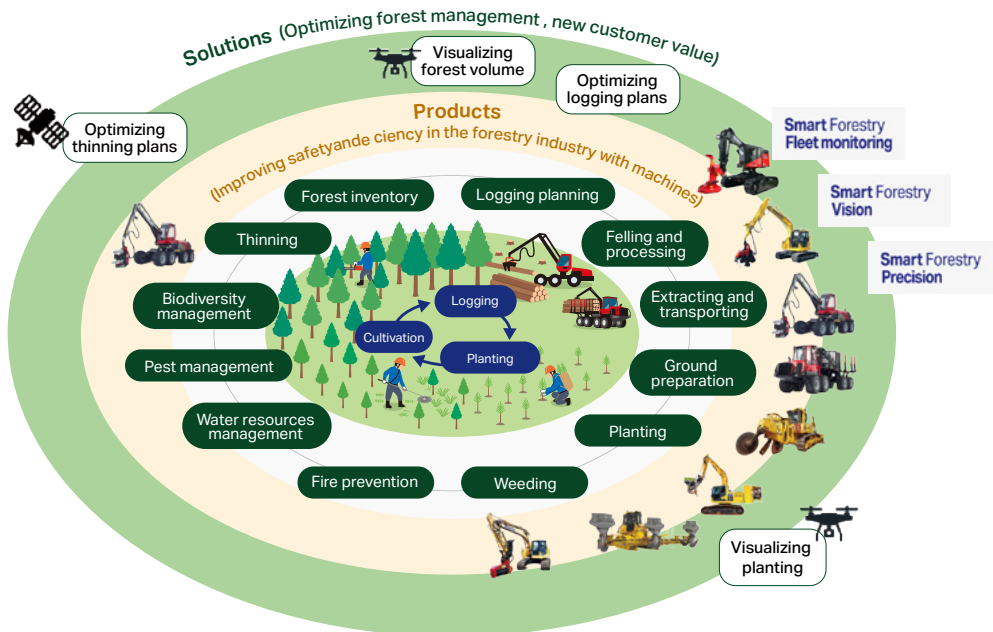


Figure: Circulating forestry management conceptual image



■ Global forest machine business structure

Komatsu has expanded our forest machine business by introducing construction equipment-based machines with forestry specifications, as well as purpose-built forest machines and related technologies acquired through M&A. In 2004, we established Komatsu Forest AB through the acquisition of Partek Forest AB (Sweden) and launched a full-scale forest machine business with a product lineup for the CTL method (Figure), which is the dominant method in Europe.

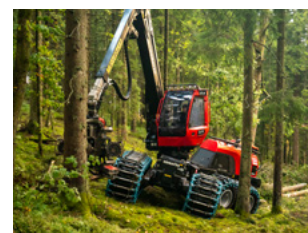
On the other hand, the dominant method in North America is the FTL method. In 2018, Komatsu acquired Quadco Inc.(Canada), a manufacturer of FTL attachments. In addition, in 2019, we acquired TimberPro Inc. (U.S.A.), a manufacturer of forest machine to expand our product range by adding crawler-type feller bunchers and other products for the FTL method. In particular, North America, which is the world's largest producer of lumber, is the world's largest market for forest machines. We believe there is considerable potential for growth in North America by reinforcing our product lineup.

Komatsu has been working to expand our product lineup to provide total support for the circulating forestry industry. For example, in response to a request from the Brazilian pulp and paper industry, we have developed and introduced a planter equipped with a tree-planting attachment from Bracke Forest AB (Sweden), which we acquired in 2022. As tree planting is one of the most labor-intensive processes in afforestation, we will continue to solve customers' issues more by advancing mechanization.

Figure: CTL and FTL processes

Logging methods	Details
CTL (Cut to length) method	A method in which trees felled in forests are cut into logs of a certain length before extracting
FTL (Full tree length) method	A method in which felled trees are extracted at their original length and processed into logs of a certain length at another location

Forest machine lineup



Harvesters [CTL]



Forwarders [CTL]



Feller bunchers [FTL]



Bulldozer-based planters

Special feature 2 Contributing to a sustainable and circulating forestry industry

■ Creating sustainable, circulating forestry with our products and solutions

As in our construction and mining equipment businesses, Komatsu strives to create new customer value in the forest machine business through both products and solutions.

In terms of products, we work to develop technologies for future products that support sustainable forestry management and enhance the automation of machine operations. We will also develop electrified equipment as low-carbon technology products. The biggest barrier to electrifying machines in forests is the power supply infrastructure. Operating sites in forests are vast and machines are operated in various locations, making it difficult to install infrastructure facilities. We will conduct development while aiming to charge such machines on-site using portable power supply equipment, which has already begun to be introduced in the construction equipment business. We will also create synergies by leveraging assets of the Group including technologies such as diesel electrics, hybrids, hydrogenated vegetable oil (HVO fuel), and the knowledge gained from American Battery Solutions Inc. ("ABS"; U.S.A.), a manufacturer of batteries acquired last year.

In terms of solutions, we have addressed evolving our solutions to visualize information on the forest machine used in logging and extracting. Specifically, our system visualizes information including machine conditions, work orders from operation administrators, logged volumes, and work site management (sharing the log collection locations with the operators of extracting machines).

In the tree-planting process, we began recording data on the location and time stamps from planters and verifying the technology that uses remote sensing to monitor sapling growth after planting. Conventional survey methods of seedling survival rates require surveyors to walk long hours to take measurements. This method will be replaced by drone or satellite data analysis, which will not only improve efficiency, but also enable us to use the data for replanting. In addition to our conventional harvesting and extracting solutions, Komatsu promotes Smart Forestry, which offers added services such as forest monitoring, biodiversity conservation and fire prevention using remote sensing and AI technology. Through these efforts, we aim to help our customers realize sustainable and high-quality forest management.



Monitoring sapling growth using drones

Message

We will accelerate the global circulating forestry business and work together with customers to contribute to the global environment.



Hiroyuki Umeda

Executive Officer
President, Forest and Agriculture Business Division

Komatsu works to engage in M&A to expand our forest machine business, with key markets in Europe and North America. To this end, we develop products tailored to the characteristics of each region and establish proprietary production and sales networks. We established the Forest and Agriculture Business Division in April 2023 in light of business expansion to ensure the proper control of business management and governance as a global headquarters. Our forest machine business now has a worldwide presence in Europe, North America, South America, Oceania, Asia, and Africa. We aim to grow our business further by integrating operations across group companies and our locations around the world and aligning internal directions for overall optimization. One year has passed since the establishment of our division. Although our members are working in various regions across the world, I feel that employee motivation has increased now that we can see the faces of those with which we do business.

I expect new players to join the forestry sector market in the future. In addition to traditional timber producers, these new players may include companies that engage in carbon credit trading, tree planting for nature conservation and NGOs. The new market requires higher-quality forest management that includes the quantitative visualization of carbon stocks and biodiversity conservation. Komatsu strives to provide diverse customer values by leveraging our strengths in understanding on-site data and providing solutions that utilize such data.

The reduction of environmental impacts in response to climate change is recognized as one of the most important issues in our materiality. In the forest machine business, Komatsu Forest AB launched the first carbon-neutral plant in the Komatsu Group in 2021. The plant made significant improvements to productivity and introduced renewable energy, thereby significantly reducing electricity consumption. We are also exploring the possibility of leveraging our forest machine technologies and forest management solutions to offset CO₂ emissions from our products. The Forest and Agriculture Business Division will continue to take advantage of Komatsu's assets and accelerate industry-academia collaborations and alliances with collaborative partners to reduce CO₂ emissions at customer sites and develop automation technologies and solutions.

We are committed to contributing to customer businesses and the global environment, while further growing our forest machine business.