

Dialogue between Komatsu Outside Director and President Ogawa and

Investors: Key Questions and Answers

Speakers: Takeshi Kunibe, Outside Director, Komatsu Ltd., and Chairman of the Board,
Sumitomo Mitsui Financial Group, Inc.
Hiroyuki Ogawa, President and CEO, Komatsu Ltd.

Moderator: Yoshiko Sato, Executive Managing Director, Japan Investor Relations Association

Theme 1: Effectiveness of the Board of Directors; Characteristics of Komatsu's Board of Directors

Sato: Komatsu's Board of Directors is described in the Integrated Report as having timely reports from the executive side and active and positive discussions by outside directors. On the other hand, I believe that there are some issues regarding the feasibility of improving Komatsu's corporate value. What are some examples of how the Board of Directors has effectively functioned? Are there any instances in which the Board of Directors has had to send back proposals to the Board of Directors?

Kunibe: It will soon be four full years since I took office in June 2020, and I feel that Komatsu's Board of Directors has been holding excellent discussions. It is characteristic that President Ogawa himself reports the topics and essential matters of the month as the President's report at the beginning of the meeting. The outside directors (4) and outside auditors (3), who come from diverse backgrounds, such as management, law, and diplomacy, ask a wide range of questions and engage in lively discussions. Safety and compliance were explained first in the explanation of business divisions, which indicates Komatsu's emphasis on them, and the President and other internal directors responded to questions from outside directors with precise answers. Komatsu's business performance is currently very good, but the external environment is changing rapidly, and I believe the Board of Directors needs to anticipate these changes and continue to discuss what Komatsu should do. During my tenure, there have been two matters that were sent back to the Board of Directors: the first was the discussion on how to set the collection period of accounts receivable concerning the cash management of the Russian subsidiary at the time of the Russia-Ukraine conflict, and the Board concluded that the frequency of the review of receivables should be increased. As a result, it was decided to conduct the review every quarter. The second case was to discuss the formulation of the Basic

Sustainability Policy in 2021 again, as questions and opinions were raised from various perspectives.

Audience: Regarding the stance on diversity of the Board of Directors, is there a need for generational diversity? Are there any thoughts on broadening the age range of the Board of Directors for the future?

Kunibe: I think Komatsu's current outside directors are diverse, including women, non-Japanese, and from various backgrounds. It is necessary to have a certain amount of experience to serve as outside directors and auditors, and I do not think it is needed to bring in young people at this stage. Komatsu has an International Advisory Board (IAB), which sometimes hears opinions from young outside business leaders. I think it would be good to provide another opportunity to absorb the younger generation's views.

Theme 2: Responding to Changes in the Business Environment (Growth, Sustainability, Capital costs, Business portfolios, and Risks)

Sato: Komatsu's business environment is changing rapidly, and you need to invest for growth while responding to those risks and other factors at hand. At the same time, it has become necessary to respond to changes in the capital markets, such as the request from the Tokyo Stock Exchange to manage the company while being more conscious of the capital costs and stock prices. What are the key issues that the Board of Directors is discussing?

Kunibe: Komatsu's business strategy is built around the two axes of "things" and "services," and the Company is also moving forward with carbon neutrality and digitalization. M&A is positioned as a way to map out strategies and acquire the missing pieces in each area. As speed is essential in M&A, the Company quickly identifies potential targets and brings them up for discussion at an early stage in the form of Board meetings, where they are discussed from a multifaceted perspective. We believe the Board of Directors must deepen discussions on the competitiveness of the missing pieces.

Audience: I would like to ask about the discussion at the board meeting and Director Kunibe's thoughts on the share buyback.

Kunibe: I understand that investors are interested in shareholder returns. As Komatsu has conventionally explained, the Company places the highest priority on "investment for growth" while committing to a dividend payout ratio of 40% or more for "shareholder

returns" and the remainder for "repayment of borrowings to maintain a sound financial position." While the Board of Directors discusses shareholder returns as needed, my personal opinion is that it is time for the Board of Directors to discuss the merits of share buybacks in addition to the committed dividend, considering Komatsu's profitability, high shareholders' equity ratio, and good credit rating.

Audience: What are your thoughts on the current P/B ratio of 1.5 times and capital cost of 8%? What kind of discussions are taking place at the Board of Directors meetings? Shouldn't Komatsu set a higher target than 1.0 time for PBR, which is the requirement of the TSE?

Kunibe: Komatsu's current PBR is 1.5 times, and PER is about 13 times, but I do not think these are sufficient. When discussing the current medium-term management plan, Komatsu discussed what indicators should be set as targets and set a target of 10% ROE. At that time, it did not discuss the PBR target. The capital cost varies depending on calculations and assumptions, but Komatsu set the capital cost at 8%, with a spread of 10%. I do not believe this is inadequate. Personally, I believe that Komatsu's PBR should be higher, given its potential. Compared to CAT, which is a comparator, their PBR is eight times, although the market, shareholders' equity ratio, and other assumptions are different. Compared to this, Komatsu still has room for PBR improvement. The Board of Directors has not yet discussed the improvement of PBR in-depth, so we would like to discuss it in light of shareholders' opinions and TSE's request.

Ogawa: The Board of Directors has not yet discussed how to raise PBR, but internally, we are analyzing the difference in PBRs between Komatsu and CAT and discussing Komatsu's problems. The Board of Directors would like to discuss how to raise the PBR.

Kunibe: Recently, a document comparing Komatsu and CAT was brought up to the Board of Directors, and we would like to discuss it in the future.

Audience: Regarding risk management by the Board of Directors, various changes in the external environment have occurred even in the past five years (increased competition in China, decarbonization, the Russia-Ukraine conflict, inflation, etc.), and we would like to ask about your thinking on how you will respond to possible future risks.

Kunibe: A central theme at Board meetings is how to deal with risk. Since 90% of Komatsu's sales come from overseas, geopolitical risks are inevitable in Komatsu's operations, and the Board of Directors always discusses risks. Komatsu is also strengthening its internal

risk management system, and there was a time when we held a meeting for outside directors only and then asked President Ogawa to join the meeting to discuss the issue.

Ogawa: Since last year, Komatsu has adopted the ERM (Enterprise Risk Management) method, whereby scenarios are developed and discussed not only for contingency risks but also for risks during regular times. The Board of Directors also discusses the issues that the Risk Management Committee has reviewed. At IAB meetings, we also receive advice from outside experts on risk management issues in global management and changes in the external environment that require attention. The experts participating in the IAB come from different regions of the world and backgrounds.

Audience: What is the impact of Gigaphoton on Komatsu's corporate value? Is there any approach to selling it to other companies, as Komatsu once did when it sold its silicon wafer business?

Kunibe: At this stage, we believe we should continue holding the shares. The Board of Directors has never discussed the sale of Gigaphoton. Although there is no synergy with Komatsu's core business, the light source business for lithography systems is extremely valuable and needs are increasing. There may be an argument that another owner would be better, but we are not considering a sale at this point because we will continue to hold the shares.

Theme 3: Allocation of resources, such as investment, financial/non-financial, and human capital, to increase corporate value

Sato: I think it is important to make investments, including capital allocation and non-financials, in order to increase corporate value, but how do you intend to allocate this to achieve results? In particular, I believe that in recent years there have been many strategic mergers and acquisitions that have attracted the attention of investors. I would like to hear your stance on how you intend to allocate and visualize corporate value, including non-financial aspects and human capital.

Kunibe: The Board of Directors is constantly discussing the issue from the perspective of what Komatsu should do in order to continue to improve its corporate value over the medium to long term. Recently, we received a questionnaire to evaluate the effectiveness of the Board of Directors. One of the questions (in response to which we were asked) was how to discuss further changes in the economic and financial environment, which I think is connected to the question of how to consider the risks I mentioned earlier. The second is

the direction of our business strategy, which is to respond to carbon neutrality and digitalization in a speedy manner and what we should do to achieve this. In the case of Komatsu, the third issue is how to proceed with human capital investment. As Komatsu is expanding globally, this includes the need to develop human resources who can manage their business globally. Concerning M&A, while it is very dangerous to review and proceed with opportunities in an opportunistic manner, Komatsu has always been considering strategic mapping and has a strategy to identify areas where it is lacking and to strengthen these areas by targeting them and then to conduct M&A with those areas where negotiations have progressed within the target. I have the impression that Komatsu has been thinking strategically about M&A for the past four years at its board meetings.

Audience: Regarding human capital, with global employees accounting for more than 2/3 of the Company's workforce, I would like to hear about the ratio of female managers, the wage gap between men and women, and maternity leave for both men and women, as well as any innovations or challenges Komatsu faces in attracting sustainability and digitalization-oriented human resources.

Kunibe: The Board of Directors has been discussing various aspects of human capital investment. From my point of view, one of Komatsu's human capital development issues is the promotion of women to managerial positions. Currently, we have one female member of the Board as an internal director, but the ratio of women in management positions is still low, partly due to the fact that the number of female employees has been low in the past, reflecting the nature of the industry. At the Board of Directors meetings, outside directors have expressed the need for systematic development of female directors. The Human Resource Advisory Committee has also confirmed its willingness to nurture candidates for the next and succeeding generations of management. The number of female managers will definitely increase in the future, although it may take a little time. The Human Resources Advisory Committee has also disclosed to the members of the committee its succession plan, which includes not only the next management but also the next and subsequent generations (training plan). I am very much impressed by the fact that the Company is considering the career paths of its employees, such as giving them opportunities to work overseas, with their future prospects in mind. In today's world, there is a demand for disclosure of human capital investment, and this needs to be further discussed.

Ogawa: As you know, the ratio of women in management positions is higher overseas. In an effort to increase the number of women in management positions, we achieved a 30% target of hiring new female employees for Komatsu in Japan two years ago. To increase

the number of female managers, we need to raise the level of trainings. Until now, the ratio of female hires has been around 10% to 15%, but we need to continue to increase the ratio. Regarding gender diversity, we are conducting an educational seminar called DIDS (Diversity Inclusion Development Seminar) to foster the development of female managers who will be responsible for the next phase of management. This seminar also includes overseas female employees, and female candidates who have the potential to become the next top management are gathered, and trained once a year. The system has a global HR database covering about 80% of the global regions. We are visualizing HR information in each region and considering what kind of employees we will raise in the future to achieve diversity. In terms of succession plans, we have defined the top management and the first layer of each region as global key positions and are currently preparing succession plans for 700 to 800 positions. Through these activities, I believe that Komatsu will be able to develop a continuous flow of diverse human resources. As for human capital investment, Komatsu invests about 4% or less of its operating income, mainly in education and training. We are promoting activities by setting the number of hours of education and training per employee as a KPI in Japan and overseas.

Audience: Concerning Komatsu's salary level, I don't think the average salary is at a very high level, even though Komatsu is one of Japan's leading manufacturing companies. In terms of investment in human resources, what are the discussions regarding growth?

Kunibe: I am also the chairman of the Compensation Committee. In this capacity, we also discuss President Ogawa's salary. I personally think that, compared with other companies in the same industry, Komatsu's compensation should be a little higher, given its profitability and President Ogawa's performance. The Compensation Committee does not discuss employee salary levels or averages in detail. I feel that Komatsu is willing to increase investment in human resources (compensation) for growth.

Theme 4: Top Management Succession Plan and Human Resource Development

Sato: Director Kunibe is also the chairman of the Human Resource Advisory Committee. What does Komatsu's Succession Plan emphasize about top management and the people who will lead the Company in the future?

Kunibe: The Human Resource Advisory Committee discusses the Succession Plan continuously. I personally believe that the next President should be selected to match the economic environment of the times and the management issues facing the Company. In this regard, we discuss the qualities that should be in place for the next President. Some of the

qualities include experience as the head of an organization, global experience, experience on the battlefield, strategic thinking, good knowledge of the field, the ability to communicate well, and a sense of ethics. In addition, the Committee also discusses not only the next successor, but also the next and the next successor, that is, what kind of people are available and how to develop them. Since "a company is only as good as its people," this is a critical topic from the perspective of how to nurture the human resources responsible for Komatsu's future.

Audience: Is there any discussion about President Ogawa's continuation? Some believe it is not necessarily desirable for a good president to step down due to a term of office.

Kunibe: Regarding President Ogawa's successor, we are deepening our discussions by closely observing President Ogawa's performance and work performance, including when he should be replaced. Personally, I believe that four years is too short a term for a president or CEO, even when the term of office is fixed, and that at least six years are necessary. On the other hand, too long a term can have other adverse effects. At Komatsu, discussions will be held within the framework of the Human Resource Advisory Committee.

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