

CEO message

We aim to achieve sustainable growth through commitment to quality and reliability, and by creating new customer value to achieve a positive cycle of solving ESG issues and increasing profits.



Hiroyuki Ogawa
President and Representative Director
Chief Executive Officer (CEO)

Risks are opportunities for a competitive edge

Changes in our business environment are becoming even more dramatic. We find ourselves in a time of increasing uncertainty regarding an unpredictable future, facing the complex interplay among risks involving global geopolitics, economic security, climate change, cybersecurity, and more.

Amid these circumstances, we look back at FY2023 performance in which we posted record-high sales and profits. Consolidated net sales amounted to ¥3,865.1 billion (up 9.1% year on year) and operating profit was ¥607.2 billion (up 23.7%). Positive factors contributing to our performance included the strong sales of mining equipment and parts, the impact of improved selling prices, and the effect of a weak yen. We see the results of our efforts in responding firmly to risk and continuing to build a structure resilient to the impact of the external environment.

In particular, we continued with our efforts to minimize the impact of supply chain risks. Supply chains across all aspects of society were disrupted during the COVID-19 pandemic. However, Komatsu responded quickly and agilely through a flexible production system supplying products and parts between regions. We call this production system *global cross-sourcing*, and we continue to build systems to supply products and parts to each market from the most optimal plant. Our decisions take into account for current exchange rates, production capacity, cost competitiveness at each plant and demand trends in each region. In addition, we have stepped up *multi-sourcing* to ensure the procurement of the same parts from multiple suppliers as a risk diversification measure.

Strengthening risk management during times of normal operation will become even more important. Komatsu introduced an enterprise risk management system (ERM), enhancing activities to identify, assess and mitigate all risks from a company-wide perspective. Even as we strengthen our preparedness to mitigate and avoid risk, we see risks as opportunities to take on new challenges and increase our competitive edge.

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Leveraging the strengths of our component strategy to grow our earnings power in the aftermarket business

Another driver of our strong performance has been the aftermarket business. The aftermarket refers to parts replacement and maintenance for customer-purchased new equipment. The aftermarket business already accounts for about 50% of Komatsu construction equipment and vehicle sales and 60% of profits. Demand for new equipment sales tends to fluctuate widely depending on economic conditions. Aftermarket demand, however, is based on the machine population already in operation in the market, which enables us to earn stable sales. Currently, around 770,000 units of Komatsu equipment are in operation worldwide. Maintaining and increasing this machine population will lead to stable earnings that are not easily affected by the economic climate.

And our in-house development and production of key components is what supports our profitability in the aftermarket. As differentiating our equipment itself from others becomes difficult, we develop and produce engines, transmissions, hydraulic equipment, and other key components in-house. These components determine the performance of our construction and mining equipment, and this in-house approach is an extremely important factor in our competitiveness. Since we develop and manufacture these components in-house, we use the best combination of components and advanced technologies for each model in product development. For example, sensors on components help us monitor durability using Komtrax (equipment operation management system), which enables us to suggest repairs at the appropriate time based on the data. By understanding the durability and reliability of components, we can offer extended warranty contracts with periodic maintenance, which allows customers to use our equipment with confidence and leads to the purchase of our genuine parts by customers. This approach also enables us to receive components at the appropriate timing and to offer high-quality *reman* products, which leads to the increase of value for used equipment. We recognize that Komatsu's strengths and differentiation lie in our ability to control QCD (quality, cost, and delivery) and establish business models based on in-house component development and production.



A tour of American Battery Solutions Inc., which joined the Komatsu Group in 2023

Accelerating efforts in electrified construction and mining equipment, looking ahead to future market formation

Another keyword in sustainable growth is *decarbonization*. Under our current mid-term management plan (FY2022 - FY2024), Komatsu pursues a challenge target of achieving carbon neutrality by 2050. We encourage everyone in the company to think about the issues and measures we can take to achieve this goal. One answer has been electrifying construction equipment, which we began selling and renting in Japan and Europe in FY2023. Hurdles remain in electrified construction and mining equipment in terms of installation costs and infrastructure for power supply, and the market has yet to form. However, Komatsu has introduced seven new models of electrified construction equipment to further accelerate our efforts to form a

market.

The trend toward decarbonization is now irreversible. We expect various regulations and standards—such as carbon pricing and carbon taxes—in the not-too-distant future. Given these circumstances, we fully expect customers to require environmentally friendly construction and mining equipment. Therefore, we believe it is important to conduct advanced research and development toward carbon neutrality in all technological directions, including hydrogen engines and carbon-neutral fuels.

However, we do not have enough in-house expertise in electrification technologies at this time. We must work with partners to develop such technologies. Toward future technology development, we welcomed battery manufacturer American Battery Solutions, Inc. (U.S.A.) to the Komatsu Group in FY2023. We also signed a joint development agreement with General Motors Company (U.S.A.) for hydrogen fuel cell modules used in ultra-class mining dump trucks.

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These mergers, acquisitions, and technology alliances are designed to place key component technologies in our hands for future electrified construction and mining equipment. We intend to plant seeds toward expanding the aftermarket and further earnings growth when construction and mining equipment transitions to electrification.

The Komatsu approach to an ideal vision of the future

The Komatsu vision is to develop safe, highly productive, smart and clean workplaces of the future together with our customers. As an example, I envision a sustainable society in which carbon neutrality and economic growth are compatible, and where knowledge from around the world gathers from beyond national borders through digital transformation, leading to solutions for various social issues. To achieve this vision, we aspire to create value for our customers in terms of both products and solutions.

When speaking of products alone, we understand that any product—no matter how advanced—will eventually become more difficult to differentiate. For this reason, an organization's growth will come to a halt if it lacks a strategy for creating a growth curve combining products and solutions. In digital technologies, Komatsu engages in M&A or creates carve-out organizations to accelerate development for applications, platforms, and other technologies that are remarkable advancements. We aim to create customer value that is uniquely Komatsu (*DANTOTSU Value*), offering new value in the form of solutions and products that are highly compatible with these solutions.

The important factor for this value creation is the speed of research and development. Originally, Komatsu has grown through total quality management (TQM), and our development style tended to focus on taking time to develop and release quality-assured to the market. Looking at the speed of the solutions business these days, however, we have to conduct development more quickly through trial and error. Working with outside partners to develop solutions is an essential part of embracing this agile development culture and increasing development speed.

But we must not compromise on quality. Our management principle is to commit ourselves to quality and reliability in order to maximize the total sum of trust (corporate value) given to us by society and all Komatsu stakeholders. This commitment to quality

and reliability and manufacturing and technology innovation are part of the Komatsu DNA and these are elements we must never change, no matter how the times change.

Sharing our values with all employees in the Komatsu Group and increasing our global presence

In the end, it is our *people* who demonstrate and pass down this DNA. The Komatsu Group consists of more than 65,000 employees globally, about 70% of whom work outside Japan. Needless to say, establishing shared values is important if such a diverse group of individuals is to work toward a single vision.

Komatsu shares values through the Komatsu Way, and we plan to revise this set of values with a target date of April 2025. The next revision will be the fourth update to the Komatsu Way. In this fourth version, I hope to communicate clearly and simply how our purpose, value, and Brand Promise—all defined in 2021 on the occasion of our 100th anniversary—interrelate with the Komatsu Way.

As the President and CEO, one of my most important roles is to communicate management policies clearly, share issues, and move the organization toward a vision for the future. To this end, I strive to communicate with employees through town-hall meetings and Q&A sessions, which we hold semiannually at each business location. Having an awareness of issues and latent desires on the workplaces of our business becomes a useful guideline to determine our future direction. This approach should be valued as the Komatsu Way for top management, no matter who serves as President.

Reform of head office functions, including building renovations, is another important measure in terms of fostering a corporate culture. Working styles not restricted to physical location have become a common culture in the wake of the COVID-19 pandemic. In terms of business continuity planning as well, our primary goal is to some headquarter functions closer to the operation bases where synergies can be expected, focus on the functions the head office of a global company should have, and make our head office a communications hub to enhance the Komatsu brand presence. Our signing a multi-year sponsorship agreement with the Williams Racing F1 team was one idea that emerged from discussions with overseas management who were aware of the challenges of raising awareness of the Komatsu Group and recruiting human resources. Moving forward, we intend to

accelerate our efforts to enhance the Komatsu brand presence, including conveying a globally consistent brand message.

Tying the power of diverse human resources to innovation

Diversity and inclusion are another important topic of focus. Komatsu believes that human resources diversity is the greatest source of value creation. We seek to execute many projects as a global team, ensuring employees with diverse backgrounds engage in constructive discussions to foster a broad range of innovations. More recently, we began conducting a regular diversity and inclusion development seminar toward developing female executives on a global basis.

On-the-job training is another important way we develop our human resources. Looking back on my own experience, I believe nothing tops practical and experiential learning. As a few examples, I had experiences in reorganizing production systems in Japan after the burst of the Japanese bubble economy, in operations after the Lehman Shock, and again in operations again during the Great East Japan Earthquake. Most recently, we all experienced the challenges of the COVID-19 pandemic. Those happened in very difficult times for both Komatsu and myself. What I am today is the result of many experiences—both good and bad. The 5Gs of Monozukuri (*gemba, genbutsu, genjitsu, genten, kenzaika*) may seem old-fashioned to the young people of today. But I hope our young employees grow up through experiences and various assignments in the actual workplace, learning the pride of being a manufacturer.



With members winning gold awards at all Komatsu QC convention in FY2023

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Sustainability and other future-oriented investments

Similar to the investment in human capital, investment in future growth is important, even if such investments do not lead to immediate sales and profits. For example, we see decarbonization, the circular economy, and other sustainable issues as business opportunities for future growth. We currently conduct materiality assessment to identify materiality in preparation for our next mid-term management plan. This assessment helps us keep a close eye on which areas we should invest in.

We must also invest in areas of future growth that are highly compatible with sustainability. For example, investments in promising businesses is important such as forestry machinery, hard rock mining equipment (iron ore, copper, nickel, etc.), and solutions, determining the cost effectiveness of such investments. Of course, profits are the first consideration when investing in these future growth areas. A company that doesn't make money cannot invest and make plans for growth.

Since our founding, Komatsu has contributed to solving social issues through our business activities. This stance has never changed. The most important thing is to create a positive cycle of solving ESG issues and improving profits. We believe this is the mission that Komatsu is expected to fulfill.

A message to our stakeholders

I always say that we should conduct business by putting emphasis on operating profit margin, since demand for construction and mining equipment fluctuates drastically. To improve operating profit margin, we should continue to implement fixed cost management, including business and structural reform. On top of this, as I mentioned earlier, the key for future growth is to expand the aftermarket business, where we will focus our efforts. Making these efforts, we strive to maximize our earning power, strengthen our profit structure further to achieve industry-leading profitability—one of our management goals—and continue to invest in growth areas for the future.

Our purpose is creating value through manufacturing and technology innovation to empower a sustainable future where people, businesses, and our planet thrive together. The basic approach to achieving this purpose is through the management principle that we maximize the trust given to us by our stakeholders and society through

a commitment to quality and reliability. Our mid-term management plan is positioned as the strategy to put this basic approach into practice. This history of Komatsu is a history of innovation ahead of the industry. In just the past few years, certain technologies have entered into the practical or commercial application stages. In addition, we are bolstering resources for future growth through acquisitions and

collaborative partnerships. I encourage you, our stakeholders, to look forward to future Komatsu innovations. In other words, look forward to DANTOTSU Value, or customer value creation which generates a positive cycle of solving ESG issues and improving profitability, as a means for sustainable growth at Komatsu.

