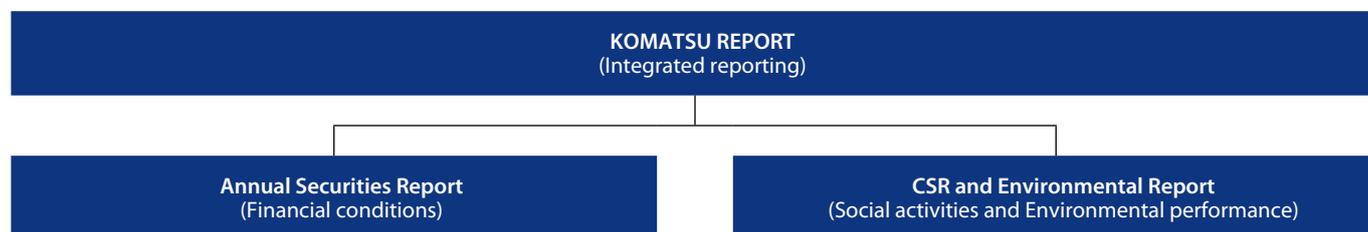




**KOMATSU REPORT 2018**

We at Komatsu Ltd. prepare KOMATSU REPORT annually by focusing our attention on the most important information and expressing it in a concise manner. Concerning financial conditions, environmental conservation and corporate social responsibility, we separately prepare the respective reports in more detail and disclose information therein.

## Organization of Komatsu’s Annual Reports



\* KOMATSU REPORT, Annual Securities Report and CSR and Environmental Report, in both Japanese and English, are uploaded on Komatsu’s website.

\* Komatsu Ltd. issues the Komatsu Report only on the website.

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**Reporting Period:** April 1, 2017 – March 31, 2018

Unless otherwise indicated, all figures in this REPORT represent those for FY2017 ended March 31, 2018, namely from April 1, 2017 to March 31, 2018.

### Cautionary Statement

This Report contains forward-looking statements that reflect management’s views and assumptions in the light of information currently available with respect to certain future events, including financial position, operating results and business strategies. These statements can be identified by the use of terms, such as “will,” “believes,” “should,” “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 Komatsu 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 foreign 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.

### On the Cover

Komatsu 951 Harvester (left) and 845 Forwarder (right) working together in a forest in Sweden. These forest machines are made by Komatsu Forest AB, a subsidiary based in Umeå, Sweden.

## To All Our Stakeholders: CEO Message

For Fiscal 2017 (April 1, 2017 – March 31, 2018), consolidated net sales increased by 38.7% from FY2016, to JPY2,501.1 billion, supported by expanded sales of the construction, mining and utility equipment business, especially in North America, China and Asia, as well as the new addition of Joy Global Inc. (currently, Komatsu Mining Corp.) as a consolidated subsidiary in 2017. Operating income expanded by 56.0% to JPY271.5 billion.

In FY2018, the final year of the ongoing three-year, mid-range management plan, “Together We Innovate GEMBA Worldwide: Growth Toward Our 100th Anniversary and Beyond”, we will continue to make diligent efforts in the three strategies of Growth Strategies Based on Innovation, Growth Strategies of Existing Businesses, and Structural Reforms Designed to Reinforce the Business Foundation.

### For Long-term Sustainable Growth

In 2021, we are going to celebrate our 100th anniversary. Komatsu, founded in today's Komatsu City, Ishikawa Prefecture in 1921, has grown to become a Japan-based global company by committing itself to Quality and Reliability. For

us to regard this anniversary as a milestone for sustainable growth into the future, we need to not only learn from the past but also look for management directions from a standpoint which is a lot longer term than ever before.

In emerging countries, we can look forward to growing infrastructure developments, such as roads, railways and water supply and sewerage systems, reflecting expanding population and accelerating urbanization. In developed countries, we can expect urgent needs to maintain the aging infrastructure while labor shortage will be getting more serious. As we are facing climate change, the reduction of environmental impact has become a more critical social issue.

We believe our business of construction and mining equipment is a long-term growth industry. To look for long-term, sustainable growth in this core business of ours, we need a scenario which enables our financial growth, as we respond to not only customers' needs, but also to social problems and requests at a high level, that is, with products, services and solutions equipped with totally new values.

### SLQDC

Of all social issues, safety might come first. In the Komatsu Group, safety comes first. Even before becoming president, I have consistently emphasized the priority of SLQDC (Safety, Law, Quality, Delivery and Cost), when we decide on things. This order of priorities applies to all workplaces, including our production floors, suppliers and distributors.

- (1) **S**afety: Safety and physical and mental health at work and within families.
- (2) **L**aw: Compliance with environmental regulations, laws and business rules in different parts of the world.
- (3) **Q**uality: Maintenance and improvement of Quality and Reliability in products, services, and solutions.
- (4) **D**elivery: Setting up and keeping appropriate delivery dates.
- (5) **C**ost: Understanding costs and controlling them through continuous improvements.

When talking with many customers, I always feel their solid determination to achieve Zero Accidents in business. Jobsite safety is an essential value of all companies that they should achieve themselves, and for us it is also a shared value with society, which we must first provide to customers through our core business.



*Tetsuji Ohashi, President and CEO*

### Creating Customer Value through Communication

By creation of customer value, we mean that we go inside customers' jobsites, define what their jobsite operations of the future should be, identify real jobsite tasks through constructive communication with customers, and work to solve problems together with customers by making full use of our resources, including products, service and solutions.

By taking full advantage of ICT with our Autonomous Haulage System and SMARTCONSTRUCTION, for example, we can "visualize" jobsite information. Then we can discuss the data together with customers by asking ourselves the "whys" in order to define the ideal conditions that customers are working to achieve in the long range (what they should be like in the future) and to identify real tasks or differences from their ideal conditions of the future. These real tasks become "visible", including not only safety (Zero Accidents) and improved productivity and efficiency, but also labor shortage, environmental protection, maintenance of biodiversity, sharing of the future with local communities, and improvement of diversity. Together with customers, we will place priority on these tasks and work to solve them.

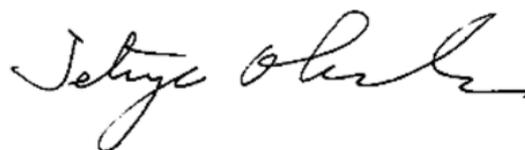
As we deepen discussions with customers and build on improvements for real tasks, I believe it's possible for us to spiral up solutions for social problems and customer value.

### Management Principles

The cornerstone of our management principles is to maximize our corporate value through commitment to Quality and Reliability. We believe our corporate value is the total sum of trust given to us by society and all our stakeholders. I will ensure all employees share The KOMATSU Way. Further, we will become aware of environmental, social and governance issues more keenly than before, as we work to improve our business performance and move forward in developing corporate strengths while achieving social responsibility in a well-balanced manner.

On behalf of the Board, I would like to extend my sincere appreciation to all our stakeholders for your continuing support.

July 2018



Tetsuji Ohashi  
President and CEO

## Face to Face: CEO Interview



*Tetsuji Ohashi, President and CEO*

**Q** FY2018, ending March 2019, is the final year of the ongoing three-year, mid-range management plan since April 2016. Please update all progress made thus far, by reviewing the business results for FY2017 and the projection for FY2018.

### Market Conditions of Construction and Mining Equipment

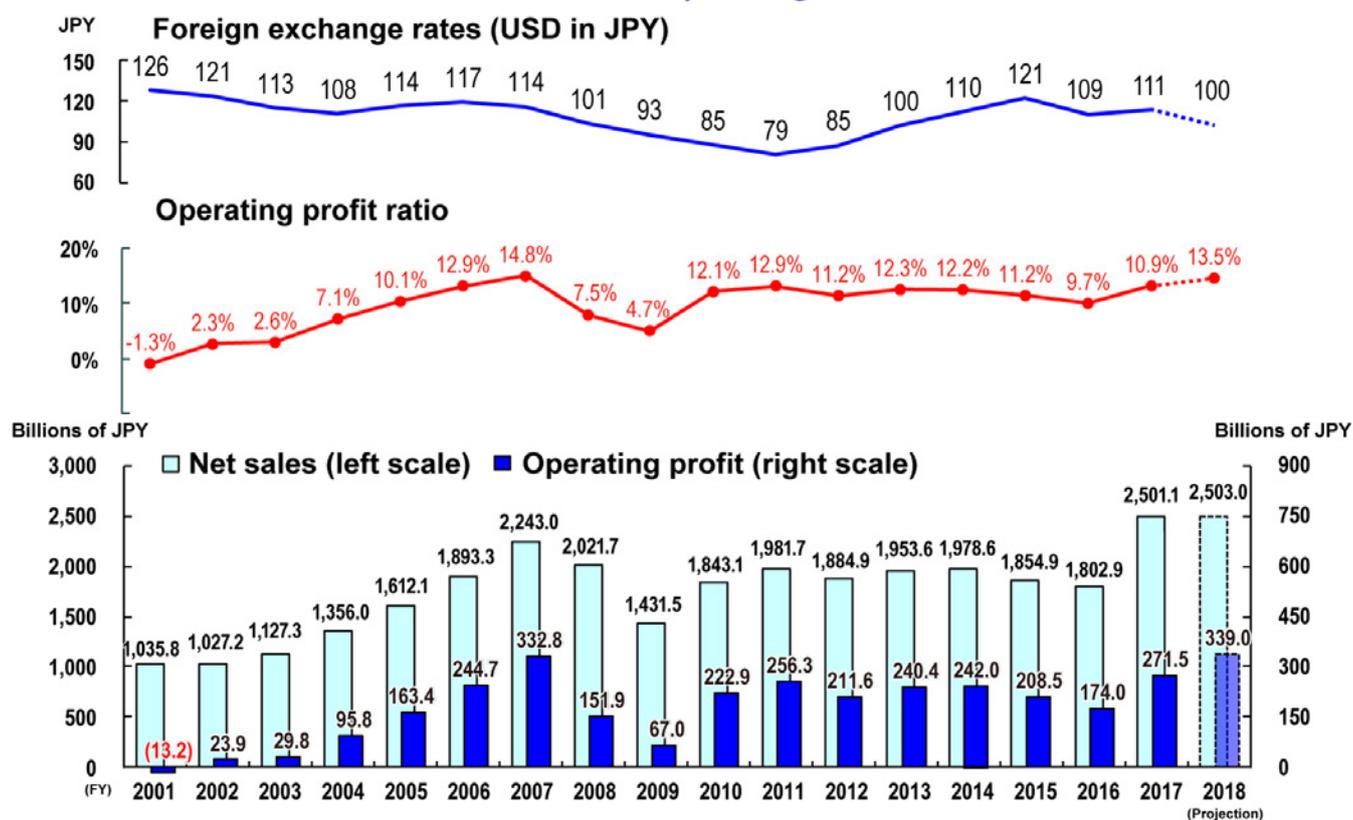
In the construction, mining and utility equipment business, demand increased in all regions of the world, centering on North America, China and Asia, in FY2017. Demand for mining equipment expanded by 60% from FY2016, driven by thriving demand for medium-sized and small models. In addition to capitalizing on these market conditions in FY2017, we benefited from the addition of Komatsu Mining Corp. (KMC) (the former Joy Global Inc.) as a new consolidated subsidiary. As a result, FY2017 consolidated net sales advanced by 38.7% from FY2016, to JPY2,501.1 billion. Operating income for FY2017 improved by 56.0% to JPY271.5 billion, reflecting expanded sales volume which more than offset the temporary expenses associated with the acquisition of Joy Global Inc. (currently, Komatsu Mining Corp.). Operating income ratio also improved to 10.9%.

We are projecting consolidated net sales for FY2018 will total JPY2,503.0 billion, remaining about flat from FY2017, due to the Japanese yen's appreciation. Operating income should increase by 24.8% from FY2017, to JPY339.0 billion for FY2018, reflecting a substantial decline of temporary expenses associated with the acquisition of Joy Global Inc. (currently, Komatsu Mining Corp.).

We are predicting that demand will also remain strong, centering on Strategic Markets in FY2018. However, due to the Japanese yen's appreciation.

In the construction, mining and utility equipment business, we are projecting that demand will stay fairly strong in FY2018, centering on Strategic Markets. Nevertheless, the future of global economies remains uncertain, requiring us to closely monitor market conditions of emerging and resource-rich countries, in particular.

## Net Sales and Operating Profit



## Progress Made in the Mid-range Management Plan

In the current mid-range management plan, we have set goals for growth, profitability, efficiency, profit redistribution to shareholders, financial soundness, and ROA and net debt-to-equity ratio in the retail finance business. With respect to growth, consolidated net sales for FY2017 expanded by 34.8% from FY2015, the preceding fiscal year of the current mid-range management plan. Concerning profitability, operating income ratio for FY2018 should improve by 2.3 points from FY2015, to 13.5%. With respect to ROE, it was 12.1% for FY2017, achieving the goal of 10%. Concerning profit redistribution to shareholders, we increased annual dividend per share by JPY26 for FY2017 from FY2015. For FY2018, we are planning to increase annual dividend per share by JPY38 from FY2015 to JPY96.

All in all, I believe we made good progress in the second year of the three-year plan.

	Target	Index	FY2016	FY2017	FY2018
			Results	Results	Plan
<b>Growth</b>	Aim at a growth rate above the industry's average.	Growth rate of sales [VS FY2015]	(2.8%)	38.7% [34.8%]	0.1% [34.9%]
<b>Profitability</b>	Aim at an industry's top-level operating income ratio.	Operating income ratio	9.7%	10.9%	13.5%
<b>Efficiency</b>	Aim at 10%-level ROE.	ROE	7.3%	12.1%	13.4%
<b>Shareholder return</b>	Keep a fair balance between investment for growth and shareholder return (incl. stock buyback), while placing main priority on investment. Set the goal of a consolidated payout ratio of 40% or higher, and maintain the policy of not decreasing dividends as long as the ratio does not surpass 60%.	Consolidated payout ratio	48.2% (Dividend: JPY58)	40.3% (Dividend: JPY84)	40.1% (Dividend: JPY96)
<b>Financial position</b>	Aim at industry's top-level financial position.	Net D/E ratio	0.18	0.40	—
<b>Retail finance business</b>	ROA: 2.0% or above	ROA	0.7%	1.9%	—
	5.0 or under for net D/E ratio	Net D/E ratio	3.65	3.50	—

**Q** Please update the achievements and remaining tasks of the growth strategies based on innovation, one of the three core strategies of the current mid-range management plan.



Growth strategies based on innovation are one of three management strategies in the ongoing mid-range management plan. In this undertaking, we are working to expand our business domain by providing products, services or solutions with new values which take full advantage of ICT (Information and Communication Technology) and IoT (Internet of Things) benefits.

To substantially improve the safety, environmental impact and productivity of customers' jobsite operations, our SMART-CONSTRUCTION and Autonomous Haulage System (AHS) have achieved automation and unmanned operation of machines by using cutting-edge ICT benefits.

Looking ahead, we are accelerating the speed of developing next-generation components designed for use in our future products, services and solutions. We are also developing next-generation KOMTRAX.

**SMARTCONSTRUCTION**

The cumulative number of SMARTCONSTRUCTION-deployed jobsites in Japan have steadily grown, surpassing 5,500.



*In May 2018, we began a new SMARTCONSTRUCTION service under the name of “EverydayDrone” which will make dynamic progress in the daily management of jobsite operations. It will make drone-based surveying very easy so that anyone can perform it every day. 3D survey data, after unneeded objects have been removed, are uploaded on the LANDLOG platform and will instantly become available for browsing. (This photo is for illustrative purposes.)*

In July 2017, NTT DOCOMO, Inc., SAP Japan Co., Ltd., OPTIM Corporation and Komatsu agreed to jointly operate LANDLOG, an ICT platform to collect and centrally manage data of the entire production processes of construction. To expand the business into the future, the four partners have also established LANDLOG Ltd., which is working very hard to strengthen collaboration with venture and other entities equipped with cutting-edge ICT, including “visualization” of jobsite information, virtual reality and AI (Artificial Intelligence).



*In December 2017, Komatsu and NVIDIA Corporation, a leading semiconductor manufacturer of the United States, announced the partnership agreement committed to improving the safety and productivity of construction jobsite operations. By effectively utilizing NVIDIA's technologies and know-how in the areas of image processing, virtual reality and AI, we should be able to speed up our achievement of “construction jobsites of the future” which connect all jobsite information related to people and things by ICT. (This photo is for illustrative purposes.)*

## Column

## Autonomous Haulage System: 10th Anniversary of Commercial Deployment



*930E AHS dump truck (front and back) teaming up with a 4100C P&H-brand (currently, KMC's brand) electric rope shovel in Suncor Energy's mine in Canada.*

Back in 2005, we began trial operations of our Autonomous Haulage System (AHS) at Codelco's copper mine in Chile, and succeeded in achieving the world's first commercial deployment of AHS with Codelco in January 2008. January 2018 marks the 10th anniversary.

As of December 31, 2017, there were over 100 AHS trucks operating around the clock, hauling iron ores, copper and coal, in six mines in Australia, Chile and Canada.

In the period of 10 years, the AHS recorded a cumulative total of 1.5 billion tons of hauled materials. While meeting different geological and climate conditions, AHS not only features outstanding safety compared to manned hauling trucks, but also has improved customer productivity, reducing loading and hauling unit costs by more than 15%\*. In addition, the optimized automatic controls of the AHS reduce sudden acceleration and abrupt steering, resulting in 40%\* improvement in tire life. Further, with such benefits of AHS deployment, we have also provided important value to customers in terms of reducing the environmental impact.

In 2017, we successfully completed trials of our AHS retrofit kit for manned 830E electric dump trucks (maximum payload: 220 tons), and have received orders in Australia.

\* Based on Komatsu's research

## **Q Please share your thoughts on the progress and tasks ahead concerning the growth strategies of existing businesses.**

Ongoing integration of the former Joy Global Inc. [currently, Komatsu Mining Corp. (KMC)], which we acquired in April 2017, is the most important task for growth strategies of existing businesses. (Visit the column for more information.)

We have also been focusing our efforts to develop new products, including DANTOTSU products, expand the value chain business, further reinforce our operations in Asia, and strengthen our presence in markets for application-specific machines, such as the aggregate and cement sector, as well as forestry.

### **Product Development**

In September 2017, we embarked on sales of medium-sized “PC200-11” and “PC200i-11” intelligent Machine Control hydraulic excavators, both compliant with the Act on Regulation, Etc. of Emissions from Non-Road Special Motor Vehicles of 2014, the so-called “Off-Road Vehicle Act” (Tier 4 Final in the United States). New products have the feature of outstanding reduction of NOx emissions while achieving a high level of productivity and fuel economy. We have been working to develop the new models which feature refined environmental performance, safety and ICT applications.



*PC200-11 model (left) and ICT-intensive PC200i-11 (right), both launched in Japan in September 2017. Both models adopt the new diesel engine exhaust aftertreatment system for construction equipment, enabling an outstanding reduction of NOx and particulates emissions. By optimizing controls of body units and adopting an automatic cutoff function of idling, they also achieve a high level of both productivity and fuel economy.*

For forklift trucks, we have worked to develop and introduce models with unique features, such as the electric FE Series which can be deployed in demanding jobsites, where it's been impossible for conventional electric models.

In the industrial machinery business, Komatsu Industries Corp., a wholly owned subsidiary, launched sales of the “H2FM630” Servo press in March this year. Equipped with a water-cooled, high-torque servomotor and a large-capacity capacitor storage system, the H2FM630 achieves outstanding improvements in productivity and environmental performance, compared to conventional presses.



*FE25 Electric Forklift: FE-Series electric forklift trucks not only adopt easy-maintenance batteries and Komatsu-original rapid charging system, but also feature excellent water and dust-proof designs. As a result, FE-Series models can be used for handling heavy objects in demanding outdoor and dusty environments, where internal combustion models have conventional advantages over electric counterparts.*

*Since their market introduction in 2014, the FE-Series models have been appreciated by customers for their superior environmental performance, operator comfort and low running costs, the innate advantages of electric models, even when they are used in challenging environments for electric models.*

### Value Chain Business and Reinforcement of Distributors

Through reinforcement of the value chain business, we work to ensure no machine downtime and create higher added value for customers, as we offer retail finance, parts, attachments, service, and rental to used equipment in the lifecycle of our products from customers' purchase to disposal or trade-in. These efforts range greatly from an expanded product mix of high value-added parts and products to maintenance service contracts designed to cut down total costs. Nevertheless, the most important is the human resource development of sales and service distributors. We are working to expand and strengthen our training efforts.



*H2FM630" Servo press is equipped with a water-cooled, high-torque servomotor, which features excellent cooling efficiency, and achieves the industry's top-level productivity. Komatsu Industries has also developed a new large-capacity capacitor storage system for presses, based on performance-proven capacitors used in hybrid hydraulic excavators, and has installed in this press as a standard feature. The capacitor reduces both electric power capacity and consumption down to the level of mechanical presses.*



*PC700LC-8 hydraulic excavator deployed in an aggregate jobsite in Australia. We are involved in a variety of businesses in the value chain to ensure no machine downtime at customers' jobsites and to create higher added value for them.*

## Reinforcement of Operations in Asia

We are advantageously positioned in emerging markets in Asia, and we can expect continuing growth into the future. To further enhance our market presence, we are continuing our efforts to develop and launch Strategic Markets-specific models with excellent robustness\*, expand the value chain business, and strengthen distributors. As part of such efforts, we established the Asia Development Center in Indonesia in October 2016. In Thailand, the Asia Training & Demonstration Center started training of distributors in November 2016.

\*Robustness: The ability to withstand assumed demanding jobsite conditions in emerging countries, such as high temperature, dust and poor-quality fuels, and the reliable performance of not breaking down, not stopping work and easy maintenance.



*Strategic Markets-specific PC130-8MO hydraulic excavator loading aggregates in Yunnan Province, China. This model features excellent robustness, meeting demanding jobsite conditions.*



*Asia Training & Demonstration Center, built in a suburb of Bangkok, Thailand, began training in November 2016. As part of reinforcing operations in Asia, the Center offers an extensive range of training programs needed for distributors' personnel, including sales of machines and parts, service, and machine operation.*

## Strengthening of Application-specific Model Business

In the forest machine business, we have engaged in aggressive M&As in 2018, that is, Quadco and Southstar forestry attachment operations of a Canadian manufacturer of forestry attachments, and Oryx Simulations Verklighetsmodeller, equipped with advanced simulation technologies of forest machine operations. We are also continuing efforts to accelerate our global presence in the aggregate and cement and other sectors.



*951 Harvester made by Komatsu Forest*

*Komatsu Forest AB, a wholly owned subsidiary headquartered in Umeå, Sweden, manufactures forest machines, such as wheeled harvesters. Harvesters can perform an entire range of work inside the forests, from felling, delimiting and bucking trees. By using its IoT system, the 951 Harvester also offers optimal crosscutting instructions, while enabling the operator to efficiently move the machine and perform work.*

## Column

## Integration of Komatsu Mining Corp.



It's been a little more than a year since Komatsu Mining Corp. (KMC) joined the Komatsu Group in April 2017.

Placing top priority on never lowering our service standards for customers, we, KMC and Komatsu, have converged our capital, intellectual and human resources, generating synergy effects. Two partners have also worked to maximize the value of solutions based on mining equipment under P&H, Joy, Montabert and KOMATSU brands.

Immediately after the acquisition in April 2017, KMC's top management built a new organization with KMC and Komatsu employees with a wealth of professional expertise in global mining business and manufacturing. After careful research and thorough discussions, we announced our integration plan in October 2017.

The plan calls for creation of energy in the three areas of expanding sales, reducing costs and curbing investment. As KMC's and Komatsu's products don't overlap, we have achieved an extensive line up of surface and underground mining equipment for customers. Specifically, we are allowing three years for the integration and we are working to add synergy effects of 10% in KMC's sales for FY2021.

In FY2017, the first year of the integration process, we achieved more-than-planned for synergy effects of about JPY2.5 billion on a pretax profit basis. Synergy effects include cases in which a new order was received for KMC's rope shovel by capitalizing on Komatsu's relationship of trust with the customer as well as expanded sales by mutually using KMC's and Komatsu's supply chains and service bases.

With a tailwind of recovering market conditions of mining equipment, KMC's sales advanced by 20.8%\* from the previous fiscal year, to JPY317.8 billion for FY2017, ended March 31, 2018. Operating income, excluding temporary expenses associated with the acquisition, expanded by 163.4%\* to JPY35.3 billion, which translates into an operating income ratio of 11.1%.

\*After reclassifying the former Joy Global Inc.'s business results (November to October) according to Komatsu's fiscal year (April to March).



*Remanufacturing of components of mining equipment is undertaken at KMC's and Komatsu's facilities.*



*P&H-brand L-2350 wheel loader features the standard bucket capacity of 40.52m<sup>3</sup>, about doubling that of KOMATSU-brand WA1200 wheel loader, the largest model conventionally offered by Komatsu.*

## **Q Please update your efforts for the Structural Reforms Designed to Reinforce the Business Foundation.**

We have consistently worked to improve production costs and maintain an appropriate level of fixed costs through continuous TQM\* and other efforts. We are promoting KOM-MICS (Komatsu Manufacturing Innovation Cloud System) which networks not only our plants but also with our suppliers by taking full advantage of IoT (Internet of Things) and “visualizes” information concerning facilities and machining, and this information is analyzed by our Manufacturing Engineering Development Center to improve manufacturing processes. By connecting all processes on a real-time basis through IoT, we are working to eliminate wasteful operations in production as we team up with our suppliers on a global basis.

In our reforms of spare parts operation, we have built the model Spare Parts Center in Tochigi Prefecture, which features logistic and process know-how of our production and latest ICT technologies. By applying features of this model facility to other facilities around the world, we are working to improve the global supply of parts and to reduce logistic costs and inventories at the same time.

Concerning non-manufacturing-related areas, Komatsu Construction Equipment Sales and Service Japan Co., Ltd., Komatsu Rental Ltd. and Komatsu Forklift Japan Ltd., merged to establish Komatsu Customer Support Japan Ltd. on April 1, 2018. In addition to strengthening its responses to diversifying corporate responsibilities in legal, finance and other affairs, the new company is working for sustainable growth in the matured Japanese market.

\*TQM (Total Quality Management): The method to improve quality of not only products and service, but also management and work processes through continuous improvement efforts.

### **Enhancement of Diversity**

Human resource development is an important matter for us. We are continuing efforts to strengthen human resource development on a global scale and promote diversity.

With KMC as a new member of the Komatsu Group, employees with foreign citizenships have grown to account for 67% of total Komatsu Group employees. Accordingly, promotion of The KOMATSU Way, the foundation of our management, has become an urgent task. In addition to The KOMATSU Way training programs, which we have conducted at major overseas subsidiaries, we are revising The KOMATSU Way booklet with contents which are easy for foreign colleagues to understand.

## Q Please explain Komatsu efforts in ESG issues.

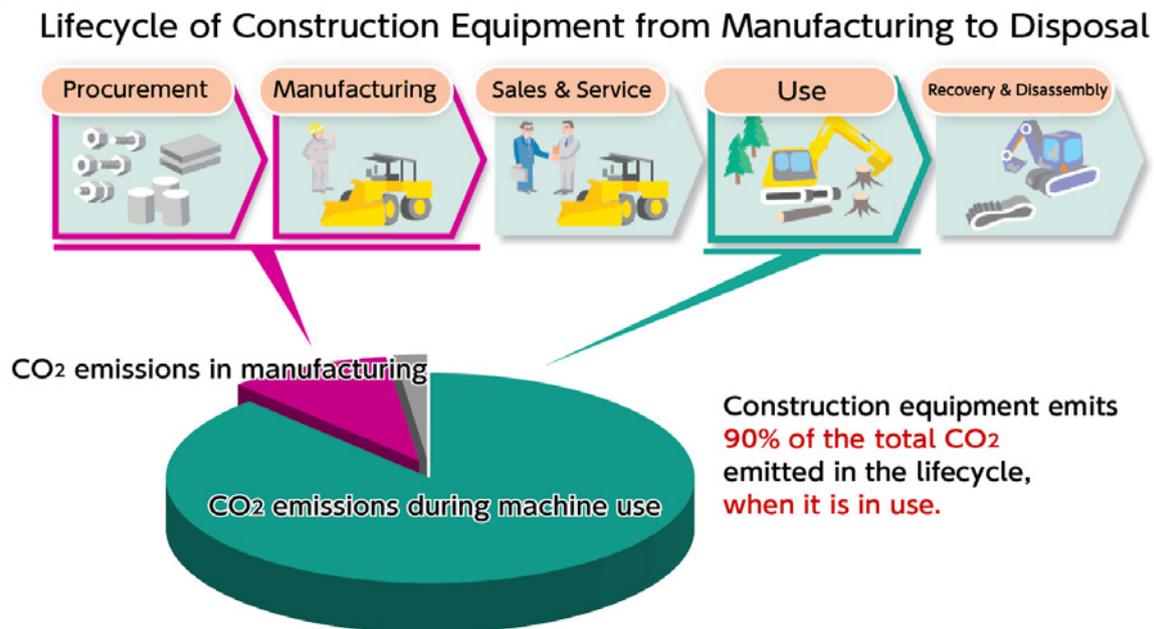
Since the 1990s, we have made diligent efforts in environmental, social and governance issues, responding to social issues through our business activities in which we have engaged for the goal of enhancing stakeholders' trust in us. The ongoing mid-range management plan, which we developed in 2016, is based on The KOMATSU Way, and includes strengthening and promoting engagement in ESG issues.

[For more information about our ESG engagement, please check the CSR and Environmental Report.](#) 

### E: Environmental conservation efforts

Concerning environmental protection in the ongoing mid-range management plan, we have been making efforts to reduce CO<sub>2</sub> emissions and promote efficient use of resources by innovating jobsites where our construction equipment is in use or production, thereby working to enhance stakeholders' trust in us. In our environmental conservation efforts, we "visualize" our environmental impact in all business activities and will continue to lower it in the mid to long ranges.

With respect to CO<sub>2</sub>, which affects climate change, CO<sub>2</sub> emissions during machine use account for about 90% of the total lifecycle emissions of construction equipment. This percentage of CO<sub>2</sub> emissions parallels fuel consumption. We are promoting dual efforts to lower environmental impact and streamline customers' work efficiency through three perspectives of 1) development of excellent fuel-economy products, 2) studies of energy-saving machine operation methods and 3) outstanding improvement of construction efficiency using automation and unmanned operation of machines.



Percentage of CO<sub>2</sub> emissions during machine use in the lifecycle

### S: Social efforts

We have defined the following three CSR themes of 1) Enhancing Quality of Life, 2) Developing People, and 3) Growing with Society. In addition to making CSR efforts through our business activities, we also make social contribution efforts by utilizing our strengths, thereby fulfilling our corporate social responsibility. Our main CSR efforts include removal of anti-personnel landmines mainly in Cambodia. In Cambodia, 2018 marked the 10th anniversary of our efforts there, having reconstructed communities, including eight elementary schools. We also provide technical training programs in South Africa, Peru and some other countries, thereby increasing employment opportunities for trainees and leading to the social and economic growth of local communities. Some of the graduates are employed by our local companies, becoming important resources to support our local operations.



*2018 marks the 10th anniversary of our removal of anti-personnel landmines project in Cambodia, which also calls for the reconstruction of local communities. By not only removing landmines (bottom left) but also renting construction equipment at no cost and making donations for the project, we have been building irrigation ponds and roads (above). Local residents have become able to farm demined and safe land and transport their harvests to local markets to generate cash income. As revitalization of communities has progressed, the number of children has also grown. We have donated a total of eight elementary schools (bottom right).*

**G: Governance efforts***Board of Directors*

*Front row from the left: Kunio Noji, Chairman of the Board and Director, Tetsuji Ohashi, President and CEO, Representative Director and Executive Vice President and Representative Director*

*Back row from the left: Hiroyuki Ogawa, Director and Senior Executive Officer, Mitoji Yabunaka, Outside Director, Masayuki Oku, Outside Director, Makoto Kigawa, Outside Director, and Kuniko Urano, Director and Senior Executive Officer*

We, at Komatsu, believe that our corporate value is the total sum of trust given to us by society and all our stakeholders. To become a company further trusted by our shareholders and all other stakeholders, we are strengthening our group-wide corporate governance and working to improve management efficiency, instill corporate ethics and secure management soundness.

We position the Board of Directors as the core of corporate governance. To enhance the effectiveness of the Board, we have made efforts to strengthen and improve our corporate governance, including the establishment of the Audit & Supervisory Board in 1994, issuance of “Komatsu’s Worldwide Code of Business Conduct” and the establishment of the Compensation Advisory Committee.

Since 1999 when we adopted the Executive Officer System, we have worked to clearly separate, within the limits of the laws and regulations, the management decision-making and supervisory functions from the executive function. To enhance the effectiveness of the Board, we have also reduced the number of Board members and invited Outside Directors and Auditors. We have made efforts to reform the operation of Board meetings so that Board members can engage in thorough discussions of important agendas and quick decision making.

In April 2018, based on the deliberations and report by the Compensation Advisory Committee, we adopted the Restricted Stock Compensation System for the remuneration of the Directors, excluding Outside Directors, in order to link them more closely to the Company’s performance and further contribute to the enhancement of the medium- and long-term corporate value of the Company. At the same time, we also introduced the performance-based remuneration that will reflect the degree of achievement of the targets set in the mid-range management plan.

To further enhance our transparent management for our shareholders and investors, we are working to ensure fair and timely information disclosures and make active IR efforts, such as regional meetings with individual shareholders and IR meetings with investors and securities analysts.

## **Q A big shift is advancing around the world from the use of fossil fuels, which cause climate change, to the use of renewable energy. How will these energy sources such as carbon-free and moving-away-from fossil fuels trends affect Komatsu's business in the mid- to long-range terms?**

We are making efforts to understand and solve mid- to long-range issues as we engage in constructive discussions with a wide range of our stakeholders, such as customers, shareholders and investors. Concerning global warming, one of these issues, we have led our competitors by not only developing products, services and solutions, which feature excellent environmental performance, but also by continuing efforts to reduce environmental impact in all stages of our business, including development, production, logistics, sales and service. As the world is recently paying keen attention to trends which are carbon-free and moving-away-from fossil fuels, we are reassessing how a mid- to long-range projection of coal mining will affect our business as one of our mid- to long-range issues, as well as how to reduce the environmental impact in our business.

### **The future of the mining equipment business**

Coal, widely distributed, especially throughout the Asia Pacific Basin, is not only an indispensable energy source for people's daily life in emerging countries, but also has an extremely important implication as a financial source, supporting economic growth of coal-exporting countries. With respect to the possibility of replacing coal with renewable energy in the future, we need to keep on monitoring closely, because it's related to complicated factors, such as technological advancement and costs. We believe that demand for coal will remain at a specified level without plunging, for the time being, as the world works to incorporate new technologies which feature a lower environmental impact from coal consumption.

Today, our dump trucks and mining shovels are also deployed in mines for minerals other than coal, such as iron, copper, gold, cobalt, and rare-earth. As a result of acquiring Komatsu Mining Corp. (the former Joy Global Inc.) in FY2017, we have become able to also offer underground mining machines to customers, who are going deeper for copper and other minerals. More importantly, we are working to help customers reduce CO<sub>2</sub> emissions in their mining of resources needed by society, as we provide products capable of efficiently mining coal and all other minerals as well as solutions, such as AHS.

As the shift to renewable energy continues, demand should increase for a wide variety of minerals. We are going to strengthen our business in order to offer mining equipment solutions with safer, more productive and smaller environmental impact, and working for further business growth.

### **Electrification of construction and mining equipment**

Committed to reduce CO<sub>2</sub> emissions in all stages of our product lifecycle, ranging from development, procurement, production, machine use, and disposal, we have also set the goal of reducing CO<sub>2</sub> emissions per work performance from our machines in use in the ongoing mid-range management plan. Concerning the machines made in FY2017, they have achieved 7.4% reduction in CO<sub>2</sub> emissions compared to those machines in FY2007, the base year. When they are used for one year, we will reduce 210,000 tons of CO<sub>2</sub> per machine.

[Related page of the CSR & Environmental Report 2018](#)



Electrification is one of our next-generation technologies. We led the world in commercializing hybrid hydraulic excavators in 2008, and since then have promoted in-house development and production of hybrid motors and other electric components. With respect to mining equipment, we have conventionally offered electric motor-drive dump trucks and shovels. In the area of utility equipment, we have developed new electric forklift trucks capable of replacing internal combustion models and are working to expand their sales.

As we look ahead, we are not only accelerating the speed of developing environment-friendly products, but we're also making more efforts to develop new service solutions which reduce fuel consumption and CO<sub>2</sub> emissions by dynamically improving work efficiency.

## Highlights of FY2017 Results

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For FY2017 (April 1, 2017 – March 31, 2018), consolidated net sales totaled JPY2,501.1 billion, up 38.7% from the previous fiscal year, partly reflecting the benefits of including Joy Global Inc. (currently, Komatsu Mining Corp.) as a new consolidated subsidiary. We acquired this leading manufacturer of mining equipment in the United States in April 2017. With respect to profits, operating income expanded by 56.0% to JPY271.5 billion, and the operating income ratio improved by 1.2 percentage points to 10.9%. Net income attributable to Komatsu Ltd. totaled JPY196.4 billion, up 73.2%.

### Construction, Mining and Utility Equipment

In addition to steadfastly capturing demand in China, Indonesia and many other countries, we also acquired Komatsu Mining Corp. As a result, sales of the construction, mining and utility equipment business expanded by 44.7% from the previous fiscal year, to JPY2,280.9 billion. Segment profit reached JPY275.9 billion, an increase of 70.7% from the previous fiscal year, supported by expanded sales around the world, more than offsetting temporary expenses incurred in relation to the acquisition of Joy Global Inc.

### Retail Finance

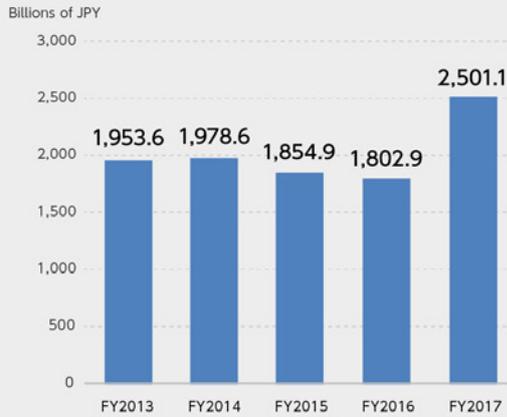
Revenues advanced by 22.8% from the previous fiscal year, to JPY60.3 billion, mainly supported by increased assets in North America. Segment profit climbed by 191.1% to JPY12.9 billion, mainly reflecting no more allowance for doubtful accounts recorded in China.

### Industrial Machinery and Others

Sales decreased by 2.9% from the previous fiscal year, to JPY185.4 billion, as affected by reduced sales of presses and wire saws as well as declined sales to Japan's Defense Agency, while sales of machine tools to the automobile manufacturing industry increased. Segment profit improved by 16.0% to JPY14.4 billion.

Consolidated Business Results

Net Sales



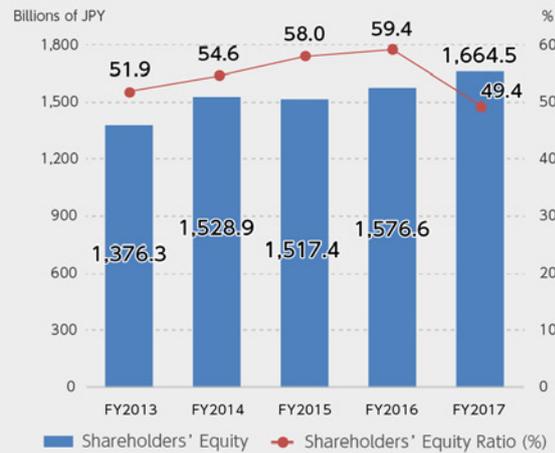
Operating Income and Ratio



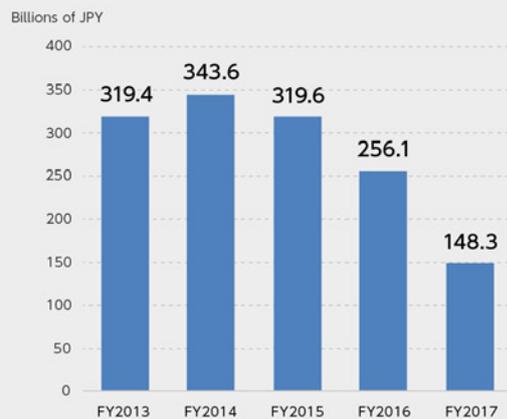
Net Income Attributable to Komatsu Ltd. and ROE



Shareholders' Equity and Shareholders' Equity Ratio



Net Cash Provided by Operating Activities



Annual Cash Dividend per Share



## Five-year Summary

Komatsu Ltd. and Consolidated  
Subsidiaries

Millions of JPY (except per share amounts)

	FY2017	FY2016	FY2015	FY2014	FY2013
<b>For the fiscal period</b>					
Net sales	¥2,501,107	¥1,802,989	¥1,854,964	¥1,978,676	¥1,953,657
Cost of sales	1,765,832	1,286,424	1,315,773	1,401,193	1,393,048
Operating income	271,581	174,097	208,577	242,062	240,495
Operating income ratio	10.9%	9.7%	11.2%	12.2%	12.3%
Income before income taxes and equity in earnings of affiliated	291,807	166,469	204,881	236,074	242,056
Net income attributable to Komatsu Ltd.	196,410	113,381	137,426	154,009	159,518
Capital investment	145,668	142,006	160,051	192,724	179,070
<b>At fiscal period-end</b>					
Total assets	¥3,372,538	¥2,656,482	¥2,614,654	¥2,798,407	¥2,651,556
Working capital	807,930	719,339	685,559	716,524	701,201
Property, plant and equipment	740,528	679,027	697,742	743,919	667,347
Long-term debt-less current maturities	480,698	190,859	212,636	279,270	311,067
Komatsu Ltd. shareholders' equity	1,664,540	1,576,674	1,517,414	1,528,966	1,376,391
Shareholders' Equity Ratio	49.4%	59.4%	58.0%	54.6%	51.9%
<b>Per share data</b>					
Net income attributable to Komatsu Ltd. per share: Basic	¥ 208.25	¥ 120.26	¥ 145.80	¥ 162.07	¥ 167.36
: Diluted	207.97	120.10	145.61	161.86	167.18
Cash dividend per share*	84	58	58	58	53
Komatsu Ltd. shareholders' equity per share	1,764.58	1,672.01	1,609.69	1,622.48	1,443.97

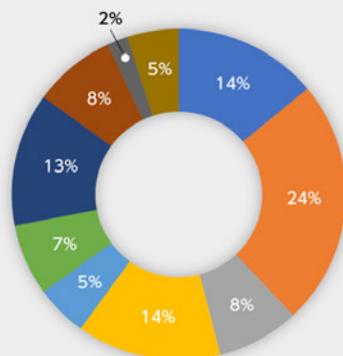
\* Cash dividend per share provided above are based on dividends paid each fiscal year.

Download the excel file



## Business Results of Construction, Mining and Utility Equipment by Region for FY2017

## Sales by Region (To Outside Customers)



Japan	JPY 315.6 billion	+4.7%
North America	JPY 538.2 billion	+59.1%
Europe	JPY 180.4 billion	+33.2%
Latin America	JPY 314.7 billion	+55.1%
CIS	JPY 108.5 billion	+53.9%
China	JPY 164.7 billion	+69.2%
Asia	JPY 298.6 billion	+44.5%
Oceania	JPY 181.9 billion	+72.2%
Middle East	JPY 39.5 billion	+10.4%
Africa	JPY 124.6 billion	+73.4%

### Japan

Sales grew from the previous fiscal year, supported by an increase of demand centering on the rental industry before the enforcement of new emission control regulations.

### Americas

In the United States and Canada, demand for construction equipment increased from the previous fiscal year, centering on the infrastructure development and energy-related sectors. In Latin America, demand for construction equipment grew, especially in Argentina and Mexico. Affected also by the new addition of Komatsu Mining Corp. to consolidated accounting, sales in the Americas expanded sharply from the previous fiscal year.

### Europe & CIS

In Europe, sales expanded sharply from the previous fiscal year, reflecting steady demand for construction equipment, especially in Germany, a major market of the region, and northern Europe. In CIS, sales also expanded sharply, driven by a continued increase in demand for mining equipment, especially in coal and gold mines.

### China

Sales advanced substantially from the previous fiscal year. This was supported by the continued expansion of demand for construction equipment, resulting from the progress of infrastructure development nationwide.

### Asia & Oceania

In Asia, sales expanded sharply from the previous fiscal year, mainly reflecting a steady increase of demand for mining equipment in Indonesia, the largest market of the region, resulting from the growing price of coal. In Oceania, in addition to an increase in demand for mining equipment, sales increased substantially, as also affected by the addition of Komatsu Mining Corp. to consolidated accounting.

### Middle East & Africa

In the Middle East, sales increased from the previous fiscal year, mainly reflecting a recovering trend of market demand in some countries, offsetting negative effects of reduced budgets in Gulf nations in response to lowered crude oil prices. In Africa, sales advanced sharply, supported by an increase in demand for mining equipment in South Africa and benefits of newly adding Komatsu Mining Corp. to consolidated accounting.

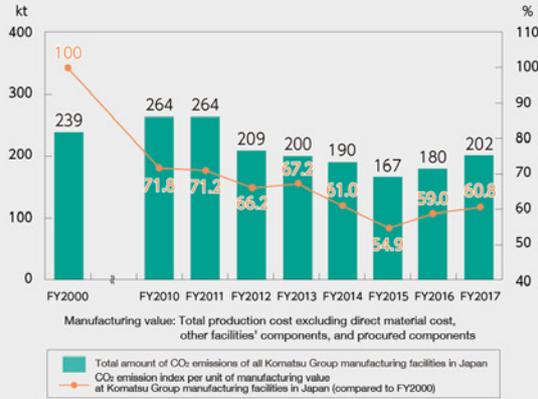
Environmental Indexes

Reducing CO<sub>2</sub> Emissions in Manufacturing Operations

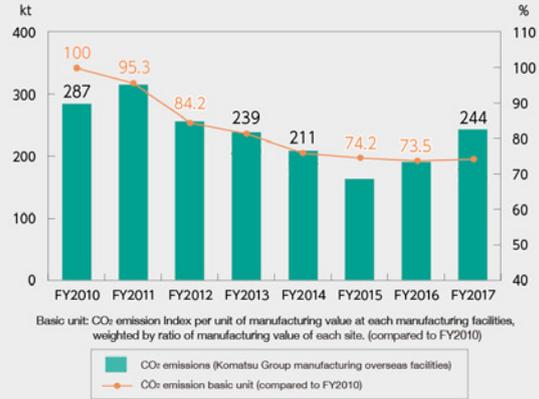
Related page of the CSR & Environmental Report 2018



CO<sub>2</sub> Emissions in Japan



CO<sub>2</sub> Emissions Overseas



Amount of Waste Generated

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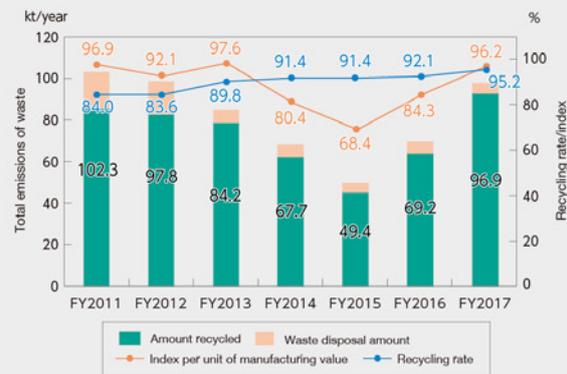
Waste Generated in Japan

(Scope of data gathering: Manufacturing plants of Komatsu and the Komatsu Group in Japan)



Waste Generated Overseas

(Scope of data gathering: Manufacturing plants of Komatsu and the Komatsu Group overseas)



Volume of Water Used

Related page of the CSR & Environmental Report 2018



Volume of Water Used (Japan)



Volume of Water Used (Overseas)



# Corporate Information

(As of March 31, 2018)

## Outline

Name	Komatsu Ltd.
Head Office	2-3-6 Akasaka, Minato-ku, Tokyo 107-8414, Japan
Date of Establishment	May 13, 1921
Common Stock Outstanding	Consolidated: ¥67,870 million based on U.S. GAAP Non-consolidated: ¥70,120 million
Number of Employees	Consolidated: 59,632 (Komatsu Ltd. and 227 consolidated subsidiaries) Non-consolidated: 10,465

## Shareholder Information

Shares of Common Stock Issued and Outstanding	971,967,660 shares (excluding 28,190 thousand shares of treasury stock)
Number of Shareholders	149,459
Number of Shares per Trading Unit	100
Securities Code	6301 (Japan)
Stock Listings	Tokyo
Transfer Agent for Common Stock/Management Institution for Special Account	Mitsubishi UFJ Trust and Banking Corporation 4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8212, Japan
Depositories (ADRs)	The Bank of New York Mellon 101 Barclay Street, New York, NY 10286, U.S.A. Tel: +1-(201)-680-6825 for international calls and 888-269-2377 (888-BNY-ADRS) for calls within U.S.A. URL: <a href="http://www.adrbnymellon.com">http://www.adrbnymellon.com</a> Ticker Symbol: KMTUY

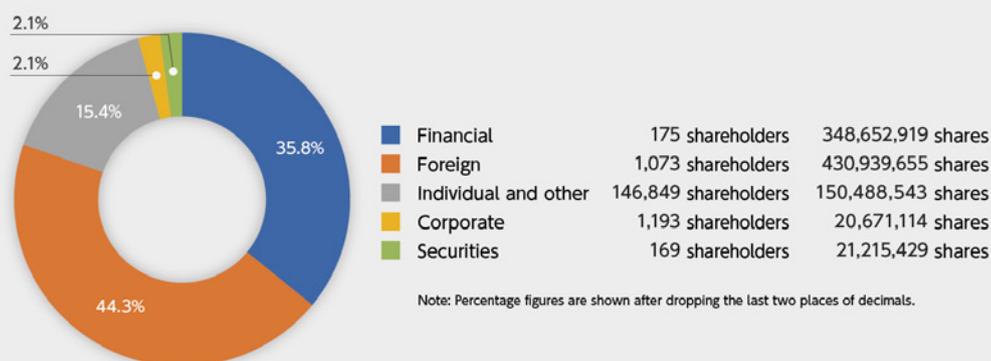
## Major Shareholders

Name	Number of shares held (Thousands of shares)	Shareholding ratio (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	62,612	6.63
Japan Trustee Services Bank, Ltd. (Trust Account)	62,405	6.61
Taiyo Life Insurance Company	34,000	3.60
JP MORGAN CHASE BANK 380055 (Standing proxy: Mizuho Bank, Ltd., Settlement & Clearing Services Division)	33,514	3.55
State Street Bank and Trust Company (Standing proxy: The Hongkong and Shanghai Banking Corporation Limited, Tokyo branch)	20,339	2.15
Nippon Life Insurance Company (Standing proxy: The Master Trust Bank of Japan, Ltd.)	18,638	1.97
Japan Trustee Services Bank, Ltd. (Trust Account 5)	18,451	1.95
Sumitomo Mitsui Banking Corporation	17,835	1.88
Japan Trustee Services Bank, Ltd. (Trust Account 7)	17,183	1.82
STATE STREET BANK WEST CLIENT - TREATY 505234 (Standing proxy: Mizuho Bank, Ltd., Settlement & Clearing Services Division)	17,029	1.80

Notes: 1) Shareholding ratio is calculated by subtracting treasury stock.

2) Although Komatsu Ltd. holds 28,190 thousand shares of treasury stock, it is excluded from the major shareholders listed above.

## Breakdown of Shareholders



## Stock Prices on the Tokyo Stock Exchange

Stock Prices on the Tokyo Stock Exchange (Real-time) [↗](#)

**Please refer to “Annual Securities Report” for more company and financial information.**

- Overview of the Company and Its Consolidated Subsidiaries
- Business Overview
- Property, Plants and Equipment
- Information on the Company
- Financial Information

**Please refer to “CSR and Environmental Report” for more information concerning social and environmental efforts.**

- Stance on CSR Efforts
- Theme 1: Enhancing the Quality of Life (Safety, environmental indexes, etc.)
- Theme 2: Developing People (Diversity, etc.)
- Theme 3: Growing with Society (Compliance, risk management, governance, etc.)

# **KOMATSU**

**KOMATSU**

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<https://home.komatsu/en>

**Corporate Communications Department**

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