

(Translation)

This document has been translated from the Japanese original for the convenience of overseas stakeholders. In the event of any discrepancy between this document and the Japanese original, the original shall prevail.

Annual Securities Report

From April 1, 2022 to March 31, 2023

(The 154th Fiscal Year)

KOMATSU LTD.

E01532

The 154th Fiscal Year (from April 1, 2022 to March 31, 2023)

Annual Securities Report

1. This is an English translation of the Annual Securities Report (“Yukashoken Hokokusho”) filed via the Electronic Disclosure for Investors’ Network (“EDINET”) system as set forth in Article 27-30-2 of the Financial Instruments and Exchange Act of Japan. The translation includes a table of contents and pagination that are not included in the electronic filing.
2. Appended to the back of this document, are English translations of the auditors’ report that was attached to the Annual Securities Report when it was filed using the aforementioned method, and the internal control report and confirmation letter that were filed at the same time as the Annual Securities Report.

Certain References and Information

This report is prepared for overseas investors and compiled based on contents of the Annual Securities Report (“Yukashoken Hokokusho”) of Komatsu Ltd. filed with the Director-General of the Kanto Local Finance Bureau of Japan on June 20, 2023.

In this report, Komatsu Ltd. is hereinafter referred to as the “Company” and together with its consolidated subsidiaries as “Komatsu.”

Cautionary Statement with respect to forward-looking statements:

This report contains forward-looking statements that reflect managements’ views and assumptions in the light of information currently available with respect to certain future events, including expected financial position, operating results and business strategies. These statements can be identified by the use of terms such as “will,” “believes,” “should,” “projects,” “plans,” “expects” and similar terms and expressions that identify future events or expectations. Actual results may differ materially from those projected, and the events and results of such forward-looking assumptions cannot be assured. Any forward-looking statements speak only as of the date of this report, and the Company assumes no duty to update such statements.

Factors that may cause actual results to differ materially from those predicted by such forward-looking statements include, but are not limited to, unanticipated changes in demand for Komatsu’s principal products, owing to changes in the economic conditions in Komatsu’s principal markets; changes in exchange rates or the impact of increased competition; unanticipated costs or delays encountered in achieving Komatsu’s objectives with respect to globalized product sourcing and new information technology tools; uncertainties as to the results of Komatsu’s research and development efforts and its ability to access and protect certain intellectual property rights; the impact of regulatory changes and accounting principles and practices; and the introduction, success and timing of business initiatives and strategies.

Contents

| | |
|--|-----|
| Cover | 1 |
| Part I Company Information | 2 |
| Item 1. Overview of the Company and Its Consolidated Subsidiaries | 2 |
| 1. Summary of Business Results | 2 |
| 2. History | 5 |
| 3. Description of Business | 6 |
| 4. Overview of Subsidiaries and Affiliates | 9 |
| 5. Employees | 16 |
| Item 2. Business Overview | 18 |
| 1. Management Policy, Business Environment and Tasks Ahead, etc. | 18 |
| 2. Approach to and Initiatives for Sustainability | 24 |
| 3. Risk Factors | 31 |
| 4. Analyses of Consolidated Financial Position, Operating Results and Cash Flows from the management's perspective | 34 |
| 5. Material Agreements, etc. | 48 |
| 6. Research and Development Activities | 49 |
| Item 3. Property, Plants and Equipment | 52 |
| 1. Overview of Capital Investment | 52 |
| 2. Major Facilities | 53 |
| 3. Plans for Capital Investment, Disposal of Property, Plants and Equipment, etc. | 58 |
| Item 4. Information on the Company | 59 |
| 1. Information on the Company's Share, etc. | 59 |
| (1) Total number of shares, etc. | 59 |
| (2) Stock acquisition rights, etc. | 60 |
| (3) Exercises, etc., of moving strike convertible bonds, etc. | 68 |
| (4) Changes in number of issued shares, capital stock, etc. | 69 |
| (5) Shareholding by shareholder category | 70 |
| (6) Major shareholders | 71 |
| (7) Voting rights | 74 |
| 2. Acquisitions, etc. of Treasury Stock | 76 |
| 3. Dividend Policy | 77 |
| 4. Corporate Governance, etc. | 78 |
| (1) Overview of corporate governance | 78 |
| (2) Board of Directors and Audit & Supervisory Board Members | 87 |
| (3) Conditions of Audits | 110 |
| (4) Compensation | 114 |
| (5) Shareholdings | 122 |
| Item 5. Financial Information | 123 |
| 1. Consolidated Financial Statements, etc. | 124 |
| (1) Consolidated Financial Statements | 124 |
| (2) Others | 185 |
| 2. Non-Consolidated Financial Statements, etc. | 186 |
| (1) Non-Consolidated Financial Statements | 186 |
| (2) Primary assets and liabilities | 202 |
| (3) Others | 202 |
| Item 6. Stock-Related Administration for the Company | 203 |
| Item 7. Reference Information on the Company | 204 |
| 1. Information on the Parent Company | 204 |
| 2. Other Reference Information | 204 |
| Part II Information on Guarantors, etc., for the Company | 205 |
| [Independent Auditors' Report] | |
| [Internal Control Report] | |
| [Confirmation Letter] | |

Cover

| | |
|-------------------------------------|--|
| 【Document title】 | Annual Securities Report (“Yukashoken Hokokusho”) |
| 【Clause of stipulation】 | Article 24, Paragraph 1 of the Financial Instruments and Exchange Act of Japan |
| 【Place of filing】 | Director-General of the Kanto Local Finance Bureau |
| 【Filing date】 | June 20, 2023 |
| 【Fiscal year】 | The 154 th Fiscal Year (from April 1, 2022 to March 31, 2023) |
| 【Company name】 | Kabushiki Kaisha Komatsu Seisakusho |
| 【Company name in English】 | KOMATSU LTD. |
| 【Title and name of representative】 | Hiroyuki Ogawa, President and Representative Director |
| 【Address of registered head office】 | 2-3-6, Akasaka, Minato-ku, Tokyo, Japan |
| 【Telephone number】 | +81 (0)3 5561-2604 |
| 【Name of contact person】 | Mitsuo Nakao, General Manager of Corporate Controlling Department |
| 【Nearest place of contact】 | 2-3-6, Akasaka, Minato-ku, Tokyo, Japan |
| 【Telephone number】 | +81 (0)3 5561-2604 |
| 【Name of contact person】 | Mitsuo Nakao, General Manager of Corporate Controlling Department |
| 【Place for public inspection】 | Tokyo Stock Exchange, Inc. (2-1, Nihombashi Kabutocho, Chuo-ku, Tokyo, Japan) |

Part I Company Information

Item 1. Overview of the Company and Its Consolidated Subsidiaries

1. Summary of Business Results

(1) Consolidated

(Millions of yen, unless otherwise stated)

| Fiscal year | | 150 th | 151 st | 152 nd | 153 rd | 154 th |
|--|----------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Year ended | | March 31, 2019 | March 31, 2020 | March 31, 2021 | March 31, 2022 | March 31, 2023 |
| Net sales (Note 2) | | 2,725,243 | 2,444,870 | 2,189,512 | 2,802,323 | 3,543,475 |
| Income before income taxes and equity in earnings of affiliated companies (Note 3) | | 377,471 | 223,114 | 162,775 | 324,568 | 476,434 |
| Net income attributable to Komatsu Ltd. | | 256,491 | 153,844 | 106,237 | 224,927 | 326,398 |
| Comprehensive income attributable to Komatsu Ltd. | | 248,576 | 62,999 | 194,552 | 388,477 | 422,459 |
| Total Komatsu Ltd. shareholders' equity | | 1,815,582 | 1,771,606 | 1,912,297 | 2,232,511 | 2,539,641 |
| Total equity | | 1,902,868 | 1,856,225 | 2,012,025 | 2,356,277 | 2,677,955 |
| Total assets | | 3,638,219 | 3,653,686 | 3,784,841 | 4,347,522 | 4,875,847 |
| Total Komatsu Ltd. shareholders' equity per share (Note 4) | (Yen) | 1,923.47 | 1,875.47 | 2,023.34 | 2,361.66 | 2,685.76 |
| Net income attributable to Komatsu Ltd. per share | Basic (Note 5) (Yen) | 271.81 | 162.93 | 112.43 | 237.97 | 345.22 |
| | Diluted (Yen) | 271.51 | 162.80 | 112.39 | 237.92 | 345.18 |
| Total Komatsu Ltd. shareholders' equity ratio | (%) | 49.9 | 48.5 | 50.5 | 51.4 | 52.1 |
| Return on equity | (%) | 14.7 | 8.6 | 5.8 | 10.9 | 13.7 |
| Price earnings ratio | (Times) | 9.5 | 10.9 | 30.4 | 12.4 | 9.5 |
| Net cash provided by operating activities | | 202,548 | 295,181 | 354,129 | 300,970 | 206,474 |
| Net cash used in investing activities | | (187,204) | (190,930) | (163,057) | (143,569) | (169,518) |
| Net cash provided by (used in) financing activities | | (3,660) | (3,457) | (199,667) | (93,868) | (66,613) |
| Cash and cash equivalents, end of year | | 148,479 | 247,616 | 241,803 | 315,360 | 289,975 |
| Number of employees [Separately, average number of temporary employees] | (Persons) | 61,908 [6,766] | 62,823 [6,056] | 61,564 [4,056] | 62,774 [4,981] | 64,343 [6,265] |

Notes:

- 1) The figures in the consolidated financial statements have been rounded to the nearest million yen.
- 2) Net sales do not include consumption taxes, etc.

- 3) The consolidated financial statements are prepared and presented in accordance with generally accepted accounting principles in the United States of America (hereinafter "U.S. GAAP"). Therefore, "Income before income taxes and equity in earnings of affiliated companies" on the consolidated financial statements is presented in the above table instead of "Ordinary income".
- 4) Computed by the number of common shares outstanding, less treasury stock at the end of each fiscal year.
- 5) Computed by the weighted-average number of common shares outstanding, less treasury stock during each fiscal year.

(2) The Company

(Millions of yen, unless otherwise stated)

| Fiscal year | 150 th | 151 st | 152 nd | 153 rd | 154 th |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|
| Year ended | March 31, 2019 | March 31, 2020 | March 31, 2021 | March 31, 2022 | March 31, 2023 |
| Net sales | 928,967 | 719,292 | 653,587 | 952,247 | 1,144,513 |
| Ordinary income | 195,534 | 62,008 | 25,055 | 94,135 | 252,952 |
| Net income | 157,754 | 58,316 | 21,875 | 78,342 | 220,050 |
| Capital stock | 70,561 | 70,973 | 71,322 | 71,678 | 72,118 |
| Number of common share issued (Thousands of shares) | 972,252 | 972,581 | 972,887 | 973,145 | 973,450 |
| Net assets | 877,409 | 829,003 | 797,596 | 801,435 | 911,381 |
| Total assets | 1,339,074 | 1,356,652 | 1,332,733 | 1,403,535 | 1,445,319 |
| Net assets per share (Yen) | 927.18 | 876.06 | 842.84 | 847.04 | 963.18 |
| Cash dividend per share (Note 2 and 3) (Yen) | 110.0 | 94.0 | 55.0 | 96.0 | 139.0 |
| [Of the above interim dividend per share] (Yen) | [51.0] | [55.0] | [18.0] | [40.0] | [64.0] |
| Net income per share (Yen) | 167.10 | 61.73 | 23.14 | 82.85 | 232.64 |
| Net income per share reflecting the potential dilution (Yen) | 166.94 | 61.70 | 23.13 | 82.83 | 232.61 |
| Total equity ratio (%) | 65.4 | 61.0 | 59.8 | 57.1 | 63.0 |
| Return on equity (%) | 18.7 | 6.8 | 2.7 | 9.8 | 25.7 |
| Price earnings ratio (Times) | 15.4 | 28.8 | 147.8 | 35.5 | 14.1 |
| Dividend payout ratio (%) | 65.8 | 152.3 | 237.7 | 115.9 | 59.7 |
| Total shareholders return (%) | 75.6 | 55.9 | 103.7 | 93.0 | 106.3 |
| [Of TOPIX Machine Index] (%) | [87.1] | [77.4] | [123.8] | [119.1] | [129.3] |
| Highest share price of each fiscal year (Note 4) (Yen) | 3,917.0 | 2,882.0 | 3,542.0 | 3,520.0 | 3,570.0 |
| Lowest share price of each fiscal year (Note 4) (Yen) | 2,240.0 | 1,507.0 | 1,650.0 | 2,539.0 | 2,594.0 |
| Number of employees (Persons) | 11,537 | 11,692 | 11,795 | 11,927 | 12,208 |
| [Separately, average number of temporary employees] | [1,496] | [1,486] | [1,048] | [1,060] | [1,320] |

Notes:

- 1) The figures in the Company's financial statements have been rounded down to the nearest million yen.
- 2) As part of the ¥139 per share of cash dividend for the 154th fiscal year, the ¥75 per share year-end dividend for the 154th fiscal year is a matter to be resolved at the Company's Ordinary General Meeting of Shareholders scheduled to be held on June 21, 2023.
- 3) Cash dividend of ¥55 per share for the 152nd fiscal year includes the 100th anniversary commemorative cash dividend of ¥10 per share.
- 4) Share prices in the table are quoted from the Tokyo Stock Exchange Prime Market from April 4, 2022, and from the First Section of the Tokyo Stock Exchange prior to April 4, 2022.

2. History

| | |
|----------------|---|
| May 1921 | The business unit of Komatsu Iron Works was spun off from Takeuchi Kogyo (in English, Takeuchi Mining Co.) to incorporate Kabushiki Kaisha Komatsu Seisakusho (in English, Komatsu Ltd.) in Komatsu Town (currently, Komatsu City), Ishikawa Prefecture, Japan. |
| April 1922 | Acquired the business unit of Komatsu Denkiseikousho from Takeuchi Mining Co. |
| May 1938 | Established Awazu Plant. |
| May 1949 | Listed its common share on the Tokyo Stock Exchange and the Osaka Securities Exchange. |
| October 1952 | Established Osaka Plant. |
| December 1952 | Established Kawasaki Plant following the acquisition of Ikegai Automobile Manufacturing Company. Established Himi Plant following the acquisition of Chuetsu Electro Chemical Co., Ltd. |
| December 1962 | Established Oyama Plant. |
| April 1985 | Established a Research Division for research activities of cutting-edge technologies for mechatronics and new materials, etc. |
| September 1988 | Incorporated Komatsu Dresser Company as a joint venture company with Dresser Industries, Inc., U.S.A., (later, Komatsu Dresser Company changed its name to Komatsu America International Company, and was re-organized for business integration to Komatsu America Corp.) |
| June 1994 | Incorporated Komatsu Industries Corporation and Komatsu Machinery Corporation (later, merged through an absorption-type merger with Komatsu NTC Ltd.), and transferred a part of business operations of the Company's industrial machinery business. |
| July 1997 | Incorporated Komatsu Castex Ltd. and transferred the Company's steel casting business operations in October 1997. |
| October 2006 | Sold over 50% of issued shares of Komatsu Electronic Metals Co., Ltd. (currently, SUMCO TECHXIV CORPORATION) to SUMCO CORPORATION. |
| January 2007 | Established Ibaraki Plant and Kanazawa Plant. |
| April 2007 | Succeeded the hydraulic component business of Komatsu Zenoah Co. through an absorption-type corporate split. |
| April 2007 | Komatsu Forklift Co., Ltd. changed its company name to Komatsu Utility Co., Ltd. following an absorption-type merger with Komatsu Zenoah Co. and transferred its outdoor power equipment business to the Japanese operating company owned by Husqvarna AB (currently, Husqvarna Zenoah Co., Ltd.). |
| March 2008 | Acquired over 50% of the issued shares of NIPPEI TOYAMA Corporation (currently, Komatsu NTC Ltd.) |
| August 2008 | Acquired 100% ownership of NIPPEI TOYAMA Corporation (currently, Komatsu NTC Ltd.) through a share exchange. |
| April 2009 | Transferred the Company's sales and service operations of construction and utility equipment business in Japan to Komatsu Tokyo Ltd. through an absorption-type corporate split. Komatsu Tokyo Ltd. merged with twelve Japanese distributors and changed its trade name to Komatsu Construction Equipment Sales and Service Japan Ltd. |
| April 2010 | Transferred the Company's product development, sales, and service operations of the large-sized press business to Komatsu Industries Corporation through an absorption-type corporate split. |
| April 2011 | Merged with Komatsu Utility Co., Ltd. |
| October 2014 | Merged with Komatsu Diesel Co., Ltd. |
| April 2017 | Acquired all shares of Joy Global Inc. (currently, Komatsu Mining Corp.) through Komatsu America Corp. |
| April 2018 | Merged with Komatsu Tokki Corporation. |
| April 2018 | Komatsu Construction Equipment Sales and Service Japan Ltd. merged with Komatsu Rental Ltd. and Komatsu Forklift Japan Ltd., and changed its trade name to Komatsu Customer Support Japan Ltd. |
| October 2018 | Merged with Komatsu Castex Ltd. |
| July 2021 | Transferred a part of the Company's rights and obligations relating to the SMARTCONSTRUCTION business to LANDLOG Ltd. LANDLOG Ltd. changed its trade name to EARTHBRAIN Ltd. |
| October 2022 | Merged with Komatsu Cabtec Co., Ltd. |

Note: In case of subject is not specified in the description, regard it as the Company.

3. Description of Business

The Company's consolidated financial statements have been prepared in accordance with U.S. GAAP, pursuant to Paragraph 3, Supplementary Provisions of the "Cabinet Office Ordinance for Partial Revision of the Ordinance on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements", the Ordinance of the Cabinet Office No. 11 of 2002. Based on the consolidated financial statements, its subsidiaries and affiliates are disclosed in accordance with definitions of U.S. GAAP. The same applies to "Item 2. Business Overview" and "Item 3. Property, Plants and Equipment".

Komatsu (the Company and its subsidiaries and affiliates) engages in the business activities of R&D, production, sales, marketing, services and retail financing for customers in Japan and overseas, under three business segments: the "Construction, Mining and Utility Equipment" operating segment, the "Retail Finance" operating segment and the "Industrial Machinery and Others" operating segment.

Komatsu is comprised 211 consolidated subsidiaries and 40 affiliated companies accounted for by the equity method.

The major business outlines of each business category and positioning of the Komatsu's principal subsidiaries and affiliates are described as follows. Major business categories below correspond to the business category in business segment information by operating segment.

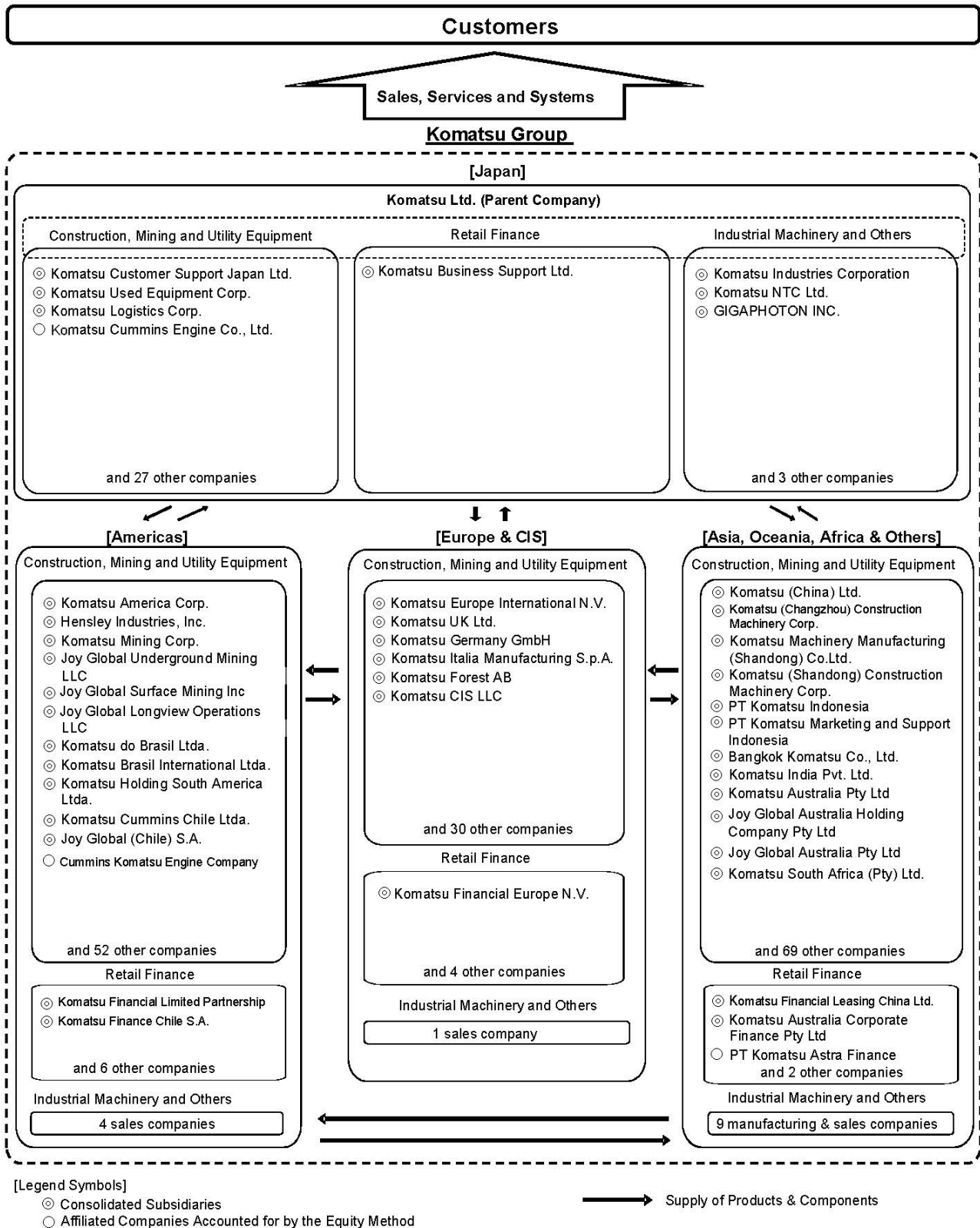
| Category/principal products and businesses | | Principal companies |
|--|--|---|
| Construction, Mining and Utility Equipment | | |
| Excavating equipment | Hydraulic excavators, rope shovels, mini excavators, backhoe loaders and blasthole drills | Komatsu Ltd., Komatsu Customer Support Japan Ltd., Komatsu Used Equipment Corp., Komatsu Logistics Corp., Komatsu America Corp., Hensley Industries, Inc., Komatsu Mining Corp., Joy Global Underground Mining LLC, Joy Global Surface Mining Inc, Joy Global Longview Operations LLC, Komatsu do Brasil Ltda., Komatsu Brasil International Ltda., Komatsu Holding South America Ltda., Komatsu Cummins Chile Ltda., Joy Global (Chile) S.A., Komatsu Europe International N.V., Komatsu UK Ltd., Komatsu Germany GmbH, Komatsu Italia Manufacturing S.p.A., Komatsu Forest AB, Komatsu CIS LLC, Komatsu (China) Ltd., Komatsu (Changzhou) Construction Machinery Corp., Komatsu Machinery Manufacturing (Shandong) Co.Ltd., Komatsu (Shandong) Construction Machinery Corp., PT Komatsu Indonesia, PT Komatsu Marketing & Support Indonesia, Bangkok Komatsu Co., Ltd., Komatsu India Pvt. Ltd., Komatsu Australia Pty Ltd, Joy Global Australia Holding Company Pty Ltd, Joy Global Australia Pty Ltd, Komatsu South Africa (Pty) Ltd. and other 142 subsidiaries (Total 175 companies) |
| Loading equipment | Wheel loaders, mini wheel loaders and skid-steer loaders | |
| Grading and roadbed preparation equipment | Bulldozers and motor graders | |
| Hauling equipment | Off-highway dump trucks, articulated dump trucks and crawler carriers | |
| Forestry equipment | Harvesters, forwarders and feller bunchers | |
| Tunneling machines | Shield machines and tunnel-boring machines | |
| Underground Mining Equipment | Continuous miners, shearers, load haul dumps and jumbo drills | |
| Recycling equipment | Mobile crushers, mobile soil recyclers and mobile tub grinders | |
| Industrial vehicles | Forklift trucks | |
| Other equipment | Railroad maintenance equipment | |
| Engines and components | Diesel engines, diesel generator sets and hydraulic equipment | |
| Casting products | Steel castings and iron castings | |
| Logistics | Transportation, warehousing and packing | |
| Solution business | Autonomous Haulage System (AHS) for unmanned dump truck operation, SMARTCONSTRUCTION and KOMTRAX | |

| Category/principal products and businesses | | Principal companies |
|--|---|--|
| Retail Finance | | |
| Retail Financing | Leasing and installment of construction and mining equipment | Komatsu Ltd., Komatsu Business Support Ltd., Komatsu Financial Limited Partnership, Komatsu Finance Chile S.A., Komatsu Financial Europe N.V., Komatsu Financial Leasing China Ltd., Komatsu Australia Corporate Finance Pty Ltd and other 12 subsidiaries (Total 19 companies) |
| Industrial Machinery and Others | | |
| Metal forging and stamping presses | Servo presses and mechanical presses | Komatsu Ltd., Komatsu Industries Corporation, Komatsu NTC Ltd., GIGAPHOTON INC. and other 16 subsidiaries (Total 20 companies) |
| Sheet-metal machines | Laser cutting machines, fine-plasma cutting machines, press brakes and shears | |
| Machine tools | Transfer machines, machining centers, crankshaft millers, grinding machines and wire saws | |
| Defense systems | Ammunition and armored personnel carriers | |
| Temperature-control equipment | Thermoelectric modules and temperature-control equipment for semiconductor manufacturing | |
| Optical Machinery | Excimer laser used for lithography tools in semiconductor manufacturing | |

Note: The number of principal companies includes the Company and consolidated subsidiaries.

Komatsu's business structure, summarized above, is shown in the following chart.

(As of March 31, 2023)



4. Overview of Subsidiaries and Affiliates

Consolidated subsidiaries

(Millions of yen, unless otherwise stated)

| Company name | Location | Common stock, investments | Principal business | Ownership of voting rights (%) | Relationship |
|---|----------------------------------|---------------------------|---|--------------------------------|---|
| Komatsu Customer Support Japan Ltd. *1 | Minato-ku, Tokyo, Japan | 950 | Construction, Mining and Utility Equipment | 100.0 | Sales and service of construction and utility equipment and industrial vehicles. Rental of construction equipment, etc. (Note 2) |
| Komatsu Used Equipment Corp. | Yokohama, Kanagawa, Japan | 290 | Construction, Mining and Utility Equipment | 100.0 | Sales of used construction equipment, etc. |
| Komatsu Logistics Corp. | Minato-ku, Tokyo, Japan | 1,080 | Construction, Mining and Utility Equipment | 100.0 | Transportation, warehousing, packing and other services. (Note 2) |
| EARTHBRAIN Ltd. *1 | Minato-ku, Tokyo, Japan | 15,370 | Construction, Mining and Utility Equipment | 54.5 | Development, provision, maintenance, etc. of digital solutions (construction site visualization devices, platforms, applications) for the construction industry. Supply of some products to the Company. (Note 1) |
| Komatsu Business Support Ltd. | Minato-ku, Tokyo, Japan | 1,770 | Retail Finance | 100.0 | Retail financing related to construction and mining equipment. |
| Komatsu Industries Corporation | Kanazawa, Ishikawa, Japan | 990 | Industrial Machinery and Others | 100.0 | Development, sales and service of metal forging and stamping presses, sheet-metal machines, etc. (Note 2) |
| Komatsu NTC Ltd. | Nanto, Toyama, Japan | 6,014 | Industrial Machinery and Others | 100.0 | Manufacture, sales and service of machine tools, etc. (Note 1) |
| GIGAPHOTON INC. | Oyama, Tochigi, Japan | 5,000 | Industrial Machinery and Others | 100.0 | Development, manufacture, sales and service of excimer laser and Extreme Ultra-Violet light sources used for lithography tools in semiconductors. (Notes 1 and 2) |
| KELK Ltd. | Hiratsuka, Kanagawa, Japan | 390 | Industrial Machinery and Others | 100.0 | Manufacture and sales of thermo-electric modules and temperature control equipment. (Note 2) |

| Company name | Location | Common stock, investments | Principal business | Ownership of voting rights (%) | Relationship |
|---|-----------------------|--------------------------------|---|--------------------------------|---|
| Komatsu America Corp. *1, 2 | Chicago, U.S.A. | 1,071 million US dollars | Construction, Mining and Utility Equipment | 100.0 | Manufacture and sales of construction, mining and utility equipment and supervision in the Americas. (Note 1) |
| Hensley Industries, Inc. | Dallas, U.S.A. | 2 thousand US dollars | Construction, Mining and Utility Equipment | [100.0] 100.0 | Manufacture and sales of parts of construction and mining equipment. |
| Komatsu Mining Corp. *1 | Milwaukee, U.S.A. | 5 thousand US dollars | Construction, Mining and Utility Equipment | [100.0] 100.0 | Overall management of mining equipment business. (Note 1) |
| Joy Global Underground Mining LLC *1, 3 | Warrendale, U.S.A. | 1,406 million US dollars | Construction, Mining and Utility Equipment | [100.0] 100.0 | Manufacture, sales and service of mining equipment. |
| Joy Global Surface Mining Inc | Milwaukee, U.S.A. | 1 thousand US dollars | Construction, Mining and Utility Equipment | [100.0] 100.0 | Manufacture, sales and service of mining equipment. |
| Joy Global Longview Operations LLC *1, 4 | Longview, U.S.A. | 1,005 million US dollars | Construction, Mining and Utility Equipment | [100.0] 100.0 | Manufacture, sales and service of mining equipment. |
| Komatsu Finance America Inc. | Chicago, U.S.A. | 1 thousand US dollars | Construction, Mining and Utility Equipment | [100.0] 100.0 | Financing within Komatsu Group, fundraising, etc. |
| Modular Mining Systems, Inc. | Tucson, U.S.A. | 16 thousand US dollars | Construction, Mining and Utility Equipment | [100.0] 100.0 | Development, manufacture, and sales of large-sized mining equipment management systems. (Note 1) |
| Komatsu do Brasil Ltda. | Suzano, Brazil | 148 million real | Construction, Mining and Utility Equipment | [100.0] 100.0 | Manufacture of construction equipment and casting products. |
| Komatsu Brasil International Ltda. *1 | Sao Paulo, Brazil | 351 million real | Construction, Mining and Utility Equipment | [100.0] 100.0 | Sales and service of construction and mining equipment. |
| Komatsu Holding South America Ltda. *1 | Santiago, Chile | 156 million US dollars | Construction, Mining and Utility Equipment | [100.0] 100.0 | Sales and service of construction and mining equipment. |
| Komatsu Cummins Chile Ltda. | Santiago, Chile | 34 million US dollars | Construction, Mining and Utility Equipment | [81.8] 81.8 | Sales and service of construction and mining equipment. |

| Company name | Location | Common stock, investments | Principal business | Ownership of voting rights (%) | Relationship |
|--|-----------------------|---------------------------|--|--------------------------------|--|
| Joy Global (Chile) S.A. | Santiago, Chile | 1,958 thousand US dollars | Construction, Mining and Utility Equipment | [100.0] 100.0 | Manufacture, sales and service of mining equipment. |
| Komatsu Maquinarias Mexico, S.A. de C.V. | Mexico City, Mexico | 25 million Mexican peso | Construction, Mining and Utility Equipment | [60.0] 60.0 | Sales and service of construction and mining equipment. |
| Komatsu Financial Limited Partnership *5 | Chicago, U.S.A. | — | Retail Finance | [100.0] 100.0 | Retail financing related to construction and mining equipment. |
| Komatsu Finance Chile S.A. | Santiago, Chile | 40 million US dollars | Retail Finance | [100.0] 100.0 | Retail financing related to construction and mining equipment. |
| Komatsu Europe International N.V. *1 | Vilvoorde, Belgium | 50 million euro | Construction, Mining and Utility Equipment | 100.0 | Sales of construction and mining equipment and supervision in Europe. (Note 1) |
| Komatsu Europe Coordination Center N.V. *1 | Vilvoorde, Belgium | 141 million euro | Construction, Mining and Utility Equipment | [100.0] 100.0 | Financing within Komatsu Group, fundraising, etc. |
| Komatsu UK Ltd. | Birtley, U.K. | 23 million pounds | Construction, Mining and Utility Equipment | [100.0] 100.0 | Manufacture of construction equipment. |
| Joy Global (UK) Limited | Worcester, U.K. | 30 million pounds | Construction, Mining and Utility Equipment | [100.0] 100.0 | Manufacture, sales and service of mining equipment. |
| Komatsu Germany GmbH | Dusseldorf, Germany | 24 million euro | Construction, Mining and Utility Equipment | [100.0] 100.0 | Manufacture and sales of construction and mining equipment. |
| Komatsu France S.A.S | Aubergenville, France | 5 million euro | Construction, Mining and Utility Equipment | [100.0] 100.0 | Sales and service of construction equipment. |
| Montabert S.A.S. | Saint-Priest, France | 8,458 thousand euro | Construction, Mining and Utility Equipment | [100.0] 100.0 | Manufacture, sales and service of component for mining equipment and attachment. |
| Komatsu Italia Manufacturing S.p.A. | Este, Italy | 6 million euro | Construction, Mining and Utility Equipment | [100.0] 100.0 | Manufacture of construction equipment. |
| Komatsu Forest AB | Umea, Sweden | 397 million Swedish krona | Construction, Mining and Utility Equipment | 100.0 | Manufacture, sales, and service of forestry equipment. |

| Company name | Location | Common stock, investments | Principal business | Ownership of voting rights (%) | Relationship |
|---|---------------------------|-----------------------------------|--|--------------------------------|--|
| Komatsu CIS LLC *1 | Moscow, Russia | 5,301 million Russian rubles | Construction, Mining and Utility Equipment | 100.0 | Sales of construction and mining equipment. |
| Komatsu Financial Europe N.V. *1 | Vilvoorde, Belgium | 80 million euro | Retail Finance | [100.0] 100.0 | Retail financing related to construction and mining equipment. |
| Komatsu (China) Ltd. *1 | Shanghai, China | 172 million US dollars | Construction, Mining and Utility Equipment | 100.0 | Sales of construction and mining equipment and supervision in China. (Note 1) |
| Komatsu (Changzhou) Construction Machinery Corp. | Changzhou, Jiangsu, China | 34 million US dollars | Construction, Mining and Utility Equipment | [100.0] 100.0 | Manufacture of construction equipment. |
| Komatsu Machinery Manufacturing (Shandong) Co.Ltd. | Jining, Shandong, China | 12 million US dollars | Construction, Mining and Utility Equipment | [100.0] 100.0 | Manufacture of construction equipment. |
| Komatsu (Shandong) Construction Machinery Corp. *1 | Jining, Shandong, China | 233 million US dollars | Construction, Mining and Utility Equipment | [100.0] 100.0 | Manufacture of components for construction equipment, etc. |
| PT Komatsu Indonesia *1 | Jakarta, Indonesia | 192,780 million Indonesian rupiah | Construction, Mining and Utility Equipment | 94.9 | Manufacture and sales of construction and mining equipment and casting products. |
| PT Komatsu Marketing & Support Indonesia | Jakarta, Indonesia | 5 million US dollars | Construction, Mining and Utility Equipment | [100.0] 100.0 | Sales and service of construction and mining equipment. |
| PT Komatsu Undercarriage Indonesia | Bekasi, Indonesia | 15 million US dollars | Construction, Mining and Utility Equipment | [84.3] 84.3 | Manufacture and sales of parts of construction and mining equipment. |
| PT Komatsu Remanufacturing Asia | Balikpapan, Indonesia | 1,200 thousand US dollars | Construction, Mining and Utility Equipment | [51.0] 51.0 | Manufacture and sales of remanufacturing components for construction and mining equipment. |
| Bangkok Komatsu Co., Ltd. | Chonburi, Thailand | 620 million Thai baht | Construction, Mining and Utility Equipment | [74.8] 74.8 | Manufacture and sales of construction equipment and casting products. |

| Company name | Location | Common stock, investments | Principal business | Ownership of voting rights (%) | Relationship |
|---|-------------------------------------|--------------------------------|--|--------------------------------|--|
| Komatsu Parts Asia Co., Ltd. | Chonburi, Thailand | 170 million Thai baht | Construction, Mining and Utility Equipment | [100.0] 100.0 | Sales of parts of construction and mining equipment. |
| Komatsu India Pvt. Ltd. *1 | Kanchpuram, India | 10,963 million Indian rupees | Construction, Mining and Utility Equipment | [54.8] 100.0 | Manufacture and sales of construction and mining equipment. |
| Komatsu Australia Pty Ltd | Fairfield, Australia | 22 million Australian dollars | Construction, Mining and Utility Equipment | [41.3] 62.0 | Sales and service of construction and mining equipment. |
| Komatsu Australia Holdings Pty Ltd *1 | Fairfield, Australia | 197 million Australian dollars | Construction, Mining and Utility Equipment | 100.0 | Roles as holding company in Oceania. |
| Joy Global Australia Holding Company Pty Ltd *1 | Murarrie, Australia | 443 million Australian dollars | Construction, Mining and Utility Equipment | [100.0] 100.0 | Roles as holding company of Joy Global Australia Pty Ltd. |
| Joy Global Australia Pty Ltd *1 | Murarrie, Australia | 608 million Australian dollars | Construction, Mining and Utility Equipment | [100.0] 100.0 | Manufacture, sales and service of mining equipment. |
| Komatsu South Africa (Pty) Ltd. | Germiston, Republic of South Africa | 186 million rand | Construction, Mining and Utility Equipment | [100.0] 100.0 | Sales and service of construction and mining equipment. |
| Komatsu Financial Leasing China Ltd. *1 | Shanghai, China | 1,030 million renminbi | Retail Finance | [100.0] 100.0 | Retail financing related to construction and mining equipment. |
| Komatsu Australia Corporate Finance Pty Ltd | Fairfield, Australia | 49 million Australian dollars | Retail Finance | [62.0] 62.0 | Retail financing related to construction and mining equipment. |
| Other 157 companies | | | | | |

Affiliated companies accounted for by the equity method

(Millions of yen, unless otherwise stated)

| Company name | Location | Common stock, investments | Principal business | Ownership of voting rights (%) | Relationship |
|-----------------------------------|---------------------------|-----------------------------------|--|--------------------------------|---|
| Komatsu Cummins Engine Co., Ltd. | Oyama, Tochigi, Japan | 1,400 | Construction, Mining and Utility Equipment | 50.0 | Manufacture and sales of diesel engines. (Note 2) |
| QUALICA Inc. | Shinjuku-ku, Tokyo, Japan | 1,234 | Industrial Machinery and Others | 20.0 | Sales and development of software, sales of hardware, etc. Supply of some products to the Company. |
| Cummins Komatsu Engine Company *6 | Seymour, U.S.A. | — | Construction, Mining and Utility Equipment | [50.0] 50.0 | Manufacture and sales of diesel engines. |
| PT Komatsu Astra Finance | Jakarta, Indonesia | 436,300 million Indonesian rupiah | Retail Finance | [50.0] 50.0 | Retail financing related to construction and mining equipment. |
| Other 36 companies | | | | | |

Notes:

- 1) A certain member of the Board of Directors or an Audit & Supervisory Board Member of the Company concurrently holds a position on the Board of Directors at this company.
- 2) The Company rents certain land and buildings to this company.
- 3) The name of the operating segment in which the companies are classified is shown in “Principal business.”
- 4) The figures in square brackets in “Ownership of voting right (%)” represent the percentage of voting rights owned indirectly by the Company, among the total ownership percentage shown outside the square brackets.
- 5) Companies with an asterisk 1 (*1) in “Company name” are specified subsidiaries. Companies which corresponds to the specified subsidiaries included in “other companies” of “Consolidated subsidiaries” are Quadco Inc. and Komatsu Manufacturing Rus LLC.
- 6) The total amount of sales (excluding inter-company transactions) of Komatsu America Corp. (indicated by asterisk 2 (*2) in “Company name”), exceeded the 10% of the amount of consolidated net sales in the period that corresponds to the recent fiscal year.

| | Information on income or loss, etc. (Millions of yen) | | | | |
|-----------------------|---|---|------------|--------------|--------------|
| | Net sales | Income before income taxes and equity in earnings of affiliated companies | Net income | Total equity | Total assets |
| Komatsu America Corp. | 776,650 | 185,203 | 165,516 | 1,093,171 | 1,640,028 |

- 7) Joy Global Underground Mining LLC (indicated by asterisk 3 (*3) in “Company name”) is a limited liability company established based on the state law of Delaware, the U.S., and the Company invests in it through Komatsu Mining Corp. Its paid-in capital is presented as its common stock.
- 8) Joy Global Longview Operations LLC (indicated by asterisk 4 (*4) in “Company name”) is a limited liability company established based on the state law of Texas, the U.S., and the Company invests in it through Komatsu Mining Corp. Its paid-in capital is presented as its common stock.

- 9) Komatsu Financial Limited Partnership (indicated by asterisk 5 (*5) in “Company name”) is a limited partnership established based on the state law of Delaware, the U.S., and the Company invests in it through Komatsu America Corp. Its net assets, which are equivalent to its equity, amount to USD 862 million.
- 10) Cummins Komatsu Engine Company (indicated by asterisk 6 (*6) in “Company name”) is a general partnership established based on the state law of Indiana, the U.S., and the Company invests in it through Komatsu America Corp.; the total investments amount to USD 2 million.
- 11) Komatsu (Shandong) Construction Machinery Corp. was absorbed and merged by Komatsu Machinery Manufacturing (Shandong) Co. Ltd. as of April 1, 2023.

5. Employees

(1) Consolidated

(As of March 31, 2023)

| Operating segment | Number of employees | |
|--|---------------------|---------|
| Construction, Mining and Utility Equipment | 59,283 | [5,761] |
| Retail Finance | 280 | [10] |
| Industrial Machinery and Others | 4,078 | [362] |
| Corporate | 702 | [132] |
| Total | 64,343 | [6,265] |

Notes:

- 1) The number of employees represents the number of employees actually at work. Separate from that, the average number of temporary employees during this fiscal year is disclosed in square brackets.
- 2) The number of employees under “Corporate” refers to employees working for administrative departments who cannot be classified into the three operating segments.

(2) The Company

(As of March 31, 2023)

| Number of employees | Average age | Average length of service | Average annual salary (gross) |
|---------------------|----------------|---------------------------|-------------------------------|
| 12,208 [1,320] | 40.9 years old | 16.4 years | ¥7,809,998 |

(As of March 31, 2023)

| Operating segment | Number of employees | |
|--|---------------------|---------|
| Construction, Mining and Utility Equipment | 11,232 | [1,168] |
| Retail Finance | 8 | [0] |
| Industrial Machinery and Others | 266 | [20] |
| Corporate | 702 | [132] |
| Total | 12,208 | [1,320] |

Notes:

- 1) The number of employees represents the number of employees actually at work. Separate from that, the average number of temporary employees during this fiscal year is disclosed in square brackets.
- 2) Average annual salary (gross, before taxes) includes extra wages and bonuses.
- 3) The number of employees under “Corporate” refers to employees working for administrative departments who cannot be classified into the three operating segments.

(3) Relationship with labor union

The Company has a labor contract with the Komatsu Labor Union, which is organized by approximately 11,300 employees and 8 branches in Japan.

The Komatsu Labor Union is a member of “All Komatsu Workers Union” and “Japanese Association of Metal, Machinery and Manufacturing Workers.”

Each of 11 consolidated subsidiaries and affiliated companies in Japan has a labor contract with its each labor union joining “All Komatsu Workers Union.” They are organized by approximately 6,500 employees of subsidiaries and affiliated companies.

The relationships between the Company, subsidiaries, affiliated companies and these labor unions are stable.

(4) Ratio of female managers, male employees who took childcare leave, and wage differences between male and female employees

(i) Disclosure based on the Women's Participation Promotion Act and the Child Care and Family Care Leave Act

| Company name | As of March 31, 2023 | Fiscal year ended March 31, 2023 | | | |
|-------------------------------------|--------------------------|--|--|---------------------|---------------------------|
| | Ratio of female managers | Ratio of male employees who took childcare leave | Wage differences between male and female employees | | |
| | | | All employees | Permanent employees | Fixed-term employees etc. |
| Komatsu Ltd. | 8.0% | 25.7% | 76.3% | 76.5% | 76.5% |
| Komatsu Customer Support Japan Ltd. | 1.3% | 19.5% | 73.7% | 74.0% | 56.7% |
| Komatsu Logistics Corp. | 6.1% | 15.7% | 71.8% | 77.8% | 85.9% |
| Komatsu Industries Corporation | * | * | 63.3% | 64.1% | 52.1% |
| Komatsu NTC Ltd. | 3.1% | 28.9% | 71.7% | 72.0% | 59.6% |
| GIGAPHOTON INC. | 5.0% | 51.7% | 74.6% | 77.8% | 58.2% |
| KELK Ltd. | 7.0% | - | 76.3% | 74.3% | 88.2% |

(ii) Status of the Company and domestic subsidiaries

| Company name | As of March 31, 2023 | Fiscal year ended March 31, 2023 | | | |
|---------------------------------------|--------------------------|--|--|---------------------|---------------------------|
| | Ratio of female managers | Ratio of male employees who took childcare leave | Wage differences between male and female employees | | |
| | | | All employees | Permanent employees | Fixed-term employees etc. |
| The Company and domestic subsidiaries | 5.5% | 25.5% | 74.1% | 75.3% | 69.4% |

Notes:

- 1) The employees temporarily assigned to other companies are counted in the assigned company.
- 2) The ratio of male employees who took childcare leave indicates the ratio of number of employees who took childcare leave to the number of employees whose spouses gave birth.
- 3) The Company has established the system to grant leave necessary for childcare, childbirth, nursing care, and personal injury or illness. Including employees who used this system for childcare or childbirth, the ratio of male employees who took childcare leave reached 76.9%.
- 4) The wage differences between male and female employees indicates the ratio of female's wages to male's wages. In this wage information, the permanent employees comprise both managerial and non-managerial employees, except for the executive officers. The fixed-term employees etc. comprise fixed-term rehired employees, temporary employees, etc., except for the dispatched employees.
- 5) Komatsu does not have any differences in the wage structure or system between male and female employees, either permanent or fixed-term employees etc. The wage differences between male and female employees resulted from differences in labor composition, such as the percentage of managers, job grades, length of services etc.
- 6) * indicates Not disclosed.

Item 2. Business Overview

1. Management Policy, Business Environment and Tasks Ahead, etc.

Following description contains forward-looking statements which the Company judged as of the filing date of this Annual Securities Report.

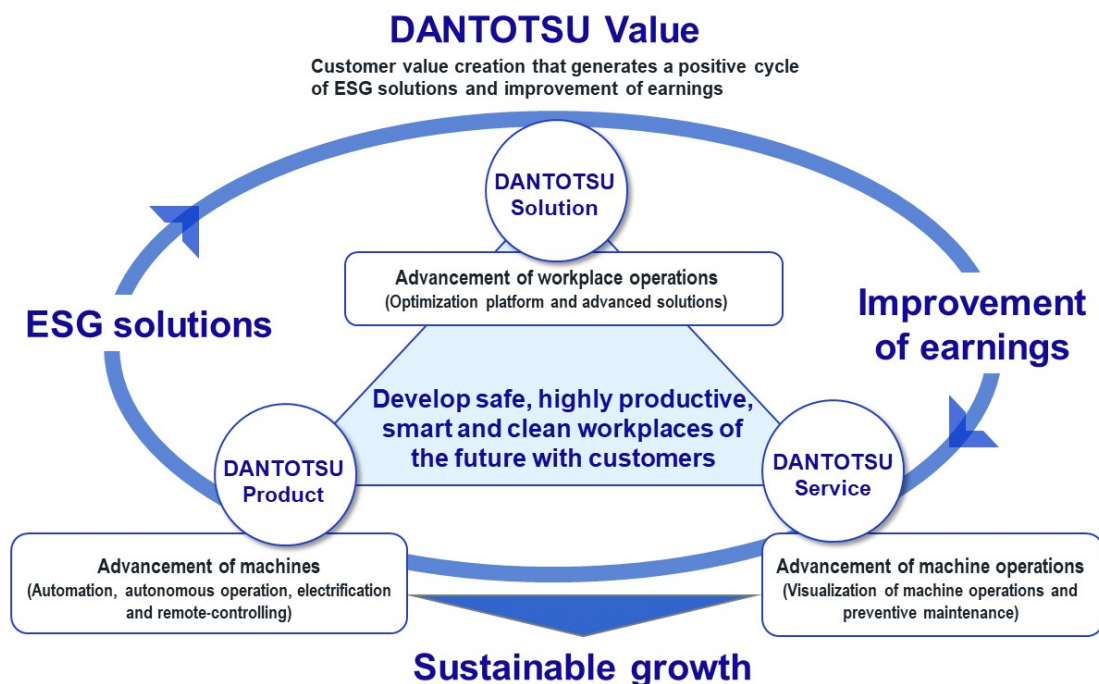
Komatsu (the Company and its consolidated subsidiaries) defines its purpose to be “creating value through manufacturing and technology innovation to empower a sustainable future where people, business and our planet thrive together.” The Komatsu’s basic approach to achieving this is to pursue “quality and reliability” and to maximize the total trust from society at large and all stakeholders surrounding us.

As a strategy to implement this management principle, the Company has formulated a mid-term management plan to create a positive cycle of solving ESG issues and improving profitability through the creation of customer value, thereby achieving sustainable growth.

Mid-Term Management Plan: “DANTOTSU Value—Together, to ‘The Next’ for sustainable growth”

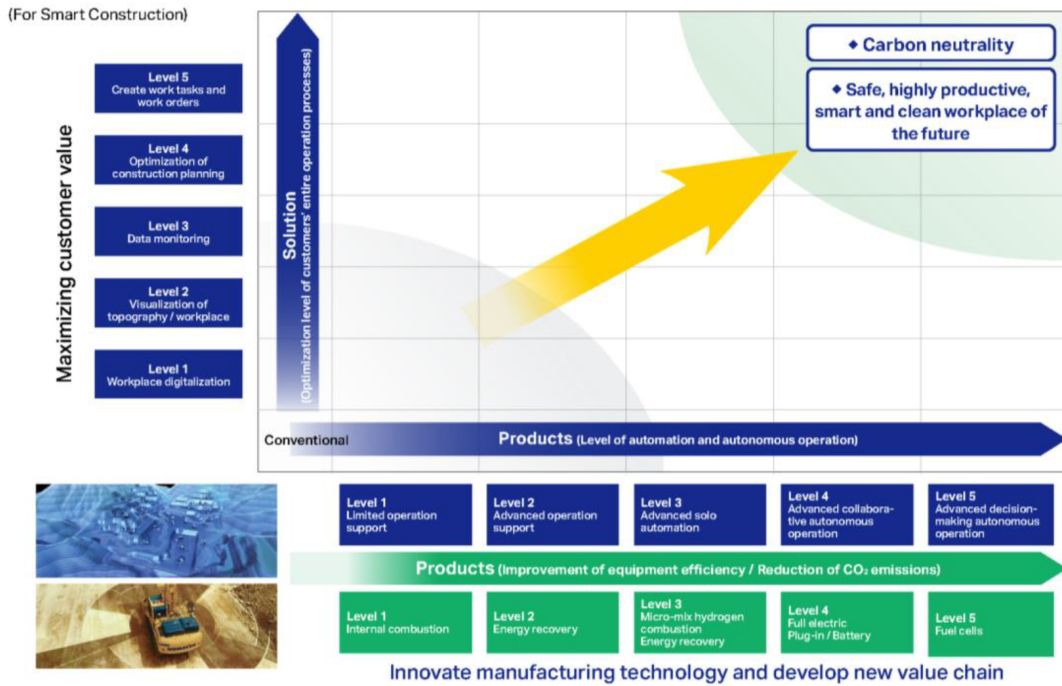
The mid-term management plan for the next three years (FY2022-FY2024), titled “DANTOTSU Value—Together, to ‘The Next’ for sustainable growth”, was launched in April 2022.

In the mid-term management plan, the Company is striving to achieve its vision of creating safe, highly productive, smart and clean workplaces of the future, together with customers. To this end, the Company is working to create DANTOTSU Value (New Customer Value) which integrates DANTOTSU Products (advancement of machines), DANTOTSU Service (advancement of machine operations), and DANTOTSU Solutions (optimization of workplace operations).



In order to achieve the workplace of the future, the Company will tackle innovation in terms of both products (automation, autonomous operation and efficiency of machines, and low carbon emissions) and solutions (optimization of the entire customer process). Moreover, in order to take measures against global warming and achieve business growth, the Company has formulated a roadmap to the workplace of the future and set a challenge goal in its management targets of achieving carbon neutrality by 2050.

Roadmap to workplace of the future



Three Pillars of Growth Strategies and Efforts of Focus

In the current mid-term management plan, the Company continues from the previous mid-term management plan to emphasize sustainability, backcasting from its goals, and, in light of changes in the external environment and management issues, the Company is working on the three pillars of its growth strategies: 1) Accelerate growth by means of innovation, 2) Maximize earnings power, and 3) Enhance corporate resilience.

(Three pillars of growth strategies)



Common tasks among the three pillars

- Expand partnerships
- Promote DX in all areas

The current external environment is increasingly uncertain as a result of geopolitical risks including the prolonged situation in Ukraine, economic security risks related to advanced technologies such as semiconductors, increasing cybersecurity risks, as well as sustainability risks such as climate change.

The market environment for our mainstay construction and mining equipment business is expected to experience moderate growth in the medium to long term as a result of population growth and urbanization, primarily in emerging countries, together with steady investment in infrastructure renewal in developed countries. In the short term, however, demand is expected to be highly volatile due to various external environmental risks, as mentioned above.

Within this environment, the Company will continue to invest heavily in future value creation (innovation), positioning areas of technology such as electrification, automation, autonomous operation, remote control, and component and system development, and business areas such as our solutions business, value chain business, forestry equipment, and underground hard rock mining as growth areas.

In addition, the Company will maximize profit-earning opportunities in our existing businesses and further improve profitability by expanding the Company's presence in growth markets through measures including product planning and development tailored to regional and categorical characteristics and through strengthening our aftermarket business by expanding extended warranties incorporating maintenance contracts that draw on our strengths in in-house manufactured components and IoT (Komtrax) use in order to build a business structure less susceptible to fluctuations in demand.















With regard to the management foundation supporting these activities, the Company will promote digital transformation (DX) and structural reforms and build a supply chain that is resilient to environmental changes, in order to improve the efficiency of its business operations and enhance its ability to respond to external environmental risks. As part of these activities, from the perspective of improving business continuity and overall optimization of operations, including preparation for pandemics and heightened natural disaster risks, the Company will be accelerating efforts to transfer some head office functions to other sites in Japan where synergies can be expected. In addition, the Board of Directors decided in March 2023 to rebuild the head office building, to take place between January 2024 and the end of 2026. As a global head office, the Company will examine the functions and roles that will be required in the future, and work to reduce CO₂ emissions in order to achieve carbon neutrality, strengthen communication functions with stakeholders, and, premised on the belief that employees have diverse ways of working, improve the working environment in order to generate innovation.

Results of the key initiatives of the growth strategy in the current fiscal year and issues to be addressed from the next fiscal year

| Three Pillars of Growth Strategies | Examples of Key Initiatives | |
|---|--|---|
| 1. Accelerate growth by means of innovation | Main results for the current fiscal year | <ul style="list-style-type: none"> • DX Smart Construction: Introduction of new applications (SC Simulation, SC Quick 3D) • Number of Autonomous Haulage System (AHS) units adopted on the market: 643 units in total • Began remote control and automated operation trials of a large ICT bulldozer at a customer's site. • Exhibited a 20-ton class electric excavator and other products at construction machinery trade fairs in Germany and the U.S. • Komatsu NTC Ltd. received its first order for automotive battery manufacturing equipment from a Japanese battery manufacturer |
| | Issues for the next fiscal year onward | <ul style="list-style-type: none"> • Accelerating overseas expansion of Smart Construction • Business development using mining open technology platforms • Full-scale introduction of electrified construction equipment to the market • Establish a forestry management solution business • Strengthening the automotive battery manufacturing equipment business at Komatsu NTC Ltd. |
| 2. Maximize earnings power | Main results for the current fiscal year | <ul style="list-style-type: none"> • Expansion of sales of hydraulic excavators (CE series) with urban civil engineering specifications, especially in Asia • Expansion of extended warranties with maintenance contracts and growth of the aftermarket business • Acquired the Swedish company Bracke Forest AB (manufacturer of tree-planting attachments) • Acquired Australian company Mine Site Technologies Pty Ltd (underground mines solutions provider) • Resolved to acquire the German company GHH Group GmbH (underground mining equipment) • Mining TBM trial agreed with Chile's Codelco • GIGAPHOTON INC. has begun construction of a new production facility |
| | Issues for the next fiscal year onward | <ul style="list-style-type: none"> • Promoting product strategies that meet the characteristics of strategic regions • Further reinforcement of the forestry machinery business and underground hard rock mining business • Global development of business models utilizing the next-generation Komtrax • Strengthening our reman/rebuild businesses |
| 3. Enhance corporate resilience | Main results for the current fiscal year | <ul style="list-style-type: none"> • Development of cross-sourcing and multi-sourcing • Restructuring of the underground coal (soft rock) business: partial sale of production facilities in China • Strengthening our information security systems by establishing a CSIRT • Promoting education and awareness activities related to diversity & inclusion • Promoting human resource development in AI and DX |
| | Issues for the next fiscal year onward | <ul style="list-style-type: none"> • Strengthening the supply chain through further development of cross-sourcing and multi-sourcing • Continuation of structural reforms • Business reform through the promotion of DX • Reinforcement of the risk management system • Development of a global brand strategy and promotion of measures to improve employee engagement |

ESG Resolutions through Growth Strategies

Based on our sustainability policy, it is our determination to continue to contribute to society through business activities. In the mid-term management plan, the Company has selected important issues (materiality) for us and ten goals which are strongly related to the materiality out of the 17 goals of SDGs (Sustainable Development Goals). In order to resolve ESG issues steadily through our growth strategies, the Company will set KPIs (Key Performance Indicators) for key initiative activities and monitor their achievement. The Company is planning to disclose the progress in the Komatsu Report (integrated report).

| | Relationship with SDGs | Materiality | Key activity themes for resolving ESG issues (main KPI) |
|-----------------|--|---|--|
| With people |  Gender equality  Decent work and economic growth  Reduced inequalities  Partnerships for the goals | [Employees] [Human rights] <ul style="list-style-type: none"> Occupational safety and health and wellbeing Employee engagement and job satisfaction Diversity and Inclusion Skills development and workplace retention Respect for human rights | Build workplaces that are safe and secure (occupational injury related indicator) |
| | | | Increase employee engagement (engagement survey score) |
| | | | Promote diversity and inclusion (ratio of female managers and people with disabilities) |
| | | | Develop individuals' skills and achieve business growth (develop talent in DX/AI) |
| | | | Promote human rights due diligence (disclosure of performance) |
| With society |  Industry, innovation and infrastructure  Sustainable cities and communities  Responsible consumption and production  Partnerships for the goals | [Customers] [Ethics / Governance] [Communities] <ul style="list-style-type: none"> Provision of solutions Product safety and quality Governance Compliance Contributions to local communities | Improve productivity of construction workplaces by promoting smart construction (Number of workplaces where smart construction solution is applied) |
| | | | Provision of products and solutions that enable sustainable resource development (Cumulative units of AHS dump truck) |
| | | | Solutions for improving safety and productivity at customer workplaces (technological development stages for automation, safety device, etc.) |
| | | | Building of value chain adaptable to environmental and demand changes (Aftermarket business: sales growth rate / multi-sourcing parts ratio) |
| | | | Strengthen governance and ensure through compliance (disclosure of performance) |
| | | | |
| With the planet |  Affordable and clean energy  Industry, innovation and infrastructure  Responsible consumption and production  Climate action  Life on land  Partnerships for the goals | [Environment] <ul style="list-style-type: none"> Development of low-carbon/low-emissions products, solutions and business models Resource recycling and remanufacturing Reduction of energy usage and GHG emissions Forest conservation through business activities | Plants with zero environmental impacts (CO ₂ reduction, use of renewable energy, water usage) |
| | | | Reduction of CO ₂ emissions at customer workplaces (CO ₂ reduction from products in use / Development of electrified equipment) |
| | | | Provision of solutions that support sustainable, recycling-oriented forestry business (Forestry machinery business related indicators: sales growth rate, afforestation, Smart Forestry, etc.) |
| | | | Promotion of recycling-oriented business (reman) (reman business-related indicator: sales growth rate) |
| | | | |

Targets of the mid-term management plan

Concerning management targets in the mid-term management plan, the Company has set targets for ESG management, together with industry-leading “Growth,” “Profitability,” “Efficiency,” and “Sound financial position”. With respect to shareholder return, while placing priority on focusing investments in growth areas, the Company will continue to work for stable dividends for shareholders and maintain the policy of keeping a consolidated payout ratio of 40% or higher.

| Item | Index | Target |
|--------------------------|--|--|
| Growth | Sales growth rate | Growth rate above the industry’s average |
| Profitability | Operating profit ratio | An Industry’s top-level profit ratio |
| Efficiency | ROE ^{*1} | 10% or higher |
| Sound financial position | Net debt-to-equity ratio ^{*2} | Industry’s top-level financial position |
| Retail finance business | ROA ^{*3} | 1.5% to 2.0% |
| | Net debt-to-equity ratio ^{*2} | 5 times or less |

| | | |
|-----|--------------------------------------|---|
| ESG | Reduction of environmental impact | <ul style="list-style-type: none"> • CO₂ emissions: Decrease by 50% in 2030 from 2010 Become carbon neutral by 2050 (Challenging goal) • Renewable energy use: Increase to 50% of total energy use in 2030 |
| | Evaluation by external organizations | <ul style="list-style-type: none"> • Selected for DJSI^{*4} (World & Asia Pacific) • Selected for CDP^{*5} A-List (Climate Changes and Water Security) |

| | | |
|--------------------|---------------------------|---|
| Shareholder return | Consolidated payout ratio | <ul style="list-style-type: none"> • Keep a fair balance between investment for growth and shareholder return (including stock buyback), while placing main priority on growth investment • 40% or more |
|--------------------|---------------------------|---|

Notes:

*1 ROE=Net income attributable to Komatsu Ltd. for the year/[(Komatsu Ltd. shareholders’ equity at the beginning of the fiscal year + Komatsu Ltd. shareholders’ equity at the end of the fiscal year)/2]

*2 Net debt-to-equity ratio=(Interest-bearing debt – Cash and cash equivalents – Time deposits) / Komatsu Ltd. shareholders’ equity

*3 ROA=Segment profit /[(total assets at the beginning of the fiscal year + total assets at the end of the fiscal year)/2]

*4 Dow Jones Sustainability Indices: ESG investment indices of S&P Dow Jones Indices LLC of the United States

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

2. Approach to and Initiatives for Sustainability

Having long pledged to conduct management focused on ESG, Komatsu aims to solve ESG issues through its business activities, particularly in terms of providing safer, high-quality, high-efficiency products, services and solutions. Going forward, Komatsu will continue to seek solutions to sustainability issues by flexibly addressing global climate change and various changes in the external environment.

< Establishment of Sustainability Policy >

With its basic stance of seeking to contribute to society through business activities, Komatsu defined its corporate identity in April 2021 as part of the commemoration of the 100th anniversary, clarifying its purpose as “Creating value through manufacturing and technology innovation to empower a sustainable future where people, businesses and our planet thrive together.” Under this purpose, Komatsu established its Sustainability Policy in December 2021 with the aim of expressly demonstrating its stance to sincerely respond to climate change and the demands of society, and in pursuit of further promoting sustainability management. Going forward, Komatsu will accelerate the virtuous cycle for resolving ESG issues and improving earnings toward contributing to the attainment of the SDGs by addressing material issues to realize a sustainable society and business growth based on the Sustainability Policy.

- Sustainability policy : <https://komatsu.disclosure.site/en/themes/201>

(1) Governance

< System to promote sustainability >

In April 2021, the Company established the Sustainability Promotion Division under direct control of President to supervise activities relating to the promotion of Komatsu’s sustainability-oriented management.

The Sustainability Promotion Committee, chaired by the President, is held twice a year (and at other times as needed) to discuss and decide on the planning and promotion of policies and measures related to the promotion of sustainability for Komatsu, and to promote their implementation.

Furthermore, the content of discussions at the Sustainability Promotion Committee meetings are reported to, and deliberated by, the Board of Directors as necessary.

1) Governance on climate change (Disclosure based on TCFD recommendations)

Among its important business challenges, Komatsu includes climate change in the objectives of its business strategies.

The Sustainability Promotion Committee and the Risk Management Committee discuss climate change, provide advice to the Strategy Review Committee and report to the Board of Directors, who establish a system that realizes appropriate supervision. In addition, the meeting of executive officers controls progress in the achievement of the objectives.

2) Governance concerning Human Resources Development

The Komatsu Way Committee, which is chaired by the President, convenes twice a year (and at other times as needed). At these meetings, policies and important measures concerning human resources, labor affairs, employee education and human resource development, employee benefits, and occupational health and safety management are discussed and determined, and their implementation is promoted. Furthermore, the content of discussions at The Komatsu Way Committee meetings are reported to, and deliberated by, the Board of Directors as necessary.

For details on the process, control and governance procedures used to monitor and manage the risks and opportunities relating to sustainability, please refer to page 48 of the Integrated report, “Komatsu Report 2022.” https://www.komatsu.jp/en/-/media/home/ir/library/annual/en/2022/kmt_kr22e_print.pdf

For an outline of Komatsu’s corporate governance, please refer to the section headed “Item 4. Information on the Company 4. Corporate Governance, etc. (1) Overview of corporate governance”.

(2) Strategies

In recent years, Komatsu’s external environment has been becoming increasingly volatile and opaque. Achieving sustainable growth in this environment will require Komatsu to increase its resilience to changes in the external environment and to business risks. Komatsu will also need to enhance its foundation for sustainable growth by positioning trends like digital transformation, carbon neutrality, and diversity and inclusion as business opportunities. Based on the recognition of the array of issues with which Komatsu is faced, Komatsu reviewed the issues that are material to its performance in FY2020 prior to the launch of the mid-term management plan, through which Komatsu sought to increase its resilience to changes in the operating environment and business risks. Initiatives in areas deemed to be of high importance to accomplishing the goal of the growth strategies of the mid-term management plan—generating a positive cycle for resolving ESG issues and improving earnings to achieve sustainable growth—have been reflected in growth strategies.

1) Strategies relating to climate change (Disclosure based on TCFD recommendations)

Climate change is one of the material sustainability-related risks and opportunities that are likely to have an impact on Komatsu’s management policy and management strategies over the short, medium and longer term. A total of 16 climate change-related risks and opportunities were identified, primarily in relation to the construction and mining equipment business based on the examples of risks and opportunities included in the final recommendation report published by the TCFD. Komatsu then assessed internal factors, which impact sales and earnings, and external factors, which are projected by the selected scenarios. Through this process, the 16 risks and opportunities were grouped into four major themes: “Changes in resource demand,” “Transition to low-carbon products,” “Manufacturing cost” and “Natural disasters.”

To gauge the potential impacts of climate change-related risks and opportunities on its business, Komatsu performed scenario analyses of the abovementioned four major risk and opportunity themes.

The risks and opportunities connected to the four themes and the strategies for them are described in the following table.

Four major themes

| Themes | Risks | Opportunities | Strategies |
|----------------------------|---|--|--|
| Changes in resource demand | <ul style="list-style-type: none"> • Regulation of power generation using fossil fuels • Massive reductions in coal production volumes • Reduced sales to coal-related customers by Komatsu • Reduced appetite for investment in coal mines | <ul style="list-style-type: none"> • Rapid transition from fossil fuel-powered equipment to electric equipment • Higher demand for copper and other resources necessary for electric equipment (motors, batteries, fuel cells, etc.) • Increased sales to copper and other relevant mining-related customers by Komatsu in conjunction with trend toward electric equipment • Increased investment for improving the efficiency of mining operations | By advancing initiatives based on the three pillars of growth strategies of the mid-term management plan—accelerate growth by means of innovation, maximize earnings power, and enhance corporate resilience—Komatsu will capitalize on opportunities created by changes in resource demand to achieve sustainable growth. |

| Themes | Risks | Opportunities | Strategies |
|-----------------------------------|--|---|--|
| Transition to low-carbon products | <ul style="list-style-type: none"> • Higher development and capital investment costs due to emissions restrictions • Reduced sales due to inability to cater to customer electrification demands • Substantial changes in technology development and competitive climate including market entry by new competitors • Long-term diminishment of technological edge as customers begin leading the drive in component development and manufacturing projects | <ul style="list-style-type: none"> • Rising demand for electrified equipment, fuel-efficient equipment, and biomass fuel-powered equipment; ability to respond swiftly to impending changes in strategic markets fostered through adaptation in traditional markets • Growth of equipment restoration (Reman) operations driven by transition to circular economy • Increased demand for solutions businesses with emissions-reducing benefits • Increased product reliability due to securing stable supply sources for high-quality components for storage batteries and others | Komatsu is advancing initiatives aimed at achieving carbon neutrality while facilitating the transition to the low-carbon products the world demands. |
| Manufacturing costs | <ul style="list-style-type: none"> • Taxation of fossil fuels and CO₂ emissions • Transfer of higher product purchase prices to Komatsu • Rising power fees and energy costs following investment in power generation facilities with low CO₂ emissions | <ul style="list-style-type: none"> • Increased competitiveness through production technologies that reduce CO₂ emissions | Komatsu will work to mitigate cost increases by achieving its CO ₂ reduction and renewable energy targets while developing production bases with low environmental impacts. |
| Natural disasters | <ul style="list-style-type: none"> • Increased frequency of heavy rain and floods due to abnormal weather • Risks of disaster damages to Komatsu plants at high risk of flooding • Component supply delays following damages to suppliers from disasters | <ul style="list-style-type: none"> • Increased demand for flood-control works | Komatsu will implement countermeasures against heavy rains and flooding across the value chain (response to physical risks). |

2) Policies for human resources development and improvement of internal environment

In pursuit of global development and sustainable growth, Komatsu articulated “The Komatsu Way” in 2006 as a set of values to be shared by employees around the world, who otherwise may have different cultures and customs. Komatsu is working to disseminate it among all global employees. Based on this activity, Komatsu continues to implement human resource development.

Among the growth strategies set out by the mid-term management plan, “Enrich human resources base with diversity” is one of the key initiatives. Accordingly, Komatsu is accelerating initiatives for building human capital, mainly in the area of human resource development, by promoting measures such as “Enhancement of diversity & inclusion,” “Offer of a variety of talent development opportunities and improvement of employee engagement” and “Human resources development for digital applications and open innovation.”

(i) Promote diversity & inclusion

Komatsu continues to promote “Enhancement of diversity & inclusion” based on the belief that the realization of a workplace environment in which diverse people can respect each other’s individuality and skills and work together effectively will lead to innovation and the growth of the entire company.

Roughly 70% of Komatsu’s employee base is made up of non-Japanese individuals, and several senior management positions at major overseas subsidiaries have been filled by locally hired staff. Among them, Komatsu appoints the leaders of major overseas subsidiaries to serve as “Global Officers” who assume responsibilities not only as the regional chief but also as part of the senior management team of Komatsu. Furthermore, Komatsu appoints personnel who will play central roles with respect to business operations of the Group as executive officers of Komatsu.

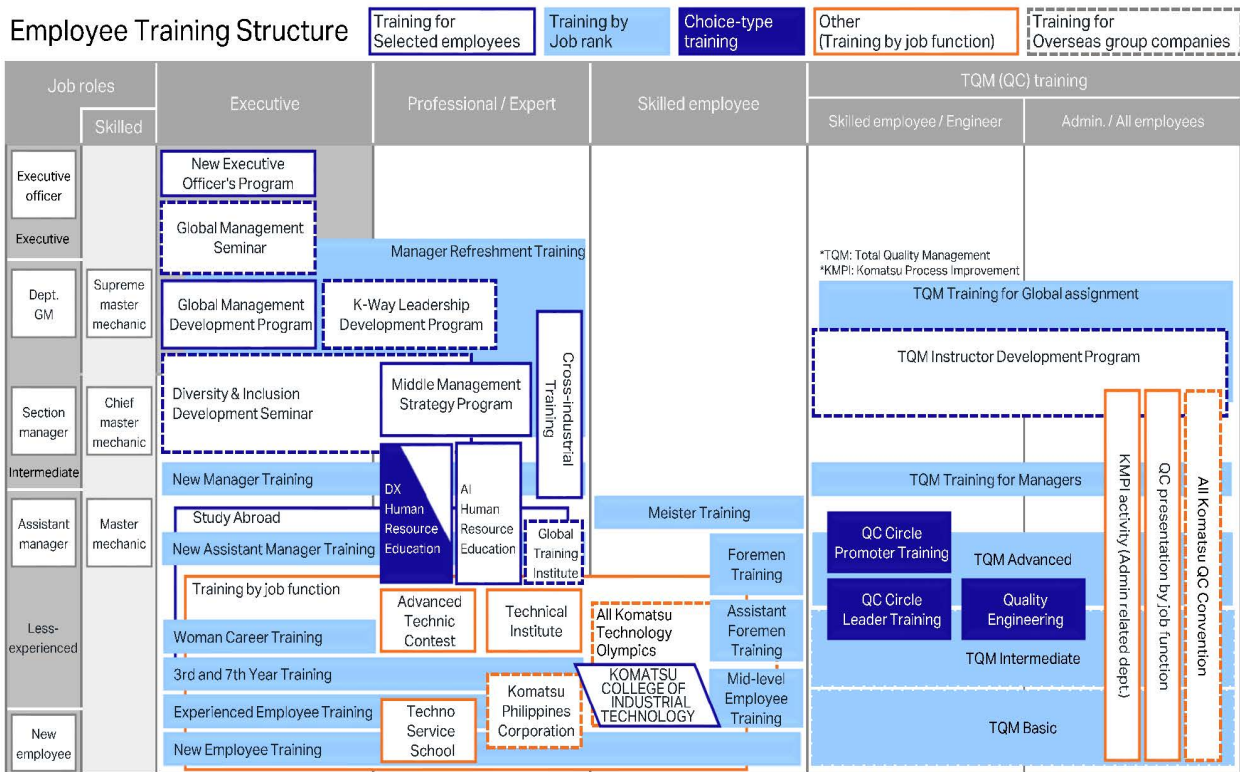
With regard to promoting gender balance and diversity, by setting its mid-term management plan’s global key performance indicators for gender diversity, Komatsu is pushing ahead with various measures to employ and train more women and provide a workplace environment in which female employees can continue to develop their careers. Based on its past initiatives, Komatsu was named a Nadeshiko Brand company for FY2022. (Meaning that from among the approximately 3,700 companies listed on the Tokyo Stock Exchange, it was selected as one of 17 companies named the best in its industry.)

Furthermore, as part of enriching its workforce through added diversity, Komatsu believes that it is important to motivate and empower experienced mid-career hires and Komatsu will continue to positively recruit such personnel and encourage them to participate as core human resources.

(ii) Offering a variety of talent development opportunities and improving employee engagement

Komatsu works to provide diversified talent development opportunities, including professional education in each field, and support for seeking the knowledge and skills required at each level. In cultivating the next generation of leaders, Komatsu takes a systematic approach on a global basis by identifying “Global Key Positions” in Japan and overseas and developing a succession plan for them. Furthermore, in order to support employees’ career aspirations and planning, we developed the Career Development Program (CDP) in FY2023 and will enhance cooperation and links between various human resource measures and career planning support.

Since Komatsu believes that improving employee engagement is essential for its sustainable growth, Komatsu has conducted a global engagement survey for all employees of worldwide group companies with the aim of improving its personnel policies and measures, reflecting the strengths and challenges by region and organization. By continuously analyzing and understanding employee engagement and responding to ever-changing challenges, Komatsu will endeavor to create an environment in which each and every one of its diverse employees can work with vitality and enthusiasm.



*In 2019 Komatsu Human Resources & Development Center became Komatsu Philippines Corporation as a 100% affiliate of Komatsu Ltd.

(iii) Development of digital and open innovation-driven human resources

As to the cultivation of personnel with digital knowledge and technologies, in addition to the program for developing AI engineers that started in FY2019, Komatsu launched the “DX personnel education program” in FY2022 in Japan. This program promotes the cultivation of human resources with curriculums for attaining knowledge at every stage, from entry level for basic knowledge to practical education that covers problem solving in the context of real-life business operations and projects. The entry-level “DX personnel education program” consisting of a video recording of a DX lecture is also provided to a wider range of employees to encourage them to reskill.

Furthermore, with regard to developing human resources for open innovation, Komatsu is conducting and utilizing both internal and external programs in order to accelerate collaboration with government and academic institutions. Such programs for fostering the human resources needed to supply customers with DANTOTSU products, DANTOTSU services and DANTOTSU solutions will be conducted on an ongoing basis going forward.

For details on the Strategies, please refer to page 49-53, 56-59 of the Integrated report, “Komatsu Report 2022.” https://www.komatsu.jp/en/-/media/home/ir/library/annual/en/2022/kmt_kr22e_print.pdf

(3) Risk management

< Basic principles and structure for risk management >

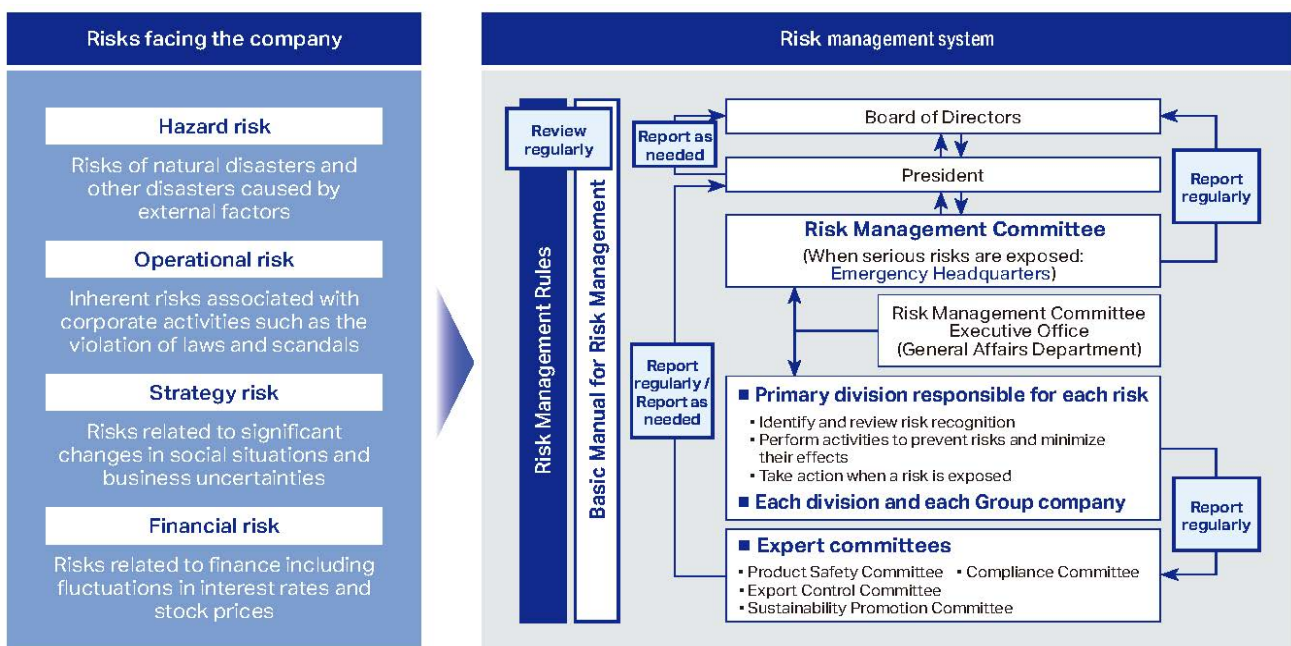
In addition to the basic policy for risk management to ensure business continuity and stable development, Komatsu has established Risk Management Rules to correctly recognize and manage risks.

Furthermore, Komatsu has developed the Basic Manual for Risk Management, which defines the response systems and rules to be utilized a risk materialize along with specific risk items and the divisions responsible for said risk items. This manual is periodically revised to ensure that risk management systems are adapted to the constant changes in the operating environment and in risks.

Komatsu has established a Risk Management Committee to devise relevant policies for the entire Group, review the risk management system, and evaluate and improve upon response measures in place for each risk, as well as to take control of risks when they arise. The committee regularly reports on its deliberations and activities to the Board of Directors.

Komatsu will establish an Emergency Headquarters when serious risks, such as the COVID-19 pandemic and the situation in Ukraine, occur and implement appropriate measures to minimize damage. Other important matters to be considered from the perspective of risk management include corporate governance; compliance; response measures for climate change, ; natural disaster risks; and frameworks for preventing transactions with antisocial forces.

Komatsu continues management efforts related to these matters.



For details on the Risk management, please refer to page 74-77 of the Integrated report, “Komatsu Report 2022.” https://www.komatsu.jp/en/-/media/home/ir/library/annual/en/2022/kmt_kr22e_print.pdf

(4) Indicators and targets

1) Indicators of policies concerning climate change and targets using such indicators

With respect to climate change-related indicators and targets, Komatsu has set a reduction of environmental impact as the management index and the management targets are specified below.

- CO₂ emissions Decrease by 50% by 2030 from 2010
Become carbon neutral by 2050 (challenging goal)
- Renewable energy use Increase to 50% of total energy use by 2030

Furthermore, Komatsu applies the following indicators for mid-term management in terms of the climate change-related strategy under the paragraph headed “(2) Strategy” above. The targets relevant to such indicators are as follows.

| Key activity themes | KPI | FY2024 Targets |
|---|--|--------------------------------------|
| Plants with zero environmental impacts | CO ₂ emissions from production | 45% reduction (compared with FY2010) |
| | Rate of renewable energy use | 20% |
| Reduction of CO ₂ emissions at customer workplaces | CO ₂ emissions from product use | 24% reduction (compared with FY2010) |

* For details on the Indicators and targets, please refer to page 35-37, 44-45 of the Integrated report, “Komatsu Report 2022” and page 13-21 of “Komatsu ESG Databook 2022.”

https://www.komatsu.jp/en/-/media/home/ir/library/annual/en/2022/kmt_kr22e_print.pdf

https://sustainability-cms-komatsu-s3.s3-ap-northeast-1.amazonaws.com/en/csr/pdf/KOMATSUCSR2022_en.pdf

2) Indicators relating to policies on human resource development and improvement of internal working environment, and targets using the relevant indicators

Furthermore, Komatsu applies the following Policies for human resources development and improvement of internal environment for mid-term management in terms of the strategy under the paragraph headed “(2) Strategy” above. The targets relevant to such indicators are as follows.

| Key activity themes | KPI | FY2024 Targets |
|---|---|--|
| Promote diversity and inclusion | Ratio of female managers | 13.0% or more |
| | Ratio of full-time female employees | 17.0% or more |
| | Ratio of employees with disabilities | 2.5% or more each year |
| Offer of a variety of talent development opportunities and improvement of employee engagement | Succession plans | Increased succession planning for senior management positions at overseas Group companies |
| | Engagement survey scores Notes *1 Score represents rate of favorable responses. *2 Global engagement surveys are conducted once every two years (next survey to be conducted in FY2023). | <ul style="list-style-type: none"> • Global score : 85 or more • Domestic score : 75 or more (*FY2023 Targets) |
| Development of digital and open innovation-driven human resources | Development of human resources with digital transformation and AI skills | Three-year aggregate numbers of training recipients <ul style="list-style-type: none"> • Digital transformation : 180 for practical, 900 for entry level • AI :30 for practical, 90 for entry level |
| | Cultivation of Smart Construction consultants | 1,000 (aggregate) |

* Unless specified otherwise, the targets are stated on a consolidated basis.

* For details of indicators concerning human capital, please refer to pages 56-59 of the Integrated Report “Komatsu Report 2022” and pages 43-67 of “Komatsu ESG Databook 2022.”

* For results for FY2022 and details thereof, please refer to “ESG Databook 2023,” to be updated in July.

3. Risk Factors

Given that Komatsu operates on a global scale with development, production, sales and other bases established around the world, Komatsu is exposed to a variety of risks. Komatsu has identified the following risks as its primary risks based on information currently available to it. Following description contains forward-looking statements which the Company judged as of the filing date of this Annual Securities Report.

(1) Economic and market conditions

The business environment in which Komatsu operates and the market demand for its products may change substantially as a result of economic and market conditions, political and social circumstances, competitive conditions, or the like, which differ from region to region.

In economically developed countries in which Komatsu operates, Komatsu's business is generally affected by cyclical changes in the economies of such regions. Therefore, factors which are beyond Komatsu's control, such as levels of housing starts, industrial production, public investments in infrastructure development and private-sector capital outlays, may affect demand for Komatsu's products. In newly developing countries in which Komatsu operates, Komatsu constantly pays attention to the changes in demand for its products. However, these economies are subject to impact by a number of variable factors, such as commodity demand levels, commodity price fluctuations, and sudden movements in currency values and changes in any or all of these factors could adversely affect Komatsu's business results. Furthermore, when economic and/or market conditions change more drastically than expected, Komatsu may also experience, among other things, fewer orders of its products, an increase in cancellation of orders by customers and a delay in the collection of receivables.

These changes in the business environment in which Komatsu operates may lead to a decline in sales, and inefficient inventory levels and/or production capacities, thereby causing Komatsu to record lower profitability and incur additional expenses and losses. As a result, Komatsu's results of operations may be adversely affected.

(2) Foreign currency exchange rate fluctuations

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

(3) Fluctuations in financial markets

While Komatsu is currently improving the efficiency of its asset management, it has interest-bearing debt due to borrowings from financial institutions and the issuance of bonds. Although Komatsu has strived to reduce the effect of interest rate fluctuations using various measures, including procuring funds at fixed interest rates, an increase in interest rates may increase Komatsu's interest expenses and thereby adversely affect Komatsu's results of operations. In addition, with respect to Komatsu's pension assets, though Komatsu has been evaluating its operational status and reviewing its portfolio on a regular basis, fluctuations in the financial markets, such as fluctuations in the fair value of marketable securities and interest rates, may also increase the unfunded obligation portion of Komatsu's pension plans or pension liabilities, which may result in an increase in pension expenses. Such an increase in interest expenses and pension expenses may adversely affect Komatsu's results of operations and financial condition.

(4) Laws and regulations of different countries

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

(5) Environmental laws and regulations, approaches related to climate change, etc.

Komatsu's products and business operations are required to meet increasingly stringent environmental laws and regulations in the numerous countries in which Komatsu operates. In addition, measures for reducing greenhouse gas emissions have been taken around the world. Therefore, Komatsu is investing a significant proportion of its management resources, such as research and development expenditure, to comply with environmental and other related regulations and to respond to climate change issues. If Komatsu is required to incur additional expenses and make additional capital investments due to future revision of environmental regulations or future impacts of climate change, or if its development, production, sales and service operations are adversely affected by such revised regulations, Komatsu may experience an unfavorable impact on its business results.

(6) Product and quality liability

Komatsu endeavors to sustain and improve the quality and reliability of the products that it offers, based on stringent standards established internally. While, in the event of an accident, etc. due to an unexpected defect arising out of product design/manufacturing, Komatsu takes improvement measures, such as recalling a product, Komatsu's business results may be adversely affected by claims for damages, etc. or loss of reputation/trust.

(7) Alliances, collaborations, mergers and acquisitions, etc.

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

(8) Procurement, production and other matters

Komatsu's procurement of parts and materials for its products is exposed to fluctuations in commodity and energy prices. Price increases in commodities, such as steel materials, as well as energies, such as crude oil and electricity, may increase the production cost of Komatsu's products. In addition, a shortage of product parts and materials, bankruptcies of suppliers or production discontinuation by suppliers of products used by Komatsu, multilateral export/import controls, disruption of international logistics or other issues may make it difficult for Komatsu to engage in the timely procurement of parts and materials and manufacture of its products, thereby lowering Komatsu's production efficiency or loss of sales opportunities. With respect to an increase in the cost of production as mainly affected by an increase in the cost of materials, Komatsu mainly strives to reduce costs and make price adjustments of its products. Komatsu also strives to minimize the effects of possible procurement or manufacturing issues by such means as using multiple suppliers, cross-sourcing operation for production, maintaining safety stock, and enhancing production management through collaboration among the relevant business divisions. However, if occurrence of disruptions in global supply chains, increase in commodity and energy prices were to exceed Komatsu's expectations or a prolonged shortage of materials and parts were to occur, Komatsu's results of operations may be adversely affected.

(9) Information security, intellectual property and other matters

Komatsu may obtain confidential information concerning its customers and individuals in the normal course of its global business. Komatsu also holds confidential business and technological information. In addition to storing this information, Komatsu uses internal and external systems to carry out its various operations. Komatsu safeguards such confidential information and keeps the stable operation of its systems with the utmost care. To forestall infection with a computer virus or cyber-attacks in order to prevent unauthorized access, tampering, destruction, leakage, and losses, Komatsu employs appropriate safety measures, including implementing technological safety measures and strengthening its information management capabilities. However, when a leak or loss of confidential information concerning customers and individuals occurs, Komatsu may become liable for damages, or its reputation or its customers' confidence in Komatsu may be adversely affected. Also, there are risks that internal or external systems used by Komatsu may be shut down due to unexpected earthquakes, fires, or other disasters, or due to the failure of power supply facilities. In addition, threats are increasing that cyber-attacks and impersonate business partners. If a cyber incident were to occur at Komatsu or one of our key suppliers, there are risks of repercussions that could disrupt production and sales. In addition, if Komatsu's confidential business and technological information were leaked or lost, or misused by a third party, or Komatsu's intellectual properties were infringed upon by a third party, or Komatsu were held liable for infringing on a third party's intellectual property rights, Komatsu's business results may be adversely affected. Furthermore, any more sophisticated cyber-attacks may impose increased costs on Komatsu for enhancing information security measures.

(10) Natural calamities, accidents, epidemics and other matters

If natural disasters (such as earthquakes, tsunamis and floods), epidemics, radioactive contamination, accidents (such as fires and explosions), unforeseeable criticism or interference by third parties were to occur in the regions in which Komatsu operates, Komatsu may incur extensive damage to one or more of its facilities that then could not become fully operational within a short period of time. Even if Komatsu's operations were not directly harmed by such events, confusion in logistic and supply networks, shortages in the supply of electric power, gas and other utilities, telecommunication problems and/or problems of supplier's production may continue for a long period of time. In preparation for actualization of these risks, Komatsu takes measure such as establishment of a business continuity plan or implementation of training sessions, and, if a material risk is actualized, Komatsu will set up an emergency headquarters and take appropriate steps to minimize damage.

(11) Wars, terrorism, geopolitics

Given that Komatsu operates on a global scale with development, production, sales and other bases established around the world, increased social, political, or military tensions in specific region may potentially affect our business. Komatsu takes steps to minimize the impacts of resource price fluctuations, trade restrictions, and supply chain complications that result from diversifying geopolitical risks by confirming, analyzing, and addressing the political, economic, and regulatory trends of relevant countries. In particular, the ongoing crisis in Ukraine has severely disrupted Komatsu's supply chain and caused financial and economic impacts. In accordance with the Company's risk management policies, an emergency headquarters was established, steps were taken to protect the safety of employees and their families in areas affected by the conflict, the export restrictions implemented by countries around the world were addressed.

In other regions as well, further political divisions in the world may lead to tighter regulations in each country. In response to trends in economic security-related and various regulations, including the Economic Security Promotion Act, Komatsu has appointed an executive officer in charge of economic security to collect and analyze information. However, there is a risk that the Komatsu's business performance could be adversely affected if it faces unexpected circumstances.

4. Analyses of Consolidated Financial Position, Operating Results and Cash Flows from the management's perspective

1. Overview of Results of Operations, etc.

Komatsu's financial position, results of operations and cash flows (hereinafter "Results of Operations, etc.") in the fiscal year ended March 31, 2023 are as follows.

(1) Financial Position and Operating Results

(i) Overview

For the fiscal year ended March 31, 2023, consolidated net sales increased by 26.4% from the fiscal year ended March 31, 2022 to ¥3,543,475 million. With respect to profits, operating income increased by 54.8% from the fiscal year ended March 31, 2022 to ¥490,685 million. The operating income ratio increased by 2.5 percentage points from the fiscal year ended March 31, 2022 to 13.8%. Income before income taxes and equity in earnings of affiliated companies increased by 46.8% from the fiscal year ended March 31, 2022 to ¥476,434 million. Net income attributable to Komatsu Ltd. increased by 45.1% from the fiscal year ended March 31, 2022 to ¥326,398 million.

Consolidated results for the fiscal year ended March 31, 2023

| | 2023 (Millions of yen) | Changes from previous fiscal year |
|---|---------------------------|--------------------------------------|
| Net sales | 3,543,475 | 26.4% |
| Construction, Mining and Utility Equipment | 3,296,566 | 28.6% |
| Retail Finance | 85,630 | 19.2% |
| Industrial Machinery and Others | 190,941 | 1.4% |
| Elimination | (29,662) | — |
| Segment profit | 493,514 | 56.4% |
| Construction, Mining and Utility Equipment | 443,603 | 60.9% |
| Retail Finance | 27,267 | 58.5% |
| Industrial Machinery and Others | 22,586 | (0.0%) |
| Corporate & elimination | 58 | — |
| Operating income | 490,685 | 54.8% |
| Income before income taxes and equity in earnings of affiliated companies | 476,434 | 46.8% |
| Net income attributable to Komatsu Ltd. | 326,398 | 45.1% |

(ii) Changes in foreign exchange rate

The Japanese yen depreciated against the U.S. dollar, the Euro, and the Australian dollar, etc. for the fiscal year ended March 31, 2023 compared to the fiscal year ended March 31, 2022. It is estimated that segment profit for the construction, mining and utility equipment business for the fiscal year ended March 31, 2023 increased approximately ¥133.0 billion compared to the fiscal year ended March 31, 2022 mainly due to the Japanese yen depreciation. Its estimation of influence amount is calculated as of a multiplication its trading amount of foreign currencies of the Company and its consolidated subsidiaries and the change in foreign exchange rate, not reflected sales price adjustment.

(iii) Net sales

Consolidated net sales for the fiscal year ended March 31, 2023 increased by 26.4% to ¥3,543,475 million from ¥2,802,323 million for the fiscal year ended March 31, 2022. Net sales to external customers in Japan for the fiscal year ended March 31, 2023 increased by 5.2% to ¥409,414 million from ¥389,085 million for the fiscal year ended March 31, 2022. Net sales to external customers in overseas for the fiscal year ended March 31, 2023 increased by 29.9% to ¥3,134,061 million from ¥2,413,238 million for the fiscal year ended March 31, 2022.

(iv) Cost of sales and selling, general and administrative expenses

Cost of sales increased by 23.8% from the fiscal year ended March 31, 2022 to ¥2,504,449 million primarily due to increased net sales. The ratio of cost of sales to net sales decreased by 1.5 percentage points from the fiscal year ended March 31, 2022 to 70.7%.

Selling, general and administrative expenses increased by 17.6% from the fiscal year ended March 31, 2022 to ¥545,512 million.

R&D expenses that were included in cost of sales and selling, general and administrative expenses increased by 17.0% from the fiscal year ended March 31, 2022 to ¥90.6 billion.

(v) Impairment losses on long-lived assets

Impairment losses on long-lived assets for the fiscal year ended March 31, 2023 increased by ¥4,149 million to ¥5,521 million as compared to ¥1,372 million for the fiscal year ended March 31, 2022. For the fiscal year ended March 31, 2023, this was mainly due to impairment losses from property, plant, and equipment and other intangible assets not subject to amortization.

(vi) Other operating income

Net other operating income of ¥2,692 million was recognized for the fiscal year ended March 31, 2023 as compared to net other operating income of ¥2,851 million for the fiscal year ended March 31, 2022.

(vii) Operating income

As a result of the above factors, operating income for the fiscal year ended March 31, 2023 increased by 54.8% to ¥490,685 million as compared to ¥317,015 million for the fiscal year ended March 31, 2022.

(viii) Other income (expenses), net

Interest and dividend income increased by ¥7,119 million to ¥12,451 million for the fiscal year ended March 31, 2023 as compared to ¥5,332 million for the fiscal year ended March 31, 2022. Interest expense increased by ¥20,149 million to ¥32,371 million for the fiscal year ended March 31, 2023 as compared to ¥12,222 million for the fiscal year ended March 31, 2022.

(ix) Income before income taxes and equity in earnings of affiliated companies

As a result of the above factors, income before income taxes and equity in earnings of affiliated companies for the fiscal year ended March 31, 2023 increased by 46.8% to ¥476,434 million as compared to ¥324,568 million for the fiscal year ended March 31, 2022.

(x) Income taxes

Income tax expense for the fiscal year ended March 31, 2023 increased by ¥42,969 million to ¥135,547 million from ¥92,578 million for the fiscal year ended March 31, 2022. The actual effective tax rate for the fiscal year ended March 31, 2023 remained flat from the fiscal year ended March 31, 2022 to 28.5%. The difference between the Japanese statutory tax rate of 31.3% and the actual effective tax rate of 28.5% was caused by income of foreign subsidiaries being taxed at a rate lower than the Japanese statutory tax rate.

(xi) Equity in earnings of affiliated companies

Equity in earnings of affiliated companies for the fiscal year ended March 31, 2023 increased by ¥32 million to ¥5,290 million as compared to ¥5,258 million for the fiscal year ended March 31, 2022.

(xii) Net income

As a result of the above factors, net income for the fiscal year ended March 31, 2023 increased by ¥108,929 million to ¥346,177 million as compared to ¥237,248 million for the fiscal year ended March 31, 2022.

(xiii) Net income attributable to noncontrolling interests

Net income attributable to noncontrolling interests for the fiscal year ended March 31, 2023 increased by ¥7,458 million to ¥19,779 million as compared to ¥12,321 million for the fiscal year ended March 31, 2022. The portion attributable to noncontrolling interests increased mainly as a result of an increase in net income recorded by Komatsu Cummins Chile Ltda. and Komatsu Australia Pty. Ltd., etc.

(xiv) Net income attributable to Komatsu Ltd.

As a result of the above, net income attributable to Komatsu Ltd. for the fiscal year ended March 31, 2023 increased by 45.1% to ¥326,398 million as compared to ¥224,927 million for the fiscal year ended March 31, 2022.

Accordingly, basic net income attributable to Komatsu Ltd. per share increased to ¥345.22 for the fiscal year ended March 31, 2023 from ¥237.97 for the fiscal year ended March 31, 2022. Diluted net income attributable to Komatsu Ltd. per share increased to ¥345.18 for the fiscal year ended March 31, 2023 from ¥237.92 for the fiscal year ended March 31, 2022.

(xv) Segment profit

(Segment profit is calculated by subtracting cost of sales and selling, general and administrative expenses from net sales.)

Segment profit for the construction, mining and utility equipment business for the fiscal year ended March 31, 2023 increased by ¥167,835 million to ¥443,603 million, mainly due to improved selling prices and the Japanese yen's depreciation, which more than offset the adverse effects of increased prices of materials and logistics costs, as compared to ¥275,768 million for the fiscal year ended March 31, 2022.

Segment profit for the retail finance business for the fiscal year ended March 31, 2023 increased by ¥10,068 million to ¥27,267 million, as compared to ¥17,199 million for the fiscal year ended March 31, 2022, mainly supported by the Japanese yen's depreciation and a reduced allowance for doubtful accounts.

Segment profit for the industrial machinery and others business for the fiscal year ended March 31, 2023 decreased by ¥9 million to ¥22,586 million, as compared to ¥22,595 million for the fiscal year ended March 31, 2022. This was due to increased prices of materials and declining sales of large presses for the automobile manufacturing industry, although sales of the Excimer laser-related business remained strong, supported by expanding demand for semiconductors worldwide.

Consolidated segment profit, which was added corporate expenses and elimination, increased by ¥177,978 million to ¥493,514 million as compared to ¥315,536 million for the fiscal year ended March 31, 2022.

Consolidated segment profit is not in accordance with U.S. GAAP, but is disclosed as beneficial information for users of the financial statements.

(2) Cash flows

Net cash provided by operating activities totaled ¥206,474 million, mainly due to net income for the period, while trade notes and accounts receivable and inventories increased. This is a decrease of ¥94,496 million from the fiscal year ended March 31, 2022.

Net cash used in investing activities amounted to ¥169,518 million, an increase of ¥25,949 million, mainly due to the purchase of fixed assets.

Net cash used in financing activities amounted to ¥66,613 million (as compared to ¥93,868 million used for the previous fiscal year), mainly due to payment of cash dividends.

After adding the effects of foreign exchange fluctuations to the total amount of each cash flow, as of March 31, 2023, cash and cash equivalents totaled ¥289,975 million, a decrease of ¥25,385 million from the fiscal year ended March 31, 2022.

(3) Production, Orders Received and Sales

Komatsu produces and sells a wide range of products, and there are various types of specifications in terms of the capacity, structure design, model and others, even for the same kinds of products. In addition, Komatsu does not adopt a make-to-order production system for many products. Thus, Komatsu does not present this production and orders received in amount or volume terms for each operating segment.

Therefore, production, orders received, and sales are disclosed in relation to the business results of each operating segment in “2. Views and issues analyzed/discussed with regard to the status of Results of Operations, etc. from the management’s perspective”.

2. Views and issues analyzed/discussed with regard to the status of Results of Operations, etc. from the management’s perspective

Views and issues analyzed/discussed with regard to the status of Results of Operations, etc. of Komatsu from the management’s perspective are as follows.

Following description contains forward-looking statements which the Company judged as of the filing date of this Annual Securities Report.

(1) Critical Accounting Policies

The Company prepares its consolidated financial statements in conformity with U.S. GAAP. The Company’s management regularly makes certain estimates and judgments that the Company believes are reasonable based upon available information. These estimates and judgments affect the reported amounts of assets and liabilities as of the date of the consolidated financial statements, the reported amounts of income and expenses during the periods presented, and the disclosed information regarding contingent liabilities and debts. These estimates and judgments are based on Komatsu’s historical experience, terms of existing contracts, Komatsu’s observance of trends in the industry, information provided by its customers and information available from other outside sources, as appropriate. By their nature, these estimates and judgments are subject to an inherent degree of uncertainty, and may differ from actual results. For a summary of the Company’s significant accounting policies, including the critical accounting policies discussed below, see Note 1 to the Consolidated Financial Statements.

Regarding the impact of the disruption and so forth in the supply chain, financial sector, and world economy caused by the Ukraine situation on Komatsu’s financial position and results of operations, there is uncertainty regarding when such conditions will improve, among other factors. Nevertheless, Komatsu has assumed that a certain level of impact from the Ukraine situation will continue in the future, based on the information which is available at present and our predictions. Komatsu is making its best estimates taking in the assumption to assess the calculation of the estimated credit losses, the likelihood of recovery of deferred tax assets and the impairment losses on long-lived assets and goodwill given these items are relatively material among the accounting estimates. However, if actual future trends deviate from the assumption, Komatsu’s financial position and results of operations may be adversely affected.

The Company’s management believes that the following accounting policies are critical in fully understanding and evaluating the Company’s reported financial results.

(i) Allowance for Doubtful Receivables

Komatsu estimates the collectability of its trade receivables taking into consideration numerous factors, including the current financial position of each customer.

Komatsu establishes an allowance for expected losses based on individual credit information, historical experience, and assessment of overdue receivables. Komatsu continually analyzes data obtained from internal and external sources in order to become familiar with customers' credit situations. Regarding financing receivables in the retail finance business, in particular, collection occurs over a long period and there is a degree of uncertainty that accompanies the calculation of the estimated credit losses and the calculation of an expected amount recoverable from the collateral. Therefore, Komatsu performs estimates to the best of its abilities based on information at hand, using surveys of the credit status and status of receivables not yet due for collection for each customer and surveys of market prices of assets held for collateral. Since Komatsu's historical loss experiences have fallen within their original estimates and established provisions, the Company's management believes its allowance for doubtful receivables to be adequate. However, if the composition of Komatsu's trade receivables were to change or the financial position of each customer were to change due to an unexpected significant shift in the economic environment, it is possible that the accuracy of its estimates could be affected and thus its financial position and results of operations could be materially affected.

For additional information, see Note 4 to the Consolidated Financial Statements.

(ii) Deferred Income Tax Assets and Uncertain Tax Positions

The Company estimates income taxes and income taxes payable in accordance with applicable tax laws in each of the jurisdictions in which it operates. Net operating loss carry forwards and temporary differences resulting from differing treatment of items for taxation and financial accounting and reporting purposes are recognized on the Company's consolidated balance sheet by adjusting the effect for deferred income tax assets and liabilities.

Komatsu is required to assess the likelihood that each of its group company's deferred tax assets will be recovered from future taxable income estimated for each group company and the available tax planning strategies.

The Company's management estimates its future taxable income and considers the likelihood of recovery of deferred tax assets based on the management plan authorized by the Board of Directors, periodic operational reports of each group company, future market conditions and tax planning strategies, and, to the extent the Company's management believes that any such recovery is not likely, each group company establishes a valuation allowance to reduce the amount of deferred tax assets reflected in the consolidated balance sheet. Changes to the amount and timing of future taxable income determined by the Company's management could result in an increase or decrease to the valuation allowance.

Benefits derived from uncertain tax positions are recognized when a particular tax position meets the more-likely-than-not recognition threshold based on the technical merits of such position. A benefit is measured as the largest amount of benefit that is greater than 50 percent likely of being realized upon a final settlement with the appropriate taxing authority.

While the Company's management believes that all deferred tax assets after adjustments for valuation allowance will be realized and all material uncertain tax positions that are recognized will be successfully sustained, the Company may be required to adjust its deferred tax assets or valuation allowance or reserve for unrecognized tax benefits if its estimates differ from actual results due to poor operating results, lower future taxable income as compared to estimated taxable income or different interpretations of tax laws by the relevant tax authorities. These adjustments to the valuation allowance or recognized tax benefits could materially affect Komatsu's financial position and results of operations.

For additional information, see Note 16 to the Consolidated Financial Statements.

(iii) Valuation of Long-Lived Assets and Goodwill

Komatsu's long-lived assets are reviewed for potential impairment whenever events or changes in circumstance indicate that the carrying amount of an asset may not be recoverable, such as a decrease in future cash flows caused by a change in business environment.

The recoverability of assets to be held and used is measured by comparing the carrying amount of a particular asset to the estimated future undiscounted cash flow expected to be generated by such asset. Such future undiscounted cash flow is estimated in accordance with Komatsu's management plan. The management plan is established by taking into consideration, to the extent possible, management's best estimates on the fluctuation of sales prices, changes in manufacturing costs and sales, general and administrative expenses based on expected sales volumes derived from market forecasts available through outside research institutions and through customers. If the carrying amount of an asset exceeds its future undiscounted cash flow and such asset is considered unrecoverable and identified as an impaired asset, Komatsu recognizes an impairment loss based on the amount by which the carrying amount of the asset exceeds its fair value. Fair value is customarily measured based on the asset's future discounted cash flow, and the rate used to discount such cash flow is the weighted average capital cost reflecting the fluctuation risk of future cash flow in the capital markets. As an alternative to such customary method, fair value may also be measured based on an independent appraisal. Long-lived assets to be disposed of are reported at the lower of the carrying amount or fair value less costs of sales.

Komatsu reviews its goodwill for impairment at least once annually and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value below its carrying amount.

The fair value of the reporting unit is generally determined using future discounted cash flow model. Projected future cash flow is estimated in accordance with Komatsu's management plan. The management plan is established by taking into consideration, to the extent possible, management's best estimates on the fluctuation of sales prices, changes in manufacturing costs and sales, general and administrative expenses based on expected sales volumes derived from market forecasts available through outside research institutions and through customers. When the carrying amount of the reporting unit exceeds the fair value, the difference is recognized as impairment loss on goodwill to the extent of the carrying amount of the goodwill allocated to that reporting unit.

While Komatsu believes that there are no additional major impairments of its long-lived assets and goodwill at present, in the event that Komatsu's strategy or market conditions in which it operates changes, estimates of future cash flows to be generated by an asset and evaluations of fair value would be affected, and the assessment of the ability to recover the carrying amount of long-lived assets and goodwill may change. Accordingly, such changes in assessment could materially affect Komatsu's financial position and results of operations.

(iv) Fair Values of Financial Instruments

The fair values of derivative financial instruments, consisting principally of foreign currency contracts and interest swap agreements, are estimated by obtaining quotes from brokers based on observable market inputs. While fair value estimates are made at a specific point in time based on relevant market information and information about the financial instruments, these estimates are subjective in nature. The estimated fair values may change due to uncertainties in the financial markets, and may therefore differ from actual results.

Komatsu's investments in marketable equity securities are stated at fair value. Changes in fair values are included in net income in the accompanying consolidated statements of income.

Komatsu measures equity securities without readily determinable fair values at the carrying amount after the writedown due to impairment, except for investments which are measured at net asset value per share. If Komatsu identifies observable price changes in orderly transactions for identical or similar investments issued by the same issuer, Komatsu measures the equity security at fair value as of the date that the observable transaction occurred. In case of decrease market price, in periodically assessing other-than-temporary impairment of investments in affiliated companies, Komatsu considers the period and amount of its decline, and the financial positions and prospects of each subject companies.

While Komatsu believes that there are no additional major impairments of its investment securities or investments in affiliated companies at present, if the performance and business conditions of any subject company deteriorate due to a change in business circumstances, Komatsu may recognize an impairment of its investments.

For additional information, see Notes 20, 21 and 22 to the Consolidated Financial Statements.

(v) Pension Liabilities and Expenses

The amount of Komatsu’s pension obligations and net periodic pension costs are dependent on certain assumptions used to calculate such amounts. These assumptions are described in Note 12 to the Consolidated Financial Statements and include the discount rate, expected rate of return on plan assets and rates of increase in compensation. Actual results that differ from these assumptions are accumulated and amortized over future service years of employees and therefore generally affect Komatsu’s recognized expenses and recorded obligations during such future periods.

The discount rate is determined based on the rates of return of high-quality fixed income investments currently available and expected to be available until the maturity of the pension benefits. The expected long-term rate of return on plan assets is determined by taking into consideration the current expectations for future returns and actual historical returns of each plan asset category.

While Komatsu believes that its assumptions are appropriate, in the event that actual results differ significantly from these assumptions or significant changes are made to these assumptions, Komatsu’s pension obligations and future expenses may be affected.

The following table illustrates the sensitivity of pension obligations as of March 31, 2023 and net periodic pension costs for the fiscal year ending March 31, 2024 to changes in discount rates and expected long-term rate of return on pension plan assets, while holding all other assumptions constant, for Komatsu’s pension plans as of March 31, 2023.

| | Change in assumption | Pension obligations (Billions of yen) | Net periodic pension costs (Billions of yen) |
|-----------------------------------|------------------------|--|---|
| Discount rate | 0.5% increase/decrease | -30.2/ +32.9 | -0.3/ +1.2 |
| Expected long-term rate of return | 0.5% increase/decrease | — | -1.4 / +1.4 |

(vi) Recently Issued Accounting Standards Not Yet Adopted

In June 2016, Financial Accounting Standards Board (hereinafter “FASB”) issued Accounting Standards Update (hereinafter “ASU”) 2016-13 “Financial Instruments — Credit Losses: Measurement of Credit Losses on Financial Instruments”. This update requires an entity to recognize credit losses for many financial assets based on current expected credit loss model instead of existing incurred loss model. The new current expected credit loss model requires an entity to immediately recognize estimated credit losses expected to occur over the remaining life of the financial assets which are within the scope of this update. For all entities other than U.S. Securities and Exchange Commission (SEC) filers, this update was planned to be effective for annual reporting periods beginning after December 15, 2020, including interim periods within those reporting periods originally. In November 2019, FASB changed the effective date of this update and this update is effective for annual reporting periods beginning after December 15, 2022, including interim periods within those reporting periods. Early adoption is permitted. This update should be adopted under the modified-retrospective approach through a cumulative-effect adjustment to retained earnings at the beginning of the initial application period. Komatsu adopts this update from the fiscal year beginning on April 1, 2023. The adoption of this update is not expected to have a significant impact on Komatsu’s financial position and results of operations.

In September 2022, FASB issued ASU 2022-04 “Disclosure of Supplier Finance Program Obligations”. This update requires an entity that uses a supplier finance program in connection with the purchase of goods and services to disclose the key terms of the program, information about obligations outstanding at the end of the reporting period and a rollforward of those obligations during the reporting period. The amendments in this update to disclose the key terms of the program and information about obligations outstanding are effective for annual reporting periods beginning after December 15, 2022, including interim periods within those reporting periods. The amendment to disclose a rollforward of obligations is effective for annual reporting periods beginning after December 15, 2023. Komatsu adopts this update from the fiscal year beginning on April 1, 2023 and is currently considering the impact of this update on its disclosure information. The adoption of this update is not expected to have an impact on Komatsu’s financial position and results of operations.

(2) Views and issues analyzed/discussed with regard to the status of Results of Operations, etc. in the fiscal year ended March 31, 2023

(i) Views and issues analyzed/discussed with regard to the status of Komatsu's financial position and operating results

For the fiscal year ended March 31, 2023, consolidated net sales increased by 26.4% from the fiscal year ended March 31, 2022 to ¥3,543,475 million.

In the construction, mining and utility equipment business, demand for mining equipment increased, centering on North America and Asia. Komatsu worked to make its supply chain highly resilient to changes in the external environment, especially by capitalizing on cross-sourcing and strengthening multi-sourcing, and steadily capturing demand for new equipment. Sales increased from the fiscal year ended March 31, 2022, affected by increased parts sales and service revenues, improved selling prices in almost all regions of the world and the Japanese yen's depreciation. In the industrial machinery and others business, while sales of large presses mainly declined among presses, sheet-metal machines and machine tools for the automobile manufacturing industry, sales made a steady gain in the Excimer laser-related business against the backdrop of increasing demand for semiconductors worldwide. As a result, sales of this business increased from the fiscal year ended March 31, 2022.

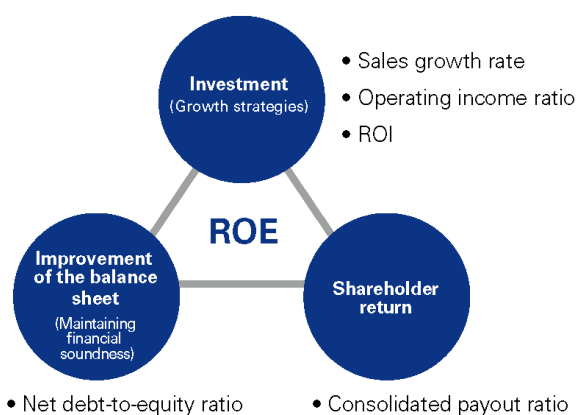
With respect to profits, operating income increased by 54.8% from the fiscal year ended March 31, 2022, to ¥490,685 million, reflecting improved selling prices and the Japanese yen's depreciation, which more than offset the adverse effects of increased prices of materials and logistics costs.

As of March 31, 2023, total assets increased by ¥528,325 million from March 31, 2022, to ¥4,875,847 million, as mainly affected by the Japanese yen's depreciation against the U.S. dollar from March 31, 2022, increased receivables and inventories. Interest-bearing debt increased by ¥106,382 million from March 31, 2022, to ¥1,053,762 million. Komatsu Ltd. shareholders' equity increased by ¥307,130 million from March 31, 2022, to ¥2,539,641 million. As a result, Komatsu Ltd. shareholders' equity ratio increased by 0.7 percentage points from March 31, 2022, to 52.1%.

(ii) Liquidity and Capital Resources

< Use of funds >

To strive for the sustainable increase of its corporate value, Komatsu are building a sound financial position and strengthen our competitiveness, which are resilient to changes in the external environment and market demand fluctuations. Komatsu also strives to engage in a well-balanced allocation of our funds to 1) investment for growth, 2) improvement of the balance sheet (maintaining financial soundness), and 3) shareholder return and monitors ROE (Return on Equity) which is a general index. We have set up ROE of 10% or higher as the management target, which is exceeded the cost of equity estimated. To expand equity spread (ROE – cost of shareholders' equity), Komatsu works to both improve ROE and reduce cost of shareholders' equity.



< Source of funds and liquidity management >

Komatsu's principal capital resources policy is to secure sufficient capital resources to be able to respond to future capital needs in connection with its operations and to maintain an appropriate level of liquidity. Consistent with this policy, Komatsu has secured various sources of funding, such as loans, corporate bonds, notes and lines of credit. Komatsu expects to use cash generated from its operations and funds procured through such external sources to satisfy future capital expenditures and working capital needs. In addition, in order to improve the efficiency and effectiveness of its cash management, Komatsu's overseas subsidiaries participate in a global cash management

system based on the agreement with financial institutions, which is used to fund their liquidity needs. Participating overseas subsidiaries are allowed to withdraw cash from these financial institutions up to the aggregate cash deposit balance made to such financial institutions. This agreement contains specific provisions for the right to offset positive and negative cash balances on a global basis. Komatsu's consolidated balance sheet as of March 31, 2023 reflects cash net of withdrawals of ¥265,627 million in this global cash management system.

Komatsu's short-term funding needs have been met mainly by cash flows from its operating activities, and if necessary, by bank loans and the issuance of commercial paper as well. As of March 31, 2023, the Company and certain consolidated subsidiaries maintained committed credit line agreements totaling ¥304,630 million with financial institutions to secure liquidity. As of March 31, 2023, ¥284,898 million was available to be used under such credit line agreements. In addition, the Company and Komatsu Finance America Inc. each has a commercial paper program. As of March 31, 2023, the program size of the Company is ¥220,000 million, ¥180,000 million of which was unused, and the program size of Komatsu Finance America Inc. is USD 1,100 million, USD 300 million of which was unused.

To fulfill Komatsu's medium- to long-term funding needs, the Company has established a bond program as well as a Euro Medium Term Note (hereinafter "EMTN") program. In November 2022, the Company's bond program was renewed so that it could issue up to ¥100,000 million of variable-term bonds within a two-year period. As of March 31, 2023, ¥100,000 million remains unused under this program. On the other hand, Komatsu also has ¥189,898 million aggregate principal amount of bonds outstanding under past program as of March 31, 2023. This includes a USD 600 million Sustainability-Linked Bonds (hereafter "SLBs") issued in October 2022 through Komatsu Finance America Inc. This was the first dollar-denominated SLBs which issued by a Japanese company to investors in North America, Asia, and Europe. In addition, the Company, Komatsu Finance America Inc. and Komatsu Europe Coordination Center N.V. have established a USD 2,200 million EMTN program. Any of these three issuer entities can issue notes in various currencies under the EMTN program which was agreed with EMTN dealers. The aggregate principal amount of notes outstanding as of March 31, 2023 under the EMTN program was ¥155,549 million.

Komatsu's short-term debt as of March 31, 2023 increased by ¥68,992 million to ¥310,738 million from March 31, 2022. This short-term debt primarily consisted of loans from banks, insurance companies and other financial institutions and such short-term debt was used primarily for working capital.

Komatsu's long-term debt, including debt with maturity dates on or before March 31, 2024, increased by ¥37,390 million to ¥743,024 million in the fiscal year ended March 31, 2023 as compared to the fiscal year ended March 31, 2022. As of March 31, 2023, Komatsu's long-term debt excluding market value adjustment, consisted of (1) ¥397,577 million in loans from banks, insurance companies and other financial institutions, (2) ¥189,898 million in unsecured bonds and (3) ¥155,549 million in EMTNs. Such long-term debt was used primarily for capital expenditures and long-term working capital needs.

As a result, Komatsu's interest-bearing debt as of March 31, 2023 increased by ¥106,382 million to ¥1,053,762 million as compared to March 31, 2022. Net interest-bearing debt after deducting cash and deposits increased by ¥133,077 million to ¥763,787 million in the fiscal year ended March 31, 2023. As a result, Komatsu's net debt-to-equity ratio, as of March 31, 2023 was 0.30, compared to 0.28 as of March 31, 2022.

At March 31, 2023, Komatsu's total current assets increased by ¥415,294 million to ¥2,836,575 million. Komatsu's total current liabilities increased by ¥47,640 million to ¥1,371,661 million. As a result, the current ratio, which is calculated by dividing current assets by current liabilities, as of March 31, 2023, was 206.8%, increased by 23.9 percentage points from the fiscal year ended March 31, 2022. Based on anticipated cash flows from its operating activities, the available sources of funds and the level of its current ratio, Komatsu believes that it has sufficient means to satisfy its liquidity needs and future obligations. As of March 31, 2023, Komatsu's total cash and cash equivalents was ¥289,975 million. Out of total cash and cash equivalents, ¥238,377 million was held outside of Japan in various overseas subsidiaries as of March 31, 2023.

Komatsu obtains credit ratings from three rating agencies: Standard and Poor's Ratings Services ("S&P"), Moody's Investors Service, Inc. ("Moody's") and Rating and Investment Information, Inc. ("R&I"). As of March 31, 2023, Komatsu's issuer ratings are as follows:

S&P: A (long-term), A-1 (short-term)

Moody's: A2 (long-term), Prime-1 (short-term)

R&I: AA- (long-term), a-1+ (short-term)

< Capital investment >

In the fiscal year ended March 31, 2023, with respect to the construction, mining and utility equipment operating segment, Komatsu made capital investments to enhance production efficiency and flexibility and to enhance its rental-to-used equipment business. With respect to the retail finance operating segment, Komatsu made capital investments for operating lease equipment. With respect to the industrial machinery and others operating segment, Komatsu made capital investments to increase production capability and to renew obsolete equipment. As a result, Komatsu's capital investments on a consolidated basis for the fiscal year ended March 31, 2023 increased by ¥13,801 million to ¥161,563 million from the fiscal year ended March 31, 2022.

< Tabular disclosure of contractual obligations >

The following table sets forth Komatsu's contractual obligations as of March 31, 2023.

| Millions of yen | | | | | |
|---|-----------------------------|---------------------|-----------|-----------|-------------------------|
| | Cash payments due by period | | | | |
| | Total | Less than 1 year | 1-3 years | 3-5 years | Greater than 5 years |
| Short-term debt obligations | ¥ 310,738 | ¥ 310,738 | ¥ — | ¥ — | ¥ — |
| Long-term debt obligations | 743,024 | 176,835 | 355,068 | 192,539 | 18,582 |
| Operating lease obligations | 74,853 | 19,212 | 17,911 | 8,365 | 29,365 |
| Interest on interest bearing debt | 73,937 | 28,772 | 32,138 | 12,599 | 428 |
| Liability for pension and other retirement benefits | 4,698 | 4,698 | — | — | — |
| Total | ¥ 1,207,250 | ¥ 540,255 | ¥ 405,117 | ¥ 213,503 | ¥ 48,375 |

Notes:

- 1) With respect to long-term debt obligations, there is no market value adjustment.
- 2) Interest on interest-bearing debt is based on rates in effect as of March 31, 2023.
- 3) Liability for pension and other retirement benefits reflects contributions expected to be made during the fiscal year ending March 31, 2024 only, as the amounts of contributions beyond the next fiscal year are not yet determinable.

Commitments for capital investment outstanding at March 31, 2023 aggregated approximately ¥25,100 million.

(iii) Views and issues analyzed/discussed with regard to the status of financial position and operating results by operating segment

<Construction, Mining and Utility Equipment operating segment>

Net sales of the construction, mining and utility equipment business increased by 28.6% from the fiscal year ended March 31, 2022 to ¥3,296,566 million.

Concerning the “Accelerate growth by means of innovation” strategy, one of the growth strategies in the mid-term management plan, Komatsu steadily advanced the deployment of its Autonomous Haulage System (AHS), increasing the total number of AHS mining trucks in operation to 643 units as of March 31, 2023. Komatsu concerted efforts to advance remote control of construction equipment, developed a new system for medium-sized hydraulic excavators, and began supplying it to customers in March this year. To achieve carbon neutrality and especially, in the area of electrification of construction equipment, Komatsu promoted joint developments with its partners and focused efforts for the development and early market introduction of different models, including the “PC05E-1” electric micro excavator. At the “CONEXPO-CON/AGG 2023” international construction machinery trade fair held in March this year, Komatsu exhibited, for the first time, chargers with a battery capacity, which enable charging in environments without a power supply. Komatsu also continued R&D efforts for new power sources, such as fuel cells and hydrogen engines. At the same time, as a way of capitalizing on “bridge technology” until new technologies are developed, Komatsu promoted a shift of factory-fill fuel from diesel oil to hydrotreated vegetable oil (HVO) which is expected to achieve a substantial reduction of CO₂ emissions for Komatsu equipment produced in Europe.

For the “Maximize earnings power” strategy, Komatsu promoted sales expansion of the “PC200-10M0” CE series hydraulic excavators which feature optimal specs for exclusive use in urban civil engineering work under the 2-model line strategy in Asia. Along with sales expansion in Asia, Komatsu began to launch the same models in Latin America. Komatsu also steadily expanded the extended warranties with maintenance plans by leveraging its strength of in-house development and production of key components, thereby facilitating differentiation through the lifecycle support business.

Regarding the “Enhance corporate resilience” strategy, Komatsu stepped up its efforts to strengthen the competitiveness of its Chinese manufacturing subsidiaries as global cross-sourcing bases through rationalization by consolidating its subsidiaries, including those which Komatsu made wholly owned last year. Komatsu also worked to streamline development by integrating R&D functions for automation, autonomous operation, remote control, and other technologies in a new development building on the premises of the Shonan plant.

Net sales to outside customers of construction, mining and utility equipment by region for the fiscal years ended March 31, 2023 and 2022 are as follows:

| | Millions of yen | | | | |
|---|-----------------|------------------|------|-----------|--------------------------------|
| | 2023 | | 2022 | | Changes Increase (Decrease) |
| Japan | ¥ | 321,746 | ¥ | 303,628 | ¥ 18,118 6.0% |
| The Americas | | | | | |
| North America | | 864,912 | | 590,695 | 274,217 46.4% |
| Latin America | | 545,072 | | 395,885 | 149,187 37.7% |
| Total | | 1,409,984 | | 986,580 | 423,404 42.9% |
| Europe & CIS | | | | | |
| Europe | | 314,008 | | 239,294 | 74,714 31.2% |
| CIS | | 120,206 | | 184,483 | (64,277) (34.8%) |
| Total | | 434,214 | | 423,777 | 10,437 2.5% |
| China | | 79,690 | | 96,416 | (16,726) (17.3%) |
| Asia (excluding Japan and China) and Oceania | | | | | |
| Asia (excluding Japan and China) | | 461,613 | | 295,431 | 166,182 56.3% |
| Oceania | | 316,161 | | 263,436 | 52,725 20.0% |
| Total | | 777,774 | | 558,867 | 218,907 39.2% |
| Middle East & Africa | | | | | |
| Middle East | | 86,300 | | 53,874 | 32,426 60.2% |
| Africa | | 177,015 | | 135,708 | 41,307 30.4% |
| Total | | 263,315 | | 189,582 | 73,733 38.9% |
| Consolidated | ¥ | 3,286,723 | ¥ | 2,558,850 | ¥ 727,873 28.4% |

Komatsu's operations by region are described below.

Japan

While demand for new equipment decreased from the fiscal year ended March 31, 2022 in both public works and private-sector construction, sales increased from the fiscal year ended March 31, 2022, mainly supported by increased sales of new equipment and improved selling prices.

The Americas

In North America, while demand for construction equipment decreased in the housing sector due to increasing interest rates, it remained strong in the rental industry and infrastructure development, and also continued to grow in the energy-related sector. In addition, demand for mining equipment increased. Supported also by improved selling prices and the Japanese yen's depreciation, sales made a gain from the fiscal year ended March 31, 2022. In Latin America, while demand for construction equipment has slowed down since the third quarter, demand for mining equipment remained steady. Reflecting increased parts sales and service revenues of mining equipment, improved selling prices and the Japanese yen's depreciation, sales increased from the fiscal year ended March 31, 2022.

Europe and CIS

In Europe, while the markets experienced surging energy prices, sales of construction equipment increased, centering on the major markets of Germany, the United Kingdom, and France, against the backdrop of improving supply chain conditions. Sales expanded from the fiscal year ended March 31, 2022, mainly supported by improved selling prices. In CIS, sales decreased from the fiscal year ended March 31, 2022, as affected by the restrictions in the supply chain, as well as financial and economic conditions resulting from the situation in Ukraine.

China

Demand remained slack, as affected by stagnant economic activities resulting especially from the zero-COVID policy. Sales decreased from the fiscal year ended March 31, 2022.

Asia and Oceania

In Asia, demand for equipment in coal and nickel mines was brisk in Indonesia, and that for construction equipment was also steady, centering on the Philippines, Vietnam, and Malaysia. As a result, sales increased from the fiscal year ended March 31, 2022. In Oceania, demand for mining and construction equipment remained steady. Reflecting increased parts sales and service revenues and the Japanese yen's depreciation, sales increased from the fiscal year ended March 31, 2022.

Middle East and Africa

In the Middle East, sales increased from the fiscal year ended March 31, 2022, supported by brisk demand for construction equipment due mainly to projects in Saudi Arabia, the United Arab Emirates, and other oil-producing countries. In Africa, sales increased from the fiscal year ended March 31, 2022, supported by increased demand for mining equipment mainly in southern Africa.

Segment assets as of March 31, 2023 increased by ¥351,520 million to ¥3,513,355 million from March 31, 2022.

Production scale for the construction, mining and utility equipment operating segment increased by 31.8% from the fiscal year ended March 31, 2022 to approximately ¥3,578.0 billion (based on sales prices on a consolidated basis) mainly because demand for mining equipment was strong.

<Retail Finance operating segment>

New contracts increased, reflecting the Japanese yen's depreciation and sales growth of construction and mining equipment. Although sales of some used equipment, for which their lease agreement was cancelled, were recorded in the fiscal year ended March 31, 2022, sales increased by 19.2% from the fiscal year ended March 31, 2022 to ¥85,630 million.

Segment assets as of March 31, 2023 increased by ¥140,197 million to ¥1,121,107 million from March 31, 2022.

<Industrial Machinery and Others operating segment>

Sales of the Excimer laser-related business remained strong, supported by increasing demand for semiconductors worldwide. With respect to presses, sheet-metal machines, and machine tools for the automobile manufacturing industry, sales of large presses declined in particular. As a result, sales increased by 1.4% from the fiscal year ended March 31, 2022 to ¥190,941 million.

Segment assets as of March 31, 2023 increased by ¥14,462 million to ¥220,743 million from March 31, 2022.

Production scale for the industrial machinery and others operating segment increased by 23.8% from the fiscal year ended March 31, 2022 to approximately ¥212.2 billion (based on sales prices on a consolidated basis).

(iv) Status of achievement of target management indices, etc.

The targets of our three-year mid-term management plan (ending March 31, 2025) and FY2022 results are as follows.

| Item | Index | Target | FY2022 Results |
|-------------------------|--|---|--|
| Growth | Sales growth rate | Growth rate above the industry's average | +26.4% |
| Profitability | Operating profit ratio | An Industry's top-level profit ratio | 13.8% |
| Efficiency | ROE ^{*1} | 10% or higher | 13.7% |
| Financial position | Net debt-to-equity ratio ^{*2} | Industry's top-level financial position | 0.30 |
| Retail finance business | ROA ^{*3} | 1.5% to 2.0% | 2.6% |
| | Net debt-to-equity ratio ^{*2} | 5 times or less | 3.77 |
| ESG | Reduction of environmental impact | <ul style="list-style-type: none"> •CO₂ emissions: Decrease by 50% in 2030 from 2010 Become carbon neutral by 2050 (Challenging goal) •Renewable energy use: Increase to 50% of total energy use in 2030 | <ul style="list-style-type: none"> •CO₂ reduction through product use: 21% decrease (expected). •CO₂ reduction through production: 42% decrease (expected). •Renewable energy use : 17% (expected). |
| | Evaluation by external organizations | <ul style="list-style-type: none"> •Selected for DJSI^{*4} (World & Asia Pacific) •Selected for CDP^{*5} A-list (Climate Changes and Water Risk) | <ul style="list-style-type: none"> •DJSI^{*4}: Selected. •CDP^{*5}: Scored of Climate Changes A. •CDP^{*5}: Scored of Water Risk A. |
| Shareholder return | •Consolidated payout ratio | <ul style="list-style-type: none"> •Keep a fair balance between investment for growth and shareholder return (including stock buyback), while placing main priority on growth investment •40% or more | 40.3% |

Notes:

*1 ROE = Net income attributable to Komatsu Ltd. for the year / [(Komatsu Ltd. shareholders' equity at the beginning + Komatsu Ltd. shareholders' equity at the end of the fiscal year) / 2]

*2 Net debt-to-equity ratio = (Interest-bearing debt – Cash and cash equivalents – Time deposits) / Komatsu Ltd. shareholders' equity

*3 ROA = Segment profit / [(total assets at the beginning + total assets at the end of the fiscal year) / 2]

*4 Dow Jones Sustainability Indices: ESG investment indices of S&P Dow Jones Indices LLC of the United States

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

5. Material Agreements, etc.

Not applicable.

6. Research and Development Activities

With commitment to providing “Quality and Reliability,” Komatsu is actively promoting research and development activities for new technologies and new products in the fields of construction, mining and utility equipment, industrial machinery and others.

With respect to the structure of Komatsu’s research and development, the Office of Chief Technology Officer (CTO), research and development departments of the Development Division of the Company, which focus on construction, mining and utility equipment and the technology departments of the Company’s subsidiaries and affiliates participate in its research and development activities. The total amount of research and development expenses for the fiscal year ended March 31, 2023 was ¥90,628 million. The objectives, results and expenses of the research and development activities by operating segment are described below.

(1) Construction, Mining and Utility Equipment

In order to efficiently develop construction, mining and utility equipment that can be used in various locations of the world, Komatsu has established research and development departments in Japan and overseas, which constitute a framework for global development, and also encourages joint research and development programs and personnel exchanges. Mainly through the Office of CTO, Komatsu is also proactively cooperating and collaborating, to create innovations, with Japanese and overseas universities, research institutes, and companies that have cutting-edge technologies in promising fields and striving to accelerate technological innovation achieved by merging core Komatsu technologies with external insight (Open innovation). Komatsu is pursuing following medium- and long-term research and development objectives intended to realize the safe, highly productive, smart and clean workplace of the future together with our customers.

<ICT (Information Communication Technology)>

Komatsu promotes the research and development activities of ICT (including remote management of equipment by obtaining information regarding machine locations, operating conditions and vehicle health using state-of-the-art remote sensing and telecommunication technologies), control technology and intelligent machine technology.

Equipment with control systems and management systems Komatsu developed using these technologies has been rapidly penetrating in the market and contributing to productive operation and management of equipment. Through use of such technologies as ICT-intensive construction and “KOMTRAX”, of which 722,637 units have been distributed as of March 31, 2023, Autonomous Haulage System (AHS), increasing the total number of AHS mining trucks in operation to 643 units as of March 31, 2023, Komatsu is progressing “customer-perspective-oriented” activities towards research and development of new generation products.

Komatsu has developed an intelligent mechanically controlled bulldozer and excavator, and further expanded its application with the Retrofit Kit, by which constructions were made automated, and more precise and more efficient operation was realized. In addition, Komatsu expanded the areas and scale of the deployment of service business, “SMARTCONSTRUCTION”, that provides solutions to various problems of construction sites and realizes “Jobsite of the future”. By utilization of precision surveying technologies and connection of all information on construction sites by ICT, “SMARTCONSTRUCTION” makes it possible to improve customer’s productivities and safety on construction site.

For construction worksites, Komatsu is going to promote “LANDLOG”, our open platform which deals with digital transformation needs, upgrade ICT-intensive construction equipment for autonomous and collaborative operations, and develop construction simulations designed to take full advantage of our manufacturing engineering expertise and to optimize construction.

For agricultural and forestry workplaces, Komatsu is proposing “smart forestry” which aims to streamline the entire process of forestry through know-how from “SMARTCONSTRUCTION”, and will be working to commercialize agriculture-specific ICT-intensive construction equipment.

<Environmental Friendliness, Resource Saving and Safety>

As the Corporate Principle under Komatsu Earth Environment Policy, Komatsu is committed to develop and manufacture products for customer satisfaction with both well-environmental performance and economic efficiency. Komatsu is striving to minimize the impact on the environment throughout the product’s life cycle from production to disposal and recycle, while at the same time, aiming for innovation in economically superior products with improved fuel consumption.

Komatsu is placing special emphasis on research and development activities related to technologies improving fuel consumptions, which relates to both the environment (by reducing CO₂ emissions) and the economy (by decreasing fuel expenses). Hybrid hydraulic excavators have been launched first in Japan, and later in China, North America,

Europe, and other parts of the world. Accumulated number of introduced units has achieved 5,535 as of March 31, 2023.

Construction machinery with clean diesel engines that meet the world's strict emission standards is on the market. Komatsu is actively working to reduce the amount of materials that place burdens on the environment. Komatsu considers not only the earth environment but also the human environment and is proactively working to make further improvements to the working conditions of machine operators by enhancing safety measures (“KomVision Human Detection and Collision Mitigation System”, “Collision Detection Alarm System”) and reducing noise and vibration levels of its machines.

As for electrification, we exhibited a fully electric wheel loader concept machine, a 3-ton class electric mini excavator, and a 20-ton class electric hydraulic excavator at the construction equipment trade show (bauma 2022, CONEXPO-CON/AGG 2023).

The principal products developed and launched to the market in the construction, mining and utility equipment operating segment during the fiscal year ended March 31, 2023 are listed below:

| Product | Model |
|--------------------------|---|
| Hydraulic Excavators | PC78US-11, PC200/200LC-11M0, PC210/PC225LC/PC235HD-11M0, PC240-11M0, PC260LC-11M0, PC300/PC350/PC360-8M2, PC330/330LC-11M0, PC360-11M0, PC375LC-11M0, PC520LC-11M0, PC550LC-11M0, PC650LC-11M0, PC700LC-11M0, PC950-11, PC5500-11 |
| ICT Hydraulic Excavators | PC490LCI-11 |
| Wheel Loaders | WA470-8M0 |
| Motor Graders | GD535-6, GD955-7 |
| Utilities | SK715-8E0, SK815-8E0/SK820-8E0 |
| Forklifts | FE25G-2, FE30G-2 |
| Crawler Careers | CD110R-3 |

The total amount of research and development expenses in the construction, mining and utility equipment operating segment for the fiscal year ended March 31, 2023 was ¥81,176 million.

(2) Industrial Machinery and Others

The Company and some of subsidiaries belonging to the Industrial Machinery and Others operating segment take in charge of research and development in the fields of metal forging and stamping presses, sheet metal machines, machine tools and others.

In the industrial machinery business, Komatsu has been promoting the provision of solutions that solve customers' problems, and in August 2022 Komatsu obtained DX certification from the Ministry of Economy, Trade and Industry. Komatsu has expanded sales of predictive maintenance systems that avoid sudden press line stoppages, and the cumulative number of contract lines in Japan, China and the United States has reached 30 lines, which is the KPI for the fiscal year ended March 31, 2023. In addition, “Sanki-Komtrax” usage monitor functions for stamping presses such as forming load monitoring, peak load trend monitoring and auto time study have been installed as standard on new machines. And for retrofitting, these are sold by renewing the controller as a set. Furthermore, LTV (Life Time Value) has been improved by offering a campaign that waives installation fees for customers who select various optional contents for 4G switching of the communication modems used at “Sanki-Komtrax” for industrial machinery.

In sheet metal machinery business, we have launched the “TWCL” series, the industry's first fiber laser processing machine that can cut shapes underwater. In general, fiber laser processing machines require covering the entire surface of the machine with a cover or the like for safe operation due to the risk of exposure to skin and observation of diffuse reflection. This machine has achieved laser safety class 1 by dimming the laser beam during cutting using a method originally developed by Komatsu Industries Corporation. This eliminates the need for a machine cover, improving workability such as loading and unloading steel plates and products. In addition, laser cutting in water

reduces the temperature rise of the steel sheet, reducing cutting defects caused by heat and improving yield. With these, we have been able to contribute to improving the quality at the customer's site and realizing carbon neutrality compared to conventional fiber laser processing machines. In addition, Komatsu has also released the press brake “PVS” with larger size touch panel. The screen size has been increased from the conventional 15-inch to 21.5-inch, increasing the amount of information on one screen. In addition, operability has been improved, such as the number of operations for die change operation was reduced from 8 times to 2 times by reviewing the workflow.

In the machine tool business, Komatsu introduced the “CX500” 5-axis machining center that meets flexible production needs. Along with the “CX500”, Komatsu developed and introduced a monitoring device, the “Komtas”, that can monitor the real-time status of tools.

In the others business, Komatsu enhanced its activities, excimer laser for semiconductor lithography system, EUV light source, and semiconductor package substrate ablation, precise temperature control equipment and high-performance thermoelectric heat exchange units for semiconductor manufacturing, micro thermo-modules for use in high speed optical communications, and thermoelectric power generation modules and its systems.

The total amount of research and development expenses in the industrial machinery and others operating segment for the fiscal year ended March 31, 2023 was ¥9,452 million.

Item 3. Property, Plants and Equipment

1. Overview of Capital Investment

Komatsu (the Company and its consolidated subsidiaries) invests capital each year in the development and production of new products and the improvement of the operating efficiency of its production infrastructure, primarily focusing on the construction, mining and utility equipment operating segment. Capital investment (acquisition basis excluding consumption taxes, etc.) for the fiscal year ended March 31, 2023 by operating segment is as follows:

| Operating segment | Capital investment amount (Millions of yen) | Changes from previous fiscal year |
|--|--|--------------------------------------|
| Construction, Mining and Utility Equipment | 120,447 | 4.4% |
| Retail Finance | 33,543 | 21.7% |
| Industrial Machinery and Others | 7,573 | 56.7% |
| Total | 161,563 | 9.3% |

With respect to the construction, mining and utility equipment operating segment, Komatsu made capital investments to enhance production efficiency and flexibility and to enhance its rental-to-used equipment business. With respect to the retail finance operating segment, Komatsu made capital investments for operating lease equipment.

With respect to the industrial machinery and others operating segment, Komatsu made capital investments to increase production capability and to renew obsolete equipment.

2. Major Facilities

Major facilities of Komatsu are as follows:

(1) The Company

(As of March 31, 2023)

| Name and location | Operating segment | Facilities & equipment | Book value (Millions of yen) | | | | | Number of employees |
|--|---|---|------------------------------|------------------------|-------------------------------|--------|--------|---------------------|
| | | | Buildings | Machinery and vehicles | Land (Thousand square meters) | Others | Total | |
| Awazu Plant Komatsu, Ishikawa | Construction, Mining and Utility Equipment, Industrial Machinery and Others | Manufacturing of bulldozers, hydraulic excavators, wheel loaders, motor graders, ammunition, etc. | 15,347 | 7,990 | 2,756 (646) | 1,843 | 27,937 | 2,257 |
| Kanazawa Plant Kanazawa, Ishikawa | Construction, Mining and Utility Equipment, Industrial Machinery and Others | Manufacturing of hydraulic excavators, metal forging and stamping presses, sheet-metal machines, etc. | 3,577 | 783 | 1,240 (97) | 359 | 5,960 | 361 |
| Himi Plant Himi, Toyama | Construction, Mining and Utility Equipment | Manufacturing of steel castings, iron castings, patterns for casting | 7,409 | 5,390 | 2,350 (453) | 2,356 | 17,507 | 861 |
| Osaka Plant Hirakata, Osaka *1 | Construction, Mining and Utility Equipment | Manufacturing of bulldozers, hydraulic excavators, recycling equipment, etc. | 18,208 | 9,155 | 4,236 (542) | 1,323 | 32,925 | 2,223 |
| Shiga Plant Ryuou-cho, Gamou-gun, Shiga | Construction, Mining and Utility Equipment | Manufacturing of cabs (operator cabins), engine after treatment equipment | 2,171 | 1,409 | 992 (52) | 76 | 4,649 | 374 |
| Ibaraki Plant Hitachinaka, Ibaraki | Construction, Mining and Utility Equipment | Manufacturing of dump trucks, wheel loaders, etc. | 8,041 | 2,423 | 10,838 (338) | 1,207 | 22,510 | 830 |
| Shonan Plant Hiratsuka, Kanagawa | Construction, Mining and Utility Equipment | Manufacturing of controllers, monitors, hybrid components, etc. | 5,865 | 689 | 2,214 (68) | 366 | 9,135 | 783 |
| Oyama Plant Oyama, Tochigi | Construction, Mining and Utility Equipment | Manufacturing of engines, hydraulic equipment, etc. | 17,719 | 12,324 | 584 (584) | 3,423 | 34,052 | 1,965 |

| Name and location | Operating segment | Facilities & equipment | Book value (Millions of yen) | | | | | Number of employees |
|------------------------------------|--|--|------------------------------|------------------------|-------------------------------|--------|-------|---------------------|
| | | | Buildings | Machinery and vehicles | Land (Thousand square meters) | Others | Total | |
| Tochigi Plant Oyama, Tochigi | Construction, Mining and Utility Equipment | Manufacturing of industrial vehicles, hydraulic excavators, etc. | 4,208 | 1,190 | 2,779 (214) | 310 | 8,488 | 561 |
| Koriyama Plant Koriyama, Fukushima | Construction, Mining and Utility Equipment | Manufacturing of hydraulic equipment | 2,189 | 2,090 | 876 (369) | 276 | 5,432 | 380 |
| Head office Minato-ku, Tokyo | - | Others | 1,435 | 106 | 1,179 (2) | 570 | 3,291 | 1,134 |

*1 Osaka Plant's book value and employees include those of the Rokko Plant, Kobe, Hyogo.

(2) Subsidiary located in Japan

(As of March 31, 2023)

| Name and location | Operating segment | Facilities & equipment | Book value (Millions of yen) | | | | | Number of employees |
|--------------------------------|---------------------------------|--|------------------------------|------------------------|-------------------------------|--------|--------|---------------------|
| | | | Buildings | Machinery and vehicles | Land (Thousand square meters) | Others | Total | |
| Komatsu NTC Ltd. Nanto, Toyama | Industrial Machinery and Others | Manufacturing of machine tools, industrial machinery, etc. | 4,454 | 1,198 | 4,345 (234) | 367 | 10,364 | 1,154 |

(3) Subsidiaries located in overseas

(As of March 31, 2023)

| Name and location | Operating segment | Facilities & equipment | Book value (Millions of yen) | | | | | Number of employees |
|---|--|---|------------------------------|------------------------|-------------------------------|--------|--------|---------------------|
| | | | Buildings | Machinery and vehicles | Land (Thousand square meters) | Others | Total | |
| Komatsu America Corp. Chattanooga, U.S.A. | Construction, Mining and Utility Equipment | Manufacturing of hydraulic excavators, etc. | 755 | 1,774 | 264 (215) | 1,022 | 3,815 | 322 |
| Komatsu America Corp. Peoria, U.S.A. | Construction, Mining and Utility Equipment | Manufacturing of dump trucks | 3,061 | 3,413 | — (529) | 1,825 | 8,299 | 774 |
| Hensley Industries, Inc. Dallas, U.S.A. | Construction, Mining and Utility Equipment | Manufacturing of construction and mining equipment components | 1,738 | 1,470 | 527 (104) | 667 | 4,402 | 434 |
| Joy Global Surface Mining Inc Milwaukee, U.S.A. | Construction, Mining and Utility Equipment | Manufacturing of rope shovel, etc. | 8,830 | 6,006 | 2,798 (229) | 27,023 | 44,657 | 1,001 |
| Joy Global Longview Operations LLC Longview, U.S.A. | Construction, Mining and Utility Equipment | Manufacturing of wheel loaders, etc. | 8,372 | 2,547 | 1,246 (518) | 2,426 | 14,591 | 642 |
| Komatsu do Brasil Ltda. Suzano, Brazil | Construction, Mining and Utility Equipment | Manufacturing of bulldozers, hydraulic excavators, etc. | 1,884 | 2,451 | 19 (634) | 1,471 | 5,825 | 1,172 |
| Komatsu UK Ltd. Birtley, U.K. | Construction, Mining and Utility Equipment | Manufacturing of hydraulic excavators, etc. | 999 | 1,722 | — (200) | 31 | 2,752 | 355 |
| Komatsu Germany GmbH Dusseldorf, Germany | Construction, Mining and Utility Equipment | Manufacturing of hydraulic excavators | 2,166 | 2,728 | 1,257 (111) | 1,126 | 7,277 | 723 |

| Name and location | Operating segment | Facilities & equipment | Book value (Millions of yen) | | | | | Number of employees |
|--|---|---|------------------------------|------------------------|-------------------------------|--------|--------|---------------------|
| | | | Buildings | Machinery and vehicles | Land (Thousand square meters) | Others | Total | |
| Komatsu Germany GmbH Hannover, Germany | Construction, Mining and Utility Equipment | Manufacturing of wheel loaders, etc. | 2,614 | 1,067 | 530 (154) | 1,716 | 5,927 | 712 |
| Komatsu Italia Manufacturing S.p.A. Este, Italy | Construction, Mining and Utility Equipment | Manufacturing of hydraulic excavators, backhoe loaders, etc. | 1,578 | 974 | 408 (144) | 15 | 2,975 | 286 |
| Komatsu Forest AB Umea, Sweden | Construction, Mining and Utility Equipment | Manufacturing of forestry equipment | 5,395 | 4,586 | 224 (133) | 73 | 10,278 | 651 |
| Komatsu (Changzhou) Construction Machinery Corp. Jiangsu, China *2 | Construction, Mining and Utility Equipment | Manufacturing of hydraulic excavators, wheel loaders, etc. | 6,426 | 1,607 | — (—) [295] | 1,950 | 9,983 | 434 |
| Komatsu Machinery Manufacturing (Shandong) Co. Ltd. Shandong, China *2 | Construction, Mining and Utility Equipment | Manufacturing of hydraulic excavators | 4,538 | 2,461 | — (—) [411] | 140 | 7,139 | 664 |
| Komatsu (Shandong) Construction Machinery Corp. Shandong, China *2 | Construction, Mining and Utility Equipment | Manufacturing of construction and mining equipment components, etc. | 1,954 | 3,343 | — (—) [210] | 251 | 5,548 | 678 |
| PT Komatsu Indonesia Jakarta, Indonesia | Construction, Mining and Utility Equipment | Manufacturing of hydraulic excavators, bulldozers and dump trucks, etc. | 2,790 | 2,740 | 4,246 (305) | 486 | 10,262 | 1,269 |

| Name and location | Operating segment | Facilities & equipment | Book value (Millions of yen) | | | | | Number of employees |
|--|--|---|------------------------------|------------------------|-------------------------------|--------|-------|---------------------|
| | | | Buildings | Machinery and vehicles | Land (Thousand square meters) | Others | Total | |
| PT Komatsu Undercarriage Indonesia Bekasi, Indonesia | Construction, Mining and Utility Equipment | Manufacturing of construction and mining equipment components | 1,335 | 1,819 | 624 (64) | 279 | 4,057 | 757 |
| Bangkok Komatsu Co., Ltd. Chonburi, Thailand | Construction, Mining and Utility Equipment | Manufacturing of hydraulic excavators, iron castings, etc. | 1,029 | 1,070 | 1,660 (179) | 34 | 3,793 | 856 |
| Komatsu India Pvt. Ltd Kanchipuram, India *2 | Construction, Mining and Utility Equipment | Manufacturing of hydraulic excavators, dump trucks, etc. | 2,493 | 1,419 | — (—) [240] | 80 | 3,992 | 579 |

*2 These companies rent the land for their operation. The figures in square brackets in the “Land” represent areas of rented land, which are not included in the figures immediately above.

Note: The amount of “Others” is the total of tools, furniture and fixtures and construction in progress. These amounts in the above table do not include consumption taxes, etc.

3. Plans for Capital Investment, Disposal of Property, Plants and Equipment, etc.

(1) Capital investment

Komatsu has not decided any detail plans of capital investment for individual projects at the end of fiscal year ended March 31, 2023, because Komatsu operates its various types of business all over the world. Therefore, Komatsu discloses capital investment amounts by operating segment.

Komatsu plans to make capital investments of ¥175,000 million in the fiscal year ending March 31, 2024 (acquisition basis excluding consumption taxes, etc.), and the principal investment objectives and the sources of funding by operating segment are set forth in the table below.

| Operating segment | Approximate expected capital investment amount (Millions of yen) | Principal investment detail and objectives | Sources of funding |
|--|---|---|--------------------------------------|
| Construction, Mining and Utility Equipment | 130,000 | To enhance production efficiency and flexibility | Funds on hand, bank borrowings, etc. |
| Retail Finance | 37,000 | Operating lease equipment | Funds on hand, bank borrowings, etc. |
| Industrial Machinery and Others | 8,000 | To increase production capability and to renew obsolete equipment | Funds on hand, bank borrowings, etc. |
| Total | 175,000 | | |

Item 4. Information on the Company

1. Information on the Company's Share, etc.

(1) Total number of shares, etc.

(i) Total number of shares

| Class | Total number of shares authorized to be issued (Shares) |
|---------------|---|
| Common shares | 3,955,000,000 |
| Total | 3,955,000,000 |

(ii) Issued shares

| Class | Number of issued shares at the end of the fiscal year (March 31, 2023) (Shares) | Number of issued shares as of the filing date (June 20, 2023) (Shares) | Name of stock exchange on which the Company is listed or names of authorized financial instruments firms associations | Description |
|---------------|---|--|---|--|
| Common shares | 973,450,930 | 973,450,930 | Tokyo Stock Exchange Prime Market | This is the standard of the Company's shares, whose holders have unlimited rights. The number of shares constituting one unit is 100 shares. |
| Total | 973,450,930 | 973,450,930 | — | — |

(2) Stock acquisition rights, etc.

(i) Stock option plans

Although the Company had issued Stock Acquisition Rights as remuneration to its Directors and without consideration to its employees, etc. in accordance with the Companies Act of Japan, it did not issue new Stock Acquisition Rights as it introduced restricted stock compensation system in the fiscal year 2018.

Stock Acquisition Rights issued without consideration for certain employees of the Company, etc., in accordance with the Companies Act of Japan are as follows:

| | | |
|--|---|---------------|
| Date of resolution | Ordinary General Meeting of Shareholders | June 24, 2015 |
| | Meeting of the Board of Directors | July 10, 2015 |
| Category and number of individuals covered by the plan | Employees of the Company: 73 Representative Directors of major subsidiaries of the Company: 11 | |
| Number of Stock Acquisition Rights (Units)* | 110 *1 | |
| Class of shares subject to Stock Acquisition Rights* | Common stock | |
| Number of shares subject to Stock Acquisition Rights (Shares)* | 11,000 *2 | |
| Amount to be paid in to exercise Stock Acquisition Rights* | ¥1 per share | |
| Period for exercising Stock Acquisition Rights* | From August 3, 2018 to July 31, 2023 | |
| Share issue price and additional paid-in capital per share in the event of issuance of shares upon exercise of Stock Acquisition Rights* | Issue price | ¥1 *3 |
| | Additional paid-in capital per share | ¥1 |
| Conditions for exercising the Stock Acquisition Rights* | If a holder of Stock Acquisition Rights who is a Director, Audit & Supervisory Board Member, or employee of the Company, or Director, Audit & Supervisory Board Member, or employee of a subsidiary or affiliate of the Company, loses all their respective status set above, that person is able to exercise the Stock Acquisition Rights only within three (3)year period from the date they lost such position; provided, however, that the period shall not exceed the original exercise period for the Stock Acquisition Rights described above, and other terms and conditions concerning the exercise of Stock Acquisition Rights shall be decided at the contracts to be executed by and between the Company and the holders of the Stock Acquisition Rights. | |
| Transfer of the Stock Acquisition Rights* | Acquisition of the Stock Acquisition Rights by transfer shall be required to be approved by the resolution of the Company's Board of Directors. | |
| Matters relating to grants of Stock Acquisition Rights in association with organizational restructuring actions* | *4 | |

*These items indicate the status as of the end of the fiscal year (March 31, 2023). The items which were changed between the end of the fiscal year and the end of month previous to the filing month (May 31, 2023) are indicated in the bracket “[]”. Other items have not been changed since the end of the fiscal year.

Notes:

1. The number of shares subject to one Stock Acquisition Right shall be 100 shares.
2. If the Company effects a stock split of its common stock (including allotment of its common stock to shareholders without consideration; the same applies hereinafter) or effects a stock consolidation, the number of shares granted subject to one Stock Acquisition Right shall be adjusted proportionately, in accordance with

the ratio of the stock split or the stock consolidation in question. Also, if it is necessary to adjust the number of shares granted after June 24, 2015 for other reasons than the aforementioned, the Company shall properly adjust the number of shares granted in connection with the aforementioned Stock Acquisition Rights to the extent reasonable. Fractions of less than one share resulting from the foregoing adjustment shall be rounded down.

3. If the Stock Acquisition Rights are exercised, new shares shall not be issued, but treasury stock shall be allotted.
4. Policy for decision on extinguishment of Stock Acquisition Rights in organizational restructuring and details of granting Stock Acquisition Rights of reorganized company

In the event where the Company engages in any merger (limited to a case where the Company ceases to exist as a result of the merger), a corporate split in which a division of the Company is merged into an existing company, a corporate split in which a division of the Company is spun off to establish a new company (for both, limited to cases where the Company is split up), or an exchange or transfer of shares (for both, limited to cases where the Company becomes a wholly-owned subsidiary) (collectively “Restructuring Actions”), each person holding the remaining Stock Acquisition Rights at the time the Restructuring Actions take effect (hereinafter “Remaining Stock Acquisition Rights”) shall respectively be granted the Stock Acquisition Rights of the relevant stock companies set forth in Article 236, Paragraph 1, Item 8 (a) through (e) inclusive of the Companies Act of Japan (hereinafter “Reorganized Company”). In this event, the Remaining Stock Acquisition Rights shall become null and void and the Reorganized Company shall issue new Stock Acquisition Rights. However, the new Stock Acquisition Rights shall be granted, only if provisions for granting them in accordance with the following items are included as conditions in a merger agreement (in which the Company is merged into a Reorganized Company or a Reorganized Company is established as the result of the merger), a corporate split agreement (in which a division of the Company is merged into a Reorganized Company), a plan for a corporate split (in which a division of the Company is spun off to establish a Reorganized Company), a share exchange agreement, or a plan for transfer of shares (in both of which the Company becomes a fully-owned subsidiary of a Reorganized Company).

- (1) Number of the Stock Acquisition Rights of a Reorganized Company to be granted

Each holder of the Remaining Stock Acquisition Rights shall be granted the Stock Acquisition Rights of the Reorganized Company of which the number is equivalent to the number of such Rights held by such holder at the time the Restructuring Actions take effect.

- (2) Class of shares of the Reorganized Company subject to the Stock Acquisition Rights

The class of shares subject to the Stock Acquisition Rights shall be the common stock of the Reorganized Company.

- (3) Number of shares of the Reorganized Company subject to the Stock Acquisition Rights

The number of shares shall be determined in accordance with Note 2. above, after taking into consideration the conditions or other factors concerning the Restructuring Actions.

- (4) Amount of assets to be paid upon the exercise of the Stock Acquisition Rights

The amount of assets to be paid upon exercise of newly granted Stock Acquisition Rights shall be the amount obtained by multiplying ¥1 per share by the number of shares to be issued for each acquisition right as determined in (3) above.

- (5) Exercise period for the Stock Acquisition Rights

The exercise period shall begin on either the first date of the exercise period for the Stock Acquisition Rights stipulated in the table above, or the date that the Restructuring Actions take effect, whichever comes later, and shall continue to the expiration date of the exercise period for the Stock Acquisition Rights stipulated in the table above.

- (6) Increase in paid-in capital and capital surplus in the event of the issuance of shares upon exercise of the Stock Acquisition Rights

- (i) The amount of paid-in capital increase in the event of the issuance of shares upon exercise of the Stock Acquisition Rights shall be 1/2 of the maximum amount of capital increase, calculated in accordance with Article 17, Paragraph 1 of Corporate Accounting Regulations of Japan. Fractions less than one yen resulting from the calculation shall be rounded up to a whole yen.

- (ii) The amount of capital surplus increase in the event of the issuance of shares upon exercise of the Stock Acquisition Rights shall be the amount obtained by subtracting the amount of the paid-in capital increase from the maximum amount of the capital increase, as described in (i) above.

- (7) Restriction on acquisition of the Stock Acquisition Rights by transfer
Acquisition of the Stock Acquisition Rights by transfer shall be required to be approved by the Reorganized Company.
- (8) Provisions pertaining to acquisition of the Stock Acquisition Rights
The Stock Acquisition Rights do not contain the provisions pertaining to the acquisition of the Stock Acquisition Rights.

| | | |
|--|--|---------------|
| Date of resolution | Ordinary General Meeting of Shareholders | June 22, 2016 |
| | Meeting of the Board of Directors | July 14, 2016 |
| Category and number of individuals covered by the plan | Employees of the Company: 74 Representative Directors of major subsidiaries of the Company: 10 | |
| Number of Stock Acquisition Rights (Units)* | 366 [331] *1 | |
| Class of shares subject to Stock Acquisition Rights* | Common stock | |
| Number of shares subject to Stock Acquisition Rights (Shares)* | 36,600 [33,100] *2 | |
| Amount to be paid in to exercise Stock Acquisition Rights* | ¥1 per share | |
| Period for exercising Stock Acquisition Rights* | From August 1, 2019 to July 31, 2024 | |
| Share issue price and additional paid-in capital per share in the event of issuance of shares upon exercise of Stock Acquisition Rights* | Issue price | ¥1 *3 |
| | Additional paid-in capital per share | ¥1 |
| Conditions for exercising the Stock Acquisition Rights* | If a holder of Stock Acquisition Rights who is a Director, Audit & Supervisory Board Member, or employee of the Company, or Director, Audit & Supervisory Board Member, or employee of a subsidiary or affiliate of the Company, loses all their respective status set above, that person is able to exercise the Stock Acquisition Rights only within three (3) year period from the date they lost such position; provided, however, that the period shall not exceed the original exercise period for the Stock Acquisition Rights described above, and other terms and conditions concerning the exercise of Stock Acquisition Rights shall be decided at the contracts to be executed by and between the Company and the holders of the Stock Acquisition Rights. | |
| Transfer of the Stock Acquisition Rights* | Acquisition of the Stock Acquisition Rights by transfer shall be required to be approved by the resolution of the Company's Board of Directors. | |
| Matters relating to grants of Stock Acquisition Rights in association with organizational restructuring actions* | *4 | |

*These items indicate the status as of the end of the fiscal year (March 31, 2023). The items which were changed between the end of the fiscal year and the end of month previous to the filing month (May 31, 2023) are indicated in the bracket “[]”. Other items have not been changed since the end of the fiscal year.

Notes:

1. The number of shares subject to one Stock Acquisition Right shall be 100 shares.
2. If the Company effects a stock split of its common stock (including allotment of its common stock to shareholders without consideration; the same applies hereinafter) or effects a stock consolidation, the number of shares granted subject to one Stock Acquisition Right shall be adjusted proportionately, in accordance with the ratio of the stock split or the stock consolidation in question. Also, if it is necessary to adjust the number of shares granted after June 22, 2016 for other reasons than the aforementioned, the Company shall properly adjust the number of shares granted in connection with the aforementioned Stock Acquisition Rights to the extent reasonable. Fractions of less than one share resulting from the foregoing adjustment shall be rounded down.

3. If the Stock Acquisition Rights are exercised, new shares shall not be issued, but treasury stock shall be allotted.
4. Policy for decision on extinguishment of Stock Acquisition Rights in organizational restructuring and details of granting Stock Acquisition Rights of reorganized company
 In the event where the Company engages in any merger (limited to a case where the Company ceases to exist as a result of the merger), a corporate split in which a division of the Company is merged into an existing company, a corporate split in which a division of the Company is spun off to establish a new company (for both, limited to cases where the Company is split up), or an exchange or transfer of shares (for both, limited to cases where the Company becomes a wholly-owned subsidiary) (collectively “Restructuring Actions”), each person holding the remaining Stock Acquisition Rights at the time the Restructuring Actions take effect (hereinafter “Remaining Stock Acquisition Rights”) shall respectively be granted the Stock Acquisition Rights of the relevant stock companies set forth in Article 236, Paragraph 1, Item 8 (a) through (e) inclusive of the Companies Act of Japan (hereinafter “Reorganized Company”). In this event, the Remaining Stock Acquisition Rights shall become null and void and the Reorganized Company shall issue new Stock Acquisition Rights. However, the new Stock Acquisition Rights shall be granted, only if provisions for granting them in accordance with the following items are included as conditions in a merger agreement (in which the Company is merged into a Reorganized Company or a Reorganized Company is established as the result of the merger), a corporate split agreement (in which a division of the Company is merged into a Reorganized Company), a plan for a corporate split (in which a division of the Company is spun off to establish a Reorganized Company), a share exchange agreement, or a plan for transfer of shares (in both of which the Company becomes a fully-owned subsidiary of a Reorganized Company).
 - (1) Number of the Stock Acquisition Rights of a Reorganized Company to be granted
 Each holder of the Remaining Stock Acquisition Rights shall be granted the Stock Acquisition Rights of the Reorganized Company of which the number is equivalent to the number of such Rights held by such holder at the time the Restructuring Actions take effect.
 - (2) Class of shares of the Reorganized Company subject to the Stock Acquisition Rights
 The class of shares subject to the Stock Acquisition Rights shall be the common stock of the Reorganized Company.
 - (3) Number of shares of the Reorganized Company subject to the Stock Acquisition Rights
 The number of shares shall be determined in accordance with Note 2. above, after taking into consideration the conditions or other factors concerning the Restructuring Actions.
 - (4) Amount of assets to be paid upon the exercise of the Stock Acquisition Rights
 The amount of assets to be paid upon exercise of newly granted Stock Acquisition Rights shall be the amount obtained by multiplying ¥1 per share by the number of shares to be issued for each acquisition right as determined in (3) above.
 - (5) Exercise period for the Stock Acquisition Rights
 The exercise period shall begin on either the first date of the exercise period for the Stock Acquisition Rights stipulated in the table above, or the date that the Restructuring Actions take effect, whichever comes later, and shall continue to the expiration date of the exercise period for the Stock Acquisition Rights stipulated in the table above.
 - (6) Increase in paid-in capital and capital surplus in the event of the issuance of shares upon exercise of the Stock Acquisition Rights
 - (i) The amount of paid-in capital increase in the event of the issuance of shares upon exercise of the Stock Acquisition Rights shall be 1/2 of the maximum amount of capital increase, calculated in accordance with Article 17, Paragraph 1 of Corporate Accounting Regulations of Japan. Fractions less than one yen resulting from the calculation shall be rounded up to a whole yen.
 - (ii) The amount of capital surplus increase in the event of the issuance of shares upon exercise of the Stock Acquisition Rights shall be the amount obtained by subtracting the amount of the paid-in capital increase from the maximum amount of the capital increase, as described in (i) above.
 - (7) Restriction on acquisition of the Stock Acquisition Rights by transfer
 Acquisition of the Stock Acquisition Rights by transfer shall be required to be approved by the Reorganized Company.

(8) Provisions pertaining to acquisition of the Stock Acquisition Rights

The Stock Acquisition Rights do not contain the provisions pertaining to the acquisition of the Stock Acquisition Rights.

| | | |
|--|--|---------------|
| Date of resolution | Ordinary General Meeting of Shareholders | June 20, 2017 |
| | Meeting of the Board of Directors | July 13, 2017 |
| Category and number of individuals covered by the plan | Employees of the Company: 78 Representative Directors of major subsidiaries of the Company: 10 | |
| Number of Stock Acquisition Rights (Units)* | 491 [464] *1 | |
| Class of shares subject to Stock Acquisition Rights* | Common stock | |
| Number of shares subject to Stock Acquisition Rights (Shares)* | 49,100 [46,400] *2 | |
| Amount to be paid in to exercise Stock Acquisition Rights* | ¥1 per share | |
| Period for exercising Stock Acquisition Rights* | From August 1, 2020 to July 31, 2025 | |
| Share issue price and additional paid-in capital per share in the event of issuance of shares upon exercise of Stock Acquisition Rights* | Issue price | ¥1 *3 |
| | Additional paid-in capital per share | ¥1 |
| Conditions for exercising the Stock Acquisition Rights* | If a holder of Stock Acquisition Rights who is a Director, Audit & Supervisory Board Member, or employee of the Company, or Director, Audit & Supervisory Board Member, or employee of a subsidiary or affiliate of the Company, loses all their respective status set above, that person is able to exercise the Stock Acquisition Rights only within three (3) year period from the date they lost such position; provided, however, that the period shall not exceed the original exercise period for the Stock Acquisition Rights described above, and other terms and conditions concerning the exercise of Stock Acquisition Rights shall be decided at the contracts to be executed by and between the Company and the holders of the Stock Acquisition Rights. | |
| Transfer of the Stock Acquisition Rights* | Acquisition of the Stock Acquisition Rights by transfer shall be required to be approved by the resolution of the Company's Board of Directors. | |
| Matters relating to grants of Stock Acquisition Rights in association with organizational restructuring actions* | *4 | |

*These items indicate the status as of the end of the fiscal year (March 31, 2023). The items which were changed between the end of the fiscal year and the end of month previous to the filing month (May 31, 2023) are indicated in the bracket “[]”. Other items have not been changed since the end of the fiscal year.

Notes:

1. The number of shares subject to one Stock Acquisition Right shall be 100 shares.
2. If the Company effects a stock split of its common stock (including allotment of its common stock to shareholders without consideration; the same applies hereinafter) or effects a stock consolidation, the number of shares granted subject to one Stock Acquisition Right shall be adjusted proportionately, in accordance with the ratio of the stock split or the stock consolidation in question. Also, if it is necessary to adjust the number of shares granted after June 20, 2017 for other reasons than the aforementioned, the Company shall properly adjust the number of shares granted in connection with the aforementioned Stock Acquisition Rights to the extent reasonable. Fractions of less than one share resulting from the foregoing adjustment shall be rounded down.

3. If the Stock Acquisition Rights are exercised, new shares shall not be issued, but treasury stock shall be allotted.
4. Policy for decision on extinguishment of Stock Acquisition Rights in organizational restructuring and details of granting Stock Acquisition Rights of reorganized company
 In the event where the Company engages in any merger (limited to a case where the Company ceases to exist as a result of the merger), a corporate split in which a division of the Company is merged into an existing company, a corporate split in which a division of the Company is spun off to establish a new company (for both, limited to cases where the Company is split up), or an exchange or transfer of shares (for both, limited to cases where the Company becomes a wholly-owned subsidiary) (collectively “Restructuring Actions”), each person holding the remaining Stock Acquisition Rights at the time the Restructuring Actions take effect (hereinafter “Remaining Stock Acquisition Rights”) shall respectively be granted the Stock Acquisition Rights of the relevant stock companies set forth in Article 236, Paragraph 1, Item 8 (a) through (e) inclusive of the Companies Act of Japan (hereinafter “Reorganized Company”). In this event, the Remaining Stock Acquisition Rights shall become null and void and the Reorganized Company shall issue new Stock Acquisition Rights. However, the new Stock Acquisition Rights shall be granted, only if provisions for granting them in accordance with the following items are included as conditions in a merger agreement (in which the Company is merged into a Reorganized Company or a Reorganized Company is established as the result of the merger), a corporate split agreement (in which a division of the Company is merged into a Reorganized Company), a plan for a corporate split (in which a division of the Company is spun off to establish a Reorganized Company), a share exchange agreement, or a plan for transfer of shares (in both of which the Company becomes a fully-owned subsidiary of a Reorganized Company).
 - (1) Number of the Stock Acquisition Rights of a Reorganized Company to be granted
 Each holder of the Remaining Stock Acquisition Rights shall be granted the Stock Acquisition Rights of the Reorganized Company of which the number is equivalent to the number of such Rights held by such holder at the time the Restructuring Actions take effect.
 - (2) Class of shares of the Reorganized Company subject to the Stock Acquisition Rights
 The class of shares subject to the Stock Acquisition Rights shall be the common stock of the Reorganized Company.
 - (3) Number of shares of the Reorganized Company subject to the Stock Acquisition Rights
 The number of shares shall be determined in accordance with Note 2. above, after taking into consideration the conditions or other factors concerning the Restructuring Actions.
 - (4) Amount of assets to be paid upon the exercise of the Stock Acquisition Rights
 The amount of assets to be paid upon exercise of newly granted Stock Acquisition Rights shall be the amount obtained by multiplying ¥1 per share by the number of shares to be issued for each acquisition right as determined in (3) above.
 - (5) Exercise period for the Stock Acquisition Rights
 The exercise period shall begin on either the first date of the exercise period for the Stock Acquisition Rights stipulated in the table above, or the date that the Restructuring Actions take effect, whichever comes later, and shall continue to the expiration date of the exercise period for the Stock Acquisition Rights stipulated in the table above.
 - (6) Increase in paid-in capital and capital surplus in the event of the issuance of shares upon exercise of the Stock Acquisition Rights
 - (i) The amount of paid-in capital increase in the event of the issuance of shares upon exercise of the Stock Acquisition Rights shall be 1/2 of the maximum amount of capital increase, calculated in accordance with Article 17, Paragraph 1 of Corporate Accounting Regulations of Japan. Fractions less than one yen resulting from the calculation shall be rounded up to a whole yen.
 - (ii) The amount of capital surplus increase in the event of the issuance of shares upon exercise of the Stock Acquisition Rights shall be the amount obtained by subtracting the amount of the paid-in capital increase from the maximum amount of the capital increase, as described in (i) above.
 - (7) Restriction on acquisition of the Stock Acquisition Rights by transfer
 Acquisition of the Stock Acquisition Rights by transfer shall be required to be approved by the Reorganized Company.

(8) Provisions pertaining to acquisition of the Stock Acquisition Rights

The Stock Acquisition Rights do not contain the provisions pertaining to the acquisition of the Stock Acquisition Rights.

(ii) Rights plan

Not applicable.

(iii) Other stock acquisition rights, etc.

Not applicable.

(3) Exercises, etc., of moving strike convertible bonds, etc.

Not applicable.

(4) Changes in number of issued shares, capital stock, etc.

| Date | Changes in number of issued shares (Shares) | Balance of number of issued shares (Shares) | Changes in capital stock (Millions of yen) | Balance of capital stock (Millions of yen) | Changes in legal capital surplus (Millions of yen) | Balance of legal capital surplus (Millions of yen) |
|-------------------------|---|---|--|--|--|--|
| September 3, 2018 *1 | 284,800 | 972,252,460 | 441 | 70,561 | 441 | 140,581 |
| September 2, 2019 *2 | 328,770 | 972,581,230 | 412 | 70,973 | 412 | 140,993 |
| September 1, 2020 *3 | 306,380 | 972,887,610 | 348 | 71,322 | 348 | 141,341 |
| September 1, 2021 *4 | 258,190 | 973,145,800 | 355 | 71,678 | 355 | 141,697 |
| September 1, 2022 *5 | 305,130 | 973,450,930 | 440 | 72,118 | 440 | 142,138 |

Notes:

- 1) Due to the allotment to third parties with consideration for the purpose of the payment of the restricted stock compensation implemented.
Issue price per share ¥ 3,098
Increase of capital per share ¥ 1,549
Subject persons of allotment Directors (excluding Outside Directors) and employees of the Company, and the Directors and employees of subsidiaries of the Company, totaling 87 persons
- 2) Due to the allotment to third parties with consideration for the purpose of the payment of the restricted stock compensation implemented.
Issue price per share ¥ 2,507.5
Increase of capital per share ¥ 1,253.75
Subject persons of allotment Directors (excluding Outside Directors) and employees of the Company, and the Directors and employees of subsidiaries of the Company, totaling 89 persons
- 3) Due to the allotment to third parties with consideration for the purpose of the payment of the restricted stock compensation implemented.
Issue price per share ¥ 2,275
Increase of capital per share ¥ 1,137.5
Subject persons of allotment Directors (excluding Outside Directors) and employees of the Company, and the Directors and employees of subsidiaries of the Company, totaling 87 persons
- 4) Due to the allotment to third parties with consideration for the purpose of the payment of the restricted stock compensation implemented.
Issue price per share ¥ 2,754.5
Increase of capital per share ¥ 1,377.25
Subject persons of allotment Directors (excluding Outside Directors) and employees of the Company, and the Directors and employees of subsidiaries of the Company, totaling 85 persons
- 5) Due to the allotment to third parties with consideration for the purpose of the payment of the restricted stock compensation implemented.
Issue price per share ¥ 2,889.5
Increase of capital per share ¥ 1,444.75
Subject persons of allotment Directors (excluding Outside Directors) and employees of the Company, and the Directors and employees of subsidiaries of the Company, totaling 87 persons

(5) Shareholding by shareholder category

(As of March 31, 2023)

| Category | Status of shares (1 unit = 100 shares) | | | | | | | | Shares less than one unit (Shares) |
|-------------------------------|--|------------------------|--|--------------------|------------------------|-------------|------------------------|-----------|------------------------------------|
| | National and local governments | Financial institutions | Financial instruments business operators | Other corporations | Foreign shareholders | | Individuals and others | Total | |
| | | | | | Other than individuals | Individuals | | | |
| Number of shareholders | 2 | 181 | 65 | 1,521 | 965 | 134 | 182,636 | 185,504 | - |
| Number of shares held (Units) | 600 | 3,306,787 | 553,585 | 199,148 | 3,937,637 | 679 | 1,727,841 | 9,726,277 | 823,230 |
| Shareholding ratio (%) | 0.00 | 33.99 | 5.69 | 2.04 | 40.48 | 0.00 | 17.76 | 100.00 | - |

Notes:

- 1) 27,445,481 shares of treasury stock held by the Company are included in “Individuals and others” and “Share less than one unit” in the table. These amounts are 274,454 units and 81 shares, respectively.
- 2) The shares registered in the name of the Japan Securities Depository Center, Incorporated are included in “Other corporations” and “Share less than one unit” in the table. These amounts are 70 units and 16 shares, respectively.
- 3) The figures of “Shareholding ratio” in the table have been rounded down to the second decimal place.

(6) Major shareholders

(As of March 31, 2023)

| Name | Address | Number of shares held (Thousands of - shares) | Shareholding ratio (excluding treasury stock) (%) |
|---|--|---|---|
| The Master Trust Bank of Japan, Ltd. (Trust Account) | 2-11-3, Hamamatsuchou, Minato-ku, Tokyo, Japan | 162,789 | 17.20 |
| Custody Bank of Japan, Ltd. (Trust Account) | 1-8-12, Harumi, Chuo-ku, Tokyo, Japan | 69,758 | 7.37 |
| JP Morgan Securities Japan Co., Ltd. | 2-7-3, Marunouchi, Chiyoda-ku, Tokyo, Japan | 25,902 | 2.73 |
| State Street Bank West Client - Treaty 505234 (Standing proxy: Mizuho Bank, Ltd., Settlement & Clearing Services Division) | 1776 Heritage Drive, North Quincy, MA 02171, U.S.A. (2-15-1, Konan, Minato-ku, Tokyo, Japan) | 25,455 | 2.69 |
| Taiyo Life Insurance Company | 2-7-1, Nihonbashi, Chuo-ku, Tokyo, Japan | 24,700 | 2.61 |
| Nippon Life Insurance Company (Standing proxy: The Master Trust Bank of Japan, Ltd.) | 1-6-6, Marunouchi, Chiyoda-ku, Tokyo, Japan (2-11-3, Hamamatsuchou, Minato-ku, Tokyo, Japan) | 21,301 | 2.25 |
| The Bank of New York Mellon as Depository Bank for Depository Receipt Holders (Standing proxy: Sumitomo Mitsui Banking Corporation) | 240 Greenwich Street, 8th Floor West, New York, NY 10286 U.S.A. (1-1-2, Marunouchi, Chiyoda-ku, Tokyo, Japan) | 20,185 | 2.13 |
| State Street Bank and Trust Company 505223 (Standing proxy: Mizuho Bank, Ltd., Settlement & Clearing Services Division) | P.O. Box 351 Boston Massachusetts 02101 U.S.A. (2-15-1, Konan, Minato-ku, Tokyo, Japan) | 16,447 | 1.73 |
| JP Morgan Chase Bank 385632 (Standing proxy: Mizuho Bank, Ltd., Settlement & Clearing Services Division) | 25 Bank Street, Canary Wharf, London, E14 5JP, United Kingdom (2-15-1, Konan, Minato-ku, Tokyo, Japan) | 14,145 | 1.49 |
| Komatsu Employees Shareholding Association | 2-3-6, Akasaka, Minato-ku, Tokyo, Japan | 12,246 | 1.29 |
| Total | — | 392,932 | 41.53 |

Notes:

- 1) The figures of “Shareholding ratio (excluding treasury stock) (%)” in the table are rounded down to the second decimal place.
- 2) 27,445,000 shares of treasury stock held by the Company are excluded from the list.
- 3) All shares held by The Master Trust Bank of Japan, Ltd. (Trust Account) and Custody Bank of Japan, Ltd. (Trust Account) are held through trusts.

- 4) The Report of Possession of Large Volume relating to the Company's shares was filed in the joint names of Sumitomo Mitsui Trust Asset Management Co., Ltd. and Nikko Asset management Co., Ltd. at the date of September 23, 2020 under the Financial Instruments and Exchange Act of Japan. However, the description in the table is as the same with that in the shareholders' list of the Company and does not reflect the information in the Report, because the Company is not able to confirm the actual state of shareholdings as of March 31, 2023. The major content of the report is as follows:

Name, address and number of shares held (As of September 15, 2020)

| Name | Address | Number of shares held (Shares) | Shareholding ratio (%) |
|--|--|--------------------------------|------------------------|
| Sumitomo Mitsui Trust Asset Management Co., Ltd. | 1-1-1 Shibakoen, Minato-ku, Tokyo, Japan | 29,750,700 | 3.06 |
| Nikko Asset management Co., Ltd. | 9-7-1, Akasaka, Minato-ku, Tokyo, Japan | 21,060,300 | 2.16 |
| Total | — | 50,811,000 | 5.22 |

- 5) The Change Report No.4 pertaining to Report of Possession of Large Volume relating to the Company's shares was filed in the name of Nomura Asset Management Co., Ltd. at the date of May 20, 2022 under the Financial Instruments and Exchange Act of Japan. However, the description in the table is as the same with that in the shareholders' list of the Company and does not reflect the information in the Report, because the Company is not able to confirm the actual state of shareholdings as of March 31, 2023. The major content of the report is as follows:

Name, address and number of shares held (As of May 13, 2022)

| Name | Address | Number of shares held (Shares) | Shareholding ratio (%) |
|-----------------------------------|--------------------------------------|--------------------------------|------------------------|
| Nomura Asset Management Co., Ltd. | 2-2-1, Toyosu, Koto-ku, Tokyo, Japan | 50,169,400 | 5.16 |
| Total | — | 50,169,400 | 5.16 |

- 6) The Change Report No.3 pertaining to Report of Possession of Large Volume relating to the Company's shares was filed in the joint names of BlackRock Japan Co., Ltd. and nine joint holders at the date of June 21, 2022 under the Financial Instruments and Exchange Act of Japan. However, the description in the table is as the same with that in the shareholders' list of the Company and does not reflect the information in the Report, because the Company is not able to confirm the actual state of shareholdings as of March 31, 2023. The major content of the report is as follows:

Name, address and number of shares held (As of June 15, 2022)

| Name | Address | Number of shares held (Shares) | Shareholding ratio (%) |
|--|--|--------------------------------|------------------------|
| BlackRock Japan Co., Ltd. | 1-8-3, Marunouchi, Chiyoda-ku, Tokyo, Japan | 17,755,737 | 1.82 |
| BlackRock Advisers, LLC | 251 Little Falls Drive, Wilmington, Delaware, U.S.A. | 16,128,254 | 1.66 |
| BlackRock Investment Management LLC | 251 Little Falls Drive, Wilmington, Delaware, U.S.A. | 2,333,771 | 0.24 |
| BlackRock (Netherlands) BV | 1 Amstelplein, HA1096, Amsterdam, Kingdom of the Netherlands | 2,579,836 | 0.27 |
| BlackRock Fund Managers Limited | 12 Throgmorton Avenue, London, U.K. | 3,166,328 | 0.33 |
| BlackRock (Luxembourg) S.A. | 35A J.F. Kennedy Street, L-1855, Grand Duchy of Luxembourg | 1,108,400 | 0.11 |
| BlackRock Asset Management Ireland Limited | 1st Floor, 2 Ballsbridge Park, Ballsbridge, Dublin, Ireland | 6,551,766 | 0.67 |
| BlackRock Fund Advisors | 400 Howard Street, San Francisco, CA, U.S.A. | 14,636,900 | 1.50 |
| BlackRock Institutional Trust Company, N.A. | 400 Howard Street, San Francisco, CA, U.S.A. | 13,606,302 | 1.40 |
| BlackRock Investment Management (UK) Limited | 12 Throgmorton Avenue, London, U.K. | 1,922,443 | 0.20 |
| Total | — | 79,789,737 | 8.20 |

(7) Voting rights

(i) Issued shares

(As of March 31, 2023)

| Classification | Number of shares (Shares) | Number of voting rights (Units) | Description |
|---|---|---------------------------------|--|
| Shares without voting rights | - | - | - |
| Shares with restricted voting rights (treasury stock, etc.) | - | - | - |
| Shares with restricted voting rights (others) | - | - | - |
| Shares with full voting rights (treasury stock, etc.) | (treasury stock) Common shares 27,445,400 | - | This is the standard of the Company's shares, whose holders have unlimited rights. The number of shares constituting one unit is 100 shares. |
| | (reciprocally held shares) Common shares 869,800 | - | Same as above |
| Shares with full voting rights (others) | Common shares 944,312,500 | 9,443,125 | Same as above |
| Shares less than one unit | Common shares 823,230 | - | Same as above |
| Number of issued shares | 973,450,930 | - | - |
| Total number of voting rights | - | 9,443,125 | - |

Note: "Shares with full voting rights (others)" include the shares registered in the name of Japan Securities Depository Center, Incorporated. The amount is 7,000 shares (70 voting rights).

(ii) Treasury stock, etc.

(As of March 31, 2023)

| Name of shareholders, address | Number of shares held under own name (Shares) | Number of shares held under the names of others (Shares) | Total shares held (Shares) | Ownership percentage to the total number of issued shares (%) |
|--|---|--|----------------------------|---|
| The Company 2-3-6, Akasaka, Minato-ku, Tokyo, Japan | 27,445,400 | - | 27,445,400 | 2.81 |
| KOMATSU TOCHIGI LTD. *1 38-12, Hiraidekouguyodanchi, Utsunomiya City, Tochigi, Japan | 287,000 | 13,500 | 300,500 | 0.03 |
| KOMATSU DOUTOU LTD. 1-3-4, Nishinjuyonjokita, Obihiro City, Hokkaido, Japan | 300,000 | - | 300,000 | 0.03 |
| KOMATSU AKITA LTD. *1 9-48, Kawashiriokawamachi, Akita City, Akita, Japan | - | 95,000 | 95,000 | 0.00 |
| KOMATSU AWAJI LTD. *1 1-1-7, Kuwama, Sumoto City, Hyogo, Japan | - | 94,300 | 94,300 | 0.00 |
| KOMATSU SANIN LTD. *1 1876, Higashitsudacho, Matsue City, Shimane, Japan | 10,000 | 23,100 | 33,100 | 0.00 |
| KOMATSU IBARAKI LTD. *1 358-1, Yoshizawacho, Mito City, Ibaraki, Japan | - | 31,500 | 31,500 | 0.00 |
| HAMAMATSU KOMATSU FORKLIFT LTD. 1-6-15, Sakuradai, Nishi-ku, Hamamatsu City, Shizuoka, Japan | 6,000 | - | 6,000 | 0.00 |
| SHIZUOKA KOMATSU FORKLIFT LTD. 1-31-4, Kitamariko, Suruga-ku, Shizuoka City, Shizuoka, Japan | 3,800 | - | 3,800 | 0.00 |
| OITA KOMATSU FORKLIFT LTD. 4-2-12, Toyomi, Oita City, Oita, Japan | 3,000 | - | 3,000 | 0.00 |
| KOMATSU MIYAZAKI LTD. *1 2957-12, Shimonaka, Sadowaracho, Miyazaki City, Miyazaki, Japan | - | 2,300 | 2,300 | 0.00 |
| YAMAGATA KOMATSU FORKLIFT LTD. 1-2-1, Ryutsu-Center, Yamagata City, Yamagata, Japan | 300 | - | 300 | 0.00 |
| Total | 28,055,500 | 259,700 | 28,315,200 | 2.90 |

Notes:

- 1) A registered shareholder described in “Number of shares held under the names of others” in the table is Komatsu Dealers’ Shareholding Association (2-3-6, Akasaka, Minato-ku, Tokyo, Japan).
- 2) The figures of “Ownership percentage to the total number of issued shares” for each shareholder are rounded down to the second decimal place. Accordingly, the sum of the amounts indicated in each row does not necessarily add up to the figure provided as “Total.”

2. Acquisitions, etc. of Treasury Stock

Classes of shares, etc.

Acquisition of common stock in accordance with Article 155, Item 7 of the Companies Act of Japan, and Article 155, Item 13 of the Companies Act of Japan.

(1) Acquisitions by a resolution of the General Meeting of Shareholders

Not applicable.

(2) Acquisitions by a resolution of the Board of Directors

Not applicable.

(3) Acquisitions not based on a resolution of the General Meeting of Shareholders or the Board of Directors

| Category | Number of shares (Shares) | Total amount (Yen) |
|---|---------------------------|--------------------|
| Treasury stock acquired during the fiscal year*1 | 119,067 | 16,391,826 |
| Treasury stock acquired during the current period*2 | 634 | 2,088,742 |

Notes:

- Treasury stock acquired during the fiscal year consists of the purchase of shares constituting less than one unit of shares and the acquisition of restricted stock without consideration.
- Treasury stock acquired during the current period does not include shares constituting less than one unit of shares purchased during the period from June 1, 2023 to the filing date of this Annual Securities Report.

(4) Disposals or holding of acquired treasury stock

| Category | During the fiscal year | | During the current period*1 | |
|--|---------------------------|-----------------------------|-----------------------------|-----------------------------|
| | Number of shares (Shares) | Total disposal amount (Yen) | Number of shares (Shares) | Total disposal amount (Yen) |
| Acquired treasury stock that was offered to subscribers for subscription | — | — | — | — |
| Acquired treasury stock that was canceled | — | — | — | — |
| Acquired treasury stock that was transferred due to merger, exchange of shares, issue of shares, or corporate split | — | — | — | — |
| Acquired treasury stock that was disposed of in other ways (Exercise of stock options)*2 (Request for sale of shares less than one unit of shares) | 53,000 | 53,000 | 6,200 | 6,200 |
| | 93 | 300,390 | — | — |
| Number of treasury stock held | 27,445,481 | — | 27,439,915 | — |

Notes:

- The number of treasury stock held during the current period does not include shares disposed of through exercise of stock options or request for sale of shares less than one unit of shares during the period from June 1, 2023 to the filing date of this Annual Securities Report.
- “Total disposal amount” in the table shows the total amount paid in on exercise of stock options.

3. Dividend Policy

The Company is working to secure a sound financial position and strengthen our competitiveness to sustainably increase its corporate value. Concerning cash dividends to shareholders, the Company maintains the policy of continuing stable dividends by comprehensively considering consolidated business results, future investment plans, cash flows and other related factors. Specifically, the Company has the policy of maintaining a consolidated payout ratio of 40% or higher. The Company distributes dividends twice a year (i.e., year-end dividends and interim dividends). The distribution of year-end dividends and interim dividends are to be resolved at the Ordinary General Meeting of Shareholders and the meeting of the Board of Directors, respectively.

Concerning cash dividends for the fiscal year, after considering consolidated business results for the fiscal year and future business prospects under its dividend policy, the Company is planning to set the fiscal year-end common stock dividend at ¥75 per share. Annual cash dividends for the 154th fiscal year, including the interim dividend of ¥64 per share, are expected to amount to ¥139 per share.

The Company considers using its retained earnings for expanding its business and enhancing its operating structures by investing actively for its global operation activities, its development and introduction activities of new products which have technical competitiveness, etc.

The Company can declare an interim dividend once a fiscal year according to its Articles of Incorporation under Article 454, Paragraph 5 of the Companies Act of Japan.

Dividends for the 154th fiscal year are as follows:

| Date of resolution | Total dividend amount (Millions of yen) | Dividend amount per share (Yen) |
|---|--|------------------------------------|
| October 31, 2022 Resolution of the meeting of the Board of Directors | 60,542 | 64 |
| June 21, 2023 (planned) Resolution of the Ordinary General Meeting of Shareholders* | 70,950 | 75 |

Note: These are the year-end dividends of the Company whose record date shall be March 31, 2023. These are proposed to be resolved at the Ordinary General Meeting of Shareholders of the Company to be held on June 21, 2023.

4. Corporate Governance, etc.

(1) Overview of corporate governance

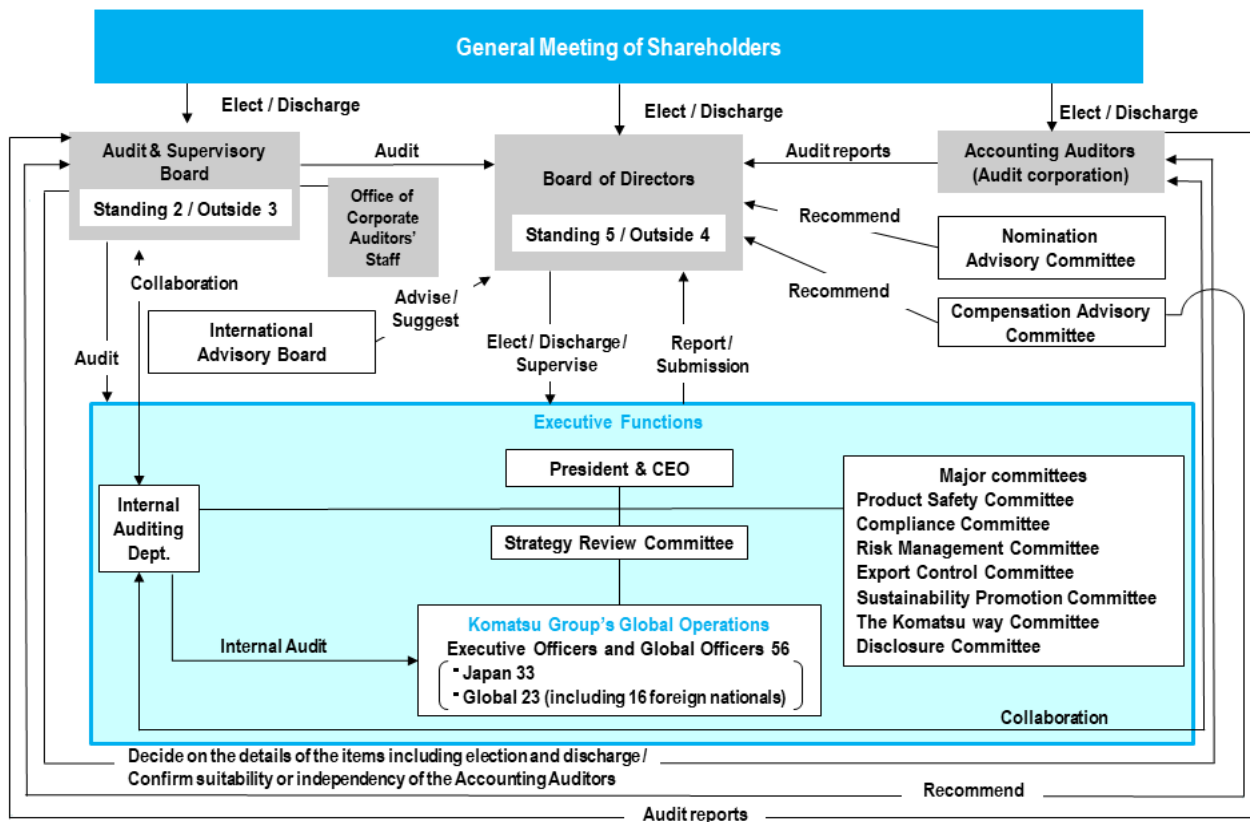
A. Basic stance on corporate governance

The Company believes its corporate value is the total sum of trust given to us by society and all stakeholders. To become a company which enjoys more trust from shareholders and all other stakeholders, the Company is working to strengthen corporate governance, improve management efficiency, advocate corporate ethics and ensure sound management on a group-wide basis. To further improve the transparency of management for its shareholders and investors, the Company discloses information in a fair and timely manner and actively engages in investor relations' activities by holding meetings with shareholders and investors.

B. Current Corporate Governance Structure

1. Overview of current corporate governance structure

Corporate Governance of the Company (As of the filing date)



At the Company, the Board of Directors is positioned as the core of corporate governance, and to improve the effectiveness of discussions at meetings of the Board of Directors, the Company has worked to put in place a system to ensure thorough discussions of important management matters and prompt decision making, and reform their operational aspect. Having introduced the Executive Officer (Shikko Yakuin) System in 1999, the Company has separated management decision making and supervisory functions from executive functions to the extent permitted by laws and regulations, and while appointing both Outside Directors and Outside Audit & Supervisory Board Members, limits the Board of Directors to a small number of members.

(i) Meetings of the Board of Directors

The Company holds Board of Directors' meetings periodically at least once every month. The Board of Directors deliberates and makes resolutions on important matters, determines management policies of Komatsu, and rigorously controls and supervises the execution of duties by all members of the executive management team including Representative Directors. Of the nine (9) Directors on the Board, four (4) are Outside Directors to ensure transparent and objective management.

The Company strives to make improvements to increase the effectiveness of the Board of Directors and conducts

annual evaluation and analysis of the effectiveness of the Board of Directors.

The names of the members of the Board of Directors are listed in (1) Frequency of meetings and attendance below, and the Chairman of the Board chairs the meetings.

In 1995, the Company established the International Advisory Board as a body to provide advice and recommendations to the Board of Directors. The Board exchanges opinions and engages in discussions to incorporate objective advice and suggestions from experts in Japan and overseas on how the Company should conduct itself as a global company. The Company has also established the Strategy Review Committee, which consists of Executive Officers and senior managers, to contribute to the efficient operation of the Board of Directors. Based on the deliberations of the Strategy Review Committee, each Executive Officer and senior manager executes his or her duties within the scope of authority delegated by the Board of Directors.

(Activities of the Board of Directors)

(1) Frequency of meetings and attendance

During the fiscal year, ended on March 31, 2023, the Company held 15 meetings of the Board of Directors, and the attendance of individual directors is shown as follows.

| Name | Frequency | No. of attendance |
|--------------------|-----------|-------------------|
| Tetsuji Ohashi | 15 | 15 |
| Hiroyuki Ogawa | 15 | 15 |
| Masayuki Moriyama | 15 | 15 |
| Kiyoshi Mizuhara | 15 | 15 |
| Takeshi Horikoshi | 15 | 15 |
| Makoto Kigawa | 4 | 4 |
| Takeshi Kunibe | 15 | 13 |
| Arthur M. Mitchell | 15 | 15 |
| Naoko Saiki | 15 | 15 |
| Michitaka Sawada | 11 | 11 |

Notes: 1) Directors Makoto Kigawa, Takeshi Kunibe, Arthur M. Mitchell, Naoko Saiki, and Michitaka Sawada are outside directors.

2) Outside Director Makoto Kigawa retired at the 153rd Ordinary General Meeting of Shareholders held in June 2022, and Outside Director Michitaka Sawada was appointed at the same Ordinary General Meeting of Shareholders; therefore, the number of Board of Directors meetings to be attended differs from other Directors.

(2) Matters discussed

Matters resolved and discussed during the fiscal year under review, in addition to those specified in laws and regulations, were mainly as follows.

- Strategy and Risk: Mid-term Management Plan, annual business plan, M&A deals, and risk recognition and response
- Personnel, Compensation, and Governance: Appointment of Executive Officers, personnel changes related to key employees, remuneration of Directors, restricted stock units, and revision of criteria for agenda to be discussed by the Board of Directors.
- Financing: Bond issuance, borrowings, borrowings by subsidiaries, and debt guarantee limit.

In addition to the above, the Board also discusses topics presented by the execution side concerning the reporting agenda of business execution.

(ii) Meetings of the Audit & Supervisory Board

Furthermore, at least half of the five (5) Audit & Supervisory Board Members are Outside Audit & Supervisory Board Members. The Audit & Supervisory Board determines such matters as audit policies and the division of duties among Audit & Supervisory Board Members. Each Audit & Supervisory Board Member attends meetings of the Board of Directors and other important meetings and audits the execution of duties by Directors. Meetings of the Audit & Supervisory Board are in principle held periodically at least once every month, and the Board performs appropriate audits by such means as hearing reports from members of the executive management team on their

execution of duties. The Company has also established the Office of Corporate Auditors' Staff to assist the Audit & Supervisory Board Members in their duties.

The names of the members of the Audit & Supervisory Board are as follows and the chairman is Terumi Sasaki. [Composition of the Audit & Supervisory Board] Chairman: Terumi Sasaki, Members: Yasuhiro Inagaki, Eiko Shinotsuka, Kotaro Ohno, and Tatsuro Kosaka. (As of the filing date of this Annual Securities Report)

Note: The Company is going to propose the agendas of Election of nine (9) Directors and Election of one (1) Audit & Supervisory Board Member as the matters requiring a resolution by the 154th Ordinary General Meeting of Shareholders scheduled for June 21, 2023. When the said agendas are approved, the Company will have nine (9) Directors (including four (4) Outside Directors), five (5) Audit & Supervisory Board Members (including three (3) Outside Audit & Supervisory Board Members), and four (4) Directors who concurrently serve executive functions.

(iii) Nomination Advisory Committee

The Nomination Advisory Committee, (As the ratio of outside members represents 66.7% of total), consisting of four (4) Outside Directors (one of them as Committee Chairperson), Chairperson of the Board and President, appoints the candidates for directors and auditors, and discusses appointment and discharge of executive officers and other senior management officers including President (CEO), and reports the results to the Board of Directors. When selecting the candidates, the Committee also considers diversity, as represented by gender, nationality and race. Based on the report, the Board of Directors discusses and decides appointments of the candidates for directors and Audit & Supervisory Board Members as well as appointments and discharges of executive and other officers. [Members of the Nomination Advisory Committee] Chairperson: Takeshi Kunibe. Members: Arthur M. Mitchell, Naoko Saiki, Michitaka Sawada, Tetsuji Ohashi and Hiroyuki Ogawa. (As of the filing date of this Annual Securities Report)

[Activities of the Nomination Advisory Committee]

In the fiscal year, ended March 31, 2023, the Company held three (3) meetings of the Nomination Advisory Committee, and the attendance at each meeting is shown as follows.

| Name | No. of meetings held | No. of attendance |
|--------------------|----------------------|-------------------|
| Makoto Kigawa | 1 | 1 |
| Takeshi Kunibe | 3 | 3 |
| Arthur M. Mitchell | 3 | 3 |
| Naoko Saiki | 3 | 3 |
| Michitaka Sawada | 2 | 2 |
| Tetsuji Ohashi | 3 | 3 |
| Hiroyuki Ogawa | 3 | 3 |

Note: Outside Director Makoto Kigawa retired at the 153rd Ordinary General Meeting of Shareholders held in June 2022, and Outside Director Michitaka Sawada was appointed at the same Ordinary General Meeting of Shareholders, and was later appointed as a member of the Nomination Advisory Committee; therefore, the number of their attendance in Nomination Advisory Committee meetings differs from other members of the Committee.

The contents of deliberations by the Nomination Advisory Committee during the fiscal year under review included the nomination and training of candidates for the next President (CEO), nomination of candidates for Directors and Auditors for fiscal 2023, skill matrixes for Directors and Auditors, appointment of candidates for Executive Officers, and the operational structure of the Nomination Advisory Committee and Compensation Advisory Committee for fiscal 2023.

(iv) Compensation Advisory Committee

In an effort to maintain an objective and transparent remuneration system, the policy and levels of remuneration for Directors and Audit & Supervisory Board Members of the Company are deliberated by the Compensation Advisory Committee, which consists of eight (8) Outside Members [four (4) Outside Directors (including one (1) as the Chairperson of the Committee), three (3) Outside Auditors, and one (1) Outside Expert] and one (1) Internal Member (As the ratio of outside members represents 88.9% of total). Taking its reports and recommendations into consideration, the remuneration for Directors is determined by the Board of Directors, and the remuneration for

Audit & Supervisory Board Members is determined by discussions by the Audit & Supervisory Board Members, respectively, within the range previously determined by resolution of the General Meeting of Shareholders. [Members of the Compensation Advisory Committee] Chairperson: Takeshi Kunibe. Members: Arthur M. Mitchell, Naoko Saiki, Michitaka Sawada, Eiko Shinotsuka, Kotaro Ohno, Tatsuro Kosaka, Shinji Hatta and Tetsuji Ohashi. (As of the filing date of this Annual Securities Report)

[Activities of the Compensation Advisory Committee]

In the fiscal year, ended March 31, 2023, the Company held four (4) meetings of the Compensation Advisory Committee, and the attendance at each meeting is shown as follows.

| Name | No. of meetings | No. of attendance |
|--------------------|-----------------|-------------------|
| Makoto Kigawa | 2 | 2 |
| Takeshi Kunibe | 4 | 4 |
| Arthur M. Mitchell | 4 | 4 |
| Naoko Saiki | 4 | 4 |
| Michitaka Sawada | 2 | 2 |
| Hirohide Yamaguchi | 2 | 2 |
| Eiko Shinotsuka | 4 | 4 |
| Kotaro Ohno | 4 | 4 |
| Tatsuro Kosaka | 2 | 2 |
| Shinji Hatta | 4 | 4 |
| Tetsuji Ohashi | 4 | 4 |

Note: Outside Director Makoto Kigawa and Outside Auditor Hirohide Yamaguchi retired at the 153rd Ordinary General Meeting of Shareholders held in June 2022, while Outside Director Michitaka Sawada and Outside Auditor Tatsuro Kosaka were appointed at the same Ordinary General Meeting of Shareholders, and were later appointed as members of the Compensation Advisory Committee; therefore, the number of their attendance in Compensation Advisory Committee meetings to be attended differs from other members of the Committee.

The contents of deliberations by the Compensation Advisory Committee during the fiscal year under review included the evaluation of the Mid-term Management Plan for fiscal 2019-2021, the evaluation method of the Mid-term Management Plan for fiscal 2022-2024, performance-based remuneration for directors for fiscal 2022, monthly compensation levels for directors and auditors for fiscal 2023, and evaluation indexes for performance-based remuneration for directors for fiscal 2023.

2. Reason for adoption of the current corporate governance system

The Company organizes the above framework to ensure effective and adequate performance of matters related to decision making, management and supervision, such as separation of corporate management from business execution, enhancement of corporate management decision making by the Board of Directors, strict management and supervision of business execution, measures undertaken by Outside Directors to improve transparency and objectivity of management, and measures undertaken by the Audit & Supervisory Board to appropriately audit Directors' execution of duties.

3. Basic policy on internal control system and status of maintenance and development thereof

With regards to systems for ensuring that the execution of duties by Directors complies with laws and regulations, and the Company's Articles of Incorporation, and other systems for ensuring the properness of operations, the details of the resolution of the Board of Directors of the Company are as follows:

(1) Basic Policy on Internal Control

The Company defines its corporate value as the total sum of trust given to us by society and all stakeholders. To increase this corporate value, the Company recognizes the importance of strengthening corporate governance. The Company strives to maintain transparency and soundness of management by appointing Outside Directors and Outside Audit & Supervisory Board Members, while limiting the members of the Board of Directors small so that discussions at the Board of Directors are more substantial. The Company also does its utmost to improve the operation of the Board of Directors, aiming at more effective governance by the Board, ample discussions and quick decision making.

(2) Systems for Retention and Management of Information Related to Directors' Execution of Duties

The Company shall adequately retain and manage important information related to Directors' execution of duties, including the record of Board meetings and other approved documents, as stipulated by laws and regulations, and the Company's internal rules.

(3) Rules and Other Systems for Risk Management

While continuing to make efforts to raise its corporate value, the Company recognizes the problems related to compliance, environment, product quality, accidents and information security in particular, and other matters, as major risks for continuous growth and has been thus implementing the following countermeasures.

- i) The Company shall establish Risk Management Rules to correctly recognize and manage risks. In accordance with the rules, the Company has appointed personnel in charge of individual risks, further promoting the build-up of a solid foundation for risk management.
- ii) The Company shall establish Risk Management Committee to devise risk management policies of Komatsu, evaluate risk measures in place, and take control of risks when they surface. The Risk Management Committee regularly reports its reviews and activities to the Board of Directors.
- iii) The Company shall establish an emergency headquarters when serious risks surface, and work to minimize damage(s) and implement appropriate measures.

(4) Systems for Ensuring Efficient Execution of Duties by Directors

To ensure the efficient execution of duties by Directors, the Company shall implement the following:

- i) The Board of Directors shall meet in principle at least once every month and more often as needed. It shall strive to maintain transparency and soundness of management through the participation of Outside Directors. It shall also establish the Regulations of the Board of Directors and the Standards for Agenda of Board Meetings, thereby clarifying the matters on which the Board of Directors should make decisions.
- ii) Together with the introduction of the Executive Officer System, the Company shall define the separation of duties for Directors, Executive Officers and senior managers, and set up internal rules including the Regulations of Decision-Making Authority, to ensure appropriate and effective execution of duties by Directors, Executive Officers and other senior managers.
- iii) To promote efficient management of the Board of Directors, the Company shall establish a Strategy Review Committee consisting of Senior Executive Officers and senior managers. Based on the reviews of the Committee, Executive Officers and senior managers execute their duties within the authority delegated by the Board of Directors.

(5) Systems for Ensuring that the Execution of Duties by Directors and Employees Complies with Laws and Regulations, and the Company's Articles of Incorporation

The Board of Directors makes decisions on important management matters in accordance with laws and regulations and the Regulations of the Board of Directors. In accordance with the decisions made by the Board of Directors, each Director not only executes his or her own duties but also supervises employees for the execution of their duties, and reports the conditions thereof to the Board of Directors.

The Company shall establish the Compliance Committee to oversee compliance, and the Committee regularly reports its reviews and activities to the Board of Directors. The Company shall also establish a system to ensure Directors and employees thorough compliance to business rules as well as laws and regulations through a variety of measures, including the provision of Komatsu Code of Worldwide Business Conduct, appointment of the Executive Officer in charge of compliance, and establishment of the Compliance Department. Through all of these, we work to supervise, educate and train Directors, Audit & Supervisory Board Members and employees.

In addition, the Company shall establish the internal reporting system where those who are discretely reporting questionable actions in light of laws and regulations and business rules will not be given any disadvantageous treatment.

(6) Systems for Ensuring the Proper Operation of Komatsu Comprising the Company and Its Subsidiaries

- i) The Company shall establish the Affiliated Company Regulations and relevant rules to contribute to proper and efficient operation of Group management. It shall also position the Komatsu Code of Worldwide Business Conduct, as the code to be applied by all companies affiliated with Komatsu. Each

department or division of the Company in charge of affiliated companies shall manage and support each relevant company, and each company in Komatsu shall stipulate various regulations for the proper promotion of duties.

- ii) The Company shall assign and dispatch persons for Directors and Audit & Supervisory Board Members of major affiliated companies as needed, in order to strengthen corporate governance on a group-wide basis and monitor their management.
- iii) Important committees of the Company, including the Compliance Committee, Risk Management Committee and Export Control Committee, shall take actions with the entire Group in view, and allow representatives of affiliated companies to take part in their meetings on occasion.
- iv) The Company shall make particularly important affiliated companies regularly report to the Board of Directors of the Company on the status of business, including risks and compliance.
- v) The Internal Auditing Department of the Company shall audit each division of the Company and implement or supervise auditing of major affiliated companies that belong to Komatsu. It shall also monitor and instruct each affiliated company regarding internal control systems built by them in accordance with Company requirements and the appropriate operation. The Internal Auditing Department shall also regularly report to the Board of Directors and the Audit & Supervisory Board about the building, operational status and results of internal control systems across the Komatsu Group.

(6)-1 Systems for Ensuring Items Related to the Implementation of Duties by Directors and Other Employees at Subsidiaries are Reported to the Company

Each division/department of the Company that has affiliated companies under its supervision shall make each affiliated company report on the management status, financial status, and other important matters of management in accordance with the Affiliated Company Regulations and relevant rules.

(6)-2 Rules and Other Systems for Risk Management at Subsidiaries

The Company comprehensively manages risk across the Komatsu Group applying the risk management system explained in (3) Rules and Other Systems for Risk Management to the Komatsu Group as a whole.

(6)-3 Systems for Ensuring Efficient Execution of Duties by Directors and Other Employees at Subsidiaries

In the case where a subsidiary executes a matter that has a significant impact on the consolidated business operations of the Company, it is necessary either that the Company provides approval beforehand or that the Company receives notification of the matter beforehand in accordance with the Affiliated Company Regulations and relevant rules. In addition, to ensure the Company carries out the efficient operation of the entire Group based on a continual grasp of the status of the affiliated company's status of business execution, the Company receives reports on the affiliated company's standards for the agenda of board meetings, the frequency of board of directors meetings, the status of attendance, and agenda proposals.

(6)-4 Systems for Ensuring that the Execution of Duties by Directors and Employees at Subsidiaries Complies with Laws and Regulations, and the Company's Articles of Incorporation

The internal control systems and compliance systems described in (5) Systems for Ensuring that the Execution of Duties by Directors and Employees Complies with Laws and Regulations, and the Company's Articles of Incorporation are implemented across the Komatsu Group, ensuring that Directors and employees of each company in Komatsu carry out their duties in accordance with laws and regulations and the Company's Articles of Incorporation.

(7) Employees Assisting Audit & Supervisory Board Members for Execution of Their Duties, When They Ask for Such Employees

The Company shall set up the Office of Corporate Auditors' Staff, which shall assist Audit & Supervisory Board Members in their duties, and allocate employees who work as assistants to Audit & Supervisory Board Members either exclusively or concurrently in another position within the Company.

(8) Matters Regarding the Independence of the Assistants to Audit & Supervisory Board Members from Directors and the Effectiveness of Instructions Issued to the Assistants

- i) Handling of personnel affairs (employment, appointment and personnel changes) of the employees who belong to the Office of Corporate Auditors' Staff shall be premised on approval of the Standing Audit & Supervisory Board Members.
- ii) The employees who exclusively assist the Office of Corporate Auditors' Staff are independent of control and command of the Directors, and their performance shall be rated by the Standing Audit &

Supervisory Board Members.

- iii) The Company's Standing Audit & Supervisory Board Members shall hold regular meetings with employees of the Office of Corporate Auditors' Staff to confirm the execution of duties by the office.

(9) Systems for Directors and Employees Reporting to Audit & Supervisory Board Members; Systems Relating to Other Reports to Audit & Supervisory Board Members and Ensuring Effective Audits by Audit & Supervisory Board Members

- i) In accordance with laws and regulations, Audit & Supervisory Board Members shall receive reports by Directors, Executive Officers and other senior managers concerning the conditions of execution of their respective duties.
- ii) In the event that Directors find a serious violation of laws and regulations or other important facts regarding compliance at the Company or affiliated companies of Komatsu, they shall report to the Audit & Supervisory Board Members immediately.
- iii) The Audit & Supervisory Board Members shall attend various committees and principal meetings concerning internal control as observers, and also read circulars per management approval sent around to obtain the sanction of executives, which are important decision-making documents of the Company, and essential prior settlement documents.
- iv) Audit & Supervisory Board Members may appoint legal counsels and other advisors needed for the execution of their duties.

(9)-1 Systems to Ensure Reports from Directors, Audit & Supervisory Board Members and Employees of Subsidiaries are Passed, Directly or via a Person Receiving such Reports, to Audit & Supervisory Board Members of the Company

Audit & Supervisory Board Members shall attend as observers meetings of committees, including the Strategy Review Committee discussing important management matters of the Company and Group companies, Compliance Committee and Risk Management Committee, respectively discussing compliance matters and risk management matters, and Export Control Committee.

In accordance with the Affiliated Company Regulations and relevant rules, reports provided from affiliated companies regarding business operations, financial position and other important management matters are provided also to Audit & Supervisory Board Members.

The Company's Risk Management Rules and Internal Auditing Rules are applicable to affiliated companies and any important matter is reported to Audit & Supervisory Board Members.

(9)-2 Systems to Ensure Individuals who Provide Reports to Audit & Supervisory Board Members are not Given any Disadvantageous Treatment for the Provision Thereof

It is clearly stated in general rules on compliance regulated by the Company and each Group company that no disadvantageous treatment will arise from the act of reporting or informing, and the Company and each Group company shall operate in accordance with the aforesaid general rules.

(10) Advance Payments and Reimbursements for Expenses Incurred by Audit & Supervisory Board Members Executing Duties and Policy Related to Expenses or Debts Incurred by Executing Duties

The Audit & Supervisory Board, after discussion with the operating department, shall secure the necessary budget to implement audit plans approved by the Audit & Supervisory Board.

On receiving claims from Audit & Supervisory Board Members for expenses to be incurred related to the execution of their duties, the Company shall promptly pay expenses in all cases except where there is no clear connection with the execution of duties of the Audit & Supervisory Board Members.

Audit & Supervisory Board Members and employees assigned to the Office of Corporate Auditors' Staff shall be responsible for managing and implementing costs related to the execution of duties by Audit & Supervisory Board Members.

(11) Basic Policy Pertaining to the Elimination of Antisocial Forces

It shall be the basic policy of the Company to prohibit Komatsu from having any relation whatsoever with antisocial movements or groups that threaten the order and security of civil society, and the Company works on below.

- i) The above policy shall be provided in Komatsu Code of Worldwide Business Conduct and diffused throughout the Company as well as each company in Komatsu.

- ii) The Company's General Affairs Department of the Head Office shall oversee the policy, working with the police and other specialized external organizations, in accordance with the above policy, to take a firm and organized stand against unwarranted claims by antisocial movements or groups and to prevent any business relationship with those movements or groups.
- iii) The Company will do its utmost to collect information and receive education training from the above external organizations and use above information communally both within the Company and among related Group divisions.

4. Outline of contents of limited liability agreement

In accordance with the provisions of Article 427, Paragraph 1 of the Companies Act of Japan and the Articles of Incorporation, the Company has entered into agreements with Outside Directors and Audit & Supervisory Board Members that limit their liability for damages caused by their negligence of duty under Article 423, Paragraph 1 of the same. The maximum liability amount specified in these agreements shall be equivalent to those amounts stipulated by laws and regulations.

5. Outline of Contents of Company Indemnification Agreement

The Company has entered into a company indemnification agreement in accordance with the provisions of Article 430-2, Paragraph 1 of the Companies Act of Japan with Directors and Audit & Supervisory Board Members, thereby providing that the Company shall indemnify expenses set forth in Article 430-2, Paragraph 1, Item 1 of the same, and losses set forth in Article 430-2, Paragraph 1, Item 2 of the same, within the scope permitted by laws and regulations. However, in order to ensure that appropriate execution of duties by the Directors and Audit & Supervisory Board Members of the Company is not impaired due to such company indemnification agreement, a refund may be requested for a monetary sum equivalent to the indemnified amount if such Director or Audit & Supervisory Board Member violates the provisions of laws and regulations or otherwise incurs liability as a result of he or she having acted in bad faith or with gross negligence in regard to his or her execution of duties.

6. Outline of Contents of Directors and Officers Liability Insurance Policy

The Company has entered into a directors and officers liability insurance policy as provided for in Article 430-3, Paragraph 1 of the Companies Act of Japan with an insurance company, whereby those listed as insured persons include the Directors, Audit & Supervisory Board Members, and executive officers of the Company and its consolidated subsidiaries. The insurance policy covers damages which may arise should an insured person incur liability in relation to his or her execution of duties or otherwise become subject to a claim pertaining to pursuit of such liability. However, in order to ensure that the appropriate execution of duties by the insured persons is not impaired, coverage is not provided under certain circumstances such as when there are damages arising from an insured person's involvement in criminal acts or acts committed with the knowledge that they may violate laws and regulations, nor is coverage provided with respect to portions of amounts of damages not exceeding deductibles. Insurance premiums shall be assumed by the Company and its consolidated subsidiaries.

C. Articles of Incorporation of the Company

The following are prescribed by the Articles of Incorporation of the Company.

- 1) The Company shall have no more than fifteen (15) Directors.
- 2) A resolution for the election of a Director shall be adopted by a majority of the voting rights of the shareholders who are eligible to exercise the voting rights and who are present at the meeting, where the shareholders holding one-third (1/3) or more of the voting rights of all shareholders eligible to exercise the voting rights must be present.
- 3) Cumulative voting shall not be used in a resolution for the election of a Director.
- 4) To ensure a quorum can be secured, when a special resolution is required, resolutions made pursuant to Article 309, Paragraph 2 of the Companies Act of Japan shall be adopted by two-thirds (2/3) or more of the voting rights of the shareholders who are eligible to exercise the voting rights and who are present at the meeting, where the shareholders holding one-third (1/3) or more of the voting rights of all shareholders eligible to exercise the voting rights must be present.
- 5) To enable the execution of flexible capital policy to respond to changes in the business environment, pursuant to the provisions of Article 165, Paragraph 2 of the Companies Act of Japan, the Company may acquire its own shares through transactions on the market, etc., by a resolution of the Board of Directors.

- 6) To ensure Directors and Audit & Supervisory Board Members can fully perform the role expected of them, in accordance with the provisions of Article 426, Paragraph 1 of the Companies Act of Japan, the Company may, by a resolution of the Board of Directors, exempt a Director or an Audit & Supervisory Board Member from his/her liability for damages caused by his/her dereliction of duty, within the limits stipulated by laws or regulations.
- 7) To provide flexible redistribution of profits to shareholders, the Company may distribute interim dividends, by a resolution of the Board of Directors, by setting the record date as of September 30 of each year.

(2) Board of Directors and Audit & Supervisory Board Members

A. List of Board of Directors and Audit & Supervisory Board Members

1. The Board of Directors and Audit & Supervisory Board Members of the Company as of June 20, 2023 (As of the filing date of this Annual Securities Report) are shown as below.

Male: twelve (12) persons, Female: two (2) persons (percentage of the female: 14.3 %)

| Title & Position | Name | Date of birth | Career summary | Term of office | Share ownership (Thousands of shares) |
|---|---------------------|---------------|---|----------------|---------------------------------------|
| Chairman of the Board | Tetsuji Ohashi | Mar. 23, 1954 | Apr. 1977 Joined the Company Product Control Section, Planning & Coordination Department of Awazu Plant Jun. 1982 Graduate School, Stanford University, U.S.A. (until Jun. 1984) Oct. 1998 General Manager of Planning & Cooperation Department of Awazu Plant, Production Division Oct. 2001 Plant Manager of Moka Plant, Production Division Jan. 2004 President and COO of Komatsu America Corp. Apr. 2007 Took office as Executive Officer of the Company Apr. 2007 President of Production Division Apr. 2008 Took office as Senior Executive Officer Jun. 2009 Took office as Director and Senior Executive Officer Apr. 2012 Took office as Director and Senior Executive Officer Apr. 2013 Took office as President and Representative Director, and CEO Apr. 2019 Took office as Chairman of the Board and Representative Director Apr. 2022 Took office as Chairman of the Board (current) | *4 | 203 |
| President and Representative Director and CEO | * Hiroyuki Ogawa | Mar. 23, 1961 | Apr. 1985 Joined the Company Production Engineering Section, Production Engineering Department of Kawasaki Plant Apr. 2004 Plant Manager of Chattanooga Manufacturing Operation, Komatsu America Corp. Apr. 2007 General Manager of Planning & Coordination Department of Osaka Plant, Production Division Apr. 2010 Took office as Executive Officer Apr. 2010 Plant Manager of Ibaraki Plant, Production Division Apr. 2013 President of Procurement Division in Production Division Apr. 2014 Representative of All Indonesia Operations Chairman of PT Komatsu Marketing & Support Indonesia (until Mar. 2016) Apr. 2015 Took office as Senior Executive Officer Apr. 2016 President of Production Division Apr. 2018 Took office as Senior Executive Officer Jun. 2018 Took office as Director and Senior Executive Officer Apr. 2019 Took office as President and Representative Director (current) Apr. 2019 CEO (current) | *4 | 108 |

| Title & Position | Name | Date of birth | Career summary | | Term of office | Share ownership (Thousands of shares) |
|-------------------------|------------------------|---------------|----------------|---|----------------|---------------------------------------|
| Representative Director | * Masayuki Moriyama | Feb. 5, 1960 | Apr. 1982 | Joined the Company Technology Management Department, Vehicle Development Center of Kawasaki Plant | *4 | 78 |
| | | | Jul. 1988 | Graduate School, Cornell University, U.S.A. (until Jun. 1990) | | |
| | | | Mar. 2000 | Komatsu America Corp. (until Mar. 2003) | | |
| | | | Apr. 2010 | Took office as Executive Officer of the Company | | |
| | | | Apr. 2010 | General Manager of Construction Equipment Technical Center 1, Development Division | | |
| | | | Apr. 2014 | President and COO of Komatsu America Corp. | | |
| | | | Apr. 2015 | Took office as Senior Executive Officer | | |
| | | | Apr. 2017 | President of Mining Business Division (current) | | |
| | | | Apr. 2018 | Took office as Senior Executive Officer | | |
| | | | Jun. 2019 | Took office as Director and Senior Executive Officer | | |
| | | | Apr. 2022 | Took office as Representative Director and Senior Executive Officer (current) | | |
| Director | Kiyoshi Mizuhara | Jan. 13, 1960 | Apr. 1983 | Joined the Company General Sales Department, Export Sales Division | | |
| | | | Sep. 1988 | Komatsu Dresser Company (currently Komatsu America Corp.) (until Mar. 1993) | | |
| | | | Mar. 1997 | Komatsu Hanomag GmbH (currently Komatsu Germany GmbH) (until Mar. 2003) | | |
| | | | Apr. 2008 | General Manager of Business Control Department, Construction & Mining Equipment Marketing Division | | |
| | | | Apr. 2011 | General Manager of Construction Equipment Corporate Planning Department, Construction & Mining Equipment Marketing Division | | |
| | | | Apr. 2013 | Took office as Executive Officer | | |
| | | | Apr. 2013 | Representative of All India Operations President of Komatsu India Pvt. Ltd. | | |
| | | | Apr. 2017 | Took office as Senior Executive Officer | | |
| | | | Apr. 2017 | President of Construction Equipment Marketing Division | | |
| | | | Apr. 2019 | Took office as Senior Executive Officer | | |
| | | | Jun. 2019 | Took office as Director and Senior Executive Officer | | |
| | | | Apr. 2021 | CMO and President, Construction Equipment Solution Division | | |
| | | | Apr. 2022 | Took office as Representative Director and Senior Executive Officer | | |
| | | | Apr. 2022 | CMO | | |
| | | | Apr. 2023 | Director (current) | | |

| Title & Position | Name | Date of birth | Career summary | | Term of office | Share ownership (Thousands of shares) |
|------------------|---------------------------|---------------|--|--|----------------|---------------------------------------|
| Director | * Takeshi Horikoshi | Aug. 1, 1961 | Apr. 1985 Feb. 1996 Sep. 1998 Nov. 2008 Jun. 2012 May. 2016 Apr. 2017 Apr. 2018 Apr. 2020 Jun. 2021 Apr. 2023 | Joined the Company Accounting Section, Administration Department of Osaka Plant Komatsu UK Ltd. Komatsu France S.A.S (until May. 2003) Komatsu Europe International N.V. (until Nov. 2011) General Manager of Finance & Treasury Department General Manager of Corporate Controlling Department Took office as Executive Officer CFO (current) Took office as Senior Executive Officer Took office as Director and Senior Executive Officer Took office as Director and Senior Executive Officer (current) | *4 | 37 |
| Director | Takeshi Kunibe | Mar. 8, 1954 | Apr. 1976 Jun. 2003 Oct. 2006 Apr. 2007 Jun. 2007 Apr. 2009 Apr. 2011 Apr. 2017 Apr. 2017 Jun. 2017 Apr. 2019 Jun. 2020 Oct. 2021 Apr. 2023 | Joined The Sumitomo Bank, Ltd. (currently Sumitomo Mitsui Banking Corporation, hereinafter the "SMBC") Took office as Executive Officer of SMBC Took office as Managing Executive Officer of SMBC Took office as Managing Executive Officer of Sumitomo Mitsui Financial Group, Inc. (hereinafter "SMFG") Took office as Director of SMFG Took office as Director and Senior Managing Executive Officer of SMBC Took office as Representative Director, President and Chief Executive Officer of SMBC Took office as Representative Director and President of SMFG Retired from Director of SMBC Took office as Director President and Representative Executive Officer of SMFG Took office as Chairman of the Board of SMFG (current) Took office as Director of the Company (current) Took office as Chairman of the Board of SMBC Retired from Director of SMBC | *4 | - |

| Title & Position | Name | Date of birth | Career summary | | Term of office | Share ownership (Thousands of shares) |
|------------------|--------------------|---------------|----------------|--|----------------|---------------------------------------|
| Director | Arthur M. Mitchell | Jul. 23, 1947 | Jul. 1976 | Registered as attorney at law in New York State, U.S.A. (current) | *4 | - |
| | | | Jan. 2003 | Took office as General Counsel of Asian Development Bank | | |
| | | | Sep. 2007 | Joined White & Case LLP | | |
| | | | Jan. 2008 | Registered as registered foreign lawyer in Japan(current) | | |
| | | | Jan. 2008 | Registered foreign lawyer of White & Case LLP (current) | | |
| | | | Jun. 2020 | Took office as Director of the Company (current) | | |
| Director | Naoko Saiki | Oct. 11, 1958 | Apr. 1982 | Joined the Ministry of Foreign Affairs (hereinafter "MOFA") | *4 | - |
| | | | Jul. 2014 | Took office as Director-General, Economic Affairs Bureau and Councillor, Cabinet Secretariat | | |
| | | | Oct. 2015 | Took office as Director-General, International Legal Affairs Bureau | | |
| | | | Jul. 2017 | Took office as Director-General, Foreign Service Training Institute, MOFA | | |
| | | | Jan. 2019 | Retired from MOFA | | |
| | | | Apr. 2020 | Took office as Visiting Professor, Graduate School of Public Policy, The University of Tokyo | | |
| | | | Jun. 2021 | Took office as Director of the Company (current) | | |
| | | | Apr. 2023 | Special Assistant to the Minister for Foreign Affairs (current) | | |
| Director | Michitaka Sawada | Dec. 20, 1955 | Apr. 1981 | Joined Kao Soap Co., Ltd. (currently Kao Corporation) | *4 | - |
| | | | Jun. 2006 | Took office as Executive Officer of Kao Corporation | | |
| | | | Jun. 2008 | Took office as Director, Executive Officer of Kao Corporation | | |
| | | | Jun. 2012 | Took office as Representative Director, President and Chief Executive Officer of Kao Corporation | | |
| | | | Jan. 2021 | Took office as Director, Chair of Kao Corporation (current) | | |
| | | | Jun. 2022 | Took office as Director of the Company (current) | | |

| Title & Position | Name | Date of birth | Career summary | | Term of office | Share ownership (Thousands of shares) |
|---|------------------|---------------|----------------|--|----------------|---------------------------------------|
| Standing Audit & Supervisory Board Member | Terumi Sasaki | Dec. 24, 1960 | Apr. 1983 | Joined the Company Shipping Section, Transportation Department, Export Sales Division | *5 | 22 |
| | | | Jul. 1996 | Komatsu Hanomag GmbH (currently Komatsu Germany GmbH) (until Oct. 2003) | | |
| | | | Jun. 2011 | General Manager of IFRS Implementation Department | | |
| | | | Sep. 2012 | Vice President, Finance and Control of Komatsu America Corp. | | |
| | | | Apr. 2017 | Executive Vice President and CFO of Komatsu Mining Corp. | | |
| | | | Apr. 2020 | Advisor to President | | |
| | | | Jun. 2020 | Took office as Standing Audit & Supervisory Board Member (current) | | |
| | | | | | | |
| Standing Audit & Supervisory Board Member | Yasuhiro Inagaki | Aug. 21, 1961 | Apr. 1984 | Joined the Company Legal Section, Administration Department | *6 | 47 |
| | | | Jul. 1989 | Graduate School, Cornell Law School, U.S.A. (until Jan. 1991) | | |
| | | | Apr. 2003 | General Manager of Business Development Department | | |
| | | | Apr. 2010 | Took office as Executive Officer | | |
| | | | Apr. 2010 | General Manager of Business Development Department and General Manager of Legal Department | | |
| | | | Apr. 2015 | Took office as Senior Executive Officer | | |
| | | | Apr. 2015 | General Manager of Business Coordination Department | | |
| | | | Apr. 2018 | Representative of All China Operations | | |
| | | | Apr. 2021 | Advisor to President | | |
| | | | Jun. 2021 | Took office as Standing Audit & Supervisory Board Member (current) | | |
| Audit & Supervisory Board Member | Eiko Shinotsuka | May. 1, 1942 | Apr. 1993 | Took office as professor at Ochanomizu University | *7 | - |
| | | | Apr. 2008 | Took office as professor emeritus at Ochanomizu University (current) | | |
| | | | Jun. 2015 | Took office as Audit & Supervisory Board Member of the Company (current) | | |
| Audit & Supervisory Board Member | Kotaro Ohno | Apr. 1, 1952 | Apr. 1976 | Appointed as Prosecutor | *6 | - |
| | | | Jul. 2009 | Took office as Vice-Minister of Justice | | |
| | | | Jul. 2012 | Took office as Superintending Prosecutor of Tokyo High Public Prosecutors Office | | |
| | | | Jul. 2014 | Took office as Prosecutor-General of Supreme Public Prosecutors Office | | |
| | | | Sep. 2016 | Retired from the position of Prosecutor-General of Supreme Public Prosecutors Office | | |
| | | | Nov. 2016 | Attorney at law, Special Counsel of Mori Hamada & Matsumoto | | |
| | | | Jun. 2017 | Took office as Audit & Supervisory Board Member of the Company (current) | | |
| | | | Jan. 2023 | Advisor, Atsumi & Sakai (current) | | |

| Title & Position | Name | Date of birth | Career summary | | Term of office | Share ownership (Thousands of shares) |
|----------------------------------|----------------|---------------|----------------|--|----------------|---------------------------------------|
| Audit & Supervisory Board Member | Tatsuro Kosaka | Jan. 18, 1953 | Apr. 1976 | Joined Chugai Pharmaceutical Co., Ltd. | *8 | - |
| | | | Oct. 2002 | Took office as Vice President, General Manager of Corporate Planning Dept. of Chugai Pharmaceutical Co., Ltd. | | |
| | | | Oct. 2004 | Took office as Senior Vice President, General Manager of Corporate Planning Dept. of Chugai Pharmaceutical Co., Ltd. | | |
| | | | Mar. 2005 | Took office as Senior Vice President, Deputy Managing Director of Sales & Marketing Group of Chugai Pharmaceutical Co., Ltd. | | |
| | | | Jul. 2005 | Took office as Senior Vice President, Head of Strategic Marketing Unit of Chugai Pharmaceutical Co., Ltd. | | |
| | | | Mar. 2008 | Took office as Senior Vice President, Head of Lifecycle Management & Marketing Unit of Chugai Pharmaceutical Co., Ltd. | | |
| | | | Mar. 2010 | Took office as Director, Executive Vice President of Chugai Pharmaceutical Co., Ltd. | | |
| | | | Mar. 2012 | Took office as Representative Director, President & COO of Chugai Pharmaceutical Co., Ltd. | | |
| | | | Mar. 2018 | Took office as Representative Director, President & CEO of Chugai Pharmaceutical Co., Ltd. | | |
| | | | Mar. 2020 | Took office as Representative Director, Chairman & CEO of Chugai Pharmaceutical Co., Ltd. | | |
| | | | Mar. 2022 | Took office as Senior Advisor (current) | | |
| | | | Jun. 2022 | Took office as Audit & Supervisory Board Member of the Company (current) | | |
| Total | | | | | | 559 |

Notes:

- 1) Directors Takeshi Kunibe, Arthur M. Mitchell, Naoko Saiki and Michitaka Sawada are Outside Directors.
- 2) Audit & Supervisory Board Members Eiko Shinotsuka, Kotaro Ohno and Tatsuro Kosaka are Outside Audit & Supervisory Board Members.
- 3) The Company introduced an executive officer system in June 1999. As of June 20, 2023, the Company has 47 officers including 3 persons simultaneously holding the position of director. Such persons have been marked with an asterisk above their names in the table.
- 4) The term of office of the Directors shall expire at the conclusion of the Ordinary General Meeting of Shareholders for the last business year of the Company ending within 1 year after the Ordinary General Meeting of Shareholders held on June 21, 2022.
- 5) The term of office of Audit & Supervisory Board Member Terumi Sasaki shall expire at the conclusion of the Ordinary General Meeting of Shareholders for the last business year ending within 4 years after the Ordinary General Meeting of Shareholders held on June 18, 2020.
- 6) The term of office of Audit & Supervisory Board Members Yasuhiro Inagaki and Kotaro Ohno shall expire at the conclusion of the Ordinary General Meeting of Shareholders for the last business year ending within 4 years after the Ordinary General Meeting of Shareholders held on June 18, 2021.
- 7) The term of office of Audit & Supervisory Board Member Eiko Shinotsuka shall expire at the conclusion of the Ordinary General Meeting of Shareholders for the last business year ending within 4 years after the Ordinary General Meeting of Shareholders held on June 18, 2019.
- 8) The term of office of Audit & Supervisory Board Member Tatsuro Kosaka shall expire at the conclusion of the Ordinary General Meeting of Shareholders for the last business year ending within 4 years after the Ordinary General Meeting of Shareholders held on June 21, 2022.
- 9) The names of organizations and subsidiaries, etc., of the Company shown in the “Career summary” above

present those at the time.

2. The Board of Directors and Audit & Supervisory Board Members of the Company will be as shown below, when the proposed items of “Election of nine (9) Directors” and “Election of one (1) Audit & Supervisory Board Member” will be resolved at the Ordinary General Meeting of Shareholders to be held on June 21, 2023. The table below also shows the proposed items, including titles and positions, to be resolved at the Board of Directors and Audit & Supervisory Board of the Company to be held immediately after the Ordinary General Meeting of Shareholders.

Male: eleven (11) persons, Female: three (3) persons (percentage of the female: 21.4%)

| Title & Position | Name | Date of birth | Career summary | | Term of office | Share ownership (Thousands of shares) |
|---|---------------------|---------------|----------------|--|----------------|---------------------------------------|
| Chairman of the Board | Tetsuji Ohashi | Mar. 23, 1954 | Apr. 1977 | Joined the Company Product Control Section, Planning & Coordination Department of Awazu Plant | *4 | 203 |
| | | | Jun. 1982 | Graduate School, Stanford University, U.S.A. (until Jun. 1984) | | |
| | | | Oct. 1998 | General Manager of Planning & Cooperation Department of Awazu Plant, Production Division | | |
| | | | Oct. 2001 | Plant Manager of Moka Plant, Production Division | | |
| | | | Jan. 2004 | President and COO of Komatsu America Corp. | | |
| | | | Apr. 2007 | Took office as Executive Officer of the Company | | |
| | | | Apr. 2007 | President of Production Division | | |
| | | | Apr. 2008 | Took office as Senior Executive Officer | | |
| | | | Jun. 2009 | Took office as Director and Senior Executive Officer | | |
| | | | Apr. 2012 | Took office as Director and Senior Executive Officer | | |
| | | | Apr. 2013 | Took office as President and Representative Director, and CEO | | |
| | | | Apr. 2019 | Took office as Chairman of the Board and Representative Director | | |
| | | | Apr. 2022 | Took office as Chairman of the Board (current) | | |
| President and Representative Director and CEO | * Hiroyuki Ogawa | Mar. 23, 1961 | Apr. 1985 | Joined the Company Production Engineering Section, Production Engineering Department of Kawasaki Plant | *4 | 108 |
| | | | Apr. 2004 | Plant Manager of Chattanooga Manufacturing Operation, Komatsu America Corp. | | |
| | | | Apr. 2007 | General Manager of Planning & Coordination Department of Osaka Plant, Production Division | | |
| | | | Apr. 2010 | Took office as Executive Officer | | |
| | | | Apr. 2010 | Plant Manager of Ibaraki Plant, Production Division | | |
| | | | Apr. 2013 | President of Procurement Division in Production Division | | |
| | | | Apr. 2014 | Representative of All Indonesia Operations Chairman of PT Komatsu Marketing & Support Indonesia (until Mar. 2016) | | |
| | | | Apr. 2015 | Took office as Senior Executive Officer | | |
| | | | Apr. 2016 | President of Production Division | | |
| | | | Apr. 2018 | Took office as Senior Executive Officer | | |
| | | | Jun. 2018 | Took office as Director and Senior Executive Officer | | |
| | | | Apr. 2019 | Took office as President and Representative Director (current) | | |
| | | | Apr. 2019 | CEO (current) | | |

| Title & Position | Name | Date of birth | Career summary | | Term of office | Share ownership (Thousands of shares) |
|-------------------------|------------------------|---------------|----------------|--|----------------|---------------------------------------|
| Representative Director | * Masayuki Moriyama | Feb. 5, 1960 | Apr. 1982 | Joined the Company Technology Management Department, Vehicle Development Center of Kawasaki Plant | *4 | 78 |
| | | | Jul. 1988 | Graduate School, Cornell University, U.S.A. (until Jun. 1990) | | |
| | | | Mar. 2000 | Komatsu America Corp. (until Mar. 2003) | | |
| | | | Apr. 2010 | Took office as Executive Officer of the Company | | |
| | | | Apr. 2010 | General Manager of Construction Equipment Technical Center 1, Development Division | | |
| | | | Apr. 2014 | President and COO of Komatsu America Corp. | | |
| | | | Apr. 2015 | Took office as Senior Executive Officer | | |
| | | | Apr. 2017 | President of Mining Business Division (current) | | |
| | | | Apr. 2018 | Took office as Senior Executive Officer | | |
| | | | Jun. 2019 | Took office as Director and Senior Executive Officer | | |
| | | | Apr. 2022 | Took office as Representative Director and Senior Executive Officer (current) | | |
| Director | * Takeshi Horikoshi | Aug. 1, 1961 | Apr. 1985 | Joined the Company Accounting Section, Administration Department of Osaka Plant | *4 | 37 |
| | | | Feb. 1996 | Komatsu UK Ltd. | | |
| | | | Sep. 1998 | Komatsu France S.A.S (until May. 2003) | | |
| | | | Nov. 2008 | Komatsu Europe International N.V. (until Nov. 2011) | | |
| | | | Jun. 2012 | General Manager of Finance & Treasury Department | | |
| | | | May. 2016 | General Manager of Corporate Controlling Department | | |
| | | | Apr. 2017 | Took office as Executive Officer | | |
| | | | Apr. 2018 | CFO (current) | | |
| | | | Apr. 2020 | Took office as Senior Executive Officer | | |
| | | | Jun. 2021 | Took office as Director and Senior Executive Officer | | |
| | | | Apr. 2023 | Took office as Director and Senior Executive Officer (current) | | |

| Title & Position | Name | Date of birth | Career summary | | Term of office | Share ownership (Thousands of shares) |
|------------------|--------------------------|---------------|----------------|---|----------------|---------------------------------------|
| Director | * Mitsuko Yokomoto | Jan. 6, 1963 | Apr. 1985 | Joined the Company Human Resources Section, Human Resources Department | *4 | 20 |
| | | | Apr. 2011 | General Manager of General Affairs Department of Gigaphoton Inc. | | |
| | | | May. 2015 | General Manager of General Affairs Department of Shonan Plant, Production Division | | |
| | | | Apr. 2018 | General Manager of General Affairs Department | | |
| | | | Apr. 2019 | Took office as Executive Officer (Responsible for Risk Management) | | |
| | | | Apr. 2021 | Took office as Senior Executive Officer | | |
| | | | Apr. 2021 | President of Sustainability Promotion Division | | |
| | | | Apr. 2023 | Senior Executive Officer (Supervising Human Resources, Education and Sustainability) | | |
| | | | Jun. 2023 | Took office as Director and Senior Executive Officer (current) | | |
| Director | Takeshi Kunibe | Mar. 8, 1954 | Apr. 1976 | Joined The Sumitomo Bank, Ltd. (currently Sumitomo Mitsui Banking Corporation, hereinafter the "SMBC") | *4 | - |
| | | | Jun. 2003 | Took office as Executive Officer of SMBC | | |
| | | | Oct. 2006 | Took office as Managing Executive Officer of SMBC | | |
| | | | Apr. 2007 | Took office as Managing Executive Officer of Sumitomo Mitsui Financial Group, Inc. (hereinafter "SMFG") | | |
| | | | Jun. 2007 | Took office as Director of SMFG | | |
| | | | Apr. 2009 | Took office as Director and Senior Managing Executive Officer of SMBC | | |
| | | | Apr. 2011 | Took office as Representative Director, President and Chief Executive Officer of SMBC | | |
| | | | Apr. 2017 | Took office as Representative Director and President of SMFG | | |
| | | | Apr. 2017 | Retired from Director of SMBC | | |
| | | | Jun. 2017 | Took office as Director President and Representative Executive Officer of SMFG | | |
| | | | Apr. 2019 | Took office as Chairman of the Board of SMFG (current) | | |
| | | | Jun. 2020 | Took office as Director of the Company (current) | | |
| | | | Oct. 2021 | Took office as Chairman of the Board of SMBC | | |
| | | | Apr. 2023 | Retired from Director of SMBC | | |
| Director | Arthur M. Mitchell | Jul. 23, 1947 | Jul. 1976 | Registered as attorney at law in New York State, U.S.A. (current) | *4 | - |
| | | | Jan. 2003 | Took office as General Counsel of Asian Development Bank | | |
| | | | Sep. 2007 | Joined White & Case LLP | | |
| | | | Jan. 2008 | Registered as registered foreign lawyer (current) | | |
| | | | Jan. 2008 | Registered foreign lawyer of White & Case LLP (current) | | |
| | | | Jun. 2020 | Took office as Director of the Company (current) | | |

| Title & Position | Name | Date of birth | Career summary | | Term of office | Share ownership (Thousands of shares) |
|------------------|------------------|---------------|----------------|--|----------------|---------------------------------------|
| Director | Naoko Saiki | Oct. 11, 1958 | Apr. 1982 | Joined the Ministry of Foreign Affairs (hereinafter "MOFA") | *4 | - |
| | | | Jul. 2014 | Took office as Director-General, Economic Affairs Bureau and Councillor, Cabinet Secretariat | | |
| | | | Oct. 2015 | Took office as Director-General, International Legal Affairs Bureau | | |
| | | | Jul. 2017 | Took office as Director-General, Foreign Service Training Institute, MOFA | | |
| | | | Jan. 2019 | Retired from MOFA | | |
| | | | Apr. 2020 | Took office as Visiting Professor, Graduate School of Public Policy, The University of Tokyo | | |
| | | | Jun. 2021 | Took office as Director of the Company (current) | | |
| | | | Apr. 2023 | Special Assistant to the Minister for Foreign Affairs (current) | | |
| Director | Michitaka Sawada | Dec. 20, 1955 | Apr. 1981 | Joined Kao Soap Co., Ltd. (currently Kao Corporation) | *4 | - |
| | | | Jun. 2006 | Took office as Executive Officer of Kao Corporation | | |
| | | | Jun. 2008 | Took office as Director, Executive Officer of Kao Corporation | | |
| | | | Jun. 2012 | Took office as Representative Director, President and Chief Executive Officer of Kao Corporation | | |
| | | | Jan. 2021 | Took office as Director, Chair of Kao Corporation (current) | | |
| | | | Jun. 2022 | Took office as Director of the Company (current) | | |

| Title & Position | Name | Date of birth | Career summary | | Term of office | Share ownership (Thousands of shares) |
|---|------------------|---------------|----------------|--|----------------|---------------------------------------|
| Standing Audit & Supervisory Board Member | Terumi Sasaki | Dec. 24, 1960 | Apr. 1983 | Joined the Company Shipping Section, Transportation Department, Export Sales Division | *5 | 22 |
| | | | Jul. 1996 | Komatsu Hanomag GmbH (currently Komatsu Germany GmbH) (until Oct. 2003) | | |
| | | | Jun. 2011 | General Manager of IFRS Implementation Department | | |
| | | | Sep. 2012 | Vice President, Finance and Control of Komatsu America Corp. | | |
| | | | Apr. 2017 | Executive Vice President and CFO of Komatsu Mining Corp. | | |
| | | | Apr. 2020 | Advisor to President | | |
| | | | Jun. 2020 | Took office as Standing Audit & Supervisory Board Member (current) | | |
| | | | | | | |
| Standing Audit & Supervisory Board Member | Yasuhiro Inagaki | Aug. 21, 1961 | Apr. 1984 | Joined the Company Legal Section, Administration Department | *6 | 47 |
| | | | Jul. 1989 | Graduate School, Cornell Law School, U.S.A. (until Jan. 1991) | | |
| | | | Apr. 2003 | General Manager of Business Development Department | | |
| | | | Apr. 2010 | Took office as Executive Officer | | |
| | | | Apr. 2010 | General Manager of Business Development Department and General Manager of Legal Department | | |
| | | | Apr. 2015 | Took office as Senior Executive Officer | | |
| | | | Apr. 2015 | General Manager of Business Coordination Department | | |
| | | | Apr. 2018 | Representative of All China Operations | | |
| | | | Apr. 2021 | Advisor to President | | |
| | | | Jun. 2021 | Took office as Standing Audit & Supervisory Board Member (current) | | |
| Audit & Supervisory Board Member | Kotaro Ohno | Apr. 1, 1952 | Apr. 1976 | Appointed as Prosecutor | *6 | - |
| | | | Jul. 2009 | Took office as Vice-Minister of Justice | | |
| | | | Jul. 2012 | Took office as Superintending Prosecutor of Tokyo High Public Prosecutors Office | | |
| | | | Jul. 2014 | Took office as Prosecutor-General of Supreme Public Prosecutors Office | | |
| | | | Sep. 2016 | Retired from the position of Prosecutor-General of Supreme Public Prosecutors Office | | |
| | | | Nov. 2016 | Attorney at law, Special Counsel of Mori Hamada & Matsumoto | | |
| | | | Jun. 2017 | Took office as Audit & Supervisory Board Member of the Company (current) | | |
| | | | Jan. 2023 | Advisor, Atsumi & Sakai (current) | | |

| Title & Position | Name | Date of birth | Career summary | | Term of office | Share ownership (Thousands of shares) |
|----------------------------------|------------------|---------------|--|--|----------------|---------------------------------------|
| Audit & Supervisory Board Member | Tatsuro Kosaka | Jan. 18, 1953 | Apr. 1976 | Joined Chugai Pharmaceutical Co., Ltd. | *7 | - |
| | | | Oct. 2002 | Took office as Vice President, General Manager of Corporate Planning Dept. of Chugai Pharmaceutical Co., Ltd. | | |
| | | | Oct. 2004 | Took office as Senior Vice President, General Manager of Corporate Planning Dept. of Chugai Pharmaceutical Co., Ltd. | | |
| | | | Mar. 2005 | Took office as Senior Vice President, Deputy Managing Director of Sales & Marketing Group of Chugai Pharmaceutical Co., Ltd. | | |
| | | | Jul. 2005 | Took office as Senior Vice President, Head of Strategic Marketing Unit of Chugai Pharmaceutical Co., Ltd. | | |
| | | | Mar. 2008 | Took office as Senior Vice President, Head of Lifecycle Management & Marketing Unit of Chugai Pharmaceutical Co., Ltd. | | |
| | | | Mar. 2010 | Took office as Director, Executive Vice President of Chugai Pharmaceutical Co., Ltd. | | |
| | | | Mar. 2012 | Took office as Representative Director, President & COO of Chugai Pharmaceutical Co., Ltd. | | |
| | | | Mar. 2018 | Took office as Representative Director, President & CEO of Chugai Pharmaceutical Co., Ltd. | | |
| | | | Mar. 2020 | Took office as Representative Director, Chairman & CEO of Chugai Pharmaceutical Co., Ltd. | | |
| | | Mar. 2022 | Took office as Senior Advisor (current) | | | |
| | | Jun. 2022 | Took office as Audit & Supervisory Board Member of the Company (current) | | | |
| Audit & Supervisory Board Member | Mariko Matsumura | Sep. 24, 1959 | Apr. 1988 | Admitted to the bar in Japan as attorney at law | *8 | - |
| | | | Apr. 1988 | Joined Braun Moriya Hoashi & Kubota | | |
| | | | Feb. 1994 | Joined Ryudo Sogo Law Offices | | |
| | | | Jan. 2006 | Joined Shinwa Sohgo Law Offices as a Partner (current) | | |
| | | | Apr. 2022 | Took office as President of Dai-Ichi Tokyo Bar Association | | |
| | | | Jun. 2023 | Took office as Audit & Supervisory Board Member of the Company (current) | | |
| Total | | | | | | 518 |

Notes:

- 1) Directors Takeshi Kunibe, Arthur M. Mitchell, Naoko Saiki and Michitaka Sawada are Outside Directors.
- 2) Audit & Supervisory Board Members Kotaro Ohno, Tatsuro Kosaka and Mariko Matsumura are Outside Audit & Supervisory Board Members.
- 3) The Company introduced an executive officer system in June 1999. As of June 21, 2023, the Company has 47 officers including 4 persons simultaneously holding the position of director. Such persons have been marked with an asterisk above their names in the table.
- 4) The term of office of the Directors shall expire at the conclusion of the Ordinary General Meeting of Shareholders for the last business year of the Company ending within 1 year after the Ordinary General Meeting of Shareholders held on June 21, 2023.
- 5) The term of office of Audit & Supervisory Board Member Terumi Sasaki shall expire at the conclusion of the Ordinary General Meeting of Shareholders for the last business year ending within 4 years after the Ordinary General Meeting of Shareholders held on June 18, 2020.

- 6) The term of office of Audit & Supervisory Board Members Yasuhiro Inagaki and Kotaro Ohno shall expire at the conclusion of the Ordinary General Meeting of Shareholders for the last business year ending within 4 years after the Ordinary General Meeting of Shareholders held on June 18, 2021.
- 7) The term of office of Audit & Supervisory Board Member Tatsuro Kosaka shall expire at the conclusion of the Ordinary General Meeting of Shareholders for the last business year ending within 4 years after the Ordinary General Meeting of Shareholders held on June 21, 2022.
- 8) The term of office of Audit & Supervisory Board Member Mariko Matsumura shall expire at the conclusion of the Ordinary General Meeting of Shareholders for the last business year ending within 4 years after the Ordinary General Meeting of Shareholders held on June 21, 2023.
- 9) The names of organizations and subsidiaries, etc., of the Company shown in the “Career summary” above present those at the time.

B. Outside Directors and Outside Audit & Supervisory Board Members

The Company has four (4) Outside Directors and three (3) Outside Audit & Supervisory Board Members as of June 20, 2023 (As of the filing date of this Annual Securities Report).

Note: The Company is going to propose the agendas of Election of nine (9) Directors and Election of one (1) Audit & Supervisory Board Member as the matters requiring a resolution by the 154th Ordinary General Meeting of Shareholders scheduled for June 21, 2023. When the said agendas are approved, the Company will have four (4) Outside Directors and three (3) Outside Audit & Supervisory Board Members.

Outside Directors of the Company perform their duty of contributing to the maintenance of management transparency and soundness by providing advice and suggestions based on their considerable insight and rich experience from an independent standpoint for proposed items and their discussions at the meetings of the Board of Directors. Outside Audit & Supervisory Board Members perform their duty of enforcing audit activities throughout the fiscal year based on the audit policy, audit plan, audit method and assignment of duties, which they discussed and decided at the meeting of the Audit & Supervisory Board in collaboration with Standing Audit & Supervisory Board Members, as well as provide comments as necessary based on their professional standpoint and rich experience at the meetings of the Board of Directors and of the Audit & Supervisory Board.

The Board of Directors of the Company has determined the independence standards for Outside Directors and Outside Audit & Supervisory Board Members as follows. Outside Directors Takeshi Kunibe, Arthur M. Mitchell, Naoko Saiki and Michitaka Sawada and Outside Audit & Supervisory Board Members Eiko Shinotsuka, Kotaro Ohno and Tatsuro Kosaka are unlikely to have a conflict of interest with general shareholders, because there are no special interests between them and the Company. Accordingly, they are considered to be Independent Directors and Audit & Supervisory Board Members.

The Company's Independence Standards for Outside Directors and Outside Audit & Supervisory Board Members

1. Basic stance:

Independent Board Members are defined as Outside Board Members who have no potential conflict of interest with ordinary shareholders of the Company.

In the event that they are critically controlled by the top management of the Company or they can critically control the top management of the Company, they are deemed to have a conflict of interest with ordinary shareholders of the Company. Therefore, the Board of Directors determines that they have no independence from the Company.

2. Independence standards:

Based on '1. Basic stance' above, the Board of Directors determines an Outside Board Member who is listed below has no independence from the Company.

1) Person engaged in transactions or execution of business with the Company or its subsidiary as his/her major business partner

This is applicable to a business partner or a person engaged in business execution with the Company or its subsidiary, and the Company or its subsidiary can give significant influence on decision making of the concerned partner or person.

Through its departments engaged in business transactions with the companies where candidates for Outside Board Members are concurrently employed (or execute business thereof), the Company reviews the business relationship of these companies by making direct inquiries to the concerned companies and implementing other means, thereby evaluating their independence from the Company.

2) Main business partner of the Company or person engaged in business execution thereof

This is applicable to a business partner or a person engaged in business execution with the Company, and the concerned business partner or person engaged in business execution thereof can give significant influence on the Company's decision making. Specifically, in the event that the Company generates sales, revenues, etc. from its business with the concerned business partner, which account for a considerable portion of total sales, revenues, etc. of the Company, the Board of Directors of the Company determines the concerned business partner or person has no independence from the Company.

The Company discusses with its departments engaging in business with the companies where candidates for Outside Board Members are concurrently employed (or execute business thereof), and evaluates their independence

from the Company.

3) Consultant(s), certified public accountant(s), lawyer(s), or other professional(s) obtaining large amounts of money or other financial benefits, other than remunerations of Outside Board Members of the Company (when such financial benefits are obtained by an incorporated entity, this matter applies to a person belonging to such organization)

With respect to large amounts of money or other financial benefits, the Company determines independence in accordance with “large amounts of money or other financial benefits” stipulated in Article 74, Paragraph 4, Item 7, (d) or Article 76, Paragraph 4, Item 6, (d) of the Ordinance for Enforcement of the Companies Act of Japan.

In the case that the concerned professional who obtains large amounts of money or other financial benefits belongs to an incorporated entity and that such organization depends heavily on fees paid by the Company, the Board of Directors determines the concerned professional has no independence from the Company.

4) Person who is applicable to any of 1) through 3) above for last one year

5) Spouse or relative in second degree of an important person among the following persons

a. Person to whom 1) through 4) above are applicable

b. Person engaged in business execution of subsidiaries of the Company

c. Director engaged in non-business execution of subsidiaries of the Company (limited to determining Outside Audit & Supervisory Board Members)

d. Person to whom b or c above is applicable for the past one year

e. Person who engaged in business execution of the Company for the past one year

f. Director of the Company engaged in non-business execution for the past one year (limited to determining Outside Audit & Supervisory Board Members)

The reasons for electing Outside Directors and Outside Audit & Supervisory Board Members of the Company as of June 20, 2023 (As of the filing date of this Annual Securities Report) are outlined below.

<Outside Directors>

| Name (Month and year of taking office) | Important concurrent positions held in other organizations | Reason for appointment as Outside Director |
|---|--|--|
| Takeshi Kunibe (June 2020) | Chairman of the Board of Sumitomo Mitsui Financial Group, Inc. Outside Member of the Board of TAISHO PHARMACEUTICAL HOLDINGS CO., LTD. Outside Director (Audit and Supervisory Committee Member) of Nankai Electric Railway Co.,Ltd. | <p>Mr. Takeshi Kunibe has considerable knowledge and rich experience in the business world, including the field of finance and group company management, etc., having served successively as Representative Director, President and Chief Executive Officer of SMBC, as well as Representative Director and President, Director President, Representative Executive Officer and Chairman of the Board of SMFG.</p> <p>Utilizing this knowledge and experience, his recommendations concerning the overall management of the Company are expected to contribute to sustaining and improving transparency and soundness of management as well as enhancing corporate governance.</p> <p>Therefore, the Company appointed him as an Outside Director.</p> <p>Mr. Takeshi Kunibe is unlikely to have a conflict of interest with general shareholders. For this reason, the Company considers him as an Independent Director and has submitted the relevant notification to the Tokyo Stock Exchange.</p> <p>Mr. Takeshi Kunibe serves as Chairman of the Board of Sumitomo Mitsui Financial Group, Inc. He also served as Representative Director, President and Chief Executive Officer of Sumitomo Mitsui Banking Corporation from April 2011 to April 2017, but has had no involvement in the execution of business at the said bank since his retirement in April 2017. Because the Company and its consolidated subsidiaries have several lenders and the said bank is only one lender among the several lenders of the Company and its consolidated subsidiaries, the said bank is not a business partner which has a significant impact on the Company's decision making. As of the end of the most recent fiscal year, the balance of loans from the said bank was JPY 160.6billion, which was 15.2% of the total amount of interest-bearing liabilities.</p> |
| Arthur M. Mitchell (June 2020) | Registered foreign lawyer of White & Case LLP Outside Director of Sumitomo Mitsui Financial Group, Inc. | <p>Mr. Arthur M. Mitchell has worked for many years as a New York state attorney and foreign law attorney in Japan, and has considerable knowledge and rich experience in the field of international legal affairs.</p> <p>Utilizing this knowledge and experience, his recommendations concerning the overall management of the Company are expected to contribute to the mitigation and avoidance of risk in the Company's global business operations, and to the enhancement of the Company's medium- and long-term corporate value.</p> <p>Therefore, the Company appointed him as an Outside Director.</p> <p>Mr. Arthur M. Mitchell is unlikely to have a conflict of interest with general shareholders. For this reason, the Company considers him as an Independent Director and has submitted the relevant notification to the Tokyo Stock Exchange.</p> |

| Name (Month and year of taking office) | Important concurrent positions held in other organizations | Reason for appointment as Outside Director |
|--|--|---|
| Naoko Saiki (June 2021) | <p>Outside Director of Sojitz Corporation</p> <p>Outside Audit & Supervisory Board Member of Development Bank of Japan Inc.</p> <p>Outside Director of Sankyu Inc.</p> | <p>Ms. Naoko Saiki has considerable knowledge and abundant experience in international affairs, international law, and the field of economics as she served in positions such as Director-General of Economic Affairs Bureau and Director-General of International Legal Affairs Bureau at MOFA.</p> <p>Utilizing this knowledge and experience, her recommendations concerning the overall management of the Company are expected to contribute to the enhancement of medium- to long-term corporate value of the Company.</p> <p>Therefore, the Company appointed her as an Outside Director.</p> <p>Ms. Naoko Saiki is unlikely to have a conflict of interest with general shareholders. For this reason, the Company considers her as an Independent Director and has submitted the relevant notification to the Tokyo Stock Exchange.</p> |
| Michitaka Sawada (June 2022) | <p>Director, Chair of Kao Corporation</p> <p>Outside Director of Panasonic Holdings Corporation</p> <p>Outside Director of Nitto Denko Corporation</p> | <p>Mr. Michitaka Sawada has considerable knowledge and rich experience in the business world having engaged in global group corporate management and ESG management, as Representative Director, President of Kao Corporation and Director, Chair of Kao Corporation.</p> <p>Utilizing this knowledge and experience, his recommendations concerning the overall management of the Company are expected to contribute to the enhancement of medium- to long-term corporate value of the Company.</p> <p>Therefore, the Company appointed him as an Outside Director.</p> <p>Mr. Michitaka Sawada is unlikely to have a conflict of interest with general shareholders. For this reason, the Company considers him as an Independent Director and has submitted the relevant notification to the Tokyo Stock Exchange.</p> |

<Outside Audit & Supervisory Board Members>

| Name (Month and year of taking office) | Important concurrent positions held in other organizations | Reasons for appointment as Outside Audit & Supervisory Board Members |
|--|--|--|
| Eiko Shinotsuka (June 2015) | Professor emeritus at Ochanomizu University | <p>After engaging in research in economic fields at Japan Center for Economic Research, Ms. Eiko Shinotsuka, in addition to professor emeritus at Ochanomizu University, has the experience of having served as a member of the policy Board of the bank of Japan, Chairperson of the Cooperation Conference for the Gender Equality Promotion of the Cabinet Office, Executive Director of the Japan Legal Support Center and Commissioner of the National Personnel Authority, etc. and she has held numerous other official posts in public office up until now. Accordingly, she possesses wide-ranging knowledge and abundant experience, the Company expects her to execute her duties as Outside Audit & Supervisory Board Member from the standpoint of a specialist. Therefore, the Company appointed her as an Outside Audit & Supervisory Board Member.</p> <p>Ms. Eiko Shinotsuka is unlikely to have a conflict of interest with general shareholders. For this reason, the Company considers her as an Independent Audit & Supervisory Board Member and has submitted the relevant notification to the Tokyo Stock Exchange.</p> |
| Kotaro Ohno (June 2017) | Advisor of Atsumi & Sakai Outside Director of AEON Co., Ltd. | <p>Having served as Prosecutor-General of the Supreme Public Prosecutors Office, Mr. Kotaro Ohno has considerable knowledge and abundant experience in the legal profession. Utilizing this knowledge and experience, the Company expects him to execute his duties as Outside Audit & Supervisory Board Member from the standpoint of a specialist. Therefore, the Company appointed him as an Outside Audit & Supervisory Board Member.</p> <p>Mr. Kotaro Ohno is unlikely to have a conflict of interest with general shareholders. For this reason, the Company considers him as an Independent Audit & Supervisory Board Member and has submitted the relevant notification to the Tokyo Stock Exchange.</p> |
| Tatsuro Kosaka (June 2022) | Senior Advisor of Chugai Pharmaceutical Co., Ltd. Outside Director of Mitsubishi Electric Corporation | <p>Mr. Tatsuro Kosaka has considerable knowledge and rich experience in the business world having engaged in global corporate management as Representative Director, President of Chugai Pharmaceutical Co., Ltd. and Representative Director, Chairman of Chugai Pharmaceutical Co., Ltd. Utilizing this knowledge and experience, the Company expects him to execute his duties as Outside Audit & Supervisory Board Member by performing managerial oversight from the perspective of a corporate manager. Therefore, the Company appointed him as an Outside Audit & Supervisory Board Member.</p> <p>Mr. Tatsuro Kosaka is unlikely to have a conflict of interest with general shareholders. For this reason, the Company considers him as an Independent Audit & Supervisory Board Member and has submitted the relevant notification to the Tokyo Stock Exchange.</p> |

Note: The Company is going to propose the agendas of Election of nine (9) Directors and Election of one (1) Audit & Supervisory Board Member as the matters requiring a resolution by the 154th Ordinary General Meeting of Shareholders scheduled for June 21, 2023. When the said agendas are approved, Outside Directors of the Company are following four (4) persons and Outside Audit & Supervisory Board Members of the Company are following three (3) persons.

<Outside Directors>

| Name (Month and year of taking office) | Important concurrent positions held in other organizations | Reason for nomination as candidate for Outside Director |
|---|--|--|
| Takeshi Kunibe (June 2020) | Chairman of the Board of Sumitomo Mitsui Financial Group, Inc. Outside Member of the Board of TAISHO PHARMACEUTICAL HOLDINGS CO., LTD. Outside Director (Audit and Supervisory Committee Member) of Nankai Electric Railway Co.,Ltd. | <p>Mr. Takeshi Kunibe has considerable knowledge and rich experience in the business world, including the field of finance and group company management, etc., having served successively as Representative Director, President and Chief Executive Officer of SMBC, as well as Representative Director and President, Director President, Representative Executive Officer and Chairman of the Board of SMFG.</p> <p>Utilizing this knowledge and experience, his recommendations concerning the overall management of the Company are expected to contribute to sustaining and improving transparency and soundness of management as well as enhancing corporate governance.</p> <p>Therefore, the Company nominates him as a candidate for Outside Director. Mr. Takeshi Kunibe is unlikely to have a conflict of interest with general shareholders. For this reason, the Company considers him as an Independent Director and has submitted the relevant notification to the Tokyo Stock Exchange.</p> <p>Mr. Takeshi Kunibe serves as Chairman of the Board of Sumitomo Mitsui Financial Group, Inc. He also served as Representative Director, President and Chief Executive Officer of Sumitomo Mitsui Banking Corporation from April 2011 to April 2017, but has had no involvement in the execution of business at the said bank since his retirement in April 2017. Because the Company and its consolidated subsidiaries have several lenders and the said bank is only one lender among the several lenders of the Company and its consolidated subsidiaries, the said bank is not a business partner which has a significant impact on the Company's decision making. As of the end of the most recent fiscal year, the balance of loans from the said bank was JPY 160.6billion, which was 15.2% of the total amount of interest-bearing liabilities.</p> |
| Arthur M. Mitchell (June 2020) | Registered foreign lawyer of White & Case LLP Outside Director of Sumitomo Mitsui Financial Group, Inc. | <p>Mr. Arthur M. Mitchell has worked for many years as a New York state attorney and foreign law attorney in Japan, and has considerable knowledge and rich experience in the field of international legal affairs.</p> <p>Utilizing this knowledge and experience, his recommendations concerning the overall management of the Company are expected to contribute to the mitigation and avoidance of risk in the Company's global business operations, and to the enhancement of the Company's medium- and long-term corporate value.</p> <p>Therefore, the Company nominates him as a candidate for Outside Director. Mr. Arthur M. Mitchell is unlikely to have a conflict of interest with general shareholders. For this reason, the Company considers him as an Independent Director and has submitted the relevant notification to the Tokyo Stock Exchange.</p> |

| Name (Month and year of taking office) | Important concurrent positions held in other organizations | Reason for nomination as candidate for Outside Director |
|--|---|---|
| Naoko Saiki (June 2021) | Outside Director of Sojitz Corporation Outside Audit & Supervisory Board Member of Development Bank of Japan Inc. Outside Director of Sankyu Inc. | Ms. Naoko Saiki has considerable knowledge and abundant experience in international affairs, international law, and the field of economics as she served in positions such as Director-General of Economic Affairs Bureau and Director-General of International Legal Affairs Bureau at MOFA. Utilizing this knowledge and experience, her recommendations concerning the overall management of the Company are expected to contribute to the enhancement of medium- to long-term corporate value of the Company. Therefore, the Company nominates her as a candidate for Outside Director. Ms. Naoko Saiki is unlikely to have a conflict of interest with general shareholders. For this reason, the Company considers her as an Independent Director and has submitted the relevant notification to the Tokyo Stock Exchange. |
| Michitaka Sawada (June 2022) | Director, Chair of Kao Corporation Outside Director of Panasonic Holdings Corporation Outside Director of Nitto Denko Corporation | Mr. Michitaka Sawada has considerable knowledge and rich experience in the business world having engaged in global group corporate management and ESG management, as Representative Director, President of Kao Corporation and Director, Chair of Kao Corporation. Utilizing this knowledge and experience, his recommendations concerning the overall management of the Company are expected to contribute to the enhancement of medium- to long-term corporate value of the Company. Therefore, the Company nominates him as a candidate for Outside Director. Mr. Michitaka Sawada is unlikely to have a conflict of interest with general shareholders. For this reason, the Company considers him as an Independent Director and has submitted the relevant notification to the Tokyo Stock Exchange. |

<Outside Audit & Supervisory Board Members>

| Name (Month and year of taking office) | Important concurrent positions held in other organizations | Reasons for appointment as Outside Audit & Supervisory Board Members and nomination as candidate for Outside Audit & Supervisory Board Members |
|--|--|--|
| Kotaro Ohno (June 2017) | Advisor of Atsumi & Sakai Outside Director of AEON Co., Ltd. | Having served as Prosecutor-General of the Supreme Public Prosecutors Office, Mr. Kotaro Ohno has considerable knowledge and abundant experience in the legal profession. Utilizing this knowledge and experience, the Company expects him to execute his duties as Outside Audit & Supervisory Board Member from the standpoint of a specialist. Therefore, the Company appointed him as an Outside Audit & Supervisory Board Member. Mr. Kotaro Ohno is unlikely to have a conflict of interest with general shareholders. For this reason, the Company considers him as an Independent Audit & Supervisory Board Member and has submitted the relevant notification to the Tokyo Stock Exchange. |
| Tatsuro Kosaka (June 2022) | Senior Advisor of Chugai Pharmaceutical Co., Ltd. Outside Director of Mitsubishi Electric Corporation | Mr. Tatsuro Kosaka has considerable knowledge and rich experience in the business world having engaged in global corporate management as Representative Director, President of Chugai Pharmaceutical Co., Ltd. and Representative Director, Chairman of Chugai Pharmaceutical Co., Ltd. Utilizing this knowledge and experience, the Company expects him to execute his duties as Outside Audit & Supervisory Board Member by performing managerial oversight from the perspective of a corporate manager. Therefore, the Company appointed him as an Outside Audit & Supervisory Board Member. Mr. Tatsuro Kosaka is unlikely to have a conflict of interest with general shareholders. For this reason, the Company considers him as an Independent Audit & Supervisory Board Member and has submitted the relevant notification to the Tokyo Stock Exchange. |
| Mariko Matsumura (June 2023) | Outside Statutory Auditor of Fund Creation Group Co., Ltd. Outside Member of the Board of Meiji Holdings Co., Ltd. | Ms. Mariko Matsumura is an attorney at Shinwa Sohgo Law Offices and has considerable knowledge and abundant experience in the legal and compliance fields, including serving as President of the Dai-Ichi Tokyo Bar Association. Utilizing this knowledge and experience, the Company expects her to execute her duties as Outside Audit & Supervisory Board Member from the standpoint of a specialist. Therefore, the Company nominates her as a candidate for Outside Audit & Supervisory Board Member. Ms. Mariko Matsumura is unlikely to have a conflict of interest with general shareholders. For this reason, the Company considers her as an Independent Audit & Supervisory Board Member and will submit the relevant notification to the Tokyo Stock Exchange. |

[Support for Outside Directors and Outside Audit & Supervisory Board Members]

As a general rule, the Company provides materials for Board meetings to Outside Directors and Outside Audit & Supervisory Board Members in advance of the meetings so that they have sufficient time to review the matters that are to be discussed. With respect to matters that may be of particular importance, the Board of Directors discusses them at the Board meeting prior to the Board meeting where such matters are scheduled for resolution. In this manner, the Company ensures that the Directors have sufficient time to review the matters before decisions are made and that they will have an opportunity to consider the points noted in earlier discussions before deciding upon such matters.

For newly appointed Outside Director(s) and Outside Audit & Supervisory Board Member(s), the concerned department(s) conducts explanatory meeting(s) concerning the information requiring decision-making by the Board of Directors, as needed. Such meetings are attended by the Secretariat of the Board of Directors and held prior to Board of Director meetings. The Company builds the database which houses materials, minutes, other information of the Board of Directors and other major committee meetings in the past. This database can be accessed by all members of the Board of Directors and the Audit & Supervisory Board Members, including Outside Member(s). The Company also builds the database which houses materials and minutes of the Board of the Audit & Supervisory Board in the past. This database can be accessed by all members of the Board of the Audit & Supervisory Board Members, including Outside Member(s).

C. Coordination among supervisions or audits by Outside Directors or Outside Audit & Supervisory Board Members, internal audits, audits by Audit & Supervisory Board Members and accounting audits, and relations with the Internal Control Department.

Collaboration between Audit & Supervisory Board Members (including Outside Audit & Supervisory Board Members), the Independent Public Accounting Firm and the Internal Audit Department and Processes as well as relations with the Internal Control Department are described in (3) Conditions of Audits, A. Audit & Supervisory Board Members' Audit and B. Internal Audit.

(3) Conditions of Audits

A. Audit & Supervisory Board Members' Audit

There are five (5) members in the Audit & Supervisory Board, and the Company has consistently made sure that at least half of them are Outside Audit & Supervisory Board Members.

Standing Audit & Supervisory Board Member Terumi Sasaki has long engaged in accounting-related duties at the Company, and has considerably profound knowledge concerning financial affairs and accounting.

Standing Audit & Supervisory Board Member Yasuhiro Inagaki has long engaged in duties related to legal affairs, international external relations, corporate development, M&A, and strategic partnerships, and he has extensive experience and knowledge regarding those company activities.

The Company has established the Office of Corporate Auditors' Staff and assigned seven (7) employees who work as assistants to Audit & Supervisory Board Members either exclusively or concurrently in another position within the Company.

The activity status of Audit & Supervisory Board Members and the Audit & Supervisory Board is as follows.

• Frequency of meetings of the Audit & Supervisory Board held and status of attendance

In the fiscal year ended March 31, 2023, 15 meetings of the Audit & Supervisory Board were held, and the status of attendance of individual Audit & Supervisory Board Members is as follows:

| Title & Position | Name | Number of attendance | Attendance rate |
|---|--------------------|----------------------|--------------------|
| Standing Audit & Supervisory Board Member | Terumi Sasaki | 15 | 100% |
| Standing Audit & Supervisory Board Member | Yasuhiro Inagaki | 14 | 93% |
| Outside Audit & Supervisory Board Member | Hirohide Yamaguchi | 4 | 100% ^{*1} |
| Outside Audit & Supervisory Board Member | Eiko Shinotsuka | 14 | 93% |
| Outside Audit & Supervisory Board Member | Kotaro Ohno | 15 | 100% |
| Outside Audit & Supervisory Board Member | Tatsuro Kosaka | 11 | 100% ^{*2} |

Notes:

*1 calculated the rate based on the meeting held before his retirement, June, 21, 2022

*2 calculated the rate based on the meeting held after his attendance, June, 21, 2022

• Specific details of discussion with the Audit & Supervisory Board

The specific details of the discussions in the Audit & supervisory Board during the fiscal year under review are as follows.

- a) Made resolutions after deliberation on the audit policy, audit method, audit plan, key matters, allocation of duties, and audit report.
- b) Conferred with the independent auditor to identify Key Audit Matters (KAMs) in the audit, and confirmed that these were disclosed properly.
- c) Discussed and confirmed the method of the independent auditor's audit, the appropriateness of the results and its independence.
- d) Discussed the appointment or dismissal of the independent auditor and passed a resolution to reappoint.
- e) Received reports on internal audit results of the Company and its subsidiaries from the Internal Audit Department, offered appropriate opinions and discussed.
- f) Received a report from the Compliance Department on the status of its activities, offered appropriate opinions and discussed.
- g) Investigated the status of implementation of the basic policy on internal controls and confirmed no issues.
- h) Discussed and passed resolutions regarding the revision of the Company's Audit & Supervisory Board regulations and audit standards for Audit & Supervisory Board members in light of revisions of laws and regulations.

Furthermore, the Audit & Supervisory Board also discussed and implemented improvements for efficient and effective operation of the Audit & Supervisory Board and audit duties.

• **Activity status of Audit & Supervisory Board Members**

In accordance with the audit policies, assignment of duties and other matters determined by the Audit & Supervisory Board, Audit & Supervisory Board Members attended important meetings of the Board of Directors, the Strategy Review Committee, the Compliance Committee, the Risk Management Committee, etc., and inspected and confirmed business operations and state of properties through review of important authorized documents and associated information, and on-site inspection of sites of the Company and its subsidiaries.

Moreover, Audit & Supervisory Board Members endeavored to communicate and exchange information with representative directors, other Directors and Audit & supervisory board members and management of the Company and its subsidiaries, and received explanations and reports on execution of their duties and the status of businesses, as well as periodically received explanations and reports on the establishment, improvement and operation of the internal control system, and expressed opinions as needed. In addition, Audit & Supervisory Board Members worked to improve the environment for audit through liaison meetings and individual interviews, etc. with the Internal Audit Department and subsidiaries' Standing Audit & Supervisory Board Members, and maintain close contact to enhance the effectiveness.

Furthermore, Audit & Supervisory Board Members also monitored and verified whether the Independent Public Accounting Firm maintained its independent position and implemented appropriate audits, and received reports on the execution of duties from the firm, and requested an explanation as needed.

B. Internal Audit

The Internal Auditing Department, which is in charge of the corporate internal audit of the Company, is under the supervision of the President and has twenty-five (25) employees.

The Internal Audit Department audits each in-house department and subsidiaries, points out problems and recommends correction of the problems as well as confirms the improvement. In addition, the Internal Audit Department assesses internal control over financial reporting under the Financial Instruments and Exchange Act. Coordination among audits by Audit & Supervisory Board Members, accounting audits and internal audits, and relations between these audits and the Internal Control Department are as follows:

• **Collaboration between audits by Audit & Supervisory Board Members and accounting audit**

To complete the audit process effectively and efficiently, Audit & Supervisory Board Members exchange opinions with contracted Independent Public Accounting Firm concerning audit policies, audit items to be focused upon and audit approaches. Audit & Supervisory Board Members also observe the Independent Public Accounting Firm, when the firm audits Komatsu's business bases and subsidiaries, and Audit & Supervisory Board Members and the Independent Public Accounting Firm hold meetings to exchange audit information as needed during a given fiscal year. These exchanges lead to better coordination between Audit & Supervisory Board Members and the Independent Public Accounting Firm and a more expeditious audit process. In addition, Audit & Supervisory Board Members receive reports of the Independent Public Accounting Firm's review at the end of the first, second and third quarters, and review and confirm important financial statement matters at the end of the second quarter and the fiscal year-end. Furthermore, Audit & Supervisory Board Members evaluate the methods and results of the Independent Public Accounting Firm's review and audit by listening to their summaries and receiving their review and audit reports at the meetings of the Audit & Supervisory Board.

The Audit & Supervisory Board exchanges information with the accounting firm as needed, and confirms the independence of the accounting firm concerning its service to the Company and its consolidated subsidiaries.

• **Collaboration between audits by Audit & Supervisory Board Members and internal audits**

Audit & Supervisory Board Members observe audits by the Internal Audit Department, form their own audit opinions, and give advice and recommendations to the Internal Audit Department. Audit & Supervisory Board Members also hold regular meetings with the Internal Audit Department to receive information and maintain close communication with the department through the department's reporting of audit results.

• **Collaboration between internal audits and accounting audits**

In the assessment of internal control over financial reporting, etc. implemented by the Internal Audit Department, the Independent Public Accounting Firm collaborates with the Internal Audit Department as needed by exchanging opinions and sharing information.

• **Relations between audits by Audit & Supervisory Board Members, accounting audits and internal audits, and the Internal Control Department**

In their respective audit procedures, Audit & Supervisory Board Members, the Independent Public Accounting

Firm and the Internal Audit Department share information with the accounting and finance departments and other relevant internal control departments as needed, and exchange opinions on risk assessment, effectiveness of internal control and other matters.

To ensure the effectiveness of internal audits, the Internal Audit Department makes regular direct reports to the Company's Board of Directors and Audit & Supervisory Board regarding the results of internal audits and the results of evaluations of internal controls over financial reporting in accordance with the Financial Instruments and Exchange Act.

C. Accounting Audit

1. Name of the Audit Corporation

KPMG AZSA LLC

2. The number of consecutive years they have conducted audits

53 years

Note: Above years are counted since Asahi & Co (predecessor of KPMG AZSA LLC) was incorporated audit corporation.

3. Certified public accountants who performed the work

Masakazu Hattori (engaged for one (1) consecutive year in auditing)

Tomoo Nishigori (engaged for four (4) consecutive years in auditing)

Daisuke Toyama (engaged for four (4) consecutive years in auditing)

4. Composition of assistants who supported the audit work

Twenty-four (24) other certified public accountants

Fifty-seven (57) associates

5. The policy of dismissal or non-reappointment of Independent Public Accounting Firm

The Audit & Supervisory Board confirms that, subject to the policy of dismissal or non-reappointment of Independent Public Accounting Firm, the Independent Public Accounting Firm is not found to fall under any of the items in Article 340, Paragraph 1 of the Companies Act of Japan, and there is no problem in properly performing their duties regarding the independence, reliability, etc.

We decided to continue selecting (re-appointing) KPMG AZSA LLC as the Independent Public Accounting Firm also considering the result of the evaluation of the firm by the Audit & Supervisory Board that was conducted as evaluation of the Independent Public Accounting Firm.

6. The evaluation of the Independent Public Accounting Firm by The Audit & Supervisory Board

The Audit & Supervisory Board determines the evaluation of the Independent Public Accounting Firm by appropriately receiving reports therefrom on quality control systems, audit plans, audit summaries, etc., and taking into consideration the results of various examinations for the Independent Public Accounting Firm by external organizations, and of the hearing of opinions from related internal divisions, in particular.

The Audit & Supervisory Board has determined that there are no problematic facts found regarding the Independent Public Accounting Firm's activities and its independence and reliability, etc. in the current fiscal year.

D. Details of audit fee, etc.

1. Details of fee to auditors

Details of fee to KPMG AZSA LLC, the Company's Independent Public Accounting Firm, were comprised of the following:

| Category | Fiscal year ended March 31, 2023 | | Fiscal year ended March 31, 2022 | |
|------------------------------|--|---|--|---|
| | Fees for audit services (Millions of yen) | Fees for non-audit services (Millions of yen) | Fees for audit services (Millions of yen) | Fees for non-audit services (Millions of yen) |
| The Company | 415 | 18 | 380 | 4 |
| Consolidated subsidiaries | 302 | - | 298 | - |
| Total | 717 | 18 | 678 | 4 |

Note: Non-audit services provided to the Company for the fiscal year ended March 31, 2023 were services regarding the preparation of comfort letters for bonds and Euro Medium Term Notes, etc. Non-audit services provided to the Company for the fiscal year ended March 31, 2022 were services regarding the preparation of comfort letters for Euro Medium Term Notes, etc.

2. Details of fee to individual member firms affiliated with the same network, to which auditors belong

Details of fee to individual member firms affiliated with KPMG International, to which KPMG AZSA LLC belongs, were comprised of the following:

| Category | Fiscal year ended March 31, 2023 | | Fiscal year ended March 31, 2022 | |
|------------------------------|--|---|--|---|
| | Fees for audit services (Millions of yen) | Fees for non-audit services (Millions of yen) | Fees for audit services (Millions of yen) | Fees for non-audit services (Millions of yen) |
| The Company | - | 27 | - | 8 |
| Consolidated subsidiaries | 2,123 | 195 | 1,775 | 183 |
| Total | 2,123 | 222 | 1,775 | 191 |

Note: Non-audit services provided to the Company for the fiscal years ended March 31, 2023 and 2022 were advisory services regarding CSR activities, etc. Non-audit services provided to consolidated subsidiaries for the fiscal years ended March 31, 2023 and 2022 were advisory services regarding tax, etc.

3. Other material fees for audit services

Not applicable.

4. Policy on determining audit fee

Not applicable; however, the Company determines audit fees by taking into consideration the size, the characteristics, the number of days, etc., of audit.

5. Reason for the Audit & Supervisory Board gives consent to remuneration for the Accounting Auditors

The Audit & Supervisory Board, based upon the "Practical Guidelines for Cooperation with Financial Auditors," etc. released by the Japan Audit & Supervisory Board Members Association, and having obtained necessary materials and having received reports from related departments and the Accounting Auditor, conducts confirmation of the auditing plans of the Accounting Auditor, the status of execution of duties, the trends in actual remuneration amount, the grounds for calculation of remuneration estimates and other matters, and having investigated appropriateness of remuneration, etc. for the Accounting Auditor, gives consent in accordance with Article 399, Paragraph 1 of the Companies Act of Japan.

(4) Compensation

A. Aggregate amount of remuneration, etc., paid to each classification of Directors and Audit & Supervisory Board Members of the Company, aggregate amount of remuneration, etc., by type thereof, as well as the number of Directors and Audit & Supervisory Board Members of the Company

| Classification | Number of Persons Paid | Fixed Remuneration | Performance-Based Remuneration, etc. | | Total Amount of Remuneration, etc. Paid (Millions of yen) |
|--|------------------------|-----------------------|--------------------------------------|---------------------------------|---|
| | | Monetary Remuneration | | Non-monetary Remuneration, etc. | |
| | | Basic Remuneration | Bonus in Cash | Stock-Based Remuneration | |
| Director | 10 | 442 | 369 | 249 | 1,060 |
| (Outside Director included above) | 5 | 83 | – | – | 83 |
| Audit & Supervisory Board Member | 6 | 153 | – | – | 153 |
| (Outside Audit & Supervisory Board Member included above) | 4 | 63 | – | – | 63 |
| Total | 16 | 595 | 369 | 249 | 1,213 |
| (Outside Director and Outside Audit & Supervisory Board Member included above) | 9 | 146 | – | – | 146 |

Notes:

- 1) As of the end of the fiscal year ended March 31, 2023, there are nine (9) Directors (four (4) of whom are Outside Directors) and five (5) Audit & Supervisory Board Members (three (3) of whom are Outside Audit & Supervisory Board Members). However, the numbers and amounts in the table above include those for one (1) Director and one (1) Audit & Supervisory Board Member who have retired as of the close of the 153rd Ordinary General Meeting of Shareholders in June 2022.
- 2) It was resolved at the 149th Ordinary General Meeting of Shareholders, held on June 19, 2018, that the maximum amount of remuneration to be paid to Directors per year, which is the total of basic remuneration and bonus in cash, shall not exceed JPY 1.5 billion (of which, payment to the Outside Directors shall not exceed JPY 100 million per year) and that the maximum amount of remuneration to be paid to Audit & Supervisory Board Members shall not exceed JPY 200 million. As of the end of this Ordinary General Meeting of Shareholders, there are eight (8) Directors (of which, three (3) are Outside Directors) and five (5) Audit & Supervisory Board Members (of which, three (3) are Outside Audit & Supervisory Board Members). Furthermore, in the same Ordinary General Meeting of Shareholders, the limit for remuneration, etc. related to the restricted stock granted to Internal Directors as stock-based remuneration was decided as an amount that shall not exceed JPY 360 million annually for Stock-Based Remuneration A linked to the Company's consolidated performance for a single year and as an amount that shall not exceed JPY 180 million annually for Stock-Based Remuneration B linked to the performance of the Mid-Term Business Plan. Note that each of the aforementioned remuneration amounts resolved by the shareholders does not include the employee salary portion of remuneration to Directors concurrently serving as employees.
- 3) Stock-based remuneration represents the amounts of expense allocated as remuneration for Directors which are not monetary in accounting for the fiscal year ended March 31, 2023. Specifically, the total amount of remuneration expenses for stock-based remuneration in the fiscal year ended March 31, 2023 stated above comprises (1) the amount of expense recorded as the estimate of the payment in the form of restricted stock compensation of Stock-Based Remuneration A, for which payment level was determined by the operating results of the fiscal year ended March 31, 2023 (The number of shares to be granted has yet to be determined.), and (2) the amount of expense recorded as remuneration for the fiscal year ended March 31,

2023 paid by newly issuing shares as restricted stock compensation of Stock-Based Remuneration B with the pay-in date of September 1, 2022, following the resolution passed at the Board of Directors meeting held on July 15, 2022 (equivalent to 31,920 shares).

- 4) The portions of salaries as employees for Directors concurrently serving as employees are not paid.
- 5) Amounts of less than JPY one (1) million are rounded to the nearest million yen.
- 6) Details regarding remuneration, etc. for individual Directors of the Company have been reported to the Board of Directors upon deliberation with respect to the monthly remuneration levels by position and levels of bonus in cash (number of times of monthly remuneration), subsequent to the Compensation Advisory Committee having engaged in deliberations encompassing the perspective of consistency with the Determination Policy. The Company's Board of Directors (as well as both the Chairman of the Board and the President and Representative Director delegated such authority) has determined the amounts of remuneration for individual Directors based on reports and recommendations of the Compensation Advisory Committee, upon having confirmed appropriateness of the deliberation process of the Compensation Advisory Committee and the details of the reports and recommendations. As such, the Company's Board of Directors deems that details of remuneration, etc. for individual Directors pertaining to the fiscal year ended March 31, 2023, are in alignment with the Determination Policy.

B. Total amount of remuneration paid, etc., paid by the Company to persons whose total remuneration paid equaled or exceeded ¥100 million for the fiscal year ended March 31, 2023.

(Millions of yen)

| Name and title | Fixed Remuneration | Non-Monetary Remuneration | | Amount of Remuneration Paid |
|--|---|---------------------------|---------------------------------|-----------------------------|
| | Monetary Remuneration | | Non-Monetary Remuneration, etc. | |
| | Basic Remuneration | Bonus in Cash | Stock-Based Remuneration | |
| | Hiroyuki Ogawa Director of the Company | 116 | 120 | |
| Tetsuji Ohashi Director of the Company | 104 | 108 | 79 | 291 |
| Masayuki Moriyama Director of the Company | 50 | 50 | 37 | 137 |
| Kiyoshi Mizuhara Director of the Company | 50 | 50 | 13 | 113 |
| Takeshi Horikoshi Director of the Company | 40 | 40 | 34 | 114 |

Notes:

- 1) Stock-based remuneration represents the amounts of expense allocated as remuneration for Directors which are not monetary in accounting for the fiscal year ended March 31, 2023. Specifically, the total amount of remuneration expenses for stock-based remuneration in the fiscal year ended March 31, 2023 stated above comprises (1) the amount of expense recorded as the estimate of the payment in the form of restricted stock compensation of Stock-Based Remuneration A, for which payment level was determined by the operating results of the fiscal year ended March 31, 2023, and (2) the amount of expense recorded as remuneration for the fiscal year ended March 31, 2023 paid by newly issuing shares as restricted stock compensation of Stock-Based Remuneration B with the pay-in date of September 1, 2022, following the resolution passed at the Board of Directors meeting held on July 15, 2022.
- 2) The portions of salaries as employees for Directors concurrently serving as employees are not paid.
- 3) Amounts of less than one (1) million yen are rounded to the nearest million yen.

C. Details and decision process of the policy on deciding the amounts of remuneration or calculation method thereof

At its meeting of the Board of Directors held on February 15, 2021, the Company passed a resolution on its policy regarding the determination of remuneration, etc. for individual Directors of the Company (the “Determination Policy”), upon having consulted with and accordingly reported to the Compensation Advisory Committee, which consists of seven (7) external members (three (3) Outside Directors, three (3) Outside Audit & Supervisory Board Members and one (1) outside expert) and one (1) internal member. The outline, etc. of the details of the Determination Policy are as follows:

In an effort to maintain a highly objective and transparent remuneration system, the Compensation Advisory Committee deliberates on the policy and levels of remuneration for Directors of the Company, then taking the Committee’s reports and recommendations into consideration, the Board of Directors shall decide on the total amount of remuneration within the range previously determined by resolution of the General Meeting of Shareholders.

The remuneration for Directors excluding the Outside Directors (hereinafter “Internal Director”) comprises basic remuneration (fixed remuneration) and performance-based remuneration linked to the Company’s consolidated performance for a single fiscal year (bonus in cash and the Stock-Based Remuneration A) as well as the performance-based remuneration (Stock-Based Remuneration B) that will reflect the degree of achievement of the targets raised in the mid-term management plan, so that it will further contribute to the enhancement of the medium- and long-term corporate value of the Company by linking the remuneration to performance.

The remuneration for Outside Directors only consists of basic remuneration (fixed remuneration) designed to support their role of making recommendations with respect to the overall management of the Company as a member of the Board of Directors.

Regarding basic remuneration and bonus in cash within the remuneration stated above, the Compensation Advisory Committee reports monthly remuneration levels and levels of bonus in cash (number of times of monthly remuneration) by position to the Board of Directors after deliberation, and the Company makes a decision on the monthly remuneration levels and levels of bonus in cash (number of times of monthly remuneration) by position based on the details of this report. The calculation and determination of the amount of individual basic remuneration (monthly remuneration) and the amount of bonus in cash in accordance with such decision are delegated to Chairman of the Board Tetsuji Ohashi and President and Representative Director Hiroyuki Ogawa pursuant to the resolution passed at a meeting of the Board of Directors. This authority has been delegated given that the monthly remuneration levels and levels of bonus in cash (number of times of monthly remuneration) by position shall be deliberated and resolved by the Compensation Advisory Committee, and the Company has deemed it appropriate for decisions based on such outcomes with respect to individual amounts of basic remuneration and bonus in cash to become subject to discussion involving the Chairman of the Board as well as the President and Representative Director, drawing on their comprehensive perspective of the Company’s overall business operations, rather than by engaging in further deliberation and decision-making entailing consultation by the Board of Directors.

The remuneration for Audit & Supervisory Board Members only consists of basic remuneration (fixed remuneration) designed to support their independent position with authority to audit the execution of duties by Directors without being fettered by the movements of corporate performance of the Company. The specific total amount of remuneration shall be determined by discussions among the Audit & Supervisory Board Members within the range previously determined by resolution of the General Meeting of Shareholders, taking reports and recommendations of the Compensation Advisory Committee into consideration.

The retirement allowance system for Directors and Audit & Supervisory Board Members was terminated as of June 2007.

[System of Remuneration for Internal Directors]

| Monetary Remuneration | | Stock-based remuneration | |
|--|--|--|---|
| Basic Remuneration (Fixed Remuneration) | Performance-Based Remuneration | | |
| | Performance-Based Remuneration for a Single Year (Monthly Remuneration x 0 ~ 24 months) | | Performance-Based Remuneration Linked to Performance of Mid-Term Management Plan (Monthly Remuneration x 0 ~ 3 months) |
| Monthly Remuneration x 12 months | Bonus in Cash (2/3, in principle) [up to the equivalent of 12 months' remuneration] | Stock-Based Remuneration A (1/3, in principle) Restricted Stock | Stock-Based Remuneration B Restricted Stock |

a) Basic Remuneration

With regard to levels of monthly remuneration as basic remuneration, a comparison to positions at other key, globally active manufacturers in Japan is made by the Compensation Advisory Committee and is reflected in its reports and recommendations. Subsequently, monthly remuneration levels by position will be decided by the Board of Directors based on these reports and recommendations.

b) Performance-based remuneration for a single year

The total amount paid for performance-based remuneration shall be calculated each year by evaluating the single-fiscal-year consolidated performance against the basic indicators, comprising consolidated ROE^{*1}, consolidated ROA^{*2} and the consolidated operating income ratio, using the respective percentages indicated in the table below as benchmarks, and making adjustments for growth (growth rate of consolidated sales).

[Indicators with respect to single-fiscal-year consolidated performance-based remuneration]

| | Indicator | Ratio |
|-----------------------|---|-------|
| Basic Indicators | Consolidated ROE ^{*1} | 50% |
| | Consolidated ROA ^{*2} | 25% |
| | Consolidated operating income ratio | 25% |
| Adjustment Indicators | Adjustment according to growth rate of consolidated sales | |

*1 ROE=Net income attributable to Komatsu Ltd. for the year/[(Komatsu Ltd. shareholders' equity at the beginning of the fiscal year + Komatsu Ltd. shareholders' equity at the end of the fiscal year)/2]

*2 ROA=Income before income taxes and equity in earnings of affiliated companies/[(total assets at the beginning of the fiscal year + total assets at the end of the fiscal year)/2]

The Company selected such performance indicators upon having deemed them appropriate as quantitative values that reflect the entire Komatsu Group's efficiency and growth. In this regard, the Board of Directors made its decisions per deliberations of the Compensation Advisory Committee, taking into account factors that include past valuation indicators and potential continuity.

Such performance indicators may be changed in the future by a resolution of the Board of Directors.

For the fiscal year ended March 31, 2023, the Company's actual results regarding its performance indicators consist of consolidated ROE of 13.7%, consolidated ROA of 10.3%, consolidated operating income ratio of 13.8%, and growth rate of sales of 26.4%. The Company accordingly determined the payment level based on such results.

With regards to the single-fiscal-year consolidated performance-based remuneration levels, the upper limit shall be twice the basic remuneration (12 × monthly remuneration) of the Director and the lower limit shall be zero (0) (remuneration in this case will comprise only the basic remuneration).

The equivalent of two-thirds (2/3) of the total paid amount of performance-based remuneration linked to the Company's consolidated performance for a single year shall be paid in the form of bonus in cash and the amount remaining after deducting the bonus in cash shall be paid by granting restricted stock as stock-based remuneration based on a resolution passed at a meeting of the Board of Directors, in order to further promote the same perspective on corporate value with the shareholders (Stock-Based Remuneration A); provided, however, that for the bonus in cash, the upper limit shall be the equivalent of 12 months of the monthly remuneration and, for any

amount exceeding the 12 month limit, the Company shall pay the Stock-Based Remuneration A in substitution for the bonus in cash. Note that as a general rule, concerning the Stock-Based Remuneration A, the restriction on transfer of the shares will be lifted after three years from delivery.

c) Performance-Based Remuneration Linked to Performance of Mid-Term Management Plan

The Company will pay Internal Directors the equivalent of a three months of monthly remuneration based on the resolution of the Board of Directors every fiscal year as remuneration linked to the period of the Company's mid-term Management Plan by granting restricted stock as stock-based remuneration (Stock-Based Remuneration B). In deciding Stock-Based Remuneration B, after the expiry of the period of the mid-term management plan, the number of shares on which to lift transfer restrictions (within the range of 0-100%) will be decided mainly based on the achievement of the indicators presented in the table below, which are within the management targets of the mid-term Management Plan and, as a general rule, the restriction on transfer on the shares will be lifted after three years from delivery.

Given that such remuneration constitutes performance-based remuneration under the mid-term management plan, the Company has selected these performance indicators having deemed them to be appropriate after comprehensively taking these performance indicators into consideration in order to multilaterally reflect in Directors' remuneration the Company's performance while paying close attention to growth and profitability in light of the goal of this remuneration system, which is to further contribute to the increase of medium- to long-term corporate value, after connecting it to the management targets established in the mid-term management plan. The performance indicators that are the basis of the calculation of this remuneration are subject to change per resolution of the Board of Directors.

[Management Indicators and Management Targets in Mid-Term Management Plan (FY2022-FY2024)]

| Item | Index | Target |
|-------------------------|--|---|
| Growth | Sales growth rate | Growth rate above the industry's average ^{*1} |
| Profitability | Operating profit ratio | An Industry's top-level operating profit ratio ^{*1} |
| Efficiency | ROE | 10% or higher |
| Financial position | Net debt-to-equity ratio ^{*2} | Industry's top-level financial position |
| Retail finance business | ROA | 1.5% to 2.0% |
| | Net debt-to-equity ratio ^{*2} | 5 times or less |
| ESG | Reduction of environmental impact | <ul style="list-style-type: none"> • CO₂ emissions: Decrease by 50% in 2030 from 2010 Become carbon neutral by 2050 (Challenging goal) • Renewable energy use: Increase to 50% of total energy use in 2030 |
| | Evaluation by external organizations | <ul style="list-style-type: none"> • Selected for DJSI^{*3} (World & Asia Pacific) • Selected for CDP^{*4} A-list (Climate Changes and Water Risk) |

*1 Relative comparison with domestic and foreign major competitors in the same industry.

*2 Net debt-to-equity ratio = (Interest-bearing debt - Cash and cash equivalents - Time deposits) / Komatsu Ltd. shareholders' equity

*3 Dow Jones Sustainability Indices: ESG investment indices of S&P Dow Jones Indices LLC of the United States

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

(Reference: Details of Stock-Based Remuneration System by Restricted Stock)

(1) Overview

●Under the System, the Company shall grant Directors excluding the Outside Directors of the Company (hereinafter "Eligible Directors") monetary compensation receivables for the allocation of restricted stock for each fiscal year in principle, and, by having the Eligible Directors make contribution in kind to the Company using the monetary compensation receivables as contributed assets, shall issue or dispose of its shares of common stock to the Eligible Directors and allow them to hold such shares.

●The Company shall conclude a restricted stock grant agreement (hereinafter "Grant Agreement") with the Eligible Directors. With regard to the shares granted pursuant to the Grant Agreement (hereinafter "Granted Shares"), the Eligible Directors shall not be allowed to transfer, create a security interest on, or otherwise dispose (hereinafter "Transfer") of them at will (hereinafter "Restrictions") during a given period provided by the Grant Agreement (hereinafter "Restricted Period").

The Company shall acquire from the Eligible Directors, free of charge, the Granted Shares with respect to which the Restrictions have not been lifted as a result of the occurrence of prescribed events, including the failure to accomplish performance targets determined by the Board of Directors based on reports of the Compensation Advisory Committee.

The Grant Agreement shall stipulate that during the Restricted Period and after the Restrictions have been lifted, if the Board of Directors resolves that it is appropriate to make the Eligible Directors return the shares granted to them in accordance with the System, the Eligible Directors shall return the corresponding portion of shares to the Company.

●Other details regarding the administration of the System shall be determined by the Board of Directors based on reports of the Compensation Advisory Committee.

| | Stock-Based Remuneration A (Performance-Based Remuneration for a Single Year) | Stock-Based Remuneration B (Performance-Based Remuneration Linked to Performance of Mid-Term Management Plan) |
|--|--|---|
| (2) Framework of the remuneration system | The Company shall determine the amount of remuneration based on the Company's single-year performance, etc. and pay a part of the amount of remuneration so determined in the form of restricted stock to the Eligible Directors each fiscal year. The Restrictions will, in principle, be lifted three (3) years after the grant of the Granted Shares. | With respect to the period of the Company's mid-term management plan, the Company shall grant restricted stock to the Eligible Directors each fiscal year based on the base amount of remuneration for each position. After the expiry of the period of the mid-term management plan, the Company shall determine the number of shares with respect to which the Restrictions will be lifted according to the achievement status of the targets raised in the mid-term management plan, etc. In principle, the Company shall lift the Restrictions three (3) years after the grant of the Granted Shares. |

| | Stock-Based Remuneration A (Performance-Based Remuneration for a Single Year) | Stock-Based Remuneration B (Performance- Based Remuneration Linked to Performance of Mid-Term Management Plan) |
|---|--|--|
| (3) Amount of monetary compensation receivables to be provided and the maximum number of shares to be granted | Amount of monetary compensation receivables: No more than JPY 360 million per year; provided, however, that the employee salaries for the Directors concurrently serving as employees are not included in this amount. Total number of Granted Shares: No more than 239,000 shares during one fiscal year. | Amount of monetary compensation receivables: No more than JPY 180 million per year; provided, however, that the employee salaries for the Directors concurrently serving as employees are not included in this amount. Total number of Granted Shares: No more than 120,000 shares during one fiscal year. |
| | However, if a stock split, consolidation of shares or any other situation with respect to the Company's common stock occurs that necessitates the adjustment of the total number of shares of restricted stock to be allocated, the total number of Granted Shares shall be reasonably adjusted. | |
| (4) Amount to be paid per share | The amount to be paid per share shall be determined by the Board of Directors to an extent that would not be considered especially advantageous to the Eligible Directors who are granted the shares of common stock of the Company under the System, that is, the closing price of the share of common stock of the Company on the Tokyo Stock Exchange on the business day immediately preceding the date of each resolution by the Board of Directors (or the closing price on the trading day immediately prior thereto if there is no trading on such business day), etc. | |
| (5) Restriction Period | The Restriction Period shall be three (3) years and the Eligible Directors shall not Transfer the Granted Shares during such period. | |
| (6) Lifting of Restrictions | The Company shall, in principle, lift the Restrictions on the Granted Shares at the expiry of the Restriction Period. | In principle, the Company shall, at the expiry of the Restriction Period, lift the Restrictions on all or part of the Granted Shares according to the degree of achievement of the targets raised in the mid-term management plan based on the indicators set by the Board of Directors, including the major performance indicators set in the mid-term management plan. Upon determination of the number of shares with respect to which the Restrictions will be lifted according to the achievement status of the targets raised in the mid-term management plan, etc., the Company shall as a matter of course acquire, free of charge, the Granted Shares with respect to which the Company decides not to lift the Restrictions pursuant to the above provision. |

| | Stock-Based Remuneration A (Performance-Based Remuneration for a Single Year) | Stock-Based Remuneration B (Performance-Based Remuneration Linked to Performance of Mid-Term Management Plan) |
|--|---|---|
| (7) Treatment upon retirement | In the event that, prior to the expiry of the Restriction Period, the Eligible Director is deemed to have retired as a Director of the Company due to his or her death, the Company shall lift the Restrictions on all of the Granted Shares after making reasonable adjustments, as necessary, to the timing of the lifting of the Restrictions. If, prior to the expiry of the Restriction Period, the Eligible Director retires as a Director of the Company without any reason recognized as legitimate by the Board of Directors of the Company, such as the expiration of the term of office as a Director (hereinafter "Legitimate Reason for Retirement"), the Company shall as a matter of course acquire, free of charge, all or part of the Granted Shares. | In the event that, prior to the expiry of the Restriction Period, the Eligible Director is deemed to have retired as a Director of the Company due to his or her death, the Company shall make reasonable adjustments, as necessary, to (i) the number of Granted Shares with respect to which the Restrictions are to be lifted and the timing of the lifting of the Restrictions during the period from the time of the grant of the Granted Shares to immediately prior to the determination of the number of shares with respect to which the Restrictions will be lifted according to the achievement status of the targets raised in the mid-term management plan, etc., or (ii) the timing of the lifting of the Restrictions during the period from the determination of the number of shares with respect to which the Restrictions will be lifted according to the achievement status of the targets raised in the mid-term management plan, etc. to the expiry of the Restriction Period. If, prior to the expiry of the Restriction Period, the Eligible Director retires as a Director of the Company without any Legitimate Reason for Retirement, the Company shall as a matter of course acquire, free of charge, all or part of the Granted Shares. |
| (8) Other matters to be determined by the Board of Directors | Other matters relating to the System shall be determined by the Board of Directors and shall be considered to be a part of the Grant Agreement. | |

d) Malus and Clawback System

The Company resolved on Malus (reduction / confiscation) and Clawback (return) system at the meeting of the Board of Directors held on April 28, 2022. In the event of a significant revision of financial statements or an event that has a significant impact on the reputation of the Company due to the execution of business by Directors, the performance-based remuneration paid to the Internal Directors could be required to be reduced, confiscated, or refunded. In principle, the content of the refund request, etc. will be decided by the Board of Directors after deliberation by the Compensation Advisory Committee according to each event.

(5) Shareholdings

A. Classification of investment securities

The Company classifies investment securities by holding purpose, for pure investment or other than pure investment. Pure investment means that the Company owns shares only for purpose of returns from stock price fluctuations and/or dividends.

B. Investment securities held for purpose other than pure investment

1. Policy of holding listed stocks

In light of avoiding risks resulting from stock price fluctuations and improving asset efficiency, the Company owns no listed shares except for the cases in which business relationships with invested companies and/or business cooperation with the Company are needed.

2. Number of stock names and amount on the balance sheet

| | Number of stock names | Amount on the balance sheet (Millions of yen) |
|----------------------------|-----------------------|---|
| Unlisted stocks | 45 | 3,829 |
| Other than unlisted stocks | - | - |

Information on stocks whose number of shares increased in the fiscal year ended March 31, 2023

| | Number of stock names | Acquisition cost for the increase of number of shares (Millions of yen) | Reason for acquisition |
|----------------------------|-----------------------|---|---------------------------------|
| Unlisted stocks | 3 | 1,212 | Investment in start-up company. |
| Other than unlisted stocks | - | - | - |

Information on stocks whose number of shares decreased in the fiscal year ended March 31, 2023

| | Number of stock names | Sales amount for the decrease of number of shares (Millions of yen) |
|----------------------------|-----------------------|---|
| Unlisted stocks | 2 | 2 |
| Other than unlisted stocks | - | - |

3. Stock name, number of shares, amount on the balance sheet etc. of specified investment securities and deemed shareholdings

Not applicable.

C. Investment securities held for pure investment

Not applicable.

D. Investment securities for which the holding purpose has changed from pure investment to other than pure investment in the fiscal year ended March 31, 2023

Not applicable.

E. Investment securities for which the holding purpose has changed from other than pure investment to pure investment in the fiscal year ended March 31, 2023

Not applicable.

Item 5. Financial Information

1. Basis of preparation of the consolidated financial statements and the non-consolidated financial statements

(1) The consolidated financial statements of the Company are prepared in accordance with the accounting principles generally accepted in the United States of America, pursuant to Paragraph 3, Supplementary Provisions of the “Cabinet Office Ordinance for Partial Revision of the Ordinance on Terminology, Forms and Preparation Methods of Consolidated Financial Statements”, the Ordinance of the Cabinet Office No. 11 of 2002.

(2) The non-consolidated financial statements of the Company are prepared in accordance with the Ordinance of the Ministry of Finance No. 59 of 1963 “Ordinance on Terminology, Forms and Preparation Methods of Financial Statements, etc.” (hereinafter “Ordinance on Financial Statements, etc.”).

Also, the Company is qualified as a company submitting financial statements prepared in accordance with special provision and prepares financial statements in accordance with the provision of Article 127 of the Ordinance on Financial Statements, etc.

2. Audit certification

Pursuant to Article 193-2, paragraph 1 of the Financial Instruments and Exchange Act of Japan, the consolidated financial statements for the fiscal year from April 1, 2022 to March 31, 2023 and the non-consolidated financial statements for the 154th fiscal year (from April 1, 2022 to March 31, 2023) were audited by KPMG AZSA LLC.

3. Particular efforts to secure the appropriateness of the consolidated financial statements, etc.

The Company carries out special measures for ensuring the appropriateness of consolidated financial statements, etc. Specifics of such efforts are as follows.

(1) For the purpose of both ensuring that the Company has an appropriate grasp of the contents of Accounting Standards and related regulations, and properly preparing consolidated financial statements, etc., the Company became a member of the Financial Accounting Standards Foundation and is kept informed of changes in Accounting Standards and other topics by participating in seminars and other events hosted by the foundation.

(2) The Company works to keep every employee informed about Accounting Standards by developing internal accounting regulations, manuals and other means.

(3) The Company confirms the appropriateness of consolidated financial statements, etc. by organizing internal structures such as the Information Disclosure Committee.

1. Consolidated Financial Statements, etc.

(1) Consolidated Financial Statements

Consolidated Balance Sheets

Komatsu Ltd. and Consolidated Subsidiaries as of March 31, 2023 and 2022

| Assets | 2023 | | 2022 | |
|---|--------------------|--------------|--------------------|--------------|
| | Millions of yen | Ratio (%) | Millions of yen | Ratio (%) |
| Current assets | | | | |
| Cash and cash equivalents (Note 21) | ¥ 289,975 | | ¥ 315,360 | |
| Time deposits (Note 21) | — | | 1,310 | |
| Trade notes and accounts receivable, net (Notes 4, 7, 15, 17 and 24) | 1,111,913 | | 954,580 | |
| Inventories (Note 5) | 1,227,208 | | 988,011 | |
| Other current assets (Notes 7, 9, 20, 21, 22 and 24) | 207,479 | | 162,020 | |
| Total current assets | 2,836,575 | 58.2 | 2,421,281 | 55.7 |
| Long-term trade receivables, net (Notes 4, 15, 17, 21 and 24) | 569,691 | 11.7 | 501,868 | 11.5 |
| Investments | | | | |
| Investments in and advances to affiliated companies (Note 7) | 52,325 | | 45,913 | |
| Investment securities (Note 6) | 10,556 | | 8,377 | |
| Other | 3,418 | | 3,493 | |
| Total investments | 66,299 | 1.4 | 57,783 | 1.3 |
| Property, plant and equipment | | | | |
| — less accumulated depreciation and amortization (Notes 8 and 17) | 836,442 | 17.1 | 819,749 | 18.9 |
| Operating lease right-of-use assets (Note 17) | 61,052 | 1.3 | 61,516 | 1.4 |
| Goodwill (Notes 3 and 10) | 207,060 | 4.2 | 187,615 | 4.3 |
| Other intangible assets | | | | |
| — less accumulated amortization (Notes 3 and 10) | 167,292 | 3.4 | 169,003 | 3.9 |
| Deferred income taxes and other assets (Notes 12, 16, 20, 21, 22 and 24) | 131,436 | 2.7 | 128,707 | 3.0 |
| Total assets | ¥ 4,875,847 | 100.0 | ¥ 4,347,522 | 100.0 |
| | | | | |
| | | | | |
| | | | | |
| Liabilities and Equity | 2023 | | 2022 | |
| | Millions of yen | Ratio (%) | Millions of yen | Ratio (%) |
| Current liabilities | | | | |
| Short-term debt (Notes 11 and 21) | ¥ 310,738 | | ¥ 241,746 | |
| Current maturities of long-term debt (Notes 11 and 21) | 176,835 | | 276,623 | |
| Trade notes, bills and accounts payable (Note 7) | 362,360 | | 338,974 | |
| Income taxes payable (Note 16) | 64,495 | | 68,337 | |
| Current operating lease liabilities (Note 17) | 17,878 | | 16,981 | |
| Other current liabilities (Notes 12, 15, 19, 20, 21, 22 and 24) | 439,355 | | 381,360 | |
| Total current liabilities | 1,371,661 | 28.1 | 1,324,021 | 30.5 |
| Long-term liabilities | | | | |
| Long-term debt (Notes 11 and 21) | 566,189 | | 429,011 | |
| Liability for pension and retirement benefits (Note 12) | 90,348 | | 93,407 | |
| Long-term operating lease liabilities (Note 17) | 44,913 | | 43,458 | |
| Deferred income taxes and other liabilities (Notes 15, 16, 19, 20, 21 and 22) | 124,781 | | 101,348 | |
| Total long-term liabilities | 826,231 | 17.0 | 667,224 | 15.3 |
| Total liabilities | 2,197,892 | 45.1 | 1,991,245 | 45.8 |
| Commitments and contingent liabilities (Note 19) | | | | |
| | | | | |
| Equity | | | | |
| Komatsu Ltd. shareholders' equity (Note 13) | | | | |
| Common stock: | | | | |
| Authorized 3,955,000,000 shares | | | | |
| Issued 973,450,930 shares | | | | |
| Outstanding 945,594,299 shares in 2023 and 945,312,564 shares in 2022 | 69,660 | | 69,393 | |
| Capital surplus | 135,886 | | 139,572 | |
| Retained earnings: | | | | |
| Appropriated for legal reserve | 48,508 | | 47,903 | |
| Unappropriated | 2,114,789 | | 1,902,501 | |
| Accumulated other comprehensive income (loss) (Notes 12, 14 and 20) | 219,951 | | 122,414 | |
| Treasury stock at cost, | | | | |
| 27,856,631 shares in 2023 and 27,833,236 shares in 2022 (Note 13) | (49,153) | | (49,272) | |
| Total Komatsu Ltd. shareholders' equity | 2,539,641 | 52.1 | 2,232,511 | 51.4 |
| Noncontrolling interests | 138,314 | 2.8 | 123,766 | 2.8 |
| Total equity | 2,677,955 | 54.9 | 2,356,277 | 54.2 |
| Total liabilities and equity | ¥ 4,875,847 | 100.0 | ¥ 4,347,522 | 100.0 |

The accompanying Notes are an integral part of these Consolidated Financial Statements.

Consolidated Statements of Income and Consolidated Statements of Comprehensive Income
 Komatsu Ltd. and Consolidated Subsidiaries
 For the fiscal years ended March 31, 2023 and 2022

Consolidated Statements of Income

| | 2023 | | 2022 | |
|---|------------------|-------------|------------------|-------------|
| | Millions of yen | Ratio(%) | Millions of yen | Ratio(%) |
| Net sales (Notes 7, 14, 15, 17 and 20) | ¥ 3,543,475 | 100.0 | ¥ 2,802,323 | 100.0 |
| Cost of sales (Notes 8, 10, 12, 14, 17, 20 and 25) | 2,504,449 | 70.7 | 2,022,747 | 72.2 |
| Selling, general and administrative expenses (Notes 3, 8, 10, 12, 13, 17 and 25) | 545,512 | 15.4 | 464,040 | 16.6 |
| Impairment loss on long-lived assets (Notes 23 and 25) | 5,521 | 0.2 | 1,372 | 0.0 |
| Other operating income, net (Notes 14 and 25) | 2,692 | 0.1 | 2,851 | 0.1 |
| Operating income | 490,685 | 13.8 | 317,015 | 11.3 |
| Other income (expenses), net (Note 25) | | | | |
| Interest and dividend income (Note 7) | 12,451 | 0.4 | 5,332 | 0.2 |
| Interest expense | (32,371) | (0.9) | (12,222) | (0.4) |
| Other, net (Notes 6, 12, 14 and 20) | 5,669 | 0.2 | 14,443 | 0.5 |
| Total | (14,251) | (0.4) | 7,553 | 0.3 |
| Income before income taxes and equity in earnings of affiliated companies | 476,434 | 13.4 | 324,568 | 11.6 |
| Income taxes (Notes 14 and 16) | | | | |
| Current | 139,828 | | 100,233 | |
| Deferred | (4,281) | | (7,655) | |
| Total | 135,547 | 3.8 | 92,578 | 3.3 |
| Income before equity in earnings of affiliated companies | 340,887 | 9.6 | 231,990 | 8.3 |
| Equity in earnings of affiliated companies | 5,290 | 0.1 | 5,258 | 0.2 |
| Net income | 346,177 | 9.8 | 237,248 | 8.5 |
| Less: Net income attributable to noncontrolling interests | 19,779 | 0.6 | 12,321 | 0.4 |
| Net income attributable to Komatsu Ltd. | ¥ 326,398 | 9.2 | ¥ 224,927 | 8.0 |

Yen

Per share data (Note 18):

Net income attributable to Komatsu Ltd.:

| | | |
|---------|----------|----------|
| Basic | ¥ 345.22 | ¥ 237.97 |
| Diluted | ¥ 345.18 | ¥ 237.92 |

The accompanying Notes are an integral part of these Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income

| | Millions of yen | |
|---|------------------|------------------|
| | 2023 | 2022 |
| Net income | ¥ 346,177 | ¥ 237,248 |
| Other comprehensive income (loss), for the period, net of tax | | |
| Foreign currency translation adjustments (Notes 14 and 16) | 96,129 | 165,147 |
| Pension liability adjustments (Notes 12, 14 and 16) | 1,407 | 10,169 |
| Net unrealized holding gains (losses) on derivative instruments (Notes 14, 16 and 20) | 1,996 | (1,126) |
| Total | 99,532 | 174,190 |
| Comprehensive income | 445,709 | 411,438 |
| Less: Comprehensive income attributable to noncontrolling interests | 23,250 | 22,961 |
| Comprehensive income attributable to Komatsu Ltd. | ¥ 422,459 | ¥ 388,477 |

The accompanying Notes are an integral part of these Consolidated Financial Statements.

Consolidated Statements of Equity
Komatsu Ltd. and Consolidated Subsidiaries

For the fiscal year ended March 31, 2023

| | Millions of yen | | | | | | | | |
|---|-----------------|------------------|--------------------------------|--------------------|---|-------------------|---|---------------------------|--------------------|
| | Common stock | Capital surplus | Retained earnings | | Accumulated other comprehensive income (loss) | Treasury stock | Total Komatsu Ltd. shareholders' equity | Non-controlling interests | Total equity |
| | | | Appropriated for legal reserve | Un-appropriated | | | | | |
| Balance at March 31, 2022 | ¥ 69,393 | ¥ 139,572 | ¥ 47,903 | ¥ 1,902,501 | ¥ 122,414 | ¥ (49,272) | ¥ 2,232,511 | ¥ 123,766 | ¥ 2,356,277 |
| Cash dividends | | | | (113,505) | | | (113,505) | (7,736) | (121,241) |
| Transfer to retained earnings appropriated for legal reserve | | | 605 | (605) | | | — | | — |
| Other changes | | (3,898) | | | 1,476 | (77) | (2,499) | (1,069) | (3,568) |
| Net income | | | | 326,398 | | | 326,398 | 19,779 | 346,177 |
| Other comprehensive income (loss), for the period, net of tax (Note 14) | | | | | 96,061 | | 96,061 | 3,471 | 99,532 |
| Exercise of stock acquisition rights (Note 13) | | (122) | | | | | (122) | | (122) |
| Purchase of treasury stock | | | | | | (38) | (38) | | (38) |
| Sales of treasury stock | | 69 | | | | 234 | 303 | 103 | 406 |
| Restricted stock compensation (Note 13) | 267 | 265 | | | | | 532 | | 532 |
| Balance at March 31, 2023 | ¥ 69,660 | ¥ 135,886 | ¥ 48,508 | ¥ 2,114,789 | ¥ 219,951 | ¥ (49,153) | ¥ 2,539,641 | ¥ 138,314 | ¥ 2,677,955 |

The accompanying Notes are an integral part of these Consolidated Financial Statements.

For the fiscal year ended March 31, 2022

| | Millions of yen | | | | | | | | |
|---|-----------------|------------------|--------------------------------|--------------------|---|-------------------|---|---------------------------|--------------------|
| | Common stock | Capital surplus | Retained earnings | | Accumulated other comprehensive income (loss) | Treasury stock | Total Komatsu Ltd. shareholders' equity | Non-controlling interests | Total equity |
| | | | Appropriated for legal reserve | Un-appropriated | | | | | |
| Balance at March 31, 2021 | ¥ 69,037 | ¥ 135,835 | ¥ 47,378 | ¥ 1,750,914 | ¥ (42,012) | ¥ (48,855) | ¥ 1,912,297 | ¥ 99,728 | ¥ 2,012,025 |
| Cash dividends | | | | (72,815) | | | (72,815) | (5,983) | (78,798) |
| Transfer to retained earnings appropriated for legal reserve | | | 525 | (525) | | | — | | — |
| Other changes | | 3,637 | | | 876 | | 4,513 | 7,060 | 11,573 |
| Net income | | | | 224,927 | | | 224,927 | 12,321 | 237,248 |
| Other comprehensive income (loss), for the period, net of tax (Note 14) | | | | | 163,550 | | 163,550 | 10,640 | 174,190 |
| Exercise of stock acquisition rights (Note 13) | | (298) | | | | | (298) | | (298) |
| Purchase of treasury stock | | | | | | (670) | (670) | | (670) |
| Sales of treasury stock | | 46 | | | | 253 | 299 | | 299 |
| Restricted stock compensation (Note 13) | 356 | 352 | | | | | 708 | | 708 |
| Balance at March 31, 2022 | ¥ 69,393 | ¥ 139,572 | ¥ 47,903 | ¥ 1,902,501 | ¥ 122,414 | ¥ (49,272) | ¥ 2,232,511 | ¥ 123,766 | ¥ 2,356,277 |

The accompanying Notes are an integral part of these Consolidated Financial Statements.

Consolidated Statements of Cash Flows
Komatsu Ltd. and Consolidated Subsidiaries
For the fiscal years ended March 31, 2023 and 2022

| | Millions of yen | |
|---|------------------|------------------|
| | 2023 | 2022 |
| Operating activities | | |
| Net income | ¥ 346,177 | ¥ 237,248 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 149,688 | 136,346 |
| Deferred income taxes | (4,281) | (7,655) |
| Impairment loss and net gain on valuation of investment securities, net | (212) | (737) |
| Net gain on sale of fixed assets | (1,782) | (3,389) |
| Loss on disposal of fixed assets | 3,651 | 3,087 |
| Impairment loss on long-lived assets | 5,521 | 1,372 |
| Pension and retirement benefits, net | (827) | (5,230) |
| Changes in assets and liabilities: | | |
| Increase in trade receivables | (125,709) | (85,436) |
| Increase in inventories | (214,520) | (116,558) |
| Increase in trade payables | 14,592 | 65,030 |
| Increase (decrease) in income taxes payable | (4,011) | 40,796 |
| Other, net | 38,187 | 36,096 |
| Net cash provided by operating activities | <u>206,474</u> | <u>300,970</u> |
| Investing activities | | |
| Capital expenditures | (183,533) | (162,956) |
| Proceeds from sale of fixed assets | 19,170 | 21,927 |
| Purchases of investment securities | (1,941) | (686) |
| Proceeds from sale of subsidiaries and businesses, net of cash disposed | 15,184 | 55 |
| Acquisition of subsidiaries and equity investees, net of cash acquired | (18,000) | (815) |
| Other, net | (398) | (1,094) |
| Net cash used in investing activities | <u>(169,518)</u> | <u>(143,569)</u> |
| Financing activities | | |
| Proceeds from debt issued (Original maturities greater than three months) | 603,003 | 443,468 |
| Payment on debt (Original maturities greater than three months) | (637,924) | (482,208) |
| Short-term debt, net (Original maturities three months or less) | 92,516 | 13,520 |
| Dividends paid | (113,505) | (72,815) |
| Proceeds from issuance of subsidiary's shares | 2,012 | 30,440 |
| Acquisition of noncontrolling interests | (4,728) | (20,072) |
| Other, net | (7,987) | (6,201) |
| Net cash used in financing activities | <u>(66,613)</u> | <u>(93,868)</u> |
| Effect of exchange rate change on cash and cash equivalents | <u>4,272</u> | <u>10,024</u> |
| Net increase (decrease) in cash and cash equivalents | <u>(25,385)</u> | <u>73,557</u> |
| Cash and cash equivalents, beginning of year | <u>315,360</u> | <u>241,803</u> |
| Cash and cash equivalents, end of year | <u>¥ 289,975</u> | <u>¥ 315,360</u> |

The accompanying Notes are an integral part of these Consolidated Financial Statements.

The figure for the fiscal year ended March 31, 2022 was reclassified to conform to the presentation for the fiscal year ended March 31, 2023.

Notes to Consolidated Financial Statements

1. Description of Business, Basis of Consolidated Financial Statement Presentation and Summary of Significant Accounting Policies

Description of Business

In this report, Komatsu Ltd. is hereinafter referred to as the “Company” and together with its consolidated subsidiaries as “Komatsu”.

Komatsu primarily manufactures and markets various types of construction, mining and utility equipment throughout the world, provides retail financing to customers and sales distributors and is also engaged in the manufacture and sale of industrial machinery and others.

The consolidated net sales of Komatsu for the fiscal year ended March 31, 2023 consisted of the following: construction, mining and utility equipment business – 92.8%, retail finance business – 1.9%, industrial machinery and others business – 5.3%

Sales are made principally under the Komatsu brand name, and are almost entirely executed through sales subsidiaries and sales distributors. These subsidiaries and distributors are responsible for marketing and distribution and primarily sell to retail dealers in their geographical area. Of consolidated net sales for the fiscal year ended March 31, 2023, 88.4% were generated outside Japan, with 42.0% in the Americas, 12.9% in Europe and CIS, 2.8% in China, 23.3% in Asia (excluding Japan and China) and Oceania, and 7.4% in the Middle East and Africa.

The manufacturing operations of Komatsu are conducted primarily at plants in Japan, the United States, Brazil, the United Kingdom, Germany, Italy, Sweden, China, Indonesia, Thailand and India.

Basis of Consolidated Financial Statement Presentation

The accompanying consolidated financial statements are prepared and presented in accordance with generally accepted accounting principles in the United States of America (hereinafter “U.S. GAAP”).

The accompanying consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and principally operates.

Some adjustments without being booked on each subsidiary’s and affiliate’s financial statements are added to the accompanying consolidated financial statements. These adjustments are mainly due to the gaps of accounting principles between Japan and the United States of America. See Note 27 “Terminology, Forms and Preparation Methods of Consolidated Financial Statements”.

Preparation of Consolidated Financial Statements and Registration with the U.S. Securities and Exchange Commission

The Company has been preparing its consolidated financial statements in accordance with U.S. GAAP since 1963, because the Company issued foreign currency convertible bonds at European market in 1964. The Company registered its convertible bonds issued in the United States in 1967 and its common shares issued for U.S. shareholders as well as Japanese shareholders in 1970 with the U.S. Securities and Exchange Commission (hereinafter “SEC”). Since then, the Company, as a non-U.S. issuer, had been having the reporting obligations, such as filing annual report with its consolidated financial statements in accordance with U.S. GAAP, under the Securities Exchange Act of 1934. The Company’s registration with SEC was terminated on June 30, 2014.

Summary of Significant Accounting Policies

(1) Consolidation and Investments in Affiliated Companies

The consolidated financial statements include the accounts of the Company and all of its majority-owned Japanese and foreign subsidiaries.

Variable interest entities are consolidated for which the Company is the primary beneficiary in accordance with Financial Accounting Standards Board (hereinafter “FASB”) Accounting Standards CodificationTM (hereinafter “ASC”) 810, “Consolidation”. The consolidated balance sheets as of March 31, 2023 and 2022 include assets for the Variable interest entities of ¥4,988 million and ¥6,666 million, respectively. Consolidated variable interest entities mainly engage in equipment leasing in Europe. The majority of these assets are cash and cash equivalents, trade notes and accounts receivable, and long-term trade receivables.

Investments in affiliated companies whereby Komatsu has the ability to exercise significant influence over the operational and financial policies of a company, but does not have a controlling financial interest, are accounted for by the equity method.

(2) Foreign Currency Translation and Transactions

Assets and liabilities of foreign operations are translated at the exchange rates in effect at each fiscal year-end, and income and expenses of foreign operations are translated at the average rates of exchange prevailing during each fiscal year in consolidating the financial statements of overseas subsidiaries. The resulting translation adjustments are included as a separate component of accumulated other comprehensive income (loss) in the accompanying consolidated financial statements. All foreign currency transaction gains and losses are included in other income (expenses), net in the period incurred.

(3) Allowance for Doubtful Trade Receivables

Komatsu calculates a general allowance for doubtful receivables based on historical loss rates. On the other hand, for those doubtful receivables with the possibility of default, including those in cases where a customer’s ability to meet its financial obligations has become doubtful due to a bankruptcy filing or deterioration in its business performance, Komatsu estimates credit losses based on the credit status of individual customers and an analysis on the overdue status of receivables, and then recognizes a specific allowance for doubtful receivables at an amount of the estimated credit losses reduced by an expected amount recoverable from the collateral. The amount of estimated credit losses is further adjusted to reflect changes in customer circumstances.

(4) Inventories

Inventories are stated at the lower of cost or market. The cost of finished products and work in process is mainly valued by the specific identification method. The cost of finished parts is mainly stated using the first-in first-out method. The cost of raw materials and supplies is stated at periodic average cost.

(5) Investment Securities

Komatsu’s investments in marketable equity securities are stated at fair value. Changes in fair values are included in net income in the accompanying consolidated statements of income.

Komatsu measures equity securities without readily determinable fair values at the carrying amount after the writedown due to impairment, except for investments which are measured at net asset value per share. If Komatsu identifies observable price changes in orderly transactions for identical or similar investments issued by the same issuer, Komatsu measures the equity security at fair value as of the date that the observable transaction occurred.

(6) Property, Plant and Equipment, and Related Depreciation and Amortization

Property, plant and equipment are stated at cost, less accumulated depreciation. Depreciation is calculated by the straight-line method based on the estimated useful lives of the assets.

The estimated useful lives used in computing depreciation of property, plant and equipment are as follows:

| <u>Asset</u> | <u>Life</u> |
|-------------------------|---------------|
| Buildings | 2 to 50 years |
| Machinery and equipment | 2 to 20 years |

Ordinary maintenance and repairs are charged to expense as incurred. Major replacements and improvements are capitalized. When properties are retired or otherwise disposed of, the costs of those properties and the related accumulated depreciation are removed from the consolidated balance sheets and the differences between the costs of those properties and the related accumulated depreciation are recognized in other operating income (expenses), net in the consolidated statements of income.

(7) Leases

Komatsu has leasing arrangements as a lessee. Komatsu determines if an arrangement is a lease at the inception of each contract in accordance with FASB ASC 842, "Leases". Some of the contracts include lease and non-lease components, which are not separated and accounted all components as those of a single lease. Additionally, Komatsu has adopted the rule in which an entity does not recognize operating lease right-of-use assets regarding operating leases agreement with an initial estimated lease term of twelve months or less.

Komatsu has leasing arrangements as a lessor. Komatsu determines if an arrangement is a lease at the inception of each contract in accordance with FASB ASC 842, "Leases".

The details are as described in Note 17 "Leases".

(8) Goodwill and Other Intangible Assets

Komatsu uses the acquisition method of accounting for business combinations. Goodwill is tested for impairment at least once annually and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value below its carrying amount. Any recognized intangible assets determined to have an indefinite useful life are not to be amortized, but instead tested for impairment at least once annually and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value below its carrying amount until its useful life is determined to no longer be indefinite. Intangible assets with finite useful lives are amortized over their respective estimated useful lives and reviewed for impairment whenever there is an indicator of possible impairment. An impairment loss would be recognized when the carrying amount of an asset or an asset group exceeds the estimated undiscounted cash flows expected to be generated by the asset or an asset group. The amount of the impairment loss to be recorded is determined by the difference between the fair value of the asset or an asset group estimated using a discounted cash flow valuation model and carrying value.

(9) Revenue Recognition

Komatsu recognizes revenue based on the following five steps in accordance with FASB ASC 606, "Revenue from Contracts with Customers".

Step 1: Identify the contracts with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

The details are as described in Note 15 "Revenue".

Taxes collected from customers and paid to governmental-authorities including consumption taxes are excluded from revenue.

(10) Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences and carryforwards are expected to be realized or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

If a tax position meets the more-likely-than-not recognition threshold based on the technical merits of the position, Komatsu recognizes the benefit of such position in the financial statements. The benefit of the tax position is measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon settlement with appropriate taxing authority.

(11) Product Warranties

After the product were sold or delivered, Komatsu repairs and replaces parts free of charge for a certain period in accordance with the contract. Thus, in order to provide for disbursement of the after-sales service costs, provision for product warranties is recognized based on the relevant historical result and is classified as other current liabilities and other liabilities.

(12) Pension and Retirement Benefits

Komatsu recognizes the overfunded or underfunded status of the defined benefit plans as an asset or liability in the consolidated balance sheet, with a corresponding adjustment to accumulated other comprehensive income (loss), net of tax.

Amortization of actuarial net gain or loss is included as a component of Komatsu's net periodic pension cost for defined benefit plans for a year if, as of the beginning of the year, that unrecognized net gain or loss exceeds 10 percent of the greater of (1) the projected benefit obligation or (2) the fair value of that plan's assets.

In such case, the amount of amortization recognized is the resulting excess divided by average remaining service period of active employees expected to receive benefits under the plan. The prior service cost due to defined benefit plan amendments is amortized on a straight-line basis over the average remaining service period of employees at the time of occurrence of such cost. The expected return on plan assets is determined based on the historical long-term rate of return on plan assets. The discount rate is determined based on the rates of return of high-quality fixed income investments currently available and expected to be available during the period to maturity of the pension benefits.

(13) Share-Based Compensation

The Company recognizes share-based compensation expense using the fair value method. The compensation expense for the restricted stock compensation is expensed over the service period and recorded at the expected compensation amount.

(14) Per Share Data

Basic net income attributable to Komatsu Ltd. per share has been computed by dividing net income attributable to common shareholders by the weighted-average number of common shares outstanding during each fiscal year, after deducting treasury stock. Diluted net income attributable to Komatsu Ltd. per share reflects the potential dilution computed on the basis that all stock options were exercised (less the number of treasury stock assumed to be purchased from proceeds using the average market price of the Company's common shares) to the extent that each is not antidilutive.

(15) Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with an original maturity of three months or less at the date of purchase.

Komatsu's overseas subsidiaries participate in a global cash pooling system based on agreement with a single financial institution, which is used to fund short-term liquidity needs. This agreement contains specific provisions for the right to offset positive and negative cash balances on a global basis. The facility allows for cash withdrawals from this financial institution up to our aggregate cash deposits within the same financial institution. Komatsu's consolidated balance sheets as of March 31, 2023 and 2022 reflect cash net of withdrawals of ¥265,627 million and ¥223,400 million, respectively.

(16) Derivative Financial Instruments

Komatsu uses various derivative financial instruments to manage its interest rate and foreign exchange exposure. All derivatives, including derivatives embedded in other financial instruments, are measured at fair value and recognized as either assets or liabilities on the consolidated balance sheet. Changes in the fair values of derivative instruments not designated or not qualifying as hedges are recognized in earnings in the current period. Changes in the fair values of derivative instruments which designated as fair value hedges are recognized in earnings, along with changes in the fair value of the hedged item. Changes in the fair values of derivative instruments which designated as cash flow hedges are reported in accumulated other comprehensive income (loss), and recognized in earnings when the hedged item is recognized in earnings.

(17) Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed of

Long-lived assets and certain identifiable intangibles to be held and used by Komatsu are reviewed for impairment based on a cash flow analysis of the asset or an asset group whenever events or changes in circumstances indicate that the carrying amount of an asset or an asset group may not be recoverable. The assets to be held for use are considered to be impaired when estimated undiscounted cash flows expected to result from the use of the assets and their eventual disposition is less than their carrying amounts. The impairment losses are measured as the amount by which the carrying amount of the asset or an asset group exceeds the fair value. Long-lived assets and identifiable intangibles to be disposed of are reported at the lower of carrying amount or fair value less cost to sell.

(18) Use of Estimates

Komatsu has made a number of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses presented in consolidated financial statements prepared in accordance with U.S. GAAP. Actual results could differ from the estimates and assumptions. Komatsu has identified several areas where it believes estimates and assumptions are particularly critical to the consolidated financial statements. These are the determination of the useful lives of property, plant and equipment, calculation of allowance for doubtful receivables and provision for product warranties, tests of impairment of long-lived assets and goodwill, calculation of liabilities and expenses for pension and retirement benefits, measurement of fair value of financial instruments, judgment regarding the likelihood of recovery of deferred tax assets, uncertainties with regard to income taxes and other contingencies. The current economic environment has increased the degree of uncertainty inherent in those estimates.

Regarding the impact of the disruption and so forth in the supply chain, financial sector, and world economy caused by the Ukraine situation on Komatsu's financial position and results of operations, there is uncertainty regarding when such conditions will improve, among other factors. Nevertheless, Komatsu has assumed that a certain level of impact from the Ukraine situation will continue in the future, based on the information which is available at present and our predictions. Komatsu is making its best estimates taking in the assumption to assess the calculation of the estimated credit losses, the likelihood of recovery of deferred tax assets and the impairment losses on long-lived assets and goodwill given these items are relatively material among the accounting estimates. However, if actual future trends deviate from the assumption, Komatsu's financial position and results of operations may be adversely affected.

(19) Recently Issued Accounting Standards Not Yet Adopted

In June 2016, FASB issued Accounting Standards Update (hereinafter “ASU”) 2016-13 “Financial Instruments — Credit Losses: Measurement of Credit Losses on Financial Instruments”. This update requires an entity to recognize credit losses for many financial assets based on current expected credit loss model instead of existing incurred loss model. The new current expected credit loss model requires an entity to immediately recognize estimated credit losses expected to occur over the remaining life of the financial assets which are within the scope of this update. For all entities other than U.S. Securities and Exchange Commission (SEC) filers, this update was planned to be effective for annual reporting periods beginning after December 15, 2020, including interim periods within those reporting periods originally. In November 2019, FASB changed the effective date of this update and this update is effective for annual reporting periods beginning after December 15, 2022, including interim periods within those reporting periods. Early adoption is permitted. This update should be adopted under the modified-retrospective approach through a cumulative-effect adjustment to retained earnings at the beginning of the initial application period. Komatsu adopts this update from the fiscal year beginning on April 1, 2023. The adoption of this update is not expected to have a significant impact on Komatsu’s financial position and results of operations.

In September 2022, FASB issued ASU 2022-04 “Disclosure of Supplier Finance Program Obligations”. This update requires an entity that uses a supplier finance program in connection with the purchase of goods and services to disclose the key terms of the program, information about obligations outstanding at the end of the reporting period and a rollforward of those obligations during the reporting period. The amendments in this update to disclose the key terms of the program and information about obligations outstanding are effective for annual reporting periods beginning after December 15, 2022, including interim periods within those reporting periods. The amendment to disclose a rollforward of obligations is effective for annual reporting periods beginning after December 15, 2023. Komatsu adopts this update from the fiscal year beginning on April 1, 2023 and is currently considering the impact of this update on its disclosure information. The adoption of this update is not expected to have an impact on Komatsu’s financial position and results of operations.

2. Supplemental Cash Flow Information

Additional cash flow information for the fiscal years ended March 31, 2023 and 2022 is as follows:

| | Millions of yen | |
|--|-----------------|----------|
| | 2023 | 2022 |
| Additional cash flow information: | | |
| Interest paid | ¥ 29,611 | ¥ 12,123 |
| Income taxes paid, net | 152,048 | 60,530 |

3. Business Combination

Mine Site Technologies Pty Ltd

On July 1, 2022, the Company acquired Mine Site Technologies Pty Ltd (hereafter “MST Global”), a provider of operational optimization platforms for underground mining that leverage communication devices and position tracking systems. The acquisition was done through Komatsu Australia Holdings Pty Ltd, a wholly owned subsidiary of the Company in Australia, by purchasing all of its outstanding shares of Mining Technologies Holding Pty Ltd, a parent company of MST Global.

MST Global develops, manufactures, and sells solutions that enable communication between operators and mining equipment, as well as position tracking for operators and equipment, leveraging communication devices for underground mining based on optical fiber broadband communication systems. MST Global’s solutions contribute to the digitization and automation of underground mining operations and have achieved sufficient results in mine sites around the world including global mining customers. MST Global also develops and sells a platform to visualize and monitor the underground mining environment and enable control from a remote operations center above ground.

By adding MST Global's experience and expertise in the introduction of communication devices and optimization platforms, Komatsu aims to enhance the speed at which it offers advanced technology solutions, including the automation and teleoperation of mining equipment underground. Komatsu is working to expand offerings for underground hard rock mining, developing safe, highly productive, smart and clean workplaces of the future, together with customers by digitalization of workplaces around the world with “products” (automation and autonomous operation of equipment) and “solutions” (optimization of workplace’s entire operation processes).

The fair value measurement of the acquired assets and assumed liabilities under ASC 805, “Business Combinations” was completed on October 31, 2022.

Following is a summary of the acquired assets and assumed liabilities after the allocation of acquisition cost on the acquisition date.

| | Millions of yen | |
|---|------------------------|---------|
| Consideration | | |
| Cash and cash equivalents | ¥ | 15,668 |
| Fair value of total consideration transferred | | 15,668 |
| Recognized amounts of identifiable acquired assets and assumed liabilities | | |
| Current assets | ¥ | 2,259 |
| Property, plant and equipment | | 71 |
| Intangible assets | | 2,896 |
| Total acquired assets | | 5,226 |
| Current liabilities | | (821) |
| Long-term liabilities | | (932) |
| Total assumed liabilities | | (1,753) |
| Net acquired assets | | 3,473 |
| Goodwill | | 12,195 |
| | ¥ | 15,668 |

Intangible assets of ¥2,896 million are all intangible assets subject to amortization and primarily consist of the following.

| | Millions of yen | | Amortization period |
|------------------------|-----------------------|-------|---------------------|
| | Gross carrying amount | | |
| Customer relationships | ¥ | 2,127 | 12 years |
| Technology assets | | 384 | 5 years |

The goodwill of ¥12,195 million was assigned to the Construction, Mining and Utility Equipment operating segment. The goodwill is not deductible for tax purpose.

Acquisition-related costs for the fiscal year ended March 31, 2023 are ¥651 million (accumulated acquisition-related costs: ¥656 million) and included in selling, general and administrative expenses in the consolidated statements of income for the fiscal year ended March 31, 2023.

MST Global's results of operations included in the consolidated statements of income for the fiscal year ended March 31, 2023 since the date of acquisition were immaterial.

Assuming this acquisition had been made on April 1, 2021, the impact on Net Sales and Net income attributable to Komatsu Ltd. for the fiscal year ended March 31, 2023 and 2022 would be immaterial.

4. Trade Notes and Accounts Receivable

Receivables at March 31, 2023 and 2022 are summarized as follows:

| | Millions of yen | |
|--|-----------------|-----------|
| | 2023 | 2022 |
| Trade notes and accounts receivable | ¥ 1,125,934 | ¥ 967,569 |
| Less: allowance-current | (14,021) | (12,989) |
| Trade notes and accounts receivable, net | ¥ 1,111,913 | ¥ 954,580 |
| Long-term trade receivables | 578,325 | 510,955 |
| Less: allowance-noncurrent | (8,634) | (9,087) |
| Long-term trade receivables, net | ¥ 569,691 | ¥ 501,868 |

Installment and lease receivables (less unearned interest) are included in trade notes and accounts receivable and long-term trade receivables.

The roll-forward schedule of the allowance for credit losses of the financing receivables of retail finance business (hereinafter "retail finance receivables") for the fiscal years ended March 31, 2023 and 2022 are as follows:

| | Millions of yen | |
|------------------------------|-----------------|----------|
| | 2023 | 2022 |
| Balance at beginning of year | ¥ 16,148 | ¥ 11,894 |
| Provision | (1,168) | 5,345 |
| Charge-offs | (1,165) | (2,322) |
| Other | 1,345 | 1,231 |
| Balance at end of year | ¥ 15,160 | ¥ 16,148 |

Komatsu considers that retail finance receivables are past due, if unpaid for greater than 30 days. The balance of retail finance receivables at March 31, 2023 and 2022 were ¥1,015,047 million and ¥885,164 million, respectively. Cumulative past due retail financing receivables (31-90 days, greater than 90 days) at March 31, 2023 and 2022 are summarized as follows:

| | Millions of yen | |
|-------------------------------|-----------------|---------|
| | 2023 | 2022 |
| 31-90 days past due | ¥ 1,673 | ¥ 1,293 |
| Greater than 90 days past due | 5,787 | 3,262 |
| Total past due | ¥ 7,460 | ¥ 4,555 |

Nonaccrual financing receivables at March 31, 2023 and 2022 were not material.

Komatsu did not have any cash flows from securitization activities for the fiscal years ended March 31, 2023 and 2022.

Komatsu did not have any securitized trade notes and accounts receivable at March 31, 2023 and 2022.

5. Inventories

At March 31, 2023 and 2022, inventories comprise the following:

| | Millions of yen | |
|---|-----------------|-----------|
| | 2023 | 2022 |
| Finished products, including finished parts held for sale | ¥ 829,085 | ¥ 666,538 |
| Work in process | 261,960 | 206,481 |
| Materials and supplies | 136,163 | 114,992 |
| Total | ¥ 1,227,208 | ¥ 988,011 |

6. Investment Securities

The realized gains and losses and gross unrealized holding gains and losses for such equity securities which are recorded in other income (expenses), net in the accompanying consolidated statements of income, respectively, for the fiscal years ended March 31, 2023 and 2022 are as follows:

| | Millions of yen | |
|--|-----------------|-------|
| | 2023 | 2022 |
| Net gains and losses recognized during the year on equity securities | ¥ 212 | ¥ 737 |
| Less: net gains and losses recognized during the year on equity securities sold during the year | 2 | 2 |
| Unrealized gains and losses recognized during the year on equity securities still held as of March 31, 2023 and 2022 | ¥ 210 | ¥ 735 |

Komatsu measures equity securities without readily determinable fair values at the carrying amount after the write-down due to impairment, except for investments which are measured at net asset value per share. If Komatsu identifies observable price changes in orderly transactions for identical or similar investments issued by the same issuer, Komatsu measures the equity security at fair value as of the date that the observable transaction occurred. As of March 31, 2023 and 2022, the carrying amounts of these investments were ¥10,556 million and ¥8,377 million, respectively. Any impairment or any adjustment relating to observable price changes recorded until March 31, 2023 and 2022 were not material.

7. Investments in and Advances to Affiliated Companies

At March 31, 2023 and 2022, investments in and advances to affiliated companies comprised the following:

| | Millions of yen | |
|------------------------------|-----------------|----------|
| | 2023 | 2022 |
| Investments in capital stock | ¥ 47,453 | ¥ 42,938 |
| Advances | 4,872 | 2,975 |
| Total | ¥ 52,325 | ¥ 45,913 |

The investments in and advances to affiliated companies relate mainly to 20% to 50% of voting rights owned companies whereby Komatsu has the ability to exercise significant influence over the operational and financial policies.

At March 31, 2023 and 2022, trade notes and accounts receivable and short-term loans receivable from and trade notes, bills and accounts payable to affiliated companies comprised the following:

| | Millions of yen | |
|--|-----------------|----------|
| | 2023 | 2022 |
| Trade notes and accounts receivable, net | ¥ 35,173 | ¥ 29,883 |
| Short-term loans receivable | 2,441 | 1,612 |
| Trade notes, bills and accounts payable | 9,166 | 9,078 |

Net sales to and dividends received from affiliated companies for the fiscal years ended March 31, 2023 and 2022 are as follows:

| | Millions of yen | |
|-----------|-----------------|----------|
| | 2023 | 2022 |
| Net sales | ¥ 91,598 | ¥ 97,972 |
| Dividends | 2,599 | 3,293 |

Intercompany profits (losses) have been eliminated in the consolidated financial statements.

As of March 31, 2023 and 2022, consolidated unappropriated retained earnings included Komatsu's share of undistributed earnings of affiliated companies accounted for by the equity method in the amount of ¥27,324 million and ¥25,285 million, respectively.

The difference between the carrying value of the investments in affiliated companies and Komatsu's equity in the underlying net assets of such affiliated companies is insignificant as of March 31, 2023 and 2022.

Summarized financial information for affiliated companies as of March 31, 2023 and 2022, and for the fiscal years ended March 31, 2023 and 2022 is as follows:

| | Millions of yen | |
|--|-----------------|-----------|
| | 2023 | 2022 |
| Current assets | ¥ 196,230 | ¥ 168,462 |
| Net property, plant and equipment – less accumulated depreciation and amortization | 59,387 | 59,079 |
| Investments and other assets | 47,618 | 43,058 |
| Total assets | ¥ 303,235 | ¥ 270,599 |
| Current liabilities | ¥ 116,094 | ¥ 107,376 |
| Long-term liabilities | 58,375 | 45,875 |
| Equity | 128,766 | 117,348 |
| Total liabilities and equity | ¥ 303,235 | ¥ 270,599 |

| | Millions of yen | |
|------------|-----------------|-----------|
| | 2023 | 2022 |
| Net sales | ¥ 278,650 | ¥ 257,429 |
| Net income | 14,021 | 11,591 |

8. Property, Plant and Equipment

The major classes of property, plant and equipment at March 31, 2023 and 2022 are as follows:

| | Millions of yen | |
|---|-----------------|-----------|
| | 2023 | 2022 |
| Land | ¥ 118,862 | ¥ 116,687 |
| Buildings | 601,297 | 592,416 |
| Machinery and equipment | 753,840 | 739,375 |
| Equipment leased to others | 322,831 | 322,541 |
| Construction in progress | 58,593 | 45,799 |
| Total | 1,855,423 | 1,816,818 |
| Less: accumulated depreciation and amortization | (1,018,981) | (997,069) |
| Net property, plant and equipment | ¥ 836,442 | ¥ 819,749 |

Depreciation for the fiscal years ended March 31, 2023 and 2022 were ¥117,840 million and ¥109,024 million, respectively.

9. Pledged Assets

At March 31, 2023 and 2022, assets pledged as collateral for guarantees for debt are as follows:

| | Millions of yen | |
|----------------------|-----------------|------|
| | 2023 | 2022 |
| Other current assets | ¥ — | ¥ 3 |
| Total | ¥ — | ¥ 3 |

10. Goodwill and Other Intangible Assets

Other intangible assets other than goodwill at March 31, 2023 and 2022 are as follows:

| | Millions of yen | | | | | |
|---|-----------------------|--------------------------|---------------------|-----------------------|--------------------------|---------------------|
| | 2023 | | | 2022 | | |
| | Gross carrying amount | Accumulated amortization | Net carrying amount | Gross carrying amount | Accumulated amortization | Net carrying amount |
| Other intangible assets subject to amortization: | | | | | | |
| Software | ¥ 86,296 | ¥ (41,912) | ¥ 44,384 | ¥ 72,173 | ¥ (33,265) | ¥ 38,908 |
| Leasehold | 8,576 | (2,685) | 5,891 | 8,259 | (2,256) | 6,003 |
| Trademarks | 65,149 | (26,288) | 38,861 | 61,873 | (20,856) | 41,017 |
| Customer relationships | 88,497 | (45,024) | 43,473 | 82,195 | (35,051) | 47,144 |
| Technology assets | 43,858 | (19,745) | 24,113 | 41,435 | (16,239) | 25,196 |
| Other | 10,857 | (8,037) | 2,820 | 8,871 | (6,347) | 2,524 |
| Total | 303,233 | (143,691) | 159,542 | 274,806 | (114,014) | 160,792 |
| Other intangible assets not subject to amortization | | | 7,750 | | | 8,211 |
| Total other intangible assets | | | <u>¥ 167,292</u> | | | <u>¥ 169,003</u> |

The aggregate amortization expense of other intangible assets subject to amortization for the fiscal years ended March 31, 2023 and 2022 were ¥28,638 million and ¥24,232 million, respectively.

At March 31, 2023, the future estimated amortization expenses for each of five years relating to intangible assets currently recorded in the consolidated balance sheet are as follows:

| Year ending March 31 | Millions of yen |
|----------------------|-----------------|
| 2024 | ¥ 27,824 |
| 2025 | 25,301 |
| 2026 | 21,396 |
| 2027 | 18,346 |
| 2028 | 15,676 |

The changes in carrying amounts of goodwill by operating segment for the fiscal years ended March 31, 2023 and 2022 are as follows:

| | Millions of yen | | | |
|-----------------------------------|--|----------------|---------------------------------------|----------|
| | Construction, Mining and Utility Equipment | Retail Finance | Industrial Machinery and Others | Total |
| Balance at March 31, 2021 | | | | |
| Goodwill | 180,981 | 828 | 15,017 | 196,826 |
| Accumulated impairment losses | (12,203) | — | (13,936) | (26,139) |
| | ¥ 168,778 | 828 | 1,081 | 170,687 |
| Goodwill acquired during the year | 259 | — | — | 259 |
| Foreign exchange impact | 16,594 | 75 | — | 16,669 |
| Balance at March 31, 2022 | | | | |
| Goodwill | 197,834 | 903 | 15,017 | 213,754 |
| Accumulated impairment losses | (12,203) | — | (13,936) | (26,139) |
| | ¥ 185,631 | 903 | 1,081 | 187,615 |
| Goodwill acquired during the year | 13,621 | — | — | 13,621 |
| Foreign exchange impact | 8,017 | (23) | — | 7,994 |
| Goodwill sold during the year | (2,170) | — | — | (2,170) |
| Balance at March 31, 2023 | | | | |
| Goodwill | 217,302 | 880 | 15,017 | 233,199 |
| Accumulated impairment losses | (12,203) | — | (13,936) | (26,139) |
| | ¥ 205,099 | 880 | 1,081 | 207,060 |

11. Short-Term and Long-Term Debt

(1) Short-term debt at March 31, 2023 and 2022 consisted of the following:

| | Millions of yen | |
|---|-----------------|-----------|
| | 2023 | 2022 |
| Banks, insurance companies and other financial institutions | ¥ 163,914 | ¥ 116,563 |
| Commercial paper | 146,824 | 125,183 |
| Short-term debt | ¥ 310,738 | ¥ 241,746 |

The weighted-average annual interest rates applicable to short-term debt outstanding at March 31, 2023 and 2022 were 4.6% and 0.5%, respectively.

The Company and certain consolidated subsidiaries have entered into contracts for committed credit lines totaling ¥304,630 million and have unused committed lines of credit amounting to ¥284,898 million with certain financial institutions at March 31, 2023 which are available for full and immediate borrowings. The Company and Komatsu Finance America Inc. have ¥220,000 million and U.S.\$1,100 million commercial paper program, respectively. The unused amounts of ¥180,000 million and U.S.\$300 million at March 31, 2023 are available upon the satisfaction of certain customary procedural requirements.

(2) Long-term debt at March 31, 2023 and 2022 consisted of the following:

| | Millions of yen | |
|--|-----------------|-----------|
| | 2023 | 2022 |
| Long-term debt without collateral: | | |
| Banks, insurance companies and other financial institutions maturing serially through 2023–2031, weighted-average rate 3.8% | ¥ 394,814 | ¥ 385,587 |
| Euro Medium Term Notes maturing serially through 2023–2026, weighted-average rate 1.9% | 155,549 | 150,380 |
| 2.44% Unsecured Bonds due 2022 | — | 61,177 |
| 0.001% Unsecured Bonds due 2023 | 40,000 | 40,000 |
| 0.85% Unsecured Bonds due 2023 | 40,032 | 36,643 |
| 0.11% Unsecured Bonds due 2024 | 20,000 | 20,000 |
| 0.13% Unsecured Bonds due 2025 | 10,000 | 10,000 |
| 5.50% Unsecured Bonds due 2027 | 79,866 | — |
| Other | 2,763 | 1,847 |
| Total | 743,024 | 705,634 |
| Less: current maturities | (176,835) | (276,623) |
| Long-term debt | ¥ 566,189 | ¥ 429,011 |

(3) The Company, Komatsu Finance America Inc. and Komatsu Europe Coordination Center N.V. registered as an issuer under the Euro Medium Term Note (hereinafter “EMTN”) program on the London Stock Exchange. The registered amount of the EMTN program at March 31, 2023 and 2022 were U.S.\$2,200 million and U.S.\$2,000 million, respectively.

Under the EMTN program, each of the issuers may from time to time issue notes denominated in any currency as may be agreed between the relevant issuers and dealers. The issuers under the EMTN program issued ¥32,482 million during the fiscal year ended March 31, 2023 and ¥40,231 million during the fiscal year ended March 31, 2022.

In November 2022, the Company’s bond program was renewed so that it could issue up to ¥100,000 million of variable-term bonds within a two-year period. As of March 31, 2023, ¥100,000 million remained unused under this program. In September 2017, Komatsu Finance America Inc. issued U.S.\$500 million of variable-term bonds within a five-year period, issued U.S.\$300 million of variable-term bonds within a three-year period in September 2020 and also issued U.S.\$600 million of variable-term bonds within a five-year period in October 2022. On the other hand, ¥70,000 million in the aggregate principal amount of bonds outstanding as of March 31, 2023 was issued under the past bond program prior to its 2022 renewal.

(4) As is customary in Japan, substantially all long-term and short-term bank loans are made under general agreements.

(5) Maturities of long-term debt at March 31, 2023 and 2022 respectively are as follows. There are no market value adjustments excluded from the amount of 2023 and 2022.

| | Millions of yen | | | |
|--|-----------------|---------|------|---------|
| | 2023 | | 2022 | |
| Due within one year | ¥ | 176,835 | ¥ | 276,623 |
| Due after one year through two years | | 151,796 | | 181,605 |
| Due after two years through three years | | 203,272 | | 99,210 |
| Due after three years through four years | | 70,786 | | 77,952 |
| Due after four years through five years | | 121,753 | | 64,883 |
| Due after five years | | 18,582 | | 5,361 |
| Total | ¥ | 743,024 | ¥ | 705,634 |

12. Liability for Pension and Other Retirement Benefits

The Company's employees, with certain minor exceptions, are covered by a defined benefit pension plan consisting of a lump-sum severance payment and a defined benefit cash balance pension plan. Under the plan, the amount of retirement benefit payments is calculated based on the accumulated number of points added every year according to each employee's remuneration level and performance evaluation and market related interest rate. The plan provides that approximately 60% of the retirement benefits are payable as a pension payment and that the remaining benefits are payable as a lump-sum severance payment. The plan also provides for retirement benefit payments, payable upon earlier termination of employment.

Certain subsidiaries have various funded pension plans and/or unfunded severance payment plans for their employees, which are based on years of service and certain other factors. Komatsu's funding policy is to contribute the amounts to provide not only for benefits attributed to service to date but also for those expected to be earned in the future.

Due to the partial transition to a defined contribution pension plan, the company and certain subsidiaries in Japan recognized gain on settlements of ¥2,486 million for the fiscal year ended March 31, 2022.

The reconciliation of beginning and ending balances of the benefit obligations and the fair value of the plan assets of the defined benefit plans are as follows:

| | Millions of yen | | | |
|--|-----------------|------------|------------|------------|
| | 2023 | | 2022 | |
| | Domestic | Overseas | Domestic | Overseas |
| Change in benefit obligations: | | | | |
| Benefit obligations, beginning of year | ¥ 138,780 | ¥ 238,524 | ¥ 154,503 | ¥ 240,495 |
| Service cost | 7,689 | 1,180 | 7,928 | 1,018 |
| Interest cost | 490 | 8,000 | 92 | 5,239 |
| Actuarial loss (gain) | (4,089) | (40,694) | (5,723) | (14,082) |
| Plan participants' contributions | — | 176 | — | 149 |
| Effect of changes in consolidated subsidiaries | 210 | — | — | — |
| Plan amendment | 292 | — | 1,175 | 564 |
| Settlements | — | — | (15,634) | (1,860) |
| Benefits paid | (3,706) | (16,094) | (3,561) | (13,365) |
| Foreign currency exchange rate change | — | 14,388 | — | 20,366 |
| Benefit obligations, end of year | ¥ 139,666 | ¥ 205,480 | ¥ 138,780 | ¥ 238,524 |
| Change in plan assets: | | | | |
| Fair value of plan assets, beginning of year | ¥ 81,752 | ¥ 227,335 | ¥ 89,271 | ¥ 221,624 |
| Actual return on plan assets | (500) | (31,898) | 1,531 | 537 |
| Employers' contributions | 3,365 | 1,865 | 3,103 | 1,742 |
| Plan participants' contributions | — | 176 | — | 149 |
| Effect of changes in consolidated subsidiaries | 196 | — | — | — |
| Settlements | — | — | (10,575) | (1,860) |
| Benefits paid | (1,517) | (15,530) | (1,578) | (12,926) |
| Foreign currency exchange rate change | — | 12,705 | — | 18,069 |
| Fair value of plan assets, end of year | ¥ 83,296 | ¥ 194,653 | ¥ 81,752 | ¥ 227,335 |
| Funded status, end of year | ¥ (56,370) | ¥ (10,827) | ¥ (57,028) | ¥ (11,189) |

Amounts recognized in the consolidated balance sheets at March 31, 2023 and 2022 are as follows:

| | Millions of yen | | | |
|---|-----------------|------------|------------|------------|
| | 2023 | | 2022 | |
| | Domestic | Overseas | Domestic | Overseas |
| Deferred income taxes and other assets | ¥ — | ¥ 18,326 | ¥ — | ¥ 20,147 |
| Other current liabilities | (84) | (737) | (85) | (686) |
| Liability for pension and retirement benefits | (56,286) | (28,416) | (56,943) | (30,650) |
| | ¥ (56,370) | ¥ (10,827) | ¥ (57,028) | ¥ (11,189) |

Amounts recognized in accumulated other comprehensive income (loss) at March 31, 2023 and 2022 are as follows:

| | Millions of yen | | | |
|--------------------|-----------------|----------|----------|----------|
| | 2023 | | 2022 | |
| | Domestic | Overseas | Domestic | Overseas |
| Actuarial loss | ¥ 8,363 | ¥ 17,633 | ¥ 10,746 | ¥ 16,575 |
| Prior service cost | 12,740 | 1,372 | 13,592 | 1,612 |
| | ¥ 21,103 | ¥ 19,005 | ¥ 24,338 | ¥ 18,187 |

The accumulated benefit obligations for all defined benefit plans at March 31, 2023 and 2022 are as follows:

| | Millions of yen | | | |
|---------------------------------|-----------------|-----------|-----------|-----------|
| | 2023 | | 2022 | |
| | Domestic | Overseas | Domestic | Overseas |
| Accumulated benefit obligations | ¥ 119,194 | ¥ 203,514 | ¥ 116,240 | ¥ 235,915 |

Information for pension plans with accumulated benefit obligations in excess of plan assets and pension plans with projected benefit obligations in excess of plan assets is as follows:

| | Millions of yen | | | |
|--|-----------------|-----------|-----------|-----------|
| | 2023 | | 2022 | |
| | Domestic | Overseas | Domestic | Overseas |
| Plans with accumulated benefit obligations in excess of plan assets: | | | | |
| Accumulated benefit obligations | ¥ 119,194 | ¥ 119,693 | ¥ 114,956 | ¥ 128,543 |
| Fair value of plan assets | 83,296 | 92,200 | 80,089 | 99,217 |
| Plans with projected benefit obligations in excess of plan assets: | | | | |
| Projected benefit obligations | ¥ 139,666 | ¥ 121,353 | ¥ 138,780 | ¥ 132,611 |
| Fair value of plan assets | 83,296 | 92,200 | 81,752 | 101,275 |

Net periodic cost of Komatsu's defined benefit plans for the fiscal years ended March 31, 2023 and 2022 consisted of the following components:

| | Millions of yen | | | |
|--|-----------------|----------|----------|-----------|
| | 2023 | | 2022 | |
| | Domestic | Overseas | Domestic | Overseas |
| Service cost | ¥ 7,689 | ¥ 1,180 | ¥ 7,928 | ¥ 1,018 |
| Interest cost on projected benefit obligations | 490 | 8,000 | 92 | 5,239 |
| Expected return on plan assets | (1,208) | (10,215) | (1,196) | (9,020) |
| Amortization of actuarial loss or gain | 2 | 361 | 196 | 185 |
| Amortization of prior service cost | 1,144 | 240 | 780 | 130 |
| Gains recognized due to partial settlements | — | — | (2,486) | — |
| Net periodic cost | ¥ 8,117 | ¥ (434) | ¥ 5,314 | ¥ (2,448) |

Net periodic cost components other than the service cost are recorded in other income (expenses), net in the accompanying consolidated statements of income.

Other changes in plan assets and benefit obligations recognized in other comprehensive income (loss) for the fiscal years ended March 31, 2023 and 2022 are summarized as follows:

| | Millions of yen | | | |
|--|-----------------|----------|-----------|-----------|
| | 2023 | | 2022 | |
| | Domestic | Overseas | Domestic | Overseas |
| Current year actuarial loss (gain) | ¥ (2,381) | ¥ 1,419 | ¥ (6,058) | ¥ (5,599) |
| Amortization of actuarial loss or gain | (2) | (361) | (2,126) | (185) |
| Current year prior service cost | 292 | — | 1,175 | 564 |
| Amortization of prior service cost | (1,144) | (240) | (780) | (130) |
| | ¥ (3,235) | ¥ 818 | ¥ (7,789) | ¥ (5,350) |

Weighted-average assumptions used to determine benefit obligations of Komatsu's defined benefit plans at March 31, 2023 and 2022 are as follows:

| | 2023 | | 2022 | |
|---|----------|----------|----------|----------|
| | Domestic | Overseas | Domestic | Overseas |
| Discount rate | 0.7% | 5.2% | 0.4% | 3.5% |
| Assumed rate of increase in future compensation levels (Point-based benefit system) | 4.1% | — | 4.1% | — |
| Assumed rate of increase in future compensation levels | — | 3.8% | 2.6% | 4.2% |
| Interest crediting rate for cash balance plans | 1.0% | — | 1.0% | — |

Weighted-average assumptions used to determine net periodic cost of Komatsu's defined benefit plans for the fiscal years ended March 31, 2023 and 2022 are as follows:

| | 2023 | | 2022 | |
|---|----------|----------|----------|----------|
| | Domestic | Overseas | Domestic | Overseas |
| Discount rate | 0.4% | 3.5% | 0.1% | 2.8% |
| Assumed rate of increase in future compensation levels (Point-based benefit system) | 4.1% | — | 4.1% | — |
| Assumed rate of increase in future compensation levels | 2.6% | 4.2% | 2.6% | 3.7% |
| Expected long-term rate of return on plan assets | 1.5% | 4.6% | 1.5% | 4.2% |
| Interest crediting rate for cash balance plans | 1.0% | — | 1.0% | — |

The Company and certain Japanese subsidiaries have defined benefit cash balance pension plans. These companies adopt the assumed rate of increase in future compensation levels under the point-based benefit system. Komatsu determines the expected long-term rate of return on plan assets based on the consideration of the current expectations for future returns and actual historical returns of each plan asset category.

Plan assets

In order to secure long-term comprehensive earnings, Komatsu's investment policy is designed to ensure adequate plan assets to provide future payments of pension benefits to eligible participants. Taking into account the expected long-term rate of return on plan assets, Komatsu formulates a basic portfolio comprised of the judged optimum combination of equity and debt securities. Plan assets are principally invested in equity securities, debt securities and life insurance company general accounts in accordance with the guidelines of the basic portfolio in order to produce a total return that will match the expected return on a mid-term to long-term basis. Komatsu evaluates the gap between expected return and actual return of invested plan assets on an annual basis to determine if such differences necessitate a revision in the formulation of the basic portfolio. Komatsu revises the basic portfolio when and to the extent considered necessary to achieve the expected long-term rate of return on plan assets.

The "Pension and Retirement Benefit Committee" is organized in the Company in order to periodically monitor the performance of such plan assets.

The Company and its Japanese subsidiaries' targeted basic portfolio for plan assets consists of three major components: approximately 20% invested in equity securities, approximately 30% invested in debt securities, and approximately 50% invested in other assets, primarily consisting of investments in life insurance company general accounts. Foreign subsidiaries' targeted basic portfolio for plan assets, which varies by country, primarily consists of as follows: approximately 35% invested in equity securities and approximately 65% invested in debt securities. The equity securities are selected primarily from stocks that are listed on the securities exchanges. Prior to investing, Komatsu has investigated the business condition of the investee companies, and appropriately diversified investments by type of industry and other relevant factors. The debt securities are selected primarily from government bonds and municipal bonds, and corporate bonds. Prior to investing, Komatsu has investigated the quality of the issue, including credit rating, interest rate and repayment dates, and has appropriately diversified the investments. As for investments in life insurance company general accounts, the contracts with the insurance companies include a guaranteed interest rate and return of capital. With respect to investments in foreign investment assets, Komatsu has investigated the stability of the underlying governments and economies, the market characteristics such as settlement systems and the taxation systems. For each such investment, Komatsu has selected the appropriate investment country and currency. There is no significant concentration of risk within the portfolio of investments.

The three levels of input used to measure fair value are more fully described in Note 22.

The fair values of benefit plan assets at March 31, 2023 and 2022 by asset class are as follows:

| | Millions of yen | | | | | | | | | |
|---|-----------------|----------|---------|---|----------|----------|-----------|----------|---|-----------|
| | Domestic | | | | | Overseas | | | | |
| | Level 1 | Level 2 | Level 3 | Investments measured at net asset value | Total | Level 1 | Level 2 | Level 3 | Investments measured at net asset value | Total |
| At March 31, 2023 | | | | | | | | | | |
| Plan assets | | | | | | | | | | |
| Cash | ¥ 987 | ¥ — | ¥ — | ¥ — | ¥ 987 | ¥ 11,612 | ¥ — | ¥ — | ¥ — | ¥ 11,612 |
| Equity securities | | | | | | | | | | |
| Japanese equities | 8,867 | — | — | — | 8,867 | — | — | — | — | — |
| Foreign equities | 9,684 | — | — | — | 9,684 | 3,669 | 33,556 | — | 42 | 37,267 |
| Debt securities | | | | | | | | | | |
| Government bonds and municipal bonds | 16,627 | — | — | — | 16,627 | 495 | 38,561 | — | — | 39,056 |
| Corporate bonds | — | 3,345 | — | — | 3,345 | 206 | 89,903 | 1,740 | — | 91,849 |
| Other assets | | | | | | | | | | |
| Life insurance company general accounts | — | 38,487 | — | — | 38,487 | — | — | — | — | — |
| Other | 351 | 753 | 1,049 | 3,146 | 5,299 | 422 | 256 | 14,191 | — | 14,869 |
| Total | ¥ 36,516 | ¥ 42,585 | ¥ 1,049 | ¥ 3,146 | ¥ 83,296 | ¥ 16,404 | ¥ 162,276 | ¥ 15,931 | ¥ 42 | ¥ 194,653 |

| | Millions of yen | | | | | | | | | |
|---|-----------------|----------|---------|---|----------|-----------|-----------|----------|---|-----------|
| | Domestic | | | | | Overseas | | | | |
| | Level 1 | Level 2 | Level 3 | Investments measured at net asset value | Total | Level 1 | Level 2 | Level 3 | Investments measured at net asset value | Total |
| At March 31, 2022 | | | | | | | | | | |
| Plan assets | | | | | | | | | | |
| Cash | ¥ 658 | ¥ — | ¥ — | ¥ — | ¥ 658 | ¥ (1,507) | ¥ — | ¥ — | ¥ — | ¥ (1,507) |
| Equity securities | | | | | | | | | | |
| Japanese equities | 8,533 | — | — | — | 8,533 | 516 | — | — | — | 516 |
| Foreign equities | 8,800 | — | — | 787 | 9,587 | 2,654 | 52,036 | — | 41 | 54,731 |
| Debt securities | | | | | | | | | | |
| Government bonds and municipal bonds | 16,775 | 167 | — | — | 16,942 | 443 | 43,163 | — | — | 43,606 |
| Corporate bonds | — | 3,158 | — | — | 3,158 | 682 | 104,284 | 1,980 | — | 106,946 |
| Other assets | | | | | | | | | | |
| Life insurance company general accounts | — | 37,332 | — | — | 37,332 | — | — | — | — | — |
| Other | 449 | 683 | 1,102 | 3,308 | 5,542 | 498 | 5,053 | 17,492 | — | 23,043 |
| Total | ¥ 35,215 | ¥ 41,340 | ¥ 1,102 | ¥ 4,095 | ¥ 81,752 | ¥ 3,286 | ¥ 204,536 | ¥ 19,472 | ¥ 41 | ¥ 227,335 |

(1) The plan's equity securities include common stock of the Company in the amount of ¥ 40 million and ¥35 million at March 31, 2023 and 2022 respectively.

(2) The plan's government bonds and municipal bonds include approximately 10% Japanese bonds and 90% foreign bonds.

Each level into which assets are categorized is based on inputs used to measure the fair value of the assets and does not indicate the risks of the assets.

Level 1 assets are comprised principally of equity and debt securities, which are valued using quoted prices in active markets. Level 2 assets are comprised of equity securities, debt securities and investments in life insurance company general accounts. Equity and debt securities are valued using inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly or indirectly. Investments in life insurance company general accounts are valued at conversion value.

The fair value of Level 3 assets mainly consist of the U.K. buy-in contracts held by foreign subsidiaries. The amount of these buy-in contracts are ¥14,191 million and ¥17,492 million at March 31, 2023 and 2022 respectively. These buy-in contracts are categorized as Level 3 due to the lack of active markets for these types of investments and the use of unobservable measurement inputs. Amounts of actual returns on, purchases and sales of, these buy-in contracts for the fiscal years ended March 31, 2023 and 2022 are not material.

Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the three-level fair value hierarchy but have been recorded separately.

Cash flows

(1) Contributions

Komatsu expects to contribute ¥3,266 million and ¥1,432 million to their domestic benefit plans and their overseas benefit plans, respectively in the fiscal year ending March 31, 2024.

(2) Estimated future benefit payments

The benefits expected to be paid in each of the next five years, and in the aggregate for the five years thereafter which reflect estimated future employee service are as follows:

| Fiscal year ending March 31 | Millions of yen | |
|-----------------------------|-----------------|----------|
| | Domestic | Overseas |
| 2024 | ¥ 4,631 | ¥ 15,632 |
| 2025 | 5,805 | 15,556 |
| 2026 | 5,668 | 15,603 |
| 2027 | 6,941 | 15,589 |
| 2028 | 7,511 | 15,528 |
| Through 2029-2033 | 38,557 | 75,701 |

Other postretirement benefit plans

Some U.S. subsidiaries provide certain postretirement health care and life insurance benefits for substantially all of their employees. The plans are contributory, with contributions indexed to salary levels. Employee contributions are adjusted to provide for any costs of the plans in excess of those paid for by the subsidiaries. The policy is to fund the cost of these benefits as claims and premiums are paid. In the fiscal year ended March 31, 2008 certain U.S. subsidiaries established a Voluntary Employees' Beneficiary Association ("VEBA") trust to hold assets and pay substantially all of these subsidiaries' self-funded post employment benefit plan obligations. The VEBA trust arrangement provides for segregation and legal restriction of the plan assets to satisfy plan obligations, and tax deductibility for contributions to the trust, subject to certain tax code limitations.

The reconciliation of beginning and ending balances of the accumulated postretirement benefit obligations and the fair value of the plan assets of the U.S. subsidiaries' plans are as follows:

| | Millions of yen | | | |
|---|-----------------|---------|------|---------|
| | 2023 | | 2022 | |
| Change in accumulated postretirement benefit obligations: | | | | |
| Accumulated postretirement benefit obligations, beginning of year | ¥ | 12,115 | ¥ | 14,806 |
| Service cost | | 468 | | 481 |
| Interest cost | | 444 | | 317 |
| Actuarial loss (gain) | | (1,716) | | (703) |
| Plan amendment | | — | | (932) |
| Settlements | | — | | (2,320) |
| Benefits paid | | (735) | | (813) |
| Foreign currency exchange rate change | | 1,106 | | 1,279 |
| Accumulated postretirement benefit obligation, end of year | ¥ | 11,682 | ¥ | 12,115 |
| Change in plan assets: | | | | |
| Fair value of plan assets, beginning of year | ¥ | 10,956 | ¥ | 12,301 |
| Actual return on plan assets | | (727) | | 209 |
| Employers' contributions | | 211 | | 203 |
| Settlements | | — | | (2,320) |
| Benefits paid | | (567) | | (512) |
| Foreign currency exchange rate change | | 1,008 | | 1,075 |
| Fair value of plan assets, end of year | ¥ | 10,881 | ¥ | 10,956 |
| Funded status, end of year | ¥ | (801) | ¥ | (1,159) |

Amounts recognized in the consolidated balance sheets at March 31, 2023 and 2022 are as follows:

| | Millions of yen | | | |
|---|-----------------|---------|------|---------|
| | 2023 | | 2022 | |
| Deferred income taxes and other assets | ¥ | 4,612 | ¥ | 4,464 |
| Other current liabilities | | (192) | | (189) |
| Liability for pension and retirement benefits | | (5,221) | | (5,434) |
| | ¥ | (801) | ¥ | (1,159) |

Amounts recognized in accumulated other comprehensive income (loss) at March 31, 2023 and 2022 are as follows:

| | Millions of yen | | | |
|-----------------------|-----------------|---------|------|---------|
| | 2023 | | 2022 | |
| Actuarial loss (gain) | ¥ | (1,349) | ¥ | (1,047) |
| Prior service cost | | (1,440) | | (1,757) |
| | ¥ | (2,789) | ¥ | (2,804) |

Accumulated postretirement benefit obligations exceed plan assets for most of the U.S. subsidiaries' plans.

Net periodic cost of the U.S. subsidiaries' plans for the fiscal years ended March 31, 2023 and 2022 included the following components:

| | Millions of yen | |
|--|-----------------|---------|
| | 2023 | 2022 |
| Service cost | ¥ 468 | ¥ 481 |
| Interest cost on projected benefit obligations | 444 | 317 |
| Expected return on plan assets | (604) | (539) |
| Amortization of actuarial loss or gain | (83) | 10 |
| Amortization of prior service cost | (317) | (206) |
| Gains recognized due to partial settlements | — | (355) |
| Net periodic cost | ¥ (92) | ¥ (292) |

Net periodic cost components other than the service cost are recorded in other income (expenses), net in the accompanying consolidated statements of income.

Other changes in plan assets and accumulated postretirement benefit obligations recognized in other comprehensive income (loss) for the fiscal years ended March 31, 2023 and 2022 are summarized as follows:

| | Millions of yen | |
|--|-----------------|---------|
| | 2023 | 2022 |
| Current year actuarial loss (gain) | ¥ (385) | ¥ (373) |
| Amortization of actuarial loss or gain | 83 | 345 |
| Current year prior service cost | — | (932) |
| Amortization of prior service cost | 317 | 206 |
| | ¥ 15 | ¥ (754) |

Weighted-average assumptions used to determine accumulated postretirement benefit obligations of the U.S. subsidiaries' plans at March 31, 2023 and 2022 are as follows:

| | 2023 | 2022 |
|--|------|------|
| Discount rate | 5.3% | 3.8% |
| Assumed rate of increase in future compensation levels | 4.0% | 4.0% |
| Current healthcare cost trend rate | 6.8% | 6.1% |
| Ultimate healthcare cost trend rate | 5.0% | 4.9% |
| Number of years to reach ultimate healthcare cost trend rate | 8 | 6 |

Weighted-average assumptions used to determine net periodic cost of the U.S. subsidiaries' plans for the fiscal years ended March 31, 2023 and 2022 are as follows:

| | 2023 | 2022 |
|--|------|------|
| Discount rate | 3.8% | 3.2% |
| Assumed rate of increase in future compensation levels | 4.0% | 4.0% |
| Expected long-term rate of return on plan assets | 5.2% | 4.8% |
| Current healthcare cost trend rate | 6.1% | 5.9% |
| Ultimate healthcare cost trend rate | 4.9% | 5.0% |
| Number of years to reach ultimate healthcare cost trend rate | 6 | 4 |

Plan assets

The U.S. subsidiaries' investment policies are to provide returns that will maximize principal growth while accepting only moderate risk.

The U.S. subsidiaries' asset portfolio will be invested in a manner that emphasizes safety of capital while achieving total returns consistent with prudent levels of risk. The basic portfolio for the plan assets are comprised approximately of 35% equity securities and 65% debt securities.

The equity securities are selected primarily from stocks that are listed on the securities exchanges. Prior to investing, the U.S. subsidiaries have investigated the business condition of the invested companies, and appropriately diversified investments by type of industry and other relevant factors. The debt securities are selected primarily from government bonds and municipal bonds, and corporate bonds. Prior to investing, the U.S. subsidiaries have investigated the quality of the issue, including credit rating, interest rate and repayment dates, and have appropriately diversified the investments. There is no significant concentration of risk within the portfolio of investments.

The three levels of input used to measure fair value are more fully described in Note 22.

The fair values of postretirement benefit plan assets at March 31, 2023 and 2022 by asset class are as follows:

| | Millions of yen | | | | |
|--------------------------------------|-----------------|----------------|------------|---|-----------------|
| | Level 1 | Level 2 | Level 3 | Investments measured at net asset value | Total |
| At March 31, 2023 | | | | | |
| Plan assets | | | | | |
| Cash | ¥ 511 | ¥ — | ¥ — | ¥ — | ¥ 511 |
| Equity securities | | | | | |
| Foreign equities | 3,749 | — | — | — | 3,749 |
| Debt securities | | | | | |
| Government bonds and municipal bonds | 103 | 4,877 | — | — | 4,980 |
| Corporate bonds | 377 | 1,034 | — | — | 1,411 |
| Other assets | | | | | |
| Other | 230 | — | — | — | 230 |
| Total | ¥ 4,970 | ¥ 5,911 | ¥ — | ¥ — | ¥ 10,881 |

| | Millions of yen | | | | |
|--------------------------------------|-----------------|----------------|------------|---|-----------------|
| | Level 1 | Level 2 | Level 3 | Investments measured at net asset value | Total |
| At March 31, 2022 | | | | | |
| Plan assets | | | | | |
| Cash | ¥ 791 | ¥ — | ¥ — | ¥ — | ¥ 791 |
| Equity securities | | | | | |
| Foreign equities | 4,100 | — | — | — | 4,100 |
| Debt securities | | | | | |
| Government bonds and municipal bonds | — | 3,919 | — | — | 3,919 |
| Corporate bonds | 228 | 1,596 | — | — | 1,824 |
| Other assets | | | | | |
| Other | — | 322 | — | — | 322 |
| Total | ¥ 5,119 | ¥ 5,837 | ¥ — | ¥ — | ¥ 10,956 |

Note: The plan's government bonds consist of U.S. government bonds.

Each level into which assets are categorized is based on inputs used to measure the fair value of the assets and does not indicate the risks of the assets.

Level 1 assets are comprised principally of equity securities, which are valued using quoted prices in active markets. Level 2 assets are comprised of debt securities, which are valued using inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly or indirectly.

Cash flows

(1) Contributions

The U.S. subsidiaries will not expect to contribute to their postretirement benefit plans in the fiscal year ending March 31, 2024.

(2) Estimated future benefit payments

The benefits expected to be paid in each of the next five years, and in the aggregate for the five years thereafter which reflect estimated future employee service are as follows:

| <u>Fiscal year ending March 31</u> | <u>Millions of yen</u> |
|------------------------------------|------------------------|
| 2024 | ¥ 913 |
| 2025 | 906 |
| 2026 | 896 |
| 2027 | 862 |
| 2028 | 850 |
| Through 2029-2033 | 4,179 |

Directors of Japanese subsidiaries are primarily covered by unfunded retirement allowance plans. At March 31, 2023 and 2022, the amounts required if all directors covered by the plans had terminated their service have been fully accrued. Such amounts are not material to Komatsu's financial position and results of operations for any of the periods presented.

The Company and certain subsidiaries maintain various defined contribution plans covering certain employees. The amount of cost recognized for the fiscal years ended March 31, 2023 and 2022 are ¥13,442 million and ¥11,239 million, respectively.

13. Komatsu Ltd. Shareholders' Equity

(1) At March 31, 2023 and 2022, affiliated companies owned 775,200 and 847,700 shares which represent 0.08% and 0.09% of the Company's common shares outstanding, respectively.

(2) The Companies Act of Japan (hereinafter "the Act") imposes certain limitations on the amount of retained earnings available for dividends. Accordingly, total shareholders' equity of ¥678,955 million, included in the Company's general books of account as of March 31, 2023 is available for dividends under the Act.

The payment of a cash dividend totaling ¥70,950 million to shareholders of record on March 31, 2023 will be discussed at the Ordinary General Meeting of Shareholders held on June 21, 2023. The dividend has not been reflected in the consolidated financial statements as of March 31, 2023. Dividends are reported in the consolidated statements of equity when they are approved.

(3) The Company had a stock option plan as stock-based remuneration.

The stock option plans resolved by the meeting of the Board of Directors held in and after July 2010.

The right to purchase the Company's shares has been granted at an exercise price of ¥1 per share to directors and certain employees, and certain representative directors of major subsidiaries.

The Company transfers treasury stock without issuance of new stock when the Stock Acquisition Rights are exercised.

The following table summarizes information about stock option activities for the fiscal years ended March 31, 2023 and 2022:

| | 2023 | | 2022 | |
|----------------------------------|------------------|--|------------------|--|
| | Number of shares | Weighted average exercise price Yen | Number of shares | Weighted average exercise price Yen |
| Outstanding at beginning of year | 149,700 | ¥ 1 | 291,500 | ¥ 1 |
| Granted | — | — | — | — |
| Exercised | (53,000) | 1 | (141,800) | 1 |
| Forfeited | — | — | — | — |
| Outstanding at end of year | 96,700 | 1 | 149,700 | 1 |
| Exercisable at end of year | 96,700 | 1 | 149,700 | 1 |

The intrinsic values of options exercised were ¥161 million and ¥413 million for the fiscal years ended March 31, 2023 and 2022.

The information for options outstanding and options exercisable at March 31, 2023 is as follows:

| Number of shares | Outstanding | | | Options Exercisable | | | |
|------------------|---------------------------------|-----------------|---|---------------------------------|-----------------|---|--|
| | Weighted average exercise price | Intrinsic value | Weighted average remaining contractual life | Weighted average exercise price | Intrinsic value | Weighted average remaining contractual life | |
| | Yen | Millions of yen | Years | Yen | Millions of yen | Years | |
| 96,700 | ¥ 1 | ¥ 317 | 1.7 | ¥ 1 | ¥ 317 | 1.7 | |

(4) From the fiscal year ended March 31, 2019, the Company has introduced a new compensation plan, i.e., the restricted stock compensation system for the purpose of providing directors (other than outside directors) and employees of the Company and directors and employees of major subsidiaries (hereinafter the “Eligible Directors, etc.”) with medium- to long-term incentives and advance in sharing value between the directors and shareholders of the Company. The system is comprised of the following two compensation systems:

Stock-Based Remuneration A (Performance-Based Remuneration for a Single Year)

As an alternative to stock acquisition rights which have been granted as stock-based remuneration, the Company shall determine the amount of remuneration based on the Company’s single-year performance, etc. and pay a part of the amount of remuneration so determined in the form of restricted stock to the Eligible Directors, etc. each fiscal year. The restrictions will, in principle, be lifted 3 years after the grant of the granted shares. If, prior to the expiry of the restriction period, the Eligible Director, etc. retires without any reason recognized as legitimate by the Board of Directors of the Company, the Company shall acquire, free of charge, all or part of the granted shares.

Stock-Based Remuneration B (Performance-Based Remuneration Linked to Performance of Mid-Range Management Plan)

With respect to the period of the Company’s mid-range management plan, the Company shall grant restricted stock to the Eligible Directors, etc. each fiscal year based on the base amount of remuneration for each position. After the expiry of the period of the mid-range management plan, the Company shall determine the number of shares with respect to which the restrictions will be lifted according to the achievement status of the targets raised in the mid-range management plan, etc. In principle, the Company shall lift the restrictions 3 years after the grant of the granted shares. The Company shall acquire, free of charge, the granted shares with respect to which the Company decides not to lift the restrictions pursuant to the above provision. If, prior to the expiry of the restriction period, the Eligible Director, etc. retires without any reason recognized as legitimate by the Board of Directors of the Company, the Company shall acquire, free of charge, all or part of the granted shares.

The granted shares have the same rights as common shares to net income attributable to Komatsu Ltd. regardless of whether the restrictions are still existing.

Based on the resolutions of the Ordinary General Meeting of Shareholders on June 19, 2018 and the Board of Directors on July 15, 2022, the Company issued 305,130 shares of common shares of the Company as the restricted stock compensation to the Eligible Directors, etc.

Based on the resolutions of the Ordinary General Meeting of Shareholders on June 19, 2018 and the Board of Directors on July 16, 2021, the Company issued 258,190 shares of common shares of the Company as the restricted stock compensation to the Eligible Directors, etc.

The Company recognizes compensation expense using the fair value method. The fair values of the restricted stock are measured at grant-date fair value of common shares of the Company. Compensation expense for the fiscal year ended March 31, 2023 and 2022 were recorded in selling, general and administrative expenses, and were not material to Komatsu’s financial position and results of operations.

The following table summarizes information about the restrict stock activities for the fiscal year ended March 31, 2023 and 2022:

| | 2023 | | 2022 | |
|----------------------------------|---------------------|------------------------------------|---------------------|------------------------------------|
| | Number of shares | Weighted average exercise price | Number of shares | Weighted average exercise price |
| | | Yen | | Yen |
| Outstanding at beginning of year | 880,200 | ¥ 2,500 | 875,000 | ¥ 2,598 |
| Granted | 305,130 | 2,890 | 258,190 | 2,755 |
| Lifted | (286,680) | 2,508 | (252,990) | 3,098 |
| Forfeited | (113,710) | 2,509 | — | — |
| Outstanding at end of year | <u>784,940</u> | <u>2,648</u> | <u>880,200</u> | <u>2,500</u> |

14. Other Comprehensive Income (Loss)

Changes in accumulated other comprehensive income (loss) for the fiscal years ended March 31, 2023 and 2022 are as follows:

| | Millions of yen | | | |
|--|---|-------------------------------------|---|------------------|
| | 2023 | | | |
| | Foreign currency translation adjustments | Pension liability adjustments | Net unrealized holding gains (losses) on derivative instruments | Total |
| Balance, beginning of the year | ¥ 148,629 | ¥ (24,171) | ¥ (2,044) | ¥ 122,414 |
| Other comprehensive income (loss) before reclassifications | 96,912 | 481 | (10,179) | 87,214 |
| Amounts reclassified from accumulated other comprehensive income (loss) | (783) | 926 | 12,175 | 12,318 |
| Net other comprehensive income (loss) | 96,129 | 1,407 | 1,996 | 99,532 |
| Less: other comprehensive income (loss) attributable to noncontrolling interests | 3,496 | (33) | 8 | 3,471 |
| Other comprehensive income (loss) attributable to Komatsu Ltd. | 92,633 | 1,440 | 1,988 | 96,061 |
| Equity transactions with noncontrolling interests | 1,476 | — | — | 1,476 |
| Balance, end of the year | <u>¥ 242,738</u> | <u>¥ (22,731)</u> | <u>¥ (56)</u> | <u>¥ 219,951</u> |

All amounts are net of tax.

| | Millions of yen | | | |
|--|---|-------------------------------------|---|------------------|
| | 2022 | | | |
| | Foreign currency translation adjustments | Pension liability adjustments | Net unrealized holding gains (losses) on derivative instruments | Total |
| Balance, beginning of the year | ¥ (7,186) | ¥ (34,290) | ¥ (536) | ¥ (42,012) |
| Other comprehensive income (loss) before reclassifications | 165,147 | 8,365 | (6,221) | 167,291 |
| Amounts reclassified from accumulated other comprehensive income (loss) | — | 1,804 | 5,095 | 6,899 |
| Net other comprehensive income (loss) | 165,147 | 10,169 | (1,126) | 174,190 |
| Less: other comprehensive income (loss) attributable to noncontrolling interests | 10,218 | 50 | 372 | 10,640 |
| Other comprehensive income (loss) attributable to Komatsu Ltd. | 154,929 | 10,119 | (1,498) | 163,550 |
| Equity transactions with noncontrolling interests | 886 | — | (10) | 876 |
| Balance, end of the year | <u>¥ 148,629</u> | <u>¥ (24,171)</u> | <u>¥ (2,044)</u> | <u>¥ 122,414</u> |

All amounts are net of tax.

Reclassification out of accumulated other comprehensive income (loss) for the fiscal years ended March 31, 2023 and 2022 are as follows:

| | Millions of yen | |
|--|-------------------|---|
| | 2023 | Affected line items in consolidated statements of income |
| Foreign currency translation adjustments | | |
| Sale | ¥ 1,948 | Other operating income, net |
| Liquidation | (1,165) | Other income (expenses), net: Other, net |
| | 783 | Total before tax |
| | — | Income taxes |
| | 783 | Net of tax |
| Pension liability adjustments | | |
| Amortization of actuarial loss or gain | (280) | Other income (expenses), net: Other, net |
| Amortization of prior service cost | (1,067) | Other income (expenses), net: Other, net |
| | (1,347) | Total before tax |
| | 421 | Income taxes |
| | (926) | Net of tax |
| Net unrealized holding gains (losses) on derivative instruments | | |
| Foreign exchange forward contracts | (12,091) | Net sales |
| | (955) | Cost of sales |
| | (4,468) | Other income (expenses), net: Other, net |
| Interest rate swaps and cross-currency swap agreements | 2 | Cost of sales |
| | (17,512) | Total before tax |
| | 5,337 | Income taxes |
| | (12,175) | Net of tax |
| Total reclassification for the year | ¥ (12,318) | Net of tax |
| | Millions of yen | |
| | 2022 | Affected line items in consolidated statements of income |
| Pension liability adjustments | | |
| Amortization of actuarial loss or gain | ¥ (1,966) | Other income (expenses), net: Other, net |
| Amortization of prior service cost | (704) | Other income (expenses), net: Other, net |
| | (2,670) | Total before tax |
| | 866 | Income taxes |
| | (1,804) | Net of tax |
| Net unrealized holding gains (losses) on derivative instruments | | |
| Foreign exchange forward contracts | (2,637) | Net sales |
| | 130 | Cost of sales |
| | (4,971) | Other income (expenses), net: Other, net |
| | (7,478) | Total before tax |
| | 2,383 | Income taxes |
| | (5,095) | Net of tax |
| Total reclassification for the year | ¥ (6,899) | Net of tax |

Tax effects allocated to each component of other comprehensive income (loss) for the fiscal years ended March 31, 2023 and 2022 are as follows:

| | Millions of yen | | |
|--|----------------------|-----------------------------|----------------------|
| | 2023 | | |
| | Before tax amount | Tax (expense) or benefit | Net of tax amount |
| Foreign currency translation adjustments | | | |
| Foreign currency translation adjustments arising during the year | ¥ 97,304 | ¥ (392) | ¥ 96,912 |
| Less: reclassification adjustment for gains included in net income | (783) | — | (783) |
| Net foreign currency translation adjustments | 96,521 | (392) | 96,129 |
| Pension liability adjustments | | | |
| Pension liability adjustments arising during the year | 1,055 | (574) | 481 |
| Less: reclassification adjustment for losses included in net income | 1,347 | (421) | 926 |
| Net pension liability adjustments | 2,402 | (995) | 1,407 |
| Net unrealized holding gains (losses) on derivative instruments | | | |
| Unrealized holding losses arising during the year | (14,500) | 4,321 | (10,179) |
| Less: reclassification adjustment for losses included in net income | 17,512 | (5,337) | 12,175 |
| Net unrealized holding gains | 3,012 | (1,016) | 1,996 |
| Other comprehensive income (loss) | ¥ 101,935 | ¥ (2,403) | ¥ 99,532 |
| | Millions of yen | | |
| | 2022 | | |
| | Before tax amount | Tax (expense) or benefit | Net of tax amount |
| Foreign currency translation adjustments | | | |
| Foreign currency translation adjustments arising during the year | ¥ 165,477 | ¥ (330) | ¥ 165,147 |
| Less: reclassification adjustment for gains included in net income | — | — | — |
| Net foreign currency translation adjustments | 165,477 | (330) | 165,147 |
| Pension liability adjustments | | | |
| Pension liability adjustments arising during the year | 11,223 | (2,858) | 8,365 |
| Less: reclassification adjustment for losses included in net income | 2,670 | (866) | 1,804 |
| Net pension liability adjustments | 13,893 | (3,724) | 10,169 |
| Net unrealized holding gains (losses) on derivative instruments | | | |
| Unrealized holding losses arising during the year | (9,102) | 2,881 | (6,221) |
| Less: reclassification adjustment for losses included in net income | 7,478 | (2,383) | 5,095 |
| Net unrealized holding losses | (1,624) | 498 | (1,126) |
| Other comprehensive income (loss) | ¥ 177,746 | ¥ (3,556) | ¥ 174,190 |

15. Revenue

Komatsu engages in the business activities of sales of products, services and retail financing for customers in Japan and overseas, under three operating segments: the “Construction, Mining and Utility Equipment” operating segment, the “Retail Finance” operating segment and the “Industrial Machinery and Others” operating segment. In these business activities, Komatsu provides goods or services identified in contracts with customers. Komatsu recognizes revenue when or as control over these goods or services is transferred to the customer at the amount of the transaction price that reflects the consideration to which it expects to be entitled. When two or more goods or services are provided to the same customer, Komatsu identifies performance obligations in a single contract or combined contracts and allocates the transaction price to each identified performance obligations based on relative stand-alone selling prices.

For sale of equipment, parts, attachment and others, revenue is recognized when the customers accept the goods or services. Conditions for acceptance, such as shipping, receipt by customers, completion of installation or completion of performance test, depend on contracts or arrangements with customers and the like. The consideration for those transactions is generally collected within three months after the performance obligation is satisfied.

For services such as periodic check, maintenance, and repair and other services, revenue is recognized when provision of the service is completed, or over the period for which the service is provided. Conditions for completion of service provision, including receipt of completion report, depend on contracts or arrangements with customers and the like. The consideration for those transactions is generally collected within three months after the performance obligation is satisfied.

Komatsu’s certain consolidated subsidiaries have signed long-term maintenance contracts with their customers, in which case the customers receive services and simultaneously consume them as the performance obligations are satisfied. Thus, revenue from such services is recognized over the period of the contract with the customer in accordance with the progress percentage on the basis of costs incurred, which appropriately represents the transfer of control to the customer.

Shipping and handling activities occurring after control over an equipment has transferred to a customer are not identified as services.

Certain transaction prices include variable consideration such as future discounts and sales returns. Variable consideration is an estimate of the expected value or the most likely amount, to the extent that it is probable that a significant reversal in cumulative revenue recognized up to that point will not occur when the uncertainty associated with the variable consideration is subsequently resolved. When the period between when control over goods or services is transferred to the customer and when the customer pays for the goods or services is expected to be one year or less at the inception of the contract, Komatsu does not make any adjustment for the effect of time value of consideration.

Komatsu is obligated to accept parts returned from customers for a certain period after the sale. In consideration of the relevant historical return result and other factors, Komatsu’s right to recover parts from customers is recognized in other current assets as a return asset, and also a refund liability is recognized in other current liabilities for its obligation to refund the customers upon return of parts.

With regard to transactions with combination of products, periodic check, maintenance and others, performance obligations are identified in a single contract or combined contracts. Transaction price is allocated to each identified performance obligation according to the proportion of stand-alone selling price that is determined based on observable price such as contract amount, and estimated cost including historical experience.

After the product are sold or delivered, Komatsu repairs the sold product and replaces parts free of charge for a certain period in accordance with the contract. Thus, in order to provide for disbursement of the after-sales service costs, provision for product warranties is recognized based on the relevant historical result. In addition to this standard warranty, Komatsu offers a package of extended warranty for power line (engine & power systems and hydraulic system) upon the purchase of a product and free maintenance service as a service program to maintain the performance of construction equipment over a longer period of time. Komatsu determines this program to be a service-type warranty, and identifies a separate performance obligation for recognizing revenue from this program. As the costs incurred to obtain a contract with a customer are to be amortized within one year, they are expensed as incurred by applying a practical expedient on the costs for obtaining a contract with a customer.

(1) Disaggregation of revenue

Revenue from contracts with customers and other sources during the fiscal year ended March 31, 2023 and 2022 are as follows:

| | Millions of yen | |
|--|--------------------|--------------------|
| | 2023 | 2022 |
| Revenue recognized from contracts with customers | ¥ 3,325,494 | ¥ 2,575,435 |
| Revenue recognized from other sources | 217,981 | 226,888 |
| Total | ¥ 3,543,475 | ¥ 2,802,323 |

The disaggregation of revenue by operating segment and geographic region are described in Note 23.

Revenue recognized from other sources primarily comprises revenue recognized from lease contracts and financial income such as interest income.

(2) Contract balances

Contract balances arising from contracts with customers at March 31, 2023 and 2022 are as follows:

| | Millions of yen | |
|-------------------------|-----------------|-------------|
| | 2023 | 2022 |
| Receivables *1 | ¥ 1,444,683 | ¥ 1,220,566 |
| Contract assets *2 | 2,516 | 2,699 |
| Contract liabilities *3 | 164,220 | 132,649 |

*1 Receivables are included in trade notes and accounts receivable, net and long-term trade receivables, net in the accompanying consolidated balance sheets. These amounts are before deducting allowances for doubtful receivables.

*2 Contract assets are included in trade notes and accounts receivable, net in the accompanying consolidated balance sheets. These amounts are before deducting allowances for doubtful receivables.

*3 Contract liabilities are included in other current liabilities and deferred income taxes and other liabilities in the accompanying consolidated balance sheets.

Komatsu's contract assets mainly relate to its right to consideration for product sales contracts in the industrial machinery business, for which the performance obligation has been satisfied but the invoicing conditions have not been satisfied as of a reporting date. Contract assets are reclassified to receivables when the right to consideration becomes unconditional.

Komatsu's contract liabilities are those arising from all or part of the consideration received from the customers before the corresponding performance obligation is satisfied. The main components of the contract liabilities are unearned revenue and advances received. Komatsu recognizes unearned revenue by identifying separate performance obligations such as extended warranties. Advances received from the customers are recognized in long-term maintenance contracts for which revenue is recognized over the contract period, and also in product sales contracts for large press machines and the like for which revenue is recognized upon acceptance of the customers.

Revenue recognized for the fiscal year ended March 31, 2023 that was included in the contract liability balance as of March 31, 2022 was ¥69,827 million. Revenue recognized for the fiscal year ended March 31, 2022 that was included in the contract liability balance as of March 31, 2021 was ¥52,291 million.

The amount of revenue recognized during the fiscal year ended March 31, 2023 and 2022 from the performance obligations satisfied or partially satisfied in the past and the amount of impairment losses recognized for receivables and contract assets are immaterial. Additionally, there were no significant changes in contract assets and contract liabilities for contracts with customers during the fiscal year ended March 31, 2023 and 2022.

(3) Transaction price allocated to the remaining performance obligations

As of March 31, 2023, the aggregate amount of the transaction price allocated to the remaining performance obligations that have original expected durations greater than one year is ¥370,903 million, of which ¥187,749 million is expected to be recognized as revenue in the fiscal year ending March 31, 2024.

16. Income Taxes

The sources of income before income taxes and equity in earnings of affiliated companies and the sources of income taxes for the fiscal years ended March 31, 2023 and 2022 are as follows:

| | Millions of yen | |
|--|-----------------|-----------|
| | 2023 | 2022 |
| Income before income taxes and equity in earnings of affiliated companies: | | |
| Japan | ¥ 127,681 | ¥ 93,644 |
| Foreign | 348,753 | 230,924 |
| | ¥ 476,434 | ¥ 324,568 |
| Income taxes: | | |
| Current – | | |
| Japan | ¥ 52,964 | ¥ 34,315 |
| Foreign | 86,864 | 65,918 |
| | ¥ 139,828 | ¥ 100,233 |
| Deferred – | | |
| Japan | ¥ (2,421) | ¥ (597) |
| Foreign | (1,860) | (7,058) |
| | ¥ (4,281) | ¥ (7,655) |
| Total | ¥ 135,547 | ¥ 92,578 |

Total income taxes recognized for the fiscal years ended March 31, 2023 and 2022 are applicable to the following:

| | Millions of yen | |
|---|-----------------|----------|
| | 2023 | 2022 |
| Income before income taxes and equity in earnings of affiliated companies | ¥ 135,547 | ¥ 92,578 |
| Other comprehensive income (loss): | | |
| Foreign currency translation adjustments | 392 | 330 |
| Pension liability adjustments | 995 | 3,724 |
| Net unrealized holding gains (losses) on derivative instruments | 1,016 | (498) |
| Total income taxes | ¥ 137,950 | ¥ 96,134 |

Temporary differences and tax loss carryforwards which gave rise to deferred tax assets and liabilities at March 31, 2023 and 2022 are as follows:

| | Millions of yen | |
|--|-----------------|-----------|
| | 2023 | 2022 |
| Deferred tax assets: | | |
| Allowances provided, not yet recognized for tax | ¥ 4,110 | ¥ 10,075 |
| Accrued expenses | 58,511 | 50,724 |
| Investment securities | 1,466 | 1,529 |
| Pension and retirement benefits | 16,054 | 16,583 |
| Property, plant and equipment | 886 | 657 |
| Operating lease liabilities | 17,373 | 16,576 |
| Inventories | 17,640 | 14,808 |
| Net operating loss carryforwards | 38,410 | 42,117 |
| Research and development expenses | 1,135 | 689 |
| Tax credit carryforwards | 4,200 | 5,133 |
| Other | 6,341 | 13,400 |
| Total gross deferred tax assets | 166,126 | 172,291 |
| Less: valuation allowance | (37,929) | (42,053) |
| Total deferred tax assets | ¥ 128,197 | ¥ 130,238 |
| Deferred tax liabilities: | | |
| Property, plant and equipment | ¥ 24,852 | ¥ 16,586 |
| Operating lease right-of-use assets | 16,941 | 16,906 |
| Intangible assets | 21,564 | 29,656 |
| Undistributed earnings of foreign subsidiaries and affiliated companies accounted for by the equity method | 10,071 | 8,765 |
| Other | 432 | 1,820 |
| Total deferred tax liabilities | ¥ 73,860 | ¥ 73,733 |
| Total deferred tax assets | ¥ 54,337 | ¥ 56,505 |

Net deferred tax assets and liabilities as of March 31, 2023 and 2022 are reflected on the consolidated balance sheets under the following captions:

| | Millions of yen | |
|---|-----------------|----------|
| | 2023 | 2022 |
| Deferred income taxes and other assets | ¥ 78,388 | ¥ 77,580 |
| Deferred income taxes and other liabilities | (24,051) | (21,075) |
| | ¥ 54,337 | ¥ 56,505 |

The valuation allowance was ¥36,080 million as of March 31, 2021. The net changes in the total valuation allowance for the fiscal years ended March 31, 2023 and 2022 were a decrease of ¥4,124 million and an increase of ¥5,973 million, respectively.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible and net operating losses available to be utilized. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets, net of the existing valuation allowances at March 31, 2023 and 2022, are deductible, management believes it is more likely than not that the companies will realize the benefits of these deductible differences and net operating loss carryforwards. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced.

As of March 31, 2023, Komatsu had tax credit carryforwards of ¥4,200 million, which will expire within the year ending March 31, 2033.

The Company and its Japanese subsidiaries are subject to a National Corporate tax rate of approximately 23%, an inhabitant tax of approximately 5% and a deductible Enterprise tax of approximately 5%, which in the aggregate resulted in a Japanese statutory tax rate of approximately 31.3% for the fiscal year ended March 31, 2023 and 2022. The inhabitant tax rate and Enterprise tax rate vary by local jurisdiction.

The differences between the Japanese statutory tax rates and the effective tax rates for the fiscal years ended March 31, 2023 and 2022 are summarized as follows:

| | 2023 | 2022 |
|---|--------------|--------------|
| Japanese statutory tax rate | 31.3% | 31.3% |
| Increase (decrease) in tax rates resulting from: | | |
| Change in valuation allowance | 0.4 | 0.4 |
| Nontaxable income and nondeductible expenses for tax purposes, net | 0.4 | 0.8 |
| Income of foreign subsidiaries taxed at lower than Japanese normal rate | (4.2) | (3.9) |
| Tax credit for research and development expenses | (1.1) | (1.7) |
| Withholding taxes on dividends from foreign subsidiaries | 1.8 | 0.2 |
| Other, net | (0.1) | 1.4 |
| Effective tax rate | <u>28.5%</u> | <u>28.5%</u> |

Foreign subsidiaries are subject to income taxes of the countries in which they operate. At March 31, 2023 and 2022, undistributed earnings of foreign subsidiaries amount to ¥1,401,576 million and ¥1,270,333 million, respectively. The Company has a policy to distribute a certain portion of undistributed earnings of foreign subsidiaries. As of March 31, 2023 and 2022, Komatsu recognized deferred tax liabilities of ¥2,669 million and ¥1,702 million, respectively, associated with those earnings. As of March 31, 2023 and 2022, the amount of unrecognized deferred tax liabilities for the portion of undistributed earnings of foreign subsidiaries that the Company intends to reinvest indefinitely were ¥53,168 million and ¥57,642 million, respectively, which were calculated to the extent reasonably practicable.

At March 31, 2023, certain subsidiaries had net operating loss carryforwards aggregating ¥55,884 million, which may be used as a deduction in determining taxable income in future periods. The period available to offset future taxable income varies in each tax jurisdiction as follows:

| <u>At March 31, 2023</u> | <u>Millions of yen</u> |
|--------------------------|------------------------|
| Within 5 years | ¥ 8,065 |
| 6 to 20 years | 2,748 |
| Indefinite periods | 45,071 |
| Total | ¥ 55,884 |

For other net operating loss carryforwards than the aforementioned amount, at March 31, 2023, some U.S. subsidiaries had net operating loss carryforwards associated with state tax aggregating ¥281,621 million, which may be used as a deduction in determining taxable income in future periods. The deferred tax assets associated with those net operating loss carryforwards were ¥17,361 million.

The reconciliation of beginning and ending balances of unrecognized tax benefits are as follows:

| | <u>Millions of yen</u> | |
|---|------------------------|-------------|
| | <u>2023</u> | <u>2022</u> |
| Balance at beginning of year | ¥ 21,632 | ¥ 17,365 |
| Additions for tax positions related to current period | 6,846 | 2,691 |
| Additions for tax positions related to prior period | 997 | 1,296 |
| Reductions for tax positions related to prior period | (1,449) | (72) |
| Reductions for settlements | (599) | — |
| Other | (2,862) | 352 |
| Balance at end of year | ¥ 24,565 | ¥ 21,632 |

| | | |
|--|--------|--------|
| Total net amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate | 24,043 | 21,046 |
|--|--------|--------|

Although Komatsu believes its estimates of unrecognized tax benefits are reasonable, uncertainties regarding the final determination of income tax audit settlements and any related litigation could affect the total amount of unrecognized tax benefits in the future periods. For the fiscal years ended March 31, 2023 and 2022, interest and penalties related to unrecognized tax benefits were not material. Based on the information available as of March 31, 2023, Komatsu does not expect significant changes to the unrecognized tax benefits within the next twelve months. Komatsu files income tax returns in Japan and various foreign tax jurisdictions. Komatsu is no longer subject to income tax examinations by the tax authority before and in the fiscal year ended March 31, 2016 in Japan and, is no longer subject to income tax examinations by the tax authority before and in the fiscal year ended March 31, 2013 in the United States. In other foreign tax jurisdictions, the other subsidiaries are no longer subject to income tax examinations by tax authorities before and in the fiscal year ended March 31, 2011 with few exceptions.

17. Leases

(1) Lessee

Komatsu leases lands, buildings, vehicles, employee housings, etc. through finance and operating leases. Some of these leases may include options to extend or terminate the lease with preliminary notice. Komatsu determines lease terms with the options on the lease commencement date if it is reasonably certain that Komatsu will exercise those options. As a rate implicit in the most of Komatsu's leases cannot be determined, Komatsu recognizes right-of-use assets and lease liabilities calculated present value of lease payments by using incremental borrowing rate based on the information available. Komatsu's finance leases are not material.

Supplementary information to operating leases on the balance sheets as of March 31, 2023 and 2022 are as follows:

| | 2023 | 2022 |
|---------------------------------------|----------|----------|
| Weighted average remaining lease term | 9.7years | 8.9years |
| Weighted average discount rates | 2.8% | 2.3% |

Amounts of maturities of operating lease liabilities in each of the next five years and in the aggregate for the five years thereafter as of March 31, 2023 are as follows:

| | Millions of yen | |
|------------------------------|-----------------|----------|
| | 2023 | |
| 2024 | ¥ | 19,212 |
| 2025 | | 11,338 |
| 2026 | | 6,573 |
| 2027 | | 4,799 |
| 2028 | | 3,566 |
| Thereafter | | 29,365 |
| Total minimum lease payments | ¥ | 74,853 |
| Less: Imputed interest | | (12,062) |
| Total lease liabilities | ¥ | 62,791 |

Lease costs for the fiscal years ended March 31, 2023 and 2022 are comprised of the following:

| | Millions of yen | | | |
|-----------------------|-----------------|--------|------|--------|
| | 2023 | | 2022 | |
| Operating lease cost | ¥ | 21,916 | ¥ | 21,037 |
| Short term lease cost | | 5,679 | | 4,374 |

Variable lease payments that are not included in lease liabilities are not material.

Supplementary cash flow information to leases for the fiscal years ended March 31, 2023 and 2022 are as follows:

| | Millions of yen | | | |
|--|-----------------|--------|------|--------|
| | 2023 | | 2022 | |
| Cash paid for amount included in the measurement of lease liabilities | | | | |
| Operating leases | | | | |
| Cash flows by operating activities | ¥ | 21,859 | ¥ | 21,758 |
| Noncash activity – Rights of use assets obtained in exchange for lease liabilities | | | | |
| Operating leases | ¥ | 20,436 | ¥ | 22,042 |

Leases that have not yet commenced but that create significant rights and obligations as of March 31, 2023 and 2022 are not material.

(2) Lessor

Komatsu provides sales-type and operating leases as a lessor for leveling cash payments of its customers when customers purchase primarily Komatsu's construction and mining equipment. Revenue from the sale of these products under sales-type leases is recognized at the inception of the lease. Interest income on sales-type leases is recognized over the life of each lease using the interest method. Revenue from operating leases is recognized on a straight-line basis over the lease term. Some of these leases may include options to extend or terminate the lease. Some of these leases also may include options for the lessee to purchase the underlying assets at stated fixed price or fair market value.

The residual value of Komatsu's leased equipment is determined based on its estimated end-of-term market values. Komatsu estimates the residual value of leased equipment at the inception of the lease based on historical used equipment market sales prices, latest trends of the market, etc. Komatsu monitors estimated residual values of the leased equipment during the term of leases through understanding trends of the market. The present values of guaranteed residual values provided by customers as of March 31, 2023 and 2022 are ¥11,659 million and ¥8,627 million.

Net investments in the sales-type leases as of March 31, 2023 and 2022 are comprised of the following:

| | Millions of yen | | | |
|---|-----------------|-----------|------|-----------|
| | 2023 | | 2022 | |
| Lease receivables | ¥ | 244,557 | ¥ | 235,923 |
| Unguaranteed residual assets | | 12,019 | | 9,063 |
| Net investment in the sales-type leases * | ¥ | 256,576 | ¥ | 244,986 |
| Less: current portion | | (111,958) | | (114,447) |
| | ¥ | 144,618 | ¥ | 130,539 |

* The net investments in the sales-type leases are included in trade notes and accounts receivable, net and long-term trade receivables, net on the consolidated balance sheets.

Undiscounted lease payments to be received under sales-type and operating leases in each of the next five years and in the aggregate for the five years thereafter as of March 31, 2023 are as follows:

| | Millions of yen | | | |
|--|-------------------|----------|------------------|--------|
| | 2023 | | | |
| | Sales-type leases | | Operating leases | |
| 2024 | ¥ | 110,849 | ¥ | 33,482 |
| 2025 | | 71,669 | | 15,628 |
| 2026 | | 43,681 | | 8,774 |
| 2027 | | 24,182 | | 3,877 |
| 2028 | | 12,664 | | 1,701 |
| Thereafter | | 1,718 | | 160 |
| Total undiscounted lease payments to be received | ¥ | 264,763 | ¥ | 63,622 |
| Less: Imputed interest | | (20,206) | | — |
| Total lease receivables | ¥ | 244,557 | ¥ | — |

Revenues from sales-type and operating leases as a lessor, included in net sales on the consolidated statement of income, for the fiscal years ended March 31, 2023 and 2022 are as follows:

| | Millions of yen | | | |
|---|-----------------|---------|------|---------|
| | 2023 | | 2022 | |
| Sales-type lease revenue | | | | |
| Revenue recognized at the commencement date * | ¥ | 101,710 | ¥ | 116,805 |
| Interest income | | 9,758 | | 8,680 |
| Total sales-type lease revenue | | 111,468 | | 125,485 |
| Operating lease revenue | | 79,960 | | 82,012 |
| Total | ¥ | 191,428 | ¥ | 207,497 |

* The revenues recognized at the commencement dates are included in net sales of the Construction, Mining and Utility Equipment operating segment.

18. Net Income Attributable to Komatsu Ltd. per Share

The Company has the restricted stock compensation system (hereinafter, the “System”) for directors (other than outside directors) and employees of the Company and directors and employees of major subsidiaries. Among the new shares issued under the System, those transfer restrictions which have not been cancelled are distinguished as participating securities from common shares. Each common share and restricted stock has the same rights to net income attributable to Komatsu Ltd.

A reconciliation of the numerators and denominators of the basic net income attributable to Komatsu Ltd. per share computations is as follows:

| | Millions of yen | |
|---|-----------------|-----------|
| | 2023 | 2022 |
| Net income attributable to Komatsu Ltd. | ¥ 326,398 | ¥ 224,927 |
| Net income attributable to participating securities (restricted stocks) | 285 | 244 |
| Net income attributable to common shareholders | ¥ 326,113 | ¥ 224,683 |

| | Number of shares | |
|---|------------------|-------------|
| | 2023 | 2022 |
| Weighted average number of common shares outstanding, less treasury stock | 945,471,092 | 945,177,621 |
| Weighted average number of participating securities (restricted stocks) | 825,968 | 1,024,962 |
| Weighted average number of common shares | 944,645,124 | 944,152,659 |

| | Yen | |
|---|----------|----------|
| | 2023 | 2022 |
| Basic net income attributable to Komatsu Ltd. per share | ¥ 345.22 | ¥ 237.97 |

A reconciliation of the numerators and denominators of the diluted net income attributable to Komatsu Ltd. per share computations is as follows:

| | Millions of yen | |
|---|-----------------|-----------|
| | 2023 | 2022 |
| Net income attributable to Komatsu Ltd. | ¥ 326,398 | ¥ 224,927 |
| Net income attributable to participating securities (restricted stocks) | 285 | 244 |
| Net income attributable to common shareholders | ¥ 326,113 | ¥ 224,683 |

| | Number of shares | |
|---|------------------|-------------|
| | 2023 | 2022 |
| Weighted average number of common shares outstanding, less treasury stock | 945,471,092 | 945,177,621 |
| Dilutive effect of: | | |
| Stock options | 124,267 | 207,920 |
| Weighted average number of participating securities (restricted stocks) | 825,968 | 1,024,962 |
| Weighted average number of diluted common shares | 944,769,391 | 944,360,579 |

| | Yen | |
|---|----------|----------|
| | 2023 | 2022 |
| Diluted net income attributable to Komatsu Ltd. per share | ¥ 345.18 | ¥ 237.92 |

19. Commitments and Contingent Liabilities

(1) Komatsu provides guarantees to third parties of loans of the employees, affiliated companies, customers, and other companies. The guarantees of loans relating to the employees are mainly made for their housing loans. The guarantees of loans relating to the affiliated companies, customers and other companies are made to enhance the credit of those companies. For each guarantee provided, Komatsu would have to perform under a guarantee if the borrower defaults on a payment within the contract terms. The contract terms are from 10 years to 30 years in the case of employees with housing loans, and from 1 year to 5 years in the case of loans relating to the affiliated companies, customers and other companies. The maximum amount of undiscounted payments Komatsu would have had to make in the event of default at March 31, 2023 and 2022 were ¥14,966 million and ¥12,293 million, respectively. The fair value of the liabilities recognized for Komatsu's obligations as guarantors under those guarantees at March 31, 2023 were insignificant. Certain of those guarantees were secured by collateral and insurance issued to Komatsu.

Komatsu provides guarantees that subsidiaries of the Company perform the obligations of the terms and conditions of contracts by standby letters of credit issued by banks. Komatsu would have to pay the liabilities incurred to banks if the subsidiaries do not perform the obligations of the terms and conditions of contracts. The maximum amount of undiscounted payments Komatsu would have had to make in the event of defaults of the contracts at March 31, 2023 and 2022 were ¥14,683 million and ¥17,330 million, respectively.

Management of the Company believes that losses from those contingent liabilities, if any, would not have a material effect on the consolidated financial statements.

(2) Commitments for capital investment outstanding at March 31, 2023 and 2022 aggregated approximately ¥25,100 million and approximately ¥23,800 million, respectively.

(3) Komatsu is involved in certain legal actions and claims arising mainly in the ordinary course of its business. It is the opinion of management and legal counsel that such litigation and claims will be resolved without material effect on Komatsu's financial position.

(4) Komatsu has business activities with customers, dealers and associates around the world and its trade receivables from such parties and the guarantees for them are well diversified to minimize concentrations of credit risks. Management does not anticipate incurring losses on its trade receivables in excess of established allowances.

(5) Komatsu also issues contractual product warranties under which it generally guarantees the performance of products delivered and services rendered for a certain period or term. Changes in accrued product warranty cost for the years ended March 31, 2023 and 2022 are summarized as follows:

| | Millions of yen | |
|------------------------------|-----------------|----------|
| | 2023 | 2022 |
| Balance at beginning of year | ¥ 41,235 | ¥ 38,136 |
| Addition | 42,565 | 34,400 |
| Utilization | (37,588) | (33,734) |
| Other | 1,918 | 2,433 |
| Balance at end of year | ¥ 48,130 | ¥ 41,235 |

20. Derivative Financial Instruments

Risk Management Policy

Komatsu is exposed to market risk primarily from changes in foreign currency exchange and interest rates with respect to debt obligations, international operations and foreign currency denominated credits and debts. In order to manage these risks that arise in the normal course of business, Komatsu enters into various derivative transactions for hedging pursuant to its policies and procedures (Notes 21 and 22). Komatsu does not enter into derivative financial transactions for trading or speculative purposes.

Komatsu has entered into interest rate swap and cap agreements, partly concurrent with currency swap agreements for the purpose of managing the risk resulting from changes in cash flow or fair value that arise in their interest rate and foreign currency exposure with respect to certain short-term and long-term debts.

Komatsu operates internationally, which exposes Komatsu to the foreign exchange risk against existing assets and liabilities and transactions denominated in foreign currencies (principally the U.S. dollar and the Euro). In order to reduce these risks, Komatsu executes foreign exchange forward contracts and option contracts based on its projected cash flow in foreign currencies.

Komatsu is exposed to credit-related losses in the event of nonperformance by counterparties to derivative financial instruments, but Komatsu does not expect any counterparties to fail to meet their obligations because of the high credit rating of the counterparties. Komatsu has not held any derivative instruments which consisted of credit-risk-related contingent features.

Cash Flow Hedges

Komatsu uses derivative financial instruments designated as cash flow hedges to manage Komatsu's foreign exchange risks associated with forecasted transactions and Komatsu's interest risks associated with debt obligations. For transactions denominated in foreign currencies, Komatsu typically hedges forecasted and firm commitment exposures to the variability in cash flow basically up to one year. For the variable rate debt obligations, Komatsu enters into interest rate swap contracts to manage the changes in cash flows. Komatsu records the changes in fair value of derivative instruments designated as cash flow hedges in accumulated other comprehensive income (loss). These amounts are reclassified into same location as earnings derived from hedged item when the hedged items impact earnings. Approximately ¥744 million of existing income included in accumulated other comprehensive income (loss) at March 31, 2023 will be reclassified into earnings within twelve months from that date. Cash flow hedges discontinued during the fiscal year ended March 31, 2023 as a result of anticipated transactions that are no longer probable of occurring were not material to Komatsu's financial position and results of operations.

Undesignated Derivative Instruments

Komatsu has entered into interest rate swap and cross-currency swap contracts not designated as hedging instruments under ASC 815, "Derivatives and Hedging" as a means of managing Komatsu's interest rate exposures for short-term and long-term debts. Foreign exchange forward contracts not designated as hedging instruments under ASC 815 are also used to hedge certain foreign currency exposures. The changes in fair value of such instruments are recognized currently in earnings.

Notional Principal Amounts of Derivative Financial Instruments

Notional principal amounts of derivative financial instruments outstanding at March 31, 2023 and 2022 are as follows:

| | Millions of yen | | | |
|--|-----------------|---------|------|---------|
| | 2023 | | 2022 | |
| Foreign exchange forward contracts: | | | | |
| Sale of foreign currencies | ¥ | 351,525 | ¥ | 278,513 |
| Purchase of foreign currencies | | 211,015 | | 176,360 |
| Interest rate swaps and cross-currency swap agreements | | 174,303 | | 126,032 |

Fair value of derivative instruments at March 31, 2023 and 2022 on the consolidated balance sheets are as follows:

| Millions of yen | | | | |
|---|---|----------------------|---|----------------------|
| 2023 | | | | |
| | Derivative Assets | | Derivative Liabilities | |
| | Location on the consolidated Balance Sheets | Estimated fair value | Location on the consolidated Balance Sheets | Estimated fair value |
| Derivative instruments designated as hedging instruments | | | | |
| Foreign exchange forward contracts | Other current assets | ¥ 915 | Other current liabilities | ¥ 1,530 |
| | Deferred income taxes and other assets | 11 | Deferred income taxes and other liabilities | 28 |
| Interest rate swaps and cross-currency swap agreements | Other current assets | 74 | Other current liabilities | 1,154 |
| | Deferred income taxes and other assets | 959 | Deferred income taxes and other liabilities | 507 |
| Total | | ¥ 1,959 | | ¥ 3,219 |
| | | | | |
| | Derivative Assets | | Derivative Liabilities | |
| | Location on the consolidated Balance Sheets | Estimated fair value | Location on the consolidated Balance Sheets | Estimated fair value |
| Undesignated derivative instruments | | | | |
| Foreign exchange forward contracts | Other current assets | ¥ 3,875 | Other current liabilities | ¥ 6,461 |
| | Deferred income taxes and other assets | 91 | Deferred income taxes and other liabilities | 100 |
| Interest rate swaps and cross-currency swap agreements | Other current assets | 4,415 | Other current liabilities | 317 |
| | Deferred income taxes and other assets | — | Deferred income taxes and other liabilities | — |
| Total | | ¥ 8,381 | | ¥ 6,878 |
| Total Derivative Instruments | | ¥ 10,340 | | ¥ 10,097 |
| | | | | |
| Millions of yen | | | | |
| 2022 | | | | |
| | Derivative Assets | | Derivative Liabilities | |
| | Location on the consolidated Balance Sheets | Estimated fair value | Location on the consolidated Balance Sheets | Estimated fair value |
| Derivative instruments designated as hedging instruments | | | | |
| Foreign exchange forward contracts | Other current assets | ¥ 434 | Other current liabilities | ¥ 7,545 |
| | Deferred income taxes and other assets | — | Deferred income taxes and other liabilities | 33 |
| Interest rate swaps and cross-currency swap agreements | Other current assets | — | Other current liabilities | 158 |
| | Deferred income taxes and other assets | 944 | Deferred income taxes and other liabilities | 67 |
| Total | | ¥ 1,378 | | ¥ 7,803 |
| | | | | |
| | Derivative Assets | | Derivative Liabilities | |
| | Location on the consolidated Balance Sheets | Estimated fair value | Location on the consolidated Balance Sheets | Estimated fair value |
| Undesignated derivative instruments | | | | |
| Foreign exchange forward contracts | Other current assets | ¥ 2,457 | Other current liabilities | ¥ 7,839 |
| | Deferred income taxes and other assets | 25 | Deferred income taxes and other liabilities | 24 |
| Interest rate swaps and cross-currency swap agreements | Other current assets | 1,314 | Other current liabilities | 119 |
| | Deferred income taxes and other assets | — | Deferred income taxes and other liabilities | 299 |
| Total | | ¥ 3,796 | | ¥ 8,281 |
| Total Derivative Instruments | | ¥ 5,174 | | ¥ 16,084 |

The effects of derivative instruments on the consolidated statements of income and the consolidated statements of comprehensive income for the fiscal years ended March 31, 2023 and 2022 are as follows:

Derivative instruments designated as cash flow hedging relationships

| Millions of yen | | | |
|--|---|---|-------------------|
| 2023 | | | |
| | Amount of gains (losses) recognized in OCI on derivatives | Gains (losses) reclassified from accumulated OCI on derivatives | |
| | | Location of consolidated statements of income | Amount |
| Foreign exchange forward contracts | ¥ (14,265) | Net sales | ¥ (12,091) |
| | | Cost of sales | (955) |
| | | Other income (expenses), net: Other, net | (4,468) |
| Interest rate swaps and cross-currency swap agreements | (235) | Cost of sales | 2 |
| Total | ¥ (14,500) | | ¥ (17,512) |

| Millions of yen | | | |
|--|---|---|------------------|
| 2022 | | | |
| | Amount of gains (losses) recognized in OCI on derivatives | Gains (losses) reclassified from accumulated OCI on derivatives | |
| | | Location of consolidated statements of income | Amount |
| Foreign exchange forward contracts | ¥ (10,482) | Net sales | ¥ (2,637) |
| | | Cost of sales | 130 |
| | | Other income (expenses), net: Other, net | (4,971) |
| Interest rate swaps and cross-currency swap agreements | 1,380 | — | — |
| Total | ¥ (9,102) | | ¥ (7,478) |

* OCI stands for other comprehensive income (loss).

Derivative instruments not designated as hedging instruments relationships

| Millions of yen | | |
|--|--|--|
| 2023 | | |
| | Location of gains (losses) recognized in income on derivatives | Amount of gains (losses) recognized in income on derivatives |
| Foreign exchange forward contracts | Other income (expenses), net: Other, net | ¥ (1,041) |
| Interest rate swaps and cross-currency swap agreements | Cost of sales | 596 |
| | Other income (expenses), net: Other, net | 2,718 |
| Total | | ¥ 2,273 |

| Millions of yen | | |
|--|--|--|
| 2022 | | |
| | Location of gains (losses) recognized in income on derivatives | Amount of gains (losses) recognized in income on derivatives |
| Foreign exchange forward contracts | Other income (expenses), net: Other, net | ¥ (645) |
| Interest rate swaps and cross-currency swap agreements | Cost of sales | (153) |
| | Other income (expenses), net: Other, net | 1,332 |
| Total | | ¥ 534 |

21. Fair Values of Financial Instruments

(1) Cash and cash equivalents, Time deposits, Short-term debt

The carrying amounts approximate fair value because of the short maturity of these instruments.

(2) Long-term trade receivables, net, excluding lease receivables (Note 4)

The fair values of long-term trade receivables are based on the present value of future cash flows through maturity, discounted using the current interest rates for similar receivables of comparable maturity.

(3) Long-term debt, including current portion

The fair values of each of the long-term debt are based on the quoted price in the most active market or the present value of future cash flows associated with each instrument discounted using the current market borrowing rate for similar debt of comparable maturity.

(4) Derivatives (Notes 20 and 22)

The fair values of derivative financial instruments are stated in Note 22 and therefore are not included in the table below.

The carrying amounts and the estimated fair values of the financial instruments as of March 31, 2023 and 2022 and fair value levels are summarized as follows:

| | Millions of yen | | | | Fair Value Levels |
|---|-----------------|----------------------|-----------------|----------------------|-------------------|
| | 2023 | | 2022 | | |
| | Carrying amount | Estimated fair value | Carrying amount | Estimated fair value | |
| Cash and cash equivalents | ¥ 289,975 | ¥ 289,975 | ¥ 315,360 | ¥ 315,360 | Level 1 |
| Time deposits | — | — | 1,310 | 1,310 | Level 2 |
| Long-term trade receivables, net, excluding lease receivables | 430,178 | 411,766 | 362,720 | 362,720 | Level 2 |
| Short-term debt | 310,738 | 310,738 | 241,746 | 241,746 | Level 2 |
| Long-term debt, including current portion | 743,024 | 719,514 | 705,634 | 694,174 | Level 2 |

Notes:

- 1) Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could affect the estimates.
- 2) The fair value levels are stated in Note 22.

22. Fair Value Measurements

ASC 820, “Fair Value Measurements” defines that fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. The three levels of inputs used to measure fair value are as follows:

- Level 1** – Quoted prices in active markets for identical assets or liabilities
- Level 2** – Inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly or indirectly
- Level 3** – Unobservable inputs for the assets or liabilities

Assets and liabilities that are measured at fair value on a recurring basis

The fair value hierarchy levels of assets and liabilities that are measured at fair value on a recurring basis at March 31, 2023 and 2022 are as follows:

| | | Millions of yen | | | |
|--------------------------|--|-----------------|-----------------|------------|-----------------|
| <u>At March 31, 2023</u> | | Level 1 | Level 2 | Level 3 | Total |
| Assets | | | | | |
| Derivatives | | | | | |
| | Foreign exchange forward contracts | ¥ — | ¥ 4,892 | ¥ — | ¥ 4,892 |
| | Interest rate swaps and cross-currency swap agreements | — | 5,448 | — | 5,448 |
| | Total | <u>¥ —</u> | <u>¥ 10,340</u> | <u>¥ —</u> | <u>¥ 10,340</u> |
| Liabilities | | | | | |
| Derivatives | | | | | |
| | Foreign exchange forward contracts | ¥ — | ¥ 8,119 | ¥ — | ¥ 8,119 |
| | Interest rate swaps and cross-currency swap agreements | — | 1,978 | — | 1,978 |
| | Total | <u>¥ —</u> | <u>¥ 10,097</u> | <u>¥ —</u> | <u>¥ 10,097</u> |
| | | Millions of yen | | | |
| <u>At March 31, 2022</u> | | Level 1 | Level 2 | Level 3 | Total |
| Assets | | | | | |
| Derivatives | | | | | |
| | Foreign exchange forward contracts | ¥ — | ¥ 2,916 | ¥ — | ¥ 2,916 |
| | Interest rate swaps and cross-currency swap agreements | — | 2,258 | — | 2,258 |
| | Total | <u>¥ —</u> | <u>¥ 5,174</u> | <u>¥ —</u> | <u>¥ 5,174</u> |
| Liabilities | | | | | |
| Derivatives | | | | | |
| | Foreign exchange forward contracts | ¥ — | ¥ 15,441 | ¥ — | ¥ 15,441 |
| | Interest rate swaps and cross-currency swap agreements | — | 643 | — | 643 |
| | Total | <u>¥ —</u> | <u>¥ 16,084</u> | <u>¥ —</u> | <u>¥ 16,084</u> |

Derivatives (Notes 20 and 21)

Derivatives primarily represent foreign exchange forward contracts and interest rate swap agreements. The fair value of foreign exchange forward contracts is based on a valuation model that discounts cash flows resulting from the differential between contract rate and the market-based forward rate and is classified in Level 2 in the fair value hierarchy. The fair value of interest rate swap agreements is based on a valuation model that discounts cash flows based on the terms of the contract and the swap curves and is classified in Level 2 in the fair value hierarchy.

Assets and liabilities that are measured at fair value on a non-recurring basis

For the fiscal years ended March 31, 2023 and 2022, assets and liabilities that were measured at fair value on a non-recurring basis were not material.

23. Business Segment and Geographic Information

Komatsu has three operating segments: 1) Construction, Mining and Utility Equipment, 2) Retail Finance, and 3) Industrial Machinery and Others. Those operating segments which have separate financial information are available for allocating resources and assessing its performance by management.

The accounting policies employed for the preparation of segment information are identical to those employed for the preparation of the consolidated financial statements of the Company.

Segment profit available for allocating resources and assessing its performance by management is determined by subtracting the cost of sales and selling, general and administrative expenses from net sales attributed to the operating segment. Segment profit excludes certain general corporate administration and finance expenses, such as costs of executive management, corporate development, corporate finance, human resources, internal audit, investor relations, legal and public relations. Segment profit also excludes certain charges which may otherwise relate to operating segments, including impairments of long-lived assets and goodwill.

The following tables present financial information regarding Komatsu's operating segments and geographic information at March 31, 2023 and 2022, and for the fiscal years then ended:

Operating segments:

| | Millions of yen | |
|--|-----------------|-------------|
| | 2023 | 2022 |
| Net sales: | | |
| Construction, Mining and Utility Equipment – | | |
| External customers | ¥ 3,286,723 | ¥ 2,558,850 |
| Intersegment | 9,843 | 5,548 |
| Total | 3,296,566 | 2,564,398 |
| Retail Finance – | | |
| External customers | 67,807 | 57,809 |
| Intersegment | 17,823 | 14,053 |
| Total | 85,630 | 71,862 |
| Industrial Machinery and Others – | | |
| External customers | 188,945 | 185,664 |
| Intersegment | 1,996 | 2,704 |
| Total | 190,941 | 188,368 |
| Elimination | (29,662) | (22,305) |
| Consolidated | ¥ 3,543,475 | ¥ 2,802,323 |
| Segment profit: | | |
| Construction, Mining and Utility Equipment | ¥ 443,603 | ¥ 275,768 |
| Retail Finance | 27,267 | 17,199 |
| Industrial Machinery and Others | 22,586 | 22,595 |
| Total segment profit | 493,456 | 315,562 |
| Corporate expenses and elimination | 58 | (26) |
| Total | 493,514 | 315,536 |
| Impairment loss on long-lived assets | 5,521 | 1,372 |
| Other operating income, net | 2,692 | 2,851 |
| Operating income | 490,685 | 317,015 |
| Interest and dividend income | 12,451 | 5,332 |
| Interest expense | (32,371) | (12,222) |
| Other, net | 5,669 | 14,443 |
| Consolidated income before income taxes and equity in earnings of affiliated companies | ¥ 476,434 | ¥ 324,568 |

| | Millions of yen | |
|--|-----------------|-------------|
| | 2023 | 2022 |
| Segment assets: | | |
| Construction, Mining and Utility Equipment | ¥ 3,513,355 | ¥ 3,161,835 |
| Retail Finance | 1,121,107 | 980,910 |
| Industrial Machinery and Others | 220,743 | 206,281 |
| Corporate assets and elimination | 20,642 | (1,504) |
| Consolidated | ¥ 4,875,847 | ¥ 4,347,522 |
| Depreciation and amortization: | | |
| Construction, Mining and Utility Equipment | ¥ 115,693 | ¥ 101,702 |
| Retail Finance | 24,842 | 25,590 |
| Industrial Machinery and Others | 5,943 | 5,964 |
| Consolidated | ¥ 146,478 | ¥ 133,256 |
| Capital investment: | | |
| Construction, Mining and Utility Equipment | ¥ 120,447 | ¥ 115,371 |
| Retail Finance | 33,543 | 27,559 |
| Industrial Machinery and Others | 7,573 | 4,832 |
| Consolidated | ¥ 161,563 | ¥ 147,762 |

Business categories and principal products and services included in each operating segment are as follows:

a) Construction, Mining and Utility Equipment operating segment:

Excavating equipment, loading equipment, grading and roadbed preparation equipment, hauling equipment, forestry equipment, tunneling machines, underground mining equipment, recycling equipment, industrial vehicles, other equipment, engines and components, casting products, logistics and solution business

b) Retail Finance operating segment:

Financing

c) Industrial Machinery and Others operating segment:

Metal forging and stamping presses, sheet-metal machines, machine tools, defense systems, temperature-control equipment and optical machinery

Transfers between segments are made at estimated arm's length prices.

Segment assets are those assets used in the operations of each segment. Unallocated corporate assets consist primarily of cash and cash equivalents maintained for general corporate purposes.

Amortization for the fiscal years ended March 31, 2023 and 2022 does not include amortization of long-term prepaid expenses of ¥3,210 million and ¥3,090 million.

Impairment loss on long-lived assets recorded in each segment asset for the fiscal years ended March 31, 2023 and 2022 are as follows:

| | Millions of yen | |
|--|-----------------|---------|
| | 2023 | 2022 |
| Construction, Mining and Utility Equipment | ¥ 3,403 | ¥ 732 |
| Retail Finance | 477 | — |
| Industrial Machinery and Others | 1,641 | 640 |
| Total | ¥ 5,521 | ¥ 1,372 |

Geographic information:

Net sales determined by customer location for the fiscal year ended March 31, 2023 are as follows:

| | Millions of yen | | | |
|---|--|-----------------|------------------------------------|--------------------|
| | 2023 | | | |
| | Construction, Mining and Utility Equipment | Retail Finance | Industrial Machinery and Others | Total |
| Japan | ¥ 321,746 | ¥ 2,555 | ¥ 85,113 | ¥ 409,414 |
| The Americas | 1,409,984 | 47,571 | 30,413 | 1,487,968 |
| Europe and CIS | 434,214 | 7,366 | 14,773 | 456,353 |
| China | 79,690 | 1,973 | 19,490 | 101,153 |
| Asia (excluding Japan and China) and Oceania | 777,774 | 7,697 | 38,841 | 824,312 |
| Middle East and Africa | 263,315 | 645 | 315 | 264,275 |
| Total | ¥ 3,286,723 | ¥ 67,807 | ¥ 188,945 | ¥ 3,543,475 |

Net sales to U.S.A. in the Americas for the fiscal year ended March 31, 2023 were ¥716,227 million.

The amounts classified into revenue recognized from other sources described in Note 15 to the Consolidated Financial Statements for the fiscal year ended March 31, 2023 within the net sales of the Construction, Mining and Utility Equipment operating segment are ¥29,120 million in Japan, ¥32,980 million in the Americas, ¥57,135 million in Europe and CIS, ¥14,085 million in China, ¥14,161 million in Asia (excluding Japan and China) and Oceania, and ¥4,597 million in Middle East and Africa. Net sales of the Retail Finance operating segment for the fiscal year ended March 31, 2023 are primarily the amounts classified into revenue recognized from other sources described in Note 15 to the Consolidated Financial Statements.

Net sales determined by customer location for the fiscal year ended March 31, 2022 are as follows:

| | Millions of yen | | | |
|---|--|-----------------|------------------------------------|--------------------|
| | 2022 | | | |
| | Construction, Mining and Utility Equipment | Retail Finance | Industrial Machinery and Others | Total |
| Japan | ¥ 303,628 | ¥ 2,387 | ¥ 83,070 | ¥ 389,085 |
| The Americas | 986,580 | 40,265 | 25,037 | 1,051,882 |
| Europe and CIS | 423,777 | 5,012 | 12,038 | 440,827 |
| China | 96,416 | 2,889 | 31,981 | 131,286 |
| Asia (excluding Japan and China) and Oceania | 558,867 | 6,747 | 33,226 | 598,840 |
| Middle East and Africa | 189,582 | 509 | 312 | 190,403 |
| Total | ¥ 2,558,850 | ¥ 57,809 | ¥ 185,664 | ¥ 2,802,323 |

Net sales to U.S.A. in the Americas for the fiscal year ended March 31, 2022 were ¥514,242 million.

The amounts classified into revenue recognized from other sources described in Note 15 to the Consolidated Financial Statements for the fiscal year ended March 31, 2022 within the net sales of the Construction, Mining and Utility Equipment operating segment are ¥32,675 million in Japan, ¥35,033 million in the Americas, ¥66,673 million in Europe and CIS, ¥27,596 million in China, and ¥8,348 million in Asia (excluding Japan and China) and Oceania. Net sales of the Retail Finance operating segment for the fiscal year ended March 31, 2022 are primarily the amounts classified into revenue recognized from other sources described in Note 15 to the Consolidated Financial Statements.

Net sales determined by geographic origin for the fiscal years ended March 31, 2023 and 2022, and property, plant and equipment determined based on physical location at March 31, 2023 and 2022 are as follows:

| | Millions of yen | |
|--------------------------------|--------------------|--------------------|
| | 2023 | 2022 |
| Net sales: | | |
| Japan | ¥ 689,145 | ¥ 604,813 |
| The Americas | 1,456,337 | 1,029,118 |
| Europe and CIS | 494,182 | 447,127 |
| China | 92,369 | 116,077 |
| Others | 811,442 | 605,188 |
| Total | <u>¥ 3,543,475</u> | <u>¥ 2,802,323</u> |
| Property, plant and equipment: | | |
| Japan | ¥ 367,819 | ¥ 365,560 |
| The Americas | 275,947 | 265,396 |
| Europe and CIS | 58,827 | 56,777 |
| Others | 133,849 | 132,016 |
| Total | <u>¥ 836,442</u> | <u>¥ 819,749</u> |

There were no sales to a single major external customer for the fiscal years ended March 31, 2023 and 2022. Property, plant and equipment located in U.S.A. in the Americas at March 31, 2023 and 2022 were ¥168,393 million and ¥170,073 million, respectively.

24. Supplementary Information to Consolidated Balance Sheets

At March 31, 2023 and 2022, other current assets are comprised of the following:

| | Millions of yen | |
|------------------------------|-----------------|-----------|
| | 2023 | 2022 |
| Prepaid expenses | ¥ 12,244 | ¥ 16,030 |
| Short-term loans receivable: | | |
| Affiliated companies | 2,441 | 1,612 |
| Other | 38 | 177 |
| Total | ¥ 2,479 | ¥ 1,789 |
| Other | 192,756 | 144,201 |
| Total | ¥ 207,479 | ¥ 162,020 |

At March 31, 2023 and 2022, other current liabilities are comprised of the following:

| | Millions of yen | |
|----------------------|-----------------|-----------|
| | 2023 | 2022 |
| Accrued expenses | ¥ 155,025 | ¥ 131,309 |
| Contract liabilities | 105,724 | 81,662 |
| Other | 178,606 | 168,389 |
| Total | ¥ 439,355 | ¥ 381,360 |

Valuation and qualifying accounts deducted from assets to which they apply for the fiscal years ended March 31, 2023 and 2022 are comprised of the following:

| | Millions of yen | |
|------------------------------------|-----------------|----------|
| | 2023 | 2022 |
| Allowance for doubtful receivables | | |
| Balance at beginning of year | ¥ 22,076 | ¥ 17,149 |
| Additions | | |
| Charged to costs and expenses | 3,605 | 6,401 |
| Charged to other accounts | 10 | 97 |
| Deductions | (3,036) | (1,571) |
| Balance at end of year | ¥ 22,655 | ¥ 22,076 |

Deductions were principally collectible or uncollectible accounts and notes charged to the allowance.

| | Millions of yen | |
|---|-----------------|----------|
| | 2023 | 2022 |
| Valuation allowance for deferred tax assets | | |
| Balance at beginning of year | ¥ 42,053 | ¥ 36,080 |
| Additions | | |
| Charged to costs and expenses | 7,138 | 6,454 |
| Charged to other accounts | 23 | 3,805 |
| Deductions | (11,285) | (4,286) |
| Balance at end of year | ¥ 37,929 | ¥ 42,053 |

Deductions were principally changes in the expected realization of deferred tax assets and realization or expiration of net operating loss carryforwards.

25. Supplementary Information to Consolidated Statements of Income

The following information shows research and development expenses and advertising costs, for the fiscal years ended March 31, 2023 and 2022. Research and development expenses and advertising costs are charged to expense as incurred and are included in cost of sales and selling, general and administrative expenses in consolidated statements of income.

| | Millions of yen | |
|-----------------------------------|-----------------|----------|
| | 2023 | 2022 |
| Research and development expenses | ¥ 90,628 | ¥ 77,478 |
| Advertising costs | 3,200 | 3,782 |

Shipping and handling costs included in selling, general and administrative expenses for the fiscal years ended March 31, 2023 and 2022 are as follows:

| | Millions of yen | |
|-----------------------------|-----------------|----------|
| | 2023 | 2022 |
| Shipping and handling costs | ¥ 80,097 | ¥ 59,064 |

For the fiscal years ended March 31, 2023 and 2022, Komatsu recognized an impairment loss of ¥5,521 million and ¥1,372 million related to property, plant and equipment and intangible assets at the Company and certain subsidiaries, as profitability of the assets was expected to be low in the future and Komatsu estimated the carrying amounts would not be recovered by the future cash flows.

Other operating income (expenses), net for the fiscal years ended March 31, 2023 and 2022 are comprised of the following:

| | Millions of yen | |
|--|-----------------|---------|
| | 2023 | 2022 |
| Gain on sale of fixed assets | ¥ 2,358 | ¥ 3,862 |
| Loss on disposal or sale of fixed assets | (4,227) | (3,560) |
| Other | 4,561 | 2,549 |
| Total | ¥ 2,692 | ¥ 2,851 |

Other income (expenses), net for the fiscal years ended March 31, 2023 and 2022 are comprised of the following:

| | Millions of yen | |
|---|-----------------|----------|
| | 2023 | 2022 |
| Interest income | | |
| Installment receivables | ¥ 965 | ¥ 1,015 |
| Other | 11,040 | 3,545 |
| Dividends | 446 | 772 |
| Interest expense | (32,371) | (12,222) |
| Net gain (loss) on valuation and (impairment loss) of investment securities | 212 | 737 |
| Exchange gain (loss), net | 3,214 | 5,518 |
| Other | 2,243 | 8,188 |
| Total | ¥ (14,251) | ¥ 7,553 |

26. Subsequent Events

Not applicable.

Komatsu evaluated subsequent events through June 20, 2023, the issue date of its consolidated financial statements.

27. Terminology, Forms and Preparation Methods of Consolidated Financial Statements

The terminology, forms and preparation methods of the Company's consolidated financial statements are in accordance with U.S. GAAP.

The main differences between consolidated financial statements prepared in accordance with U.S. GAAP and those prepared in accordance with the Accounting Standards for Consolidated Financial Statements and the Ordinance on Terminology, Forms and Preparation Methods of Consolidated Financial Statements of Japan (hereinafter "J. GAAP") are as follows.

(1) Scope of consolidation

For consolidated financial statements in accordance with J. GAAP, the scope of consolidation is determined on an effective control and influence basis. For consolidated financial statements in accordance with U.S. GAAP, the scope of consolidation is determined on the shareholding basis on which the determination is based on voting rights and on a consolidation basis of variable interest entities.

(2) Accounting policies

a. Share issuance cost

Although in accordance with J. GAAP, share issuance cost is permitted to be recognized in profit or loss when incurred, the Company treats such cost as a deduction item from capital surplus as expenses incidental to capital transactions in its consolidated financial statements in accordance with U.S. GAAP.

b. Accounting for retirement benefits

Although in accordance with J. GAAP, net actuarial gains or losses are required to be amortized over certain periods that are shorter than the average remaining years of service, the Company has adopted the corridor approach in its consolidated financial statements in accordance with U.S. GAAP.

c. Business combination and goodwill

Goodwill is required to be amortized over certain periods in accordance with J. GAAP, while U.S. GAAP requires companies to implement impairment test at least once annually without goodwill being amortized. For intangible fixed assets with indefinite useful lives, U.S. GAAP also requires companies to implement impairment test without such assets being amortized.

(3) Presentation methods and other matters

a. Presentation of legal retained earnings

Although in accordance with J. GAAP, legal retained earnings are recorded as retained earnings together with other surplus, the Company separately presents as appropriated legal reserve in its consolidated financial statements in accordance with U.S. GAAP.

b. Extraordinary income or loss

In accordance with J. GAAP, gain or loss on certain sales of non-current assets, such as gain or loss from the sale of fixed assets, is presented as extraordinary income or loss. However, since there is no concept of extraordinary items in U.S. GAAP, extraordinary income or loss is not presented in the Company's consolidated financial statements.

c. Investment and rental properties

In accordance with J. GAAP, if the investment and rental properties are material, disclose notes for the outline, the carrying amount in the consolidated balance sheets and fair value of these properties are required. However, such notes are omitted in the Company's consolidated financial statements because the total amount of investment and rental properties is immaterial.

Supplementary Schedule

Detailed Statements of Bonds

Refer to Note 11 in the notes of consolidated financial statements.

Detailed Statements of Borrowings, etc.

Refer to Note 11 in the notes of consolidated financial statements.

Detailed Statements of Asset Retirement Obligation

The amounts of asset retirement obligation at the beginning and end of this fiscal year are less than one hundredth of the amounts of total liabilities and equity at the beginning and end of this fiscal year, respectively. This statement has been omitted because it is immaterial.

(2) Others

Quarterly Financial Information

| | Millions of yen except per share amounts | | | |
|---|--|--|--|-------------------------------------|
| | Three months ended June 30, 2022 | Six months ended September 30, 2022 | Nine months ended December 31, 2022 | Fiscal year ended March 31, 2023 |
| Net sales | ¥ 763,808 | ¥ 1,618,735 | ¥ 2,539,232 | ¥ 3,543,475 |
| Income before income taxes and equity in earnings of affiliated companies | 112,475 | 227,759 | 339,807 | 476,434 |
| Net income attributable to Komatsu Ltd. | 80,454 | 162,568 | 231,911 | 326,398 |
| Net income attributable to Komatsu Ltd. per share (Yen) | | | | |
| Basic | 85.11 | 171.96 | 245.30 | 345.22 |
| Diluted | 85.10 | 171.94 | 245.26 | 345.18 |

| | Yen | | | |
|---|-------------------------------------|--|---|--------------------------------------|
| | Three months ended June 30, 2022 | Three months ended September 30, 2022 | Three months ended December 31, 2022 | Three months ended March 31, 2023 |
| Net income attributable to Komatsu Ltd. per share | | | | |
| Basic | 85.11 | 86.85 | 73.33 | 99.92 |
| Diluted | 85.10 | 86.84 | 73.32 | 99.91 |

2. Non-Consolidated Financial Statements, etc.

(1) Non-Consolidated Financial Statements

Non-Consolidated Balance Sheet

(Years ended March 31, 2023 and 2022)

| | Millions of yen | |
|---|-----------------|-----------|
| | 2023 | 2022 |
| Assets | | |
| Current assets: | | |
| Cash and deposits | 233,145 | 212,073 |
| Notes receivable-trade | 1,474 | 1,312 |
| Accounts receivable-trade | 223,735 | 224,814 |
| Merchandise and finished goods | 64,946 | 50,585 |
| Work in process | 62,581 | 51,993 |
| Raw materials and supplies | 5,002 | 4,200 |
| Prepaid expenses | 6,736 | 5,544 |
| Short-term loans receivable | 17,952 | 21,476 |
| Accounts receivable-other | 29,013 | 37,565 |
| Other current assets | 3,058 | 1,766 |
| Allowance for doubtful accounts | (375) | (375) |
| Total current assets | 647,273 | 610,958 |
| Non-current assets: | | |
| Property, plant and equipment: | | |
| Buildings | 98,662 | 96,234 |
| Structures | 15,311 | 15,447 |
| Machinery and equipment | 47,884 | 46,142 |
| Vehicles | 913 | 857 |
| Tools, furniture and fixtures | 11,215 | 11,227 |
| Rental equipment | 45,216 | 50,721 |
| Land | 46,325 | 44,770 |
| Construction in progress | 9,368 | 6,680 |
| Total property, plant and equipment | 274,897 | 272,081 |
| Intangible assets: | | |
| Software | 28,092 | 27,094 |
| Other intangible assets | 336 | 312 |
| Total intangible assets | 28,429 | 27,407 |
| Investments and other assets: | | |
| Investment securities | 3,829 | 2,477 |
| Stocks of subsidiaries and affiliates | 398,097 | 398,567 |
| Investments in capital of subsidiaries and affiliates | 39,813 | 39,813 |
| Long-term loans receivable | 16,244 | 18,335 |
| Long-term prepaid expenses | 2,932 | 3,144 |
| Deferred tax assets | 25,240 | 25,199 |
| Other investments | 9,989 | 8,694 |
| Allowance for doubtful accounts | (890) | (890) |
| Allowance for investment loss | (538) | (2,253) |
| Total investments and other assets | 494,719 | 493,088 |
| Total non-current assets | 798,046 | 792,576 |
| Total assets | 1,445,319 | 1,403,535 |

| | Millions of yen | |
|---|-----------------|-----------|
| | 2023 | 2022 |
| Liabilities | | |
| Current liabilities: | | |
| Notes payable-trade | 4 | — |
| Accounts payable-trade | 117,289 | 107,465 |
| Short-term loans payable | 34,000 | 15,780 |
| Commercial papers | 40,000 | 81,000 |
| Current portion of bonds | 40,000 | — |
| Accounts payable-other | 14,866 | 13,661 |
| Accrued expenses | 33,975 | 33,013 |
| Income taxes payable | 21,003 | 30,035 |
| Deposits received | 67,909 | 80,963 |
| Provision for bonuses | 12,164 | 10,311 |
| Provision for directors' bonuses | 347 | 179 |
| Provision for product warranties | 9,912 | 7,770 |
| Other current liabilities | 11,935 | 16,777 |
| Total current liabilities | 403,410 | 396,958 |
| Non-current liabilities: | | |
| Bonds payable | 30,000 | 70,000 |
| Long-term loans payable | 38,500 | 72,000 |
| Provision for product warranties | 2,002 | 2,018 |
| Provision for retirement benefits | 43,806 | 42,304 |
| Other long-term liabilities | 16,218 | 18,818 |
| Total non-current liabilities | 130,527 | 205,141 |
| Total liabilities | 533,937 | 602,099 |
| Net Assets | | |
| Shareholders' equity: | | |
| Capital stock | 72,118 | 71,678 |
| Capital surplus: | | |
| Legal capital surplus | 142,138 | 141,697 |
| Other capital surplus | 432 | 405 |
| Total capital surplus | 142,571 | 142,103 |
| Retained earnings: | | |
| Legal retained earnings | 18,036 | 18,036 |
| Other retained earnings: | | |
| Reserve for advanced depreciation of non-current assets | 11,110 | 11,400 |
| General reserve | 210,359 | 210,359 |
| Retained earnings brought forward | 505,818 | 398,984 |
| Total retained earnings | 745,325 | 638,780 |
| Treasury stock | (48,766) | (48,844) |
| Total shareholders' equity | 911,248 | 803,716 |
| Valuation and translation adjustments: | | |
| Deferred gains or losses on hedges | (79) | (2,615) |
| Total valuation and translation adjustments | (79) | (2,615) |
| Stock acquisition rights | 212 | 333 |
| Total net assets | 911,381 | 801,435 |
| Total liabilities and net assets | 1,445,319 | 1,403,535 |

Non-Consolidated Statement of Income

(Years ended March 31, 2023 and 2022)

| | Millions of yen | |
|--|-----------------|----------|
| | 2023 | 2022 |
| Net sales | 1,144,513 | 952,247 |
| Cost of sales | 870,593 | 747,172 |
| Gross profit | 273,919 | 205,074 |
| Selling, general and administrative expenses | | |
| Haulage expenses | 48,613 | 38,278 |
| Salaries and allowances | 47,465 | 46,342 |
| Provision for bonuses | 5,158 | 4,463 |
| Provision for directors' bonuses | 375 | 195 |
| Retirement benefit expenses | 2,141 | 2,447 |
| Depreciation | 9,770 | 10,099 |
| Research and development expenses | 56,684 | 51,258 |
| Other | (11,737) | (13,367) |
| Total selling, general and administrative expenses | 158,470 | 139,717 |
| Operating income | 115,448 | 65,357 |
| Non-operating income | | |
| Interest and dividends income | 143,743 | 27,068 |
| Transfer pricing taxation adjustment | — | *2 94 |
| Other | 1,243 | 5,451 |
| Total non-operating income | 144,986 | 32,615 |
| Non-operating expenses | | |
| Interest expenses | 369 | 255 |
| Other | 7,113 | 3,581 |
| Total non-operating expenses | 7,483 | 3,836 |
| Ordinary income | 252,952 | 94,135 |
| Extraordinary income | | |
| Gain on extinguishment of tie-in shares | *3 3,090 | — |
| Gain on sales of land | 99 | 380 |
| Reversal of allowance for investment loss | 1,715 | — |
| Gain on revision of retirement benefit plan | — | *4 6,366 |
| Total extraordinary income | 4,904 | 6,747 |
| Extraordinary losses | | |
| Impairment loss | 62 | — |
| Loss on sales of land | 212 | — |
| Total extraordinary losses | 275 | — |
| Income before income taxes | 257,582 | 100,883 |
| Income taxes - current | 38,557 | 22,329 |
| Income taxes - deferred | (1,026) | 210 |
| Total income taxes | 37,531 | 22,540 |
| Net income | 220,050 | 78,342 |

Non-Consolidated Statement of Changes in Net Assets
(From April 1, 2022 to March 31, 2023)

(Millions of yen)

| | Shareholders' equity | | | | | | | | |
|---|----------------------|-----------------------|-----------------------|-----------------------|-------------------------|---|-----------------|-----------------------------------|-------------------------|
| | Capital stock | Capital surplus | | | Retained earnings | | | | |
| | | Legal capital surplus | Other capital surplus | Total capital surplus | Legal retained earnings | Other retained earnings | | | Total retained earnings |
| | | | | | | Reserve for advanced depreciation of non-current assets | General reserve | Retained earnings brought forward | |
| Balance at the beginning of current period | 71,678 | 141,697 | 405 | 142,103 | 18,036 | 11,400 | 210,359 | 398,984 | 638,780 |
| Changes of items during the period | | | | | | | | | |
| Reversal of reserve for advanced depreciation of non-current assets | | | | | | (289) | | 289 | — |
| Dividends from surplus | | | | | | | | (113,505) | (113,505) |
| Net income | | | | | | | | 220,050 | 220,050 |
| Purchase of treasury stock | | | | | | | | | |
| Disposal of treasury stock | | | 27 | 27 | | | | | |
| Restricted stock compensation | 440 | 440 | | 440 | | | | | |
| Net changes of items other than shareholders' equity | | | | | | | | | |
| Total changes of items during the period | 440 | 440 | 27 | 467 | — | (289) | — | 106,834 | 106,545 |
| Balance at the end of current period | 72,118 | 142,138 | 432 | 142,571 | 18,036 | 11,110 | 210,359 | 505,818 | 745,325 |

(Millions of yen)

| | Shareholders' equity | | Valuation and translation adjustments | | Stock acquisition rights | Total net assets |
|---|----------------------|----------------------------|---------------------------------------|---|--------------------------|------------------|
| | Treasury stock | Total shareholders' equity | Deferred gains or losses on hedges | Total valuation and translation adjustments | | |
| Balance at the beginning of current period | (48,844) | 803,716 | (2,615) | (2,615) | 333 | 801,435 |
| Changes of items during the period | | | | | | |
| Reversal of reserve for advanced depreciation of non-current assets | | — | | | | — |
| Dividends from surplus | | (113,505) | | | | (113,505) |
| Net income | | 220,050 | | | | 220,050 |
| Purchase of treasury stock | (16) | (16) | | | | (16) |
| Disposal of treasury stock | 94 | 121 | | | | 121 |
| Restricted stock compensation | | 881 | | | | 881 |
| Net changes of items other than shareholders' equity | | | 2,535 | 2,535 | (121) | 2,414 |
| Total changes of items during the period | 78 | 107,531 | 2,535 | 2,535 | (121) | 109,946 |
| Balance at the end of current period | (48,766) | 911,248 | (79) | (79) | 212 | 911,381 |

(From April 1, 2021 to March 31, 2022)

(Millions of yen)

| | Shareholders' equity | | | | | | | | | |
|---|----------------------|-----------------------|-----------------------|-----------------------|-------------------------|----------------------------------|---|-----------------|-----------------------------------|-------------------------|
| | Capital stock | Capital surplus | | | Retained earnings | | | | | |
| | | Legal capital surplus | Other capital surplus | Total capital surplus | Legal retained earnings | Other retained earnings | | | | Total retained earnings |
| | | | | | | Reserve for special depreciation | Reserve for advanced depreciation of non-current assets | General reserve | Retained earnings brought forward | |
| Balance at the beginning of current period | 71,322 | 141,341 | 359 | 141,701 | 18,036 | 24 | 11,728 | 210,359 | 393,103 | 633,252 |
| Changes of items during the period | | | | | | | | | | |
| Reversal of reserve for special depreciation | | | | | | (24) | | | 24 | — |
| Reversal of reserve for advanced depreciation of non-current assets | | | | | | | (327) | | 327 | — |
| Dividends from surplus | | | | | | | | | (72,814) | (72,814) |
| Net income | | | | | | | | | 78,342 | 78,342 |
| Purchase of treasury stock | | | | | | | | | | |
| Disposal of treasury stock | | | 46 | 46 | | | | | | |
| Restricted stock compensation | 355 | 355 | | 355 | | | | | | |
| Net changes of items other than shareholders' equity | | | | | | | | | | |
| Total changes of items during the period | 355 | 355 | 46 | 401 | — | (24) | (327) | — | 5,880 | 5,528 |
| Balance at the end of current period | 71,678 | 141,697 | 405 | 142,103 | 18,036 | — | 11,400 | 210,359 | 398,984 | 638,780 |

(Millions of yen)

| | Shareholders' equity | | Valuation and translation adjustments | | Stock acquisition rights | Total net assets |
|---|----------------------|----------------------------|---------------------------------------|---|--------------------------|------------------|
| | Treasury stock | Total shareholders' equity | Deferred gains or losses on hedges | Total valuation and translation adjustments | | |
| Balance at the beginning of current period | (48,448) | 797,827 | (863) | (863) | 632 | 797,596 |
| Changes of items during the period | | | | | | |
| Reversal of reserve for special depreciation | | — | | | | — |
| Reversal of reserve for advanced depreciation of non-current assets | | — | | | | — |
| Dividends from surplus | | (72,814) | | | | (72,814) |
| Net income | | 78,342 | | | | 78,342 |
| Purchase of treasury stock | (649) | (649) | | | | (649) |
| Disposal of treasury stock | 252 | 299 | | | | 299 |
| Restricted stock compensation | | 711 | | | | 711 |
| Net changes of items other than shareholders' equity | | | (1,751) | (1,751) | (298) | (2,049) |
| Total changes of items during the period | (396) | 5,888 | (1,751) | (1,751) | (298) | 3,838 |
| Balance at the end of current period | (48,844) | 803,716 | (2,615) | (2,615) | 333 | 801,435 |

Notes to Non-Consolidated Financial Statements

Significant Accounting Policies

(1) Method and basis of valuation of securities

Investments in subsidiaries and affiliated companies:

Stated at cost determined by the moving-average method.

Available-for-sale securities:

Securities, etc. whose market price is not readily determinable:

Stated at cost determined by the moving-average method.

(2) Method and basis of valuation of inventories

Merchandise and finished goods, work in process:

Stated at cost (specific identification method).

Raw materials and supplies:

Stated at cost (periodic average method).

The value stated in the balance sheet is computed according to write-downs based on the decreased profitability.

(3) Depreciation of non-current assets

Property, plant and equipment (excluding lease assets):

Straight-line method

Intangible assets (excluding lease assets):

Straight-line method

Lease assets

Lease assets pertaining to finance leases that do not transfer ownership of leased property to the lessee:

Straight-line method over the lease period as the useful life

(4) Allowances and provisions

1) Allowance for doubtful accounts

To cover possible credit losses on accounts receivables or loans, an allowance for doubtful accounts is provided in the amount deemed uncollectible, which is calculated on the basis of historical default rates for normal claims, or on the basis of individual assessments for specific claims on obligors threatened with bankruptcy.

2) Allowance for investment loss

In order to prepare for losses from investing in domestic and overseas unlisted companies, allowance for investment loss is accounted for by taking into consideration the financial position of the issuer.

3) Provision for bonuses

Provision for bonuses is provided for payment prospect of bonuses to employees at an amount considered to be recorded for the fiscal year.

4) Provision for directors' bonuses

Provision for directors' bonuses is provided for payment prospect of bonuses to Directors at an amount considered to be recorded for the fiscal year.

5) Provision for product warranties

Provision for product warranties is provided for product after-sales service expenses based on the historical performance, etc.

6) Provision for retirement benefits

In order to provide for employee retirement benefits, the Company accrues liabilities for severance payments and pension at the amount calculated based on the projected benefit obligations and plan assets at the balance sheet date.

When calculating the projected benefit obligations, the benefit formula basis is used to attribute expected benefits to the period through to the end of the fiscal year. Prior service cost is amortized at the lump-sum amount in the fiscal year when it is incurred. Actuarial loss is amortized in an amount proportionally appropriated on a straight-line basis over a 10-year period, which is shorter than the average remaining service period of employees, beginning with the following term when the difference is recognized.

(5) Accounting for income and expenses

The Company recognizes revenue by adopting the following five steps in accordance with “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020) and “Implementation Guidance on Accounting Standard for Revenue Recognition” (ASBJ Guidance No. 30, March 26, 2021).

Step 1: Identify the contracts with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

The details are as described in “Revenue Recognition.”

Notes to Accounting Estimates

Recoverability of deferred tax assets

Amount recorded in financial statements

The Company applies tax effect accounting to temporary differences arising from a difference in tax and account treatment, and records deferred tax assets on the balance sheet.

(Millions of yen)

| | Fiscal year ended March 31, 2023 | Fiscal year ended March 31, 2022 |
|---------------------|----------------------------------|----------------------------------|
| Deferred tax assets | 25,240 | 25,199 |

Other information

(1) Calculation method of the amount recorded in financial statements for the fiscal year ended March 31, 2023

The Company recognizes deferred tax assets to the extent of deductible temporary differences that are allowed to reduce the tax amount payable into the future.

(2) Major assumptions used in the calculation of the amounts recorded in financial statements for the fiscal year ended March 31, 2023

Estimates of future taxable income used to evaluate the recoverability of deferred tax assets are determined based on business plans; however, of these business plans, the forecasts of future sales and profits include trends of prices and exchange rates, and the impact of the turmoil in the supply chain, financial sector and economies brought about by the Ukraine situation and expanded export restrictions on Russia, as major assumptions.

Impact on financial statements for the following fiscal year

A decrease in the future taxable income may result in reducing the amount of deferred tax assets.

Notes to Non-Consolidated Balance Sheet

(Years ended March 31, 2023 and 2022)

1. Receivables from, and debts payable to subsidiaries and affiliates

| | Millions of yen | |
|---|-----------------|---------|
| | 2023 | 2022 |
| Short-term receivables from subsidiaries and affiliates | 188,438 | 204,038 |
| Short-term debts payable to subsidiaries and affiliates | 87,179 | 112,810 |
| Long-term receivables from subsidiaries and affiliates | 16,352 | 18,551 |

2. Contingency liability

| | Millions of yen | |
|--|-----------------|---------|
| | 2023 | 2022 |
| Balance of guarantees for bonds and debt for borrowings from financial institutions by subsidiaries and affiliates | 253,668 | 165,718 |
| Balance of guarantees for debt for borrowings from financial institutions by employees (home loans) | 321 | 373 |
| Balance of keep-well agreements for the bonds of subsidiaries and affiliates | 161,318 | 152,017 |
| Balance of guarantees for loans financed by subsidiaries and affiliates | 4,926 | 4,557 |
| Balance of guarantees for joint research in which subsidiaries and affiliates have participated | 28 | - |

Notes to Non-Consolidated Statement of Income

(Years ended March 31, 2023 and 2022)

1. Trading with subsidiaries and affiliates

| | Millions of yen | |
|---|-----------------|---------|
| | 2023 | 2022 |
| Sales | 880,181 | 752,710 |
| Purchases | 182,378 | 171,651 |
| Trading other than operating transactions | 151,277 | 36,621 |

*2. Transfer pricing taxation adjustment

Loss or gain on the adjustments paid to Komatsu Europe International N.V. based on the agreements of the prior applications submitted for approval regarding transfer pricing.

*3. Gain on extinguishment of tie-in shares

A gain was recorded in relation to the absorption-type merger of Komatsu Cabtec Co., Ltd., which was a subsidiary of the Company.

*4. Gain on revision of retirement benefit plan

Part of the retirement benefit plan (lump-sum retirement benefit plan and defined benefit pension plan (cash balance type)) has been transferred to the defined contribution pension plan on April 1, 2021. A gain was recorded in relation to this transfer.

Notes to Non-Consolidated Statement of Changes in Net AssetsThe 154th Fiscal Year (From April 1, 2022 to March 31, 2023)

(1) Type and number of shares issued

(Thousands of shares)

| | Number of Shares at Fiscal Year- beginning | Increase During the Fiscal Year | Decrease During the Fiscal Year | Number of Shares at Fiscal Year-end |
|---------------|--|------------------------------------|------------------------------------|--|
| Common stock* | 973,145 | 305 | - | 973,450 |
| Total | 973,145 | 305 | - | 973,450 |

Note: The 305 thousand-share increase in the number of common stock is due to the issuance of new shares as restricted stock compensation

(2) Dividends

1) Payment amount of dividends

| Resolution | Type of Shares | Total Dividends (Millions of yen) | Dividend per Share (yen) | Record Date | Effective Date |
|--|-------------------|--------------------------------------|--------------------------------|--------------------|------------------|
| Ordinary General Meeting of Shareholders held on June 21, 2022 | Common stock | 52,962 | 56 | March 31, 2022 | June 22, 2022 |
| Meeting of the Board of Directors held on October 31, 2022 | Common stock | 60,542 | 64 | September 30, 2022 | December 2, 2022 |

2) Dividends of which record date is in the fiscal year and effective date is in the next fiscal year

The Company proposed the following dividends to be resolved at the Ordinary General Meeting of Shareholders to be held on June 21, 2023.

| Planned Resolution | Type of Shares | Total Dividends (Millions of yen) | Resource of Dividends | Dividend per Share (yen) | Record Date | Effective Date |
|--|-------------------|--------------------------------------|--------------------------|--------------------------------|----------------|-------------------|
| Ordinary General Meeting of Shareholders to be held on June 21, 2023 | Common stock | 70,950 | Retained earnings | 75 | March 31, 2023 | June 22, 2023 |

The 153rd Fiscal Year (From April 1, 2021 to March 31, 2022)

(1) Type and number of shares issued

(Thousands of shares)

| | Number of Shares at Fiscal Year-beginning | Increase During the Fiscal Year | Decrease During the Fiscal Year | Number of Shares at Fiscal Year-end |
|---------------|---|---------------------------------|---------------------------------|-------------------------------------|
| Common stock* | 972,887 | 258 | - | 973,145 |
| Total | 972,887 | 258 | - | 973,145 |

Note: The 258 thousand-share increase in the number of common stock is due to the issuance of new shares as restricted stock compensation

(2) Dividends

1) Payment amount of dividends

| Resolution | Type of Shares | Total Dividends (Millions of yen) | Dividend per Share (yen) | Record Date | Effective Date |
|--|----------------|-----------------------------------|--------------------------|--------------------|------------------|
| Ordinary General Meeting of Shareholders held on June 18, 2021 | Common stock | 34,986 | 37 | March 31, 2021 | June 21, 2021 |
| Meeting of the Board of Directors held on October 28, 2021 | Common stock | 37,828 | 40 | September 30, 2021 | December 1, 2021 |

2) Dividends of which record date is in the fiscal year and effective date is in the next fiscal year

The Company proposed the following dividends to be resolved at the Ordinary General Meeting of Shareholders to be held on June 21, 2022.

| Planned Resolution | Type of Shares | Total Dividends (Millions of yen) | Resource of Dividends | Dividend per Share (yen) | Record Date | Effective Date |
|--|----------------|-----------------------------------|-----------------------|--------------------------|----------------|----------------|
| Ordinary General Meeting of Shareholders to be held on June 21, 2022 | Common stock | 52,962 | Retained earnings | 56 | March 31, 2022 | June 22, 2022 |

Securities

Fair values for shares of subsidiaries (carrying amount of ¥392,047 million and ¥392,517 million as of March 31, 2023 (154th fiscal year) and March 31, 2022 (153rd fiscal year), respectively) and shares of affiliated companies (carrying amount of ¥6,050 million and ¥6,050 million as of March 31, 2023 (154th fiscal year) and March 31, 2022 (153rd fiscal year), respectively) are not presented because they are classified as shares and other securities with no quoted market price.

Tax Effect Accounting

1. Major reasons for the accrual of deferred tax assets and deferred tax liabilities
(Years ended March 31, 2023 and 2022)

| | Millions of yen | |
|---|-----------------|---------|
| | 2023 | 2022 |
| Deferred tax assets | | |
| Provision for product warranties | 3,633 | 2,985 |
| Inventories | 1,369 | 1,727 |
| Accrued enterprise tax | 1,457 | 1,454 |
| Provision for bonuses | 3,710 | 3,145 |
| Provision for retirement benefits | 12,340 | 12,772 |
| Investment securities and stocks of subsidiaries and affiliates | 3,933 | 3,994 |
| Excess over depreciation limit | 1,478 | 1,506 |
| Deferred gains or losses on hedges | 34 | 1,147 |
| Return assets and refund liabilities | 893 | 1,129 |
| Accrued expenses | 2,410 | 2,360 |
| Others | 5,676 | 5,434 |
| Subtotal deferred tax assets | 36,937 | 37,658 |
| Less valuation allowance | (5,275) | (5,904) |
| Total deferred tax assets | 31,662 | 31,753 |
| Deferred tax liabilities | | |
| Reserve for advanced depreciation of non-current assets | (4,940) | (5,073) |
| Others | (1,480) | (1,481) |
| Total deferred tax liabilities | (6,421) | (6,554) |
| Net deferred tax assets | 25,240 | 25,199 |

2. Major components of difference between the statutory tax rate and the effective tax rate after tax effect accounting is applied

| | 2023 | 2022 |
|--|--------|-------|
| Statutory tax rate | 30.5% | 30.5% |
| Adjustments | | |
| Expenses not deductible permanently such as entertainment expenses | 0.2 | 1.0 |
| Income not taxable permanently such as dividend income | (16.2) | (7.7) |
| Foreign tax credit | (0.4) | (0.8) |
| Transfer pricing taxation adjustment | 0.1 | 2.4 |
| Foreign withholding tax | 3.3 | 0.7 |
| Valuation allowance | (0.2) | 0.5 |
| Tax credit for experiment and research expenses | (1.5) | (4.1) |
| Others | (1.2) | (0.2) |
| Effective tax rate after tax effect accounting is applied | 14.6 | 22.3 |

3. Accounting for income tax and local income tax and deferred tax accounting

The Company has applied the group tax sharing system from the fiscal year ended March 31, 2023. In addition, the Company conducts treatment for accounting for income tax and local income tax or for deferred tax accounting related thereto, and disclosure of them in accordance with the “Practical Solution on the Accounting and Disclosure under the Group Tax Sharing System” (ASBJ PITF No. 42, August 12, 2021).

Revenue Recognition

The Company engages in the business activities of sales of products and services of construction equipment, industrial machinery, etc. in Japan and overseas. In these business activities, the Company provides goods or services identified in contracts with customers. The Company recognizes revenue when or as control over these goods or services is transferred to the customer at the amount of the transaction price that reflects the consideration to which it expects to be entitled. When two or more goods or services are provided to the same customer, the Company identifies performance obligations in a single contract or combined contracts and allocates the transaction price to each identified performance obligations based on relative stand-alone selling prices.

For sale of equipment, parts, attachment and others, revenue is recognized when the customers accept the goods or services.

Conditions for acceptance, such as shipping, receipt by customers, completion of installation or completion of performance test, depend on contracts or arrangements with customers and the like.

The consideration for those transactions is generally collected within three months after the performance obligation is satisfied.

For services such as periodic check, maintenance, and repair and other services, revenue is recognized when provision of the service is completed, or over the period for which the service is provided. Conditions for completion of service provision, including receipt of completion report, depend on contracts or arrangements with customers and the like. The consideration for those transactions is generally collected within three months after the performance obligation is satisfied.

The Company has signed long-term maintenance contracts with their customers, in which case the customers receive services and simultaneously consume them as the performance obligations are satisfied. Thus, revenue from such services is recognized over the period of the contract with the customer in accordance with the progress percentage on the basis of costs incurred, which appropriately represents the transfer of control to the customer.

Loyalties received for licensing to customers (mainly affiliates) are recognized as revenue based on the amount used by the customer in principle.

Certain transaction prices include variable consideration such as future discounts and sales returns. Variable consideration is an estimate of the expected value or the most likely amount, to the extent that it is probable that a significant reversal in cumulative revenue recognized up to that point will not occur when the uncertainty associated with the variable consideration is subsequently resolved. When the period between when control over goods or services is transferred to the customer and when the customer pays for the goods or services is expected to be one year or less at the inception of the contract, the Company does not make any adjustment for the effect of time value of consideration.

The Company is obligated to accept parts returned from customers for a certain period after the sale. In consideration of the relevant historical return result and other factors, the Company's right to recover parts from customers is recognized in other current assets and other investments as a return asset, and also a refund liability is recognized in other current liabilities and other long-term liabilities for its obligation to refund the customers upon return of parts.

With regard to transactions with combination of products, periodic check, maintenance and others, performance obligations are identified in a single contract or combined contracts. Transaction price is allocated to each identified performance obligation according to the proportion of stand-alone selling price that is determined based on observable price such as contract amount, and estimated cost including historical experience.

After the product are sold or delivered, the Company repairs the sold product and replaces parts free of charge for a certain period in accordance with the contract. Thus, in order to provide for disbursement of the after-sales service costs, provision for product warranties is recognized based on the relevant historical result.

In addition to this standard warranty, the Company offers a package of extended warranty for power line (engine & power systems and hydraulic system) upon the purchase of a product and free maintenance service as a service

program to maintain the performance of construction equipment over a longer period of time. The Company determines this program to be a service-type warranty, and identifies a separate performance obligation for recognizing revenue from this program.

Subsequent Events

The 154th fiscal year (From April 1, 2022 to March 31, 2023)

No items to report.

Non-consolidated supplementary schedule for the 154th Fiscal Year (From April 1, 2022 to March 31, 2023)

Detailed statement of property, plant and equipment, etc.

(Millions of yen)

| Category | Type of assets | Balance at Fiscal Year-beginning | Increase During the Fiscal Year ended March 31, 2023 | Decrease During the Fiscal Year ended March 31, 2023 | Depreciation and amortization during the Fiscal Year ended March 31, 2023 | Balance at Fiscal Year-end | Accumulated depreciation and amortization |
|-------------------------------|-------------------------------|----------------------------------|--|--|---|----------------------------|---|
| Property, plant and equipment | Buildings | 96,234 | 9,359 | 700 | 6,231 | 98,662 | 137,410 |
| | Structures | 15,447 | 1,396 | 83 | 1,449 | 15,311 | 34,273 |
| | Machinery and equipment | 46,142 | 11,434 | 548 | 9,144 | 47,884 | 242,181 |
| | Vehicles | 857 | 446 | 7 | 383 | 913 | 3,683 |
| | Tools, furniture and fixtures | 11,227 | 4,668 | 322 | 4,358 | 11,215 | 71,886 |
| | Rental equipment | 50,721 | 9,831 | 4,964 [5] | 10,372 | 45,216 | 38,192 |
| | Land | 44,770 | 1,837 | 282 [62] | — | 46,325 | — |
| | Construction in progress | 6,680 | 21,746 | 19,057 | — | 9,368 | — |
| | Total | 272,081 | 60,721 | 25,966 [67] | 31,939 | 274,897 | 527,627 |
| Intangible assets | Software | 27,094 | 9,594 | 198 [18] | 8,397 | 28,092 | — |
| | Other intangible assets | 312 | 93 | 2 | 67 | 336 | — |
| | Total | 27,407 | 9,688 | 200 [18] | 8,465 | 28,429 | — |

Notes: 1. The figures in square brackets in the “Decrease During the Fiscal Year ended March 31, 2023” column represent amounts of impairment loss included in the figures above.

2. The increase of rental equipment in the fiscal year ended March 31, 2023 was mainly due to the increase in construction machinery and other equipment owned for the purpose of leasing to other companies. The increase of construction in progress in the fiscal year ended March 31, 2023 was mainly due to the increase in rental equipment.

Detailed statement of reserves

(Millions of yen)

| Item | Balance at the Beginning of the Fiscal Year ended March 31, 2023 | Increase During the Fiscal Year ended March 31, 2023 | Decrease During the Fiscal Year ended March 31, 2023 | Balance at the End of the Fiscal Year ended March 31, 2023 |
|----------------------------------|--|--|--|--|
| Allowance for doubtful accounts | 1,265 | 378 | 377 | 1,265 |
| Allowance for investment loss | 2,253 | 1 | 1,716 | 538 |
| Provision for bonuses | 10,311 | 12,164 | 10,311 | 12,164 |
| Provision for directors’ bonuses | 179 | 375 | 206 | 347 |
| Provision for product warranties | 9,788 | 11,914 | 9,788 | 11,914 |

(2) Primary assets and liabilities

As the consolidated financial statements are prepared, this information is omitted here.

(3) Others

There are no special items to report.

Item 6. Stock-Related Administration for the Company

| | |
|---|---|
| Fiscal year | From April 1 to March 31 |
| Ordinary General Meeting of Shareholders | June |
| Record date | March 31 |
| Record date of dividends | Interim dividends: September 30 Year-end dividends: March 31 |
| Number of shares constituting one unit* | 100 shares |
| Purchase and sales of shares less than one unit | |
| Handling office | (Special account) Mitsubishi UFJ Trust and Banking Corporation Stock Transfer Agency Department 4-5, Marunouchi 1-Chome, Chiyoda-ku, Tokyo, Japan |
| Transfer agent | (Special account) Mitsubishi UFJ Trust and Banking Corporation 4-5, Marunouchi 1-Chome, Chiyoda-ku, Tokyo, Japan |
| Forward office | - |
| Purchase and sales fee | Free of charge |
| Method of public notice | The method of public notice by the Company shall be electronic public notice, provided, however, that if, the use of the electronic public notice becomes impossible, due to an accident or any other unavoidable reason, the public notices of the Company shall be made by publication in The Nihon Keizai Shimbun published in Tokyo. URL for public notice is following https://www.komatsu.jp/ja |
| Special benefit for shareholders | The Gift of Gratitude to Long-term Shareholders 1. Qualified shareholders Shareholders of record as of March 31 every year, who own at least three (3) units (300 shares) and have continuously owned any number of shares of the Company at least for the last three (3) years* as of March 31 every year. *Shareholders who qualify for the shareholding of at least the last three (3) years are shown in the register of shareholders as of March 31 and September 30 every year, with the statement saying that they have continuously held shares of the Company seven (7) times, i.e., for a period of seven (7) x six (6) months, or more, including the record date, under the same shareholder numbers. 2. Gift of gratitude Original miniature models of Komatsu products (not for sale) One miniature model per qualified shareholder |

Note:

Shareholders of the Company are not entitled to exercise their rights pertaining to shares constituting less than one (1) unit (Tangen) of shares held by them, except for the following rights:

- (1) The rights provided for in each item of Article 189, Paragraph 2 of the Companies Act of Japan;
- (2) The right to make a request provided for in the provisions of Article 166, Paragraph 1 of the Companies Act of Japan;
- (3) The right to receive the allotment of offered shares and offered stock acquisition rights in proportion to the number of shares held by each shareholder;
- (4) The right to make a request to the Company for transfer of shares constituting less than one unit

Item 7. Reference Information on the Company

1. Information on the Parent Company

Not applicable.

2. Other Reference Information

The Company filed the following documents during the period from the commencing date of the fiscal year ended March 31, 2023 to the filing date of Annual Securities Report.

| | | | | |
|-----|--|--|---|--|
| (1) | Annual Securities Report and Documents Attached, and Confirmation Letter | Business Term (153 rd) | From April 1, 2021 To March 31, 2022 | Filed with Director-General of the Kanto Local Finance Bureau on June 20, 2022 |
| (2) | Internal Control Report and Documents Attached | | | Filed with Director-General of the Kanto Local Finance Bureau on June 20, 2022 |
| (3) | Quarterly Report and Confirmation Letter | (154 th First Quarter) | From April 1, 2022 To June 30, 2022 | Filed with Director-General of the Kanto Local Finance Bureau on August 10, 2022 |
| | | (154 th Second Quarter) | From July 1, 2022 To September 30, 2022 | Filed with Director-General of the Kanto Local Finance Bureau on November 11, 2022 |
| | | (154 th Third Quarter) | From October 1, 2022 To December 31, 2022 | Filed with Director-General of the Kanto Local Finance Bureau on February 13, 2023 |
| (4) | Extraordinary Report | Pursuant to Article 19, paragraph 2, item 9-2 of the Cabinet Office Ordinance Concerning Disclosure of Corporate Affairs, etc. | | Filed with Director-General of the Kanto Local Finance Bureau on June 23, 2022 |
| | | Pursuant to Article 19, paragraph 2, item 9-2 of the Cabinet Office Ordinance Concerning Disclosure of Corporate Affairs, etc. | | Filed with Director-General of the Kanto Local Finance Bureau on June 29, 2022 |
| | | Pursuant to Article 19, paragraph 2, item 9 of the Cabinet Office Ordinance Concerning Disclosure of Corporate Affairs, etc. | | Filed with Director-General of the Kanto Local Finance Bureau on February 22, 2023 |
| (5) | Securities Registration Statement (issuance of new shares under the restricted stock compensation plan) and Documents Attached | | | Filed with Director-General of the Kanto Local Finance Bureau on July 15, 2022 |
| (6) | Amendment to Securities Registration Statement | Amendment to the Securities Registration Statement filed on July 15, 2022 | | Filed with Director-General of the Kanto Local Finance Bureau on July 29, 2022 |
| | | Amendment to the Securities Registration Statement filed on July 15, 2022 | | Filed with Director-General of the Kanto Local Finance Bureau on August 10, 2022 |
| (7) | Shelf Registration Statement and Documents Attached | | | Filed with Director-General of the Kanto Local Finance Bureau on November 22, 2022 |

(8) Amended Shelf Registration
Statement

Filed with Director-General of the Kanto
Local Finance Bureau on February 22,
2023

Part II Information on Guarantors, etc., for the Company

Not applicable.

[English Translation of the Independent Auditor's Report Originally Issued in the Japanese Language]

Independent Auditor's Report on the Financial Statements
and
Internal Control Over Financial Reporting

June 20, 2023

To The Board of Directors of Komatsu Ltd.:

KPMG AZSA LLC
Tokyo Office

Masakazu Hattori
Designated Limited Liability Partner
Engagement Partner
Certified Public Accountant

Tomoo Nishigori
Designated Limited Liability Partner
Engagement Partner
Certified Public Accountant

Daisuke Toyama
Designated Limited Liability Partner
Engagement Partner
Certified Public Accountant

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Komatsu Ltd. ("the Company") and its consolidated subsidiaries (collectively referred to as "the Group") provided in the "Financial Information" section in the Komatsu's Annual Securities Report ("Yukashoken Hokokusho"), which comprise the consolidated balance sheet as at March 31, 2023, and the consolidated statement of income, the consolidated statement of comprehensive income, the consolidated statement of equity and the consolidated statement of cash flows for the fiscal year then ended, and notes to the consolidated financial statements and supplementary schedules, in accordance with Article 193-2, Paragraph 1 of the Financial Instruments and Exchange Act of Japan.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2023, and its consolidated financial performance and its consolidated cash flows for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America, pursuant to Paragraph 3 of the Supplementary Provisions of the Cabinet Office Ordinance for Partial Amendment of the Regulations for Terminology, Forms and Preparation Methods of Consolidated Financial Statements (the Cabinet Office Ordinance No.11 of 2002).

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| Reasonableness of the Company’s estimates of a specific allowance for those doubtful receivables with the possibility of default among Retail Finance Receivables | |
|---|--|
| The key audit matter | How the matter was addressed in our audit |
| <p>As described in Note 4 “Trade Notes and Accounts Receivable” to the consolidated financial statements, trade notes and accounts receivable, and long-term trade receivables recognized in the consolidated balance sheet of Komatsu Ltd. and subsidiaries (hereinafter, collectively referred to as the “Company”) as of March 31, 2023 included installment and lease receivables in the retail finance business (hereinafter, “Retail Finance Receivables”) of ¥1,015,047 million, for which an allowance for doubtful receivables of ¥15,160 million has been recorded.</p> <p>As described in Note 1 “Description of Business, Basis of Financial Statement Presentation and Summary of Significant Accounting Policies” to the consolidated financial statements, the Company calculates a general allowance for doubtful receivables based on historical loss rates. On the other hand, for those doubtful receivables with the possibility of default, including those in cases where a customer’s ability to meet its financial obligations has become doubtful due to a bankruptcy filing or deterioration in its business performance, the Company estimates credit losses based on the credit status of individual customers and an analysis on the overdue status of receivables, and then recognizes a specific allowance for doubtful receivables at an amount of the estimated credit losses reduced by an expected amount recoverable from the collateral.</p> <p>The key elements of the valuation model used to estimate a specific allowance for doubtful receivables are set out below. Each of these elements involved a high degree of uncertainty and required a high degree of management judgement.</p> <ul style="list-style-type: none"> • selection of doubtful receivables subject to a specific allowance; • calculation of estimated credit losses based on the assessment of customers’ ability to meet their financial obligations; and • calculation of an expected amount recoverable from the collateral <p>In addition, since the collection period of Retail Finance Receivables spans for an extended period of time, the customers’ ability to meet their financial obligations may be affected by the following factors;</p> | <p>In order to assess the reasonableness of the Company’s estimates of a specific allowance for those doubtful receivables with the possibility of default among Retail Finance Receivables, we requested the component auditors of consolidated subsidiaries to perform the procedures set out below. We then evaluated the reports from the component auditors to conclude on whether sufficient and appropriate audit evidence was obtained from these procedures.</p> <p>(1) Internal control testing Testing the design and operating effectiveness of certain of the Company’s internal controls relevant to the estimates of a specific allowance for doubtful receivables.</p> <p>(2) Assessment of the reasonableness of the estimates of a specific allowance for doubtful receivables</p> <p>①Involved credit specialists who assisted in our assessment of the appropriateness of the valuation model used to estimate a specific allowance for doubtful receivables.</p> <p>②Obtained an understanding of management’s judgement process by inquiring of management about the following:</p> <ul style="list-style-type: none"> • selection of doubtful receivables subject to a specific allowance; • calculation of estimated credit losses that reflected the assessment of customers’ ability to meet their financial obligations based on the credit status of individual customers and analysis on the overdue status of receivables, and such an assessment considers, among other factors, the trends in demands of resources and construction, the changes in the financial market such as rising interest rates, as well as the disruption in finance and world economy caused by the situation in Ukraine; and • calculation of an expected amount recoverable from the collateral. <p>③Assessed the reasonableness of the management’s aforementioned judgement that took into account: customers’ payment history, the status of collateral setting, market environments related to the customers’ business, overdue status, the reasonableness of the estimates of a specific allowance in the past, and additional information obtained subsequent to the year end related to the customers’ ability to meet their financial obligations.</p> |

- trends of commodity and construction demands, considering the fluctuations in the prices of commodities including materials and energy
- changes in the financial market such as rising interest rates
- disruption in finance and world economy caused by the situation in Ukraine

We, therefore, determined that our assessment of the reasonableness of the Company's estimates of a specific allowance for those doubtful receivables with the possibility of default among Retail Finance Receivables was of most significance in our audit of the consolidated financial statements for the current fiscal year, and accordingly, a key audit matter.

Other Information

The other information comprises the information included in the Annual Securities Report, but does not include the consolidated financial statements, the financial statements, and our auditor's reports thereon. Management is responsible for the preparation and presentation of the other information. Audit & Supervisory Board Members and the Audit & Supervisory Board are responsible for overseeing the directors' performance of their duties with regard to the design, implementation and maintenance of the reporting process for the other information.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of Management, Audit & Supervisory Board Members and the Audit & Supervisory Board for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing whether it is appropriate to prepare the consolidated financial statements with the assumption of a going concern, and in accordance with accounting principles generally accepted in the United States of America, for disclosing, as necessary, matters related to going concern.

Audit & Supervisory Board Members and the Audit & Supervisory Board are responsible for overseeing the Directors' performance of their duties with regard to the design, implementation and maintenance of the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our responsibilities are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that expresses our opinion on the consolidated financial statements based on our audit from an independent point of view. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of users of these consolidated financial statements. In accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit process to perform the following:

- Identify and assess the risks of material misstatement, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Selecting audit procedures to be applied is at the discretion of the auditor. Obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- When auditing the consolidated financial statements, obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances in making risk assessments,

- but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used by management and their method of application, as well as the reasonableness of accounting estimates made by management and related notes thereto.
 - Conclude on the appropriateness of preparing the consolidated financial statements with the assumption of a going concern by management, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the notes to the consolidated financial statements or, if the notes to the consolidated financial statements on material uncertainty are inadequate, to express a modified opinion on the consolidated financial statements. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
 - Evaluate whether the presentation of the consolidated financial statements and notes to the consolidated financial statements are in accordance with accounting principles generally accepted in the United States of America, as well as evaluate the presentation, structure, and content of the consolidated financial statements, including the related notes thereto, and whether the consolidated financial statements fairly present the underlying transactions and accounting events.
 - Obtain sufficient appropriate audit evidence regarding the financial information of the Company and its consolidated subsidiaries to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit of the consolidated financial statements. We remain solely responsible for our opinion.

We report to the Audit & Supervisory Board Members and the Audit & Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit process, and other matters required by auditing standards.

We also provide the Audit & Supervisory Board Members and the Audit & Supervisory Board with a statement that we have complied with relevant ethical requirements in Japan regarding independence, and to communicate with them all relationships and other matters that may reasonably be deemed to bear on our independence, and where applicable, related safeguards in order to eliminate or reduce obstruction factors.

From the matters communicated with the Audit & Supervisory Board Members and the Audit & Supervisory Board, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Audit of the Internal Control Report

Opinion

We also have audited the accompanying internal control report of the Company as at March 31, 2023, in accordance with Article 193-2, Paragraph 2 of the Financial Instruments and Exchange Act of Japan.

In our opinion, the accompanying internal control report, which states that the internal control over financial reporting was effective as at March 31, 2023, presents fairly, in all material respects, the results of the assessments of internal control over financial reporting in accordance with assessment standards for internal control over financial reporting generally accepted in Japan.

Basis for Opinion

We conducted our audit of the internal control report in accordance with auditing standards for internal control over financial reporting generally accepted in Japan. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Internal Control Report* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the internal control report in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management, Audit & Supervisory Board Members and the Audit & Supervisory Board for the Internal Control Report

Management is responsible for the design and operation of internal control over financial reporting and the preparation and fair presentation of the internal control report in accordance with assessment standards for internal control over financial reporting generally accepted in Japan.

Audit & Supervisory Board Members and the Audit & Supervisory Board are responsible for overseeing and examining the design and operation of internal control over financial reporting.

Internal control over financial reporting may not completely prevent or detect financial statement misstatements.

Auditor’s Responsibilities for the Audit of the Internal Control Report

Our responsibilities are to obtain reasonable assurance about whether the internal control report is free from material misstatement based on our audit of the internal control report and to issue an auditor’s report that expresses our opinion on the internal control report based on our audit from an independent point of view.

In accordance with internal control auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit process to perform the following:

- Perform procedures to obtain audit evidence about the results of the assessments of internal control over financial reporting in the internal control report. The procedures for the audit of the internal control report are selected and performed, depending on the auditor’s judgment, based on significance of effect on the reliability of financial reporting.
- Evaluate the overall presentation of the internal control report, including the appropriateness of the scope, procedures and results of the assessments that management presents.
- Obtain sufficient appropriate audit evidence about the results of the assessments of internal control over financial reporting in the internal control report. We are responsible for the direction, supervision and performance of the audit of the internal control report. We remain solely responsible for our audit opinion.

We report to the Audit & Supervisory Board Members and the Audit & Supervisory Board regarding, among other matters, the planned scope and timing of our audit of the internal control report, the results thereof, material weaknesses in internal control identified during our audit of internal control report, and those that were remediated, and other matters required by internal control auditing standards.

We also provide the Audit & Supervisory Board Members and the Audit & Supervisory Board with a statement that we have complied with relevant ethical requirements in Japan regarding independence, and to communicate with them all relationships and other matters that may reasonably be deemed to bear on our independence, and where applicable, related safeguards in order to eliminate or reduce obstruction factors.

Interest required to be disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Company and its subsidiaries which are required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Notes to the Reader of Independent Auditor’s Report:

The Independent Auditor’s Report herein is the English translation of the Independent Auditor’s Report as required by the Financial Instruments and Exchange Act of Japan.

[English Translation of the Independent Auditor's Report Originally Issued in the Japanese Language]
Independent Auditor's Report on the Financial Statements

June 20, 2023

To The Board of Directors of Komatsu Ltd.

KPMG AZSA LLC
Tokyo Office

Masakazu Hattori
Designated Limited Liability Partner
Engagement Partner
Certified Public Accountant

Tomoo Nishigori
Designated Limited Liability Partner
Engagement Partner
Certified Public Accountant

Daisuke Toyama
Designated Limited Liability Partner
Engagement Partner
Certified Public Accountant

Opinion

We have audited the non-consolidated financial statements of Komatsu Ltd. provided in the “Financial Information” section in the Komatsu’s Annual Securities Report (“Yukashoken Hokokusho”), which comprise the non-consolidated balance sheet, the non-consolidated statement of income, the non-consolidated statement of changes in net assets, significant accounting policies, the related notes, and the supplementary schedules of Komatsu Ltd. as at March 31, 2023 and for the 154th fiscal year from April 1, 2022 to March 31, 2023, in accordance with Article 193-2, Paragraph 1 of the Financial Instruments and Exchange Act of Japan.

In our opinion, the non-consolidated financial statements referred to above present fairly, in all material respects, the financial position of Komatsu Ltd. as at March 31, 2023, and its financial performance for the fiscal year then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Non-Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the non-consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the non-consolidated financial statements of the current period. These matters were addressed in the context of our audit of the non-consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| Appropriateness of the Judgment Regarding the Likelihood of Recovery of Deferred Tax Assets | |
|--|---|
| The key audit matter | How the matter was addressed in our audit |
| <p>The amount recorded on the Non-Consolidated Balance Sheet of Komatsu Ltd. for Deferred tax assets is ¥25,240 million. As described in the Notes to Non-Consolidated Financial Statements "Tax Effect Accounting", the amount of deferred tax assets before offsetting against deferred tax liabilities was ¥31,662 million, which was the total deferred tax assets of ¥36,937 million less the valuation allowance of ¥5,275 million.</p> <p>As described in the Notes to Non-consolidated Financial Statements "Notes to Accounting Estimates", Komatsu Ltd. recognizes deferred tax assets to the extent of deductible temporary differences that are allowed to reduce the tax amount payable into the future.</p> <p>The future taxable income used in determining the likelihood of recovery of deferred tax assets is estimated based on the business plan created by management. Because the forecasts of future net sales and profit on which this business plan is based include the key assumptions described below, which involve a high degree of judgment by management, the estimates of future taxable income have a high level of uncertainty.</p> <ul style="list-style-type: none"> • Fluctuations in exchange rates and prices, including materials, energy, and logistics costs • The effect of changes in environmental laws and regulations and climate change on demand • The effects of disruptions to the supply chain, financial system, and economy caused by the Ukraine situation and the expansion of restrictions on exports to Russia <p>We, therefore, determined that our assessment of the appropriateness of the likelihood of recovery of deferred tax assets was of most significance in our audit of the Non-consolidated financial statements for the current fiscal year, and accordingly, a key audit matter.</p> | <p>We mainly applied the following audit procedures in order to assess the appropriateness of the judgment regarding the likelihood of recovery of deferred tax assets.</p> <p>(1) Assessment of internal controls Testing the design and operating effectiveness of certain of the Company's internal controls relevant to the likelihood of recovery of deferred tax assets, including those related to formulating the business plan</p> <p>(2) Assessment of the reasonableness of future taxable income estimates</p> <p>1) Questions to management regarding the basis for future taxable income estimates</p> <p>2) With respect to the future taxable income used in determining the likelihood of recovery of deferred tax assets, confirmation of consistency with the business plan approved by the Board of Directors</p> <p>3) With respect to the forecast of future net sales and profit on which the business plan is based, assessment of the reasonableness of management's key assumptions, such as the effects of trends of exchange rates and prices, including materials, energy and logistics costs, the effects of changes in environmental laws and regulations and climate change on demand, and the effects of disruptions to the supply chain, financial system and economy caused by the Ukraine situation and the expansion of restrictions on exports to Russia, in consideration of the following:</p> <ul style="list-style-type: none"> • Discussions with management especially on the basis, the area that is influenced and the uncertainties relating to key assumptions. • Analysis of level of achievement for the previous plan and differences with the plan. • Confirmation of consistency with future market trend forecasts created by outside research institutions. <p>4) In accordance with the calculated taxable income for the current fiscal year, assessment of the appropriateness of scheduling for when the deductible temporary differences are expected to be settled and the appropriateness of taxable income adjustments included in the calculation of future taxable income</p> |

Other Information

The other information comprises the information included in the Annual Securities Report, but does not include the consolidated financial statements, the financial statements and our auditor's report thereon. Management is responsible for the preparation and presentation of the other information. Audit & Supervisory Board Members and the Audit & Supervisory Board are responsible for overseeing the directors' performance of their duties with regard

to the design, implementation and maintenance of the reporting process for the other information. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of Management, Audit & Supervisory Board Members and the Audit & Supervisory Board for the Non-Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the non-consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of the non-consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the non-consolidated financial statements, management is responsible for assessing whether it is appropriate to prepare the non-consolidated financial statements with the assumption of a going concern, and in accordance with accounting principles generally accepted in Japan, for disclosing, as necessary, matters related to going concern.

Audit & Supervisory Board Members and the Audit & Supervisory Board are responsible for overseeing the Directors' performance of their duties including the design, implementation and maintenance of the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Non-Consolidated Financial Statements

Our responsibilities are to obtain reasonable assurance about whether the non-consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that expresses our opinion on the non-consolidated financial statements based on our audit from an independent point of view. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of users of these non-consolidated financial statements.

In accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit process to perform the following:

- Identify and assess the risks of material misstatement, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Selecting audit procedures to be applied is at the discretion of the auditor. Obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- When auditing the non-consolidated financial statements, obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances in making risk assessments, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
- Evaluate the appropriateness of accounting policies used by management and their method of application, as well as the reasonableness of accounting estimates made by management and related notes thereto.
- Conclude on the appropriateness of preparing the non-consolidated financial statements with the assumption of a going concern by management, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the non-consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate whether the presentation of the non-consolidated financial statements and notes to the non-consolidated financial statements are in accordance with accounting principles generally accepted in Japan, as well as evaluate the presentation, structure, and content of the non-consolidated financial statements, including the related notes thereto, and whether the non-consolidated financial statements fairly present the underlying transactions and accounting events.

We report to the Audit & Supervisory Board Members and the Audit & Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit process, and other matters required by auditing standards.

We also provide the Audit & Supervisory Board Members and the Audit & Supervisory Board with a statement that we have complied with relevant ethical requirements in Japan regarding independence, and to communicate with them all relationships and other matters that may reasonably be deemed to bear on our independence, and where

applicable, related safeguards in order to eliminate or reduce obstruction factors.

From the matters communicated with the Audit & Supervisory Board Members and the Audit & Supervisory Board, we determine those matters that were of most significance in the audit of the non-consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Interest required to be disclosed by the Certified Public Accountants Act of Japan

We do not have any interest in the Company which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Notes to the Reader of Independent Auditor's Report:

The Independent Auditor's Report herein is the English translation of the Independent Auditor's Report as required by the Financial Instruments and Exchange Act of Japan.

Cover

| | |
|---|--|
| 【Document title】 | Internal Control Report |
| 【Clause of stipulation】 | Article 24-4-4, Paragraph 1 of the Financial Instruments and Exchange Act of Japan |
| 【Place of filing】 | Director-General of the Kanto Local Finance Bureau |
| 【Filing date】 | June 20, 2023 |
| 【Company name】 | Kabushiki Kaisha Komatsu Seisakusho |
| 【Company name in English】 | KOMATSU LTD. |
| 【Title and name of representative】 | Hiroyuki Ogawa, President and Representative Director |
| 【Title and name of chief financial officer】 | Takeshi Horikoshi, Director and Senior Executive Officer |
| 【Address of registered head office】 | 2-3-6, Akasaka, Minato-ku, Tokyo, Japan |
| 【Place for public inspection】 | Tokyo Stock Exchange, Inc. (2-1, Nihombashi Kabutocho, Chuo-ku, Tokyo, Japan) |

1. Matters relating to the basic framework for internal control over financial reporting

Mr. Hiroyuki Ogawa, President and Representative Director, and Mr. Takeshi Horikoshi, Director and Senior Executive Officer, are responsible for establishing and maintaining internal control over financial reporting of Komatsu Group (Komatsu Ltd., its subsidiaries and equity-method affiliates) and have established and maintained internal control over financial reporting in accordance with the basic framework for internal control set forth in the “On the Revision of the Standards and Practice Standards for Management Assessment and Audit concerning Internal Control Over Financial Reporting (Council Opinions)” published by the Business Accounting Council.

The internal control over financial reporting is designed to achieve its objectives to the extent reasonable through the effective function and combination of its basic elements. Therefore, there is a possibility that internal control over financial reporting may not completely prevent or detect misstatements.

2. Matters relating to the scope of assessment, the base date of assessment and the assessment procedures

Komatsu Ltd. (the “Company”) assessed the effectiveness of our internal control over financial reporting on the base date as of March 31, 2023 and made this assessment in accordance with assessment standards for internal control over financial reporting generally accepted in Japan.

In making this assessment, the Company evaluated internal control which may have a material effect on the entire financial reporting on a consolidated basis (“company-level controls”) and based on the result of this assessment, the Company appropriately selected business processes to be evaluated. In making these business processes assessment, the Company analyzed these selected business processes, identified key controls that may have a material impact on the reliability of internal control over financial reporting and assessed the design and operation of these key controls.

The Company determined the required assessment scope of internal controls over financial reporting for Komatsu Group from the perspective of the materiality that may affect the reliability of its financial reporting. The materiality that may affect the reliability of its financial reporting is determined taking into account the materiality of quantitative and qualitative impacts. The Company reasonably determined the assessment scope of internal controls over business processes after considering the assessment results of company-level controls conducted for Komatsu Group. The Company did not include those consolidated subsidiaries and equity-method affiliates which do not have any quantitatively or qualitatively material impact on the consolidated financial statements in the assessment scope of company-level controls.

Regarding the assessment scope of internal control over business processes, the Company accumulated business units in descending order of net sales (after eliminating inter-company transactions) for the previous fiscal year, and those business units whose combined amount of net sales reaches approximately two-thirds of net sales on a consolidated basis were selected as significant business units.

At the selected significant business units, the Company included, in the assessment scope, those business processes leading to net sales, accounts receivables and inventories as accounts closely relating to business objectives of the Company.

Further, not only at selected significant business units, but also at other business units, the Company added to the assessment scope, those business processes having greater materiality considering their impact on the financial reporting, those business processes relating to greater likelihood of material misstatements in significant accounts involving estimates or forecasts as these significant accounts that may have a material impact on its business objectives; or those business processes relating to businesses or operations dealing with high-risk transactions.

3. Matters relating to the results of the assessment

As a result of the assessment above, the Company concluded that internal control over financial reporting of Komatsu Group was effective as of March 31, 2023.

4. Additional notes

Not applicable.

5. Special notes

Not applicable.

Cover

| | |
|---|--|
| 【Document title】 | Confirmation Letter |
| 【Clause of stipulation】 | Article 24-4-2, Paragraph 1 of the Financial Instruments and Exchange Act of Japan |
| 【Place of filing】 | Director-General of the Kanto Local Finance Bureau |
| 【Filing date】 | June 20, 2023 |
| 【Company name】 | Kabushiki Kaisha Komatsu Seisakusho |
| 【Company name in English】 | KOMATSU LTD. |
| 【Title and name of representative】 | Hiroyuki Ogawa, President and Representative Director |
| 【Title and name of chief financial officer】 | Takeshi Horikoshi, Director and Senior Executive Officer |
| 【Address of registered head office】 | 2-3-6, Akasaka, Minato-ku, Tokyo, Japan |
| 【Place for public inspection】 | Tokyo Stock Exchange, Inc. (2-1, Nihombashi Kabutocho, Chuo-ku, Tokyo, Japan) |

1. Matters Related to Adequacy of Statements Contained in the Annual Securities Report

Komatsu's President and Representative Director Hiroyuki Ogawa, and Chief Financial Officer, Director and Senior Executive Officer Takeshi Horikoshi, have confirmed that the content of the Annual Securities Report of Komatsu Ltd. for the 154th fiscal year (from April 1, 2022 to March 31, 2023) was described properly based on the laws and regulations concerning the Financial Instruments and Exchanges Act and Related Regulations.

2. Special Notes

Not applicable.