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## STRATEGIES ~Starting the New Mid-range Management Plan~

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## INFORMATION

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For Fiscal 2015 (April 1, 2015 to March 31, 2016), consolidated net sales declined by 6.3% from the previous fiscal year, to JPY1,854.9 billion, and operating income by 13.8% to JPY208.5 billion, as affected by a drastic fall in demand for mining equipment and for construction equipment in emerging countries.

As we anticipate a challenging business environment to continue, we have developed a new mid-range management plan for the next three years from FY2016 to FY2018.

The cornerstone of our management principles is to maximize our corporate value through commitment to Quality and Reliability. We will also ensure all employees share The KOMATSU Way. Further, we will continue to address environmental performance, corporate social responsibility and corporate governance, 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, we would like to extend our sincere appreciation to our shareholders and other stakeholders for your continuing support.

July 2016

Kunio Noji, Chairman of the Board

Tetsuji Ohashi, President and CEO
**Consolidated Results**

- **Net Sales**

<table>
<thead>
<tr>
<th>Billions of JPY</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY2013</td>
</tr>
<tr>
<td>FY2014</td>
</tr>
<tr>
<td>FY2015</td>
</tr>
<tr>
<td>FY2016 (Projected)</td>
</tr>
</tbody>
</table>

- **Operating Income and Ratio**

<table>
<thead>
<tr>
<th>Billions of JPY</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY2013</td>
</tr>
<tr>
<td>FY2014</td>
</tr>
<tr>
<td>FY2015</td>
</tr>
<tr>
<td>FY2016 (Projected)</td>
</tr>
</tbody>
</table>

- **Net Income attributable to Komatsu Ltd. and ROE**

<table>
<thead>
<tr>
<th>Billions of JPY</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY2013</td>
</tr>
<tr>
<td>FY2014</td>
</tr>
<tr>
<td>FY2015</td>
</tr>
<tr>
<td>FY2016 (Projected)</td>
</tr>
</tbody>
</table>

- **Foreign Exchange Rates**

<table>
<thead>
<tr>
<th></th>
<th>FY2014</th>
<th>FY2015</th>
<th>FY2016 (Projected)</th>
</tr>
</thead>
<tbody>
<tr>
<td>USD1</td>
<td>JPY109.7</td>
<td>JPY120.8</td>
<td>JPY105.0</td>
</tr>
<tr>
<td>EUR1</td>
<td>JPY139.6</td>
<td>JPY132.4</td>
<td>JPY119.0</td>
</tr>
<tr>
<td>RMB1</td>
<td>JPY17.7</td>
<td>JPY19.0</td>
<td>JPY16.2</td>
</tr>
</tbody>
</table>

**Cash Dividend**

- **Annual cash dividends per share**

<table>
<thead>
<tr>
<th>FY2013</th>
<th>FY2014</th>
<th>FY2015</th>
<th>FY2016 (Projected)</th>
</tr>
</thead>
<tbody>
<tr>
<td>JPY 58</td>
<td>JPY 58</td>
<td>JPY 58</td>
<td>JPY 58</td>
</tr>
</tbody>
</table>

**Dividend Policy**

In the new mid-range management plan, which began in April 2016, we have revised the policy of redistribution of profits as follows.

- We set the goal of a consolidated payout ratio of 40% or higher and no decrease of dividends, as long as the consolidated payout ratio does not surpass 60%.
  - **Up 10 points**

Previously, a consolidated payout ratio of 30% or higher and no decrease of dividends, as long as the consolidated payout ratio does not surpass 50%.

*Based on the resolutions of the annual shareholders' meeting.
Highlights of Business Results for FY2015
(April 1, 2015 – March 31, 2016)

For the fiscal year under review, which was the final year of the “Together We Innovate GEMBA Worldwide” mid-range management plan, consolidated net sales totaled JPY 1,854.9 billion, and operating income, JPY 208.5 billion. Operating income ratio was 11.2%. Net income attributable to Komatsu Ltd. amounted to JPY 137.4 billion.

<table>
<thead>
<tr>
<th></th>
<th>FY2015</th>
<th>Change from FY2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consolidated net sales</td>
<td>JPY 1,854.9 bn</td>
<td>-6.3%</td>
</tr>
<tr>
<td>Operating income</td>
<td>JPY 208.5 bn</td>
<td>-13.8%</td>
</tr>
<tr>
<td>Operating income ratio</td>
<td>11.2%</td>
<td>-1.0 pt.</td>
</tr>
<tr>
<td>Net income attributable to Komatsu Ltd.</td>
<td>JPY 137.4 bn</td>
<td>-10.8%</td>
</tr>
<tr>
<td>ROE</td>
<td>9.0%</td>
<td>-1.6 pts.</td>
</tr>
</tbody>
</table>

[Construction, Mining & Utility Equipment]

Sales of the construction, mining and utility equipment business amounted to JPY 1,641.0 billion, down 6.9% from the previous fiscal year. Segment profit declined by 19.0% to JPY 184.1 billion.

While continuing to face a challenging business environment, characterized by a drastic drop in demand for mining equipment and sluggish demand for construction equipment in emerging countries, Komatsu promoted SMARTCONSTRUCTION, a solutions business designed to realize “construction jobsites of the future”, mainly in Japan. With respect to intelligent Machine Control construction equipment, Komatsu launched it in Australia, following Japan, North America and Europe. Komatsu also broadened its model range during the year. As for products designed to comply with new emission standards, Komatsu has developed a total of 33 models and worked to expand their sales.

In the after-market business, Komatsu steadfastly captured demand, thereby achieving the record-high sales of spare parts for the year under review, renewing the previous record-high figure a year ago.

To reinforce operations in Asia, Komatsu opened a new assembly plant for hydraulic excavators in India and a new base for the remanufacturing of components and production of generators in Myanmar. In Mexico, an important market for its business, Komatsu acquired a local distributor in order to handle both construction and mining equipment businesses.

[Industrial Machinery & Others]

Sales decreased by 0.6% from FY2014, to JPY 220.1 billion, and operating profit declined by 19.2%, to JPY 19.3 billion. While GIGAPHOTON INC. expanded sales, supported by stable machine utilization of the semiconductor industry, sales of presses declined.

Under such an environment, Komatsu restructured its industrial machinery operations by consolidating the machine tools unit in the Toyama area and the sheet-metal and presses machines unit in the Ishikawa area.

During the year, GIGAPHOTON also developed and commercialized the leading-edge Excimer laser cutting machine model, designed to dynamically reduce the consumption of electric power and neon gas, and worked to expand sales thereof.
**Five-Year Summary**

Komatsu Ltd. and Consolidated Subsidiaries  

**Millions of yen (except per share amounts)**

<table>
<thead>
<tr>
<th></th>
<th>FY2015</th>
<th>FY2014</th>
<th>FY2013</th>
<th>FY2012</th>
<th>FY2011</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>For the fiscal period</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net sales</td>
<td>¥1,854,964</td>
<td>¥1,978,676</td>
<td>¥1,953,657</td>
<td>¥1,884,991</td>
<td>¥1,981,763</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>1,315,773</td>
<td>1,401,193</td>
<td>1,393,048</td>
<td>1,377,459</td>
<td>1,440,785</td>
</tr>
<tr>
<td>Operating income</td>
<td>208,577</td>
<td>242,062</td>
<td>240,495</td>
<td>211,602</td>
<td>256,343</td>
</tr>
<tr>
<td>Operating income ratio</td>
<td>11.2%</td>
<td>12.2%</td>
<td>12.3%</td>
<td>11.2%</td>
<td>12.9%</td>
</tr>
<tr>
<td>Income before income taxes and equity in earnings of affiliated companies</td>
<td>204,881</td>
<td>236,074</td>
<td>242,056</td>
<td>204,603</td>
<td>249,609</td>
</tr>
<tr>
<td>Net income attributable to Komatsu Ltd.</td>
<td>137,426</td>
<td>154,009</td>
<td>159,518</td>
<td>126,321</td>
<td>167,041</td>
</tr>
<tr>
<td>Capital investment</td>
<td>160,051</td>
<td>192,724</td>
<td>179,070</td>
<td>136,962</td>
<td>122,038</td>
</tr>
<tr>
<td><strong>At fiscal period-end</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total assets</td>
<td>¥2,614,654</td>
<td>¥2,798,407</td>
<td>¥2,651,556</td>
<td>¥2,517,857</td>
<td>¥2,320,529</td>
</tr>
<tr>
<td>Working capital</td>
<td>685,559</td>
<td>716,524</td>
<td>701,201</td>
<td>664,480</td>
<td>536,662</td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>697,742</td>
<td>743,919</td>
<td>667,347</td>
<td>585,220</td>
<td>529,656</td>
</tr>
<tr>
<td>Long-term debt-less current maturities</td>
<td>212,636</td>
<td>279,270</td>
<td>311,067</td>
<td>343,814</td>
<td>312,519</td>
</tr>
<tr>
<td>Komatsu Ltd. shareholders' equity</td>
<td>1,517,414</td>
<td>1,528,966</td>
<td>1,376,391</td>
<td>1,193,194</td>
<td>1,009,696</td>
</tr>
<tr>
<td>As percentage of total assets</td>
<td>58.0%</td>
<td>54.6%</td>
<td>51.9%</td>
<td>47.4%</td>
<td>43.5%</td>
</tr>
<tr>
<td><strong>Per share data</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net income attributable to Komatsu Ltd. per share: Basic</td>
<td>¥145.80</td>
<td>¥162.07</td>
<td>¥167.36</td>
<td>¥132.64</td>
<td>¥173.47</td>
</tr>
<tr>
<td>Diluted</td>
<td>145.61</td>
<td>161.86</td>
<td>167.18</td>
<td>132.51</td>
<td>173.32</td>
</tr>
<tr>
<td>Cash dividends per share*</td>
<td>58</td>
<td>58</td>
<td>53</td>
<td>45</td>
<td>41</td>
</tr>
<tr>
<td>Komatsu Ltd. shareholders' equity per share</td>
<td>1,609.69</td>
<td>1,622.48</td>
<td>1,443.97</td>
<td>1,252.33</td>
<td>1,060.31</td>
</tr>
</tbody>
</table>

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

Excel data is available at: http://www.komatsu.com/CompanyInfo/ir/financial_highlights/
STRATEGIES

WORKING FOR SUSTAINABLE GROWTH
Starting the New Mid-range Management Plan

SUMMARY OF THE LAST THREE YEARS
AND MID TO LONG-RANGE PROJECTION

Review of the Previous Mid-range Management Plan

We promoted the “Together We Innovate GEMBA Worldwide” mid-range management plan for three years from April, 2013 to March, 2016.

During this period, demand for construction and mining equipment continued to decline drastically from our projection, as impacted by slowing economies of emerging countries, as well as sluggish commodity prices. In particular, demand for mining equipment nose-dived to about 30% of the FY2012 level.

Against this backdrop, we accelerated the speed of implementing structural reforms, such as cutting down production costs and curbing fixed costs, as we diligently carried out seeding for future growth, one of the core strategies of the mid-range management plan.

Management Tasks Ahead

When we assess our business environment today, we must first think about demand for construction and mining equipment as well as industrial machinery. We project that demand for construction and mining equipment, in particular, from which we generate 90% of total sales, will remain very challenging in FY2016 and beyond, for some time. “Against this backdrop, how are we going to ensure growth?” This is the first task we must address.

We believe the key to our growth, after all, lies in solutions to the problems of GEMBA (workplaces).

Tasks that customers face in their GEMBA differ depending on countries, regions or industries. However, we believe the following represents the major tasks of our customers, i.e., 1) to meet the shortage of skilled workers, 2) use of IoT (Internet of Things), 3) to improve the safety, productivity and environmental performance of their jobsite operations, and 4) to reduce the total cost of ownership of their machines.

Today we are also witnessing growing social expectations in relation to ESG (Environmental, Social and Governance) from companies.

We need to keep our full attention on these management tasks as we continue to conduct our business into the future.
Our Surrounding Environment and Tasks

- We will work for growth as we meet changes in our surrounding environment and tasks

Changes in the environment of demand

Demand for construction and mining equipment

Construction and mining equipment remain as a growth industry, but will be sluggish for the time being.

Demand for industrial machinery

Demand will grow, supported by increases in capital investment by automakers and demand for semiconductors.

Changes in the social environment

ESG tasks

Evaluation on corporate efforts in Environment, Society and Governance will become more important.

Growth Strategies Based on Innovation

Growth Strategies of Existing Businesses

Structural Reforms Designed to Reinforce the Business Foundation

Surrounding environment and tasks of Komatsu

GEYBA tasks

Shortage of skilled workers on jobsites

Labor shortage is growing at civil engineering and construction jobsites in Japan. Shortage of skilled workers is becoming evident in Western and emerging countries as well.

IoT

IoT-based innovation is underway at manufacturing and machine operation jobsites.

Improvement of safety, productivity and TCO*

Novel is improve safety and productivity and reduce TCO are growing at construction and mining equipment jobsites.

TCO* stands for Total Cost of Ownership and means total costs of cross-industry public operations.
We project that demand for construction and mining equipment will remain in an adjustment phase for the time being, centering on emerging countries. In the long range, however, global population will grow and the urbanization rate will increase, especially in emerging countries, which will fuel more civil engineering and construction works and increase the required volume of minerals. Therefore, we believe we can expect a sustainable growth of demand for construction and mining equipment.

In the industrial machinery business, we anticipate that capital investment will increase in the automobile and semiconductor industries. Accordingly, demand should remain steady for a few years, albeit with some ups and downs.

Based on these assumptions, we embarked on the new “Together We Innovate GEMBA Worldwide: Growth Toward Our 100th Anniversary (2021) and Beyond” mid-range management plan in April 2016. As we look into our 100th anniversary in 2021, we are working to maintain our sustainable growth beyond 2021 at a rate above the industry’s average.
OUTLINE OF THE NEW MID-RANGE MANAGEMENT PLAN

Targets

Targets of the new mid-range management plan are described in the chart on the right.

In addition to profitability, efficiency, profit redistribution to shareholders and financial position, we have included a new key performance indicator.

We have also separated the retail finance business as a new operating segment in order to enhance management transparency in the new plan.

Please see the linked sheet for our projection of consolidated business results for FY2016, the first year of the new plan.

Cash Dividend

In the last three years, we reduced our debt of all operations, except for the retail finance business, as planned. Concerning the future use of funds, we will further consider the redistribution of profits to shareholders, including stock buybacks, while keeping investment for growth at the center. Specifically, we have set the policy of a consolidated payout ratio of 40% or higher with no decrease of dividends, as long as the consolidated payout ratio does not surpass 60%.

For FY2016, we are planning annual dividends of JPY58 per share, the same amount as FY2015. As a result, the consolidated payout ratio should amount to 59.4%.

Strategies

We defined three core strategies of “growth based on innovation”, “growth of existing businesses” and “Structural reforms designed to reinforce our business foundation” and promoted corresponding efforts in the previous mid-range management plan. In the new mid-range management plan, we continue to focus on three core strategies of the previous plan. We will strive to accelerate growth by working to sow the seeds for future growth and taking further advantage of our group-wide strength of IoT, even while demand for construction and mining equipment remain sluggish.

Through our IoT, we will connect all GEMBA (workplaces), consisting of our customers, distributors and production, including suppliers, in order to improve the safety and productivity of all GEMBA, thereby working to become ever more indispensable to our customers.
GROWTH STRATEGIES BASED ON INNOVATION

To create innovation, we will continue to develop DANTOTSU products, DANTOTSU service and DANTOTSU solutions based on our proprietary competitive manufacturing aimed at Quality and Reliability. We will also actuate innovation, by proactively incorporating technologies, which we cannot obtain in the Komatsu Group, through industrial-academic and industrial-industrial collaborations.

In the construction, mining and utility equipment business, to substantially improve safety, environmental friendliness and productivity of customers’ jobsite operations, we will develop and launch next-generation equipment which will achieve further automation and unmanned operation by means of cutting-edge ICT utilization. At the same time, we will also work to develop next-generation components and mount them on new products, including forklift trucks.

To thoroughly “visualize” machine and jobsite operations, which is indispensable for improvement of jobsite operations, we will not only further advance KOMTRAX versions but also develop and provide a platform where we can share all information about construction and mining jobsites.

Our two DANTOTSU solutions, namely SMARTCONSTRUCTION for construction jobsites and Autonomous Haulage System (AHS) for mining jobsites, are designed to contribute to solving problems of customers’ jobsite operations by taking advantage of “visualized” information. We will nurture the growth of these two solution models by further improving our service content and expanding the areas and scale of their deployment.

In February 2015, we embarked on SMARTCONSTRUCTION, a solutions business designed to bring about very safe and productive “construction jobsites of the future” by connecting all information on the jobsites via ICT. In October, we equipped our PC200i hydraulic excavator with a stereo camera which performs high-speed, high-precision photography of jobsites. Photographic data are captured into KomConnect in about 30 seconds, where they are analyzed as image data. Accordingly, contractors can accurately manage jobsite topology after work, which includes the areas where manual labor or non ICT-intensive machines were deployed. As the PC200i, equipped with the world’s first site survey function, plays the role of a “control tower” of jobsite operations, enabling the understanding of the entire jobsite operations, we would like to realize safe and smart jobsite operations of the future.

In the industrial machinery and others business, we will promote in-house production of key components of machine tools as well as sheet-metal and press machines, while developing DANTOTSU products which will feature outstanding productivity. GIGAPHOTON INC. will work to commercialize cutting-edge Extreme Ultraviolet (EUV) light sources used for lithography tools in the near future.

PC200i with a stereo camera (inside the cab)
In addition to developing, producing and selling new products in our existing businesses, we will expand our entire value chain, mainly consisting of the after-market business and the rental-to-used equipment business by strengthening business, including mergers and acquisitions. In FY2015, we acquired a distributor in Mexico, which I have mentioned earlier, as well as Lehnhoff Hartstahl GmbH, a leading manufacturer of attachments in Germany. We will continue to expand this value chain into the future.

With respect to development of new products, while emphasizing the development of DANTOTSU products, we will work to develop latest emission regulation-compatible models for advanced countries, as well as local needs-tailored models for emerging countries. We will also work to develop application-specific models, such as dredging, demolition, industrial waste processing and agricultural engineering. In the forklift truck business, we will focus efforts to broaden the range of new FE series electric models and FH series of hydrostatic transmission-drive engine models.

In an effort to solidly establish the DANTOTSU No. 1 market position in Asia, we will establish a training center in Thailand and a development center in Indonesia, where we will make more effort to develop human resources of our distributors and develop local needs-tailored products, respectively.

We will also focus our efforts on the aggregate and cement industries, where we will be able to capitalize on our solutions know-how gained in the construction and mining industries. By helping customers solve their jobsite problems, we will enhance our position in these industries.

In the forest machine business, in addition to improving our product and attachment offerings, we will provide forestry jobsite solutions, which include the establishment and growth of forests in addition to felling.

Our forest machine in operation in Brazil
By defining structural reforms as a means to reinforce our business foundation, we have continuously worked to curb production costs and sustain fixed costs at appropriate levels. We consider these efforts our never-ending task.

While we need to invest for growth as needed, we also need to unfailingly cut down production costs at the same time. This is what we mean by separation of costs from growth. To this end, we are striving to maintain our fixed costs at appropriate levels.

In the structural reforms designed to reinforce our business foundation, we have not only carried out necessary reforms even when demand remained sluggish, but also made continuous efforts to improve costs in the last few years. We reduced fixed costs by JPY12.5 billion in three years from FY2013 to FY2015 by absorbing an increase of the basic salaries and including the effects of structural reforms. In FY2015 alone, we cut down fixed costs as planned and made an addition reduction, achieving a reduction of JPY11.9 billion from FY2014.

Concerning development, we should be able to lower costs by adopting new measurement and simulation technologies. All in all, we are concerting efforts to make our development lean and powerful. With respect to production as well, we are accelerating the speed of connecting our production jobsites, networking not only manufacturing plants of the Komatsu Group worldwide, but also our suppliers, in order to promote production reforms. We are also stepping up our efforts to link our plants directly to marketplace, end-customers and distributors in order to accelerate the speed of delivering our products and parts and further enhance the level of our inventories.
We at Komatsu define growth by innovating customers’ jobsite operations together with them and creating and providing new values designed to improve jobsite safety and productivity as a basic management strategy. SMARTCONSTRUCTION is one of these “growth strategies based on innovation”.

It is designed to connect all information about jobsites on KomConnect, a cloud platform of SMARTCONSTRUCTION. Information includes high-speed, high-precision site survey data made possible by drones, and operating conditions of intelligent Machine Control construction equipment capable of automatic control of bulldozers’ blades and hydraulic excavators’ buckets. In addition to developing optimal construction plans and making real-time progress of construction “visible” by utilizing the functions of KomConnect, SMARTCONSTRUCTION achieves safe and “smart” jobsite operations of the future by dynamically improving jobsite safety and productivity through full use of machine functions.

We embarked on the market introduction of SMARTCONSTRUCTION in Japan in February 2015, and have deployed it at over 1,100 construction and civil engineering sites on a cumulative basis as of March 2016.

Looking into the future of construction and civil engineering industries

Sunagogumi Co., Ltd. (Head Office: Sorachi District, Hokkaido. President: Mr. Kunihiro Sunago) engages in civil-engineering and construction mainly in the center of Hokkaido, Japan’s northernmost prefecture, and has adopted ICT-intensive civil engineering very early in the prefecture. Furthermore, Sunagogumi is an active presenter at seminars and conventions concerning ICT-intensive construction information gained in its jobsites, in addition to routine exchange of related information. It has gained a leading presence of the industry in Hokkaido as the top runner of ICT-intensive construction.

Sunagogumi’s ICT-intensive jobsites have received many visitors from the civil engineering industry. While visitors’ questions centered on machine performance and costs in the beginning, they have recently changed to more technical matters, such as how to generate 3D drawings, which confirms growing interest in ICT-intensive construction.

Sunagogumi adopted SMARTCONSTRUCTION last year. “I am sure that ICT-intensive construction is the future of the civil engineering industry. There is no doubt that application of cutting-edge ICT to jobsite operation will advance rapidly into the future. Our image of the future civil engineering industry, based on this assumption, perfectly matches Komatsu’s stance on SMARTCONSTRUCTION,” confirms Mr. Satoshi Kondo, Junior Managing Director.
Developing human resources through new technologies

As to the background of ICT-intensive jobsite operations, Mr. Kondo says, “Against the backdrop of a falling birthrate and an aging population in Japan, the number of employees in Japan’s civil engineering industry has been declining, resulting in a lower number of veteran machine operators. Therefore, our important task is to secure employees and develop them.”

Sunagogumi utilizes SMARTCONSTRUCTION to not only respond to tasks faced by the company, but also to use it as a tool for human resource development. “I would encourage our employees, especially young ones, to try and study KomConnect. Young people are not “allergic” to ICT and thus are quick to get used to the system. Some are well fit to start with the system which represents virtual reality, and then understand real jobsite operations. ICT-intensive construction will play the role of a human resource development by offering a variety of opportunities for a diverse range of human resources to demonstrate their skills and grow into ICT-construction specialists,” says Mr. Kondo, expecting the civil engineering industry to become an industry where females enjoy working.

On SMARTCONSTRUCTION jobsites

Sunagogumi is using two intelligent Machine Control PC200i-10 hydraulic excavators and intelligent Machine Control PX37PXi-23, each at a highway construction site (as of the interview in June 2016). Their combined length is 780 meters and the volume of soil to excavate is 38,600 cubic meters. The volume of soil to fill is 64,000 cubic meters. Sunagogumi is planning to deploy a vibratory roller (optional) at a part of the site.
By the date of our interview, jobsite supervisors had pointed out positive outcomes of SMARTCONSTRUCTION, including improved speed of decision-making, thanks to information sharing, and the convenience of 3D data.

“As one of its advantages, SMARTCONSTRUCTION calculates the volume of earth to work on by comparing the site survey and completion drawings. This system is very accurate and practical,” evaluates Mr. Hiroki Chiba, Manager of the Civil Engineering Department and Project Manager of the ICT-Intensive Construction Department. “In the conventional calculation method, we have experienced big surveying errors of complicated landscapes and sharp bends of highways.”

He also adds, “We can download a variety of information from KomConnect, so I have become able to use 3-D drawing data when meeting with clients. When communicating with the SMARTCONSTRUCTION Support Center, KomConnect also merits users. Mr. Chiba evaluates, “When consulting with the Support Center, KomConnect is very useful, because both parties can see the same data on the cloud platform, while talking over the phone. Communication is very smooth.”

Mr. Kazuhiko Sato, Manager of the Civil Engineering Department, has adopted 3-D drawings of SMARTCONSTRUCTION to his work. He points out, “I definitely feel that my work instructions to workers have become more accurate on the jobsites by using 3-D drawings.”

With respect to automatic excavation performance of the intelligent Machine Control hydraulic excavator, Mr. Shinji Hirogami, Deputy General Manager of the Civil Engineering Division, says, “It is a game changer when operators with no previous experience of ditching can perform on a level comparable to veterans after training them on the PC200i for about half day.” He also hopes that SMARTCONSTRUCTION will eradicate the conventional “3Ds” image of civil engineering work, i.e., Dirty, Dangerous and Demanding.
In the making of a “future” together

Komatsu receives a variety of requests to improve SMARTCONSTRUCTION from Sunagogumi’s jobsites. From the viewpoint of promoting ICT-intensive construction in the company, Mr. Chiba also feels the need to improve the “visualization” of jobsite operations. He points out, “While the position information of excavator bucket teeth or bulldozer blade edge is very effective, we are still far from understanding the entire progress of construction which includes work by non ICT-intensive machines. He advocates, “Jobsites of the future call for improvement of the entire processes of work from receiving orders to delivery. As of today, SMARTCONSTRUCTION can improve the productivity of work where machines are involved. That’s a very small portion.” He also adds, “Improvement of KomConnect is indispensable for us to achieve the civil engineering jobsite of the future which we are projecting. I truly hope that Komatsu will incorporate jobsite opinions and ideas in a speedier manner in order to refine the system which will even surprise us.”

We have just begun taking steps toward the jobsite of the future concerning civil engineering and construction. The power to improve SMARTCONSTRUCTION and make our dream come true lies in customers’ jobsite operations. Mr. Kondo concludes, “We feed back our jobsite opinions as a contractor, because, together with Komatsu, we want to improve the productivity of jobsite operations.”
Reinforcing GEMBA Efforts in Asia
(Growth Strategies of Existing Businesses)

We, at Komatsu, believe that we can achieve sustainable growth by Komatsu Group employees from around the world, teaming up with partners, such as our distributors and suppliers and working to improve the safety and productivity of customers’ jobsite operations together with them, thereby becoming customers’ indispensable partner. We call this customer-centered effort brand management, and are introducing it to jobsite operations.

“Building on the relationship of trust with the customer through teamwork”

Ahmad Fauzi Sucipto
Technical Advisor
Manila Service Support Center
Service Division,
Construction & Mining Equipment Marketing Division
Komatsu Ltd.

Please refer to Online Komatsu Report.

[Interview (1 minute and 26 seconds)]
Summary
In the QC activity, we used one tool, Pareto chart analysis. Our final target is to make it our daily activity. QC becomes a mindset of people working at the company for improvement. For example, when they find something is broken, they analyze it QC-wise.
Accumulating experiences in mining jobsites

Fauzi joined PT. United Tractors Tbk, our Indonesian distributor, in 2000. He worked as a trainer of service mechanics, specializing in the PC3000, and later as a service supervisor, focusing on the full-maintenance service contracts. In November 2009, he joined Komatsu and began his service as resident technical advisor at a mine of Semirara Mining Corporation in the Philippines.

“Product support is our business to ensure customer satisfaction, and the availability of both equipment and parts determines the level of customer satisfaction. In other words, it’s determined by our ability to provide necessary parts whenever needed,” says Fauzi.

Getting deeply involved with the customer

Working with his colleague from Japan, he is responsible for preventing mechanical problems of machines and maximizing their utilization rate. His specific duties are extensive, including support for maintenance of machines, training of mechanics of both Maxima Machineries, our distributor, and the customer, trouble shooting by analyzing the operating conditions of machines based on KOMTRAX Plus data, and supporting Maxima’s planning of parts replacement and inspection.

There are several meetings every Saturday for excavators and twice a month for support machines, where the customer, Maxima and Komatsu discuss all issues related to mining operations. He explains, “In the meetings, everything is shared. For example, we report client’s operator performance in terms of fuel consumption of dump trucks. We also offer recommendations based on our analyses. The customer’s trial use of our Dual Bushing Track is a good example to extend the life of tracks. We analyze the data, make proposals and develop plans for the next steps together.”
“Strengthening Reman operation qualitatively and quantitatively”

Rudi Kurnianto
President Director
PT Komatsu Reman Indonesia (KRI)

Expanding Reman operation

“I am convinced that Komatsu’s strength lies in KAIZEN based on quality control with implementation of the PDCA Cycle,” says Kurnianto. He joined PT Komatsu Indonesia, our first joint-venture manufacturer in Asia, in 1991. With twenty-two years of experience and expertise in Komatsu-style manufacturing, he was transferred to KRI as Marketing Director in 2013.

Reman stands for remanufacturing. It remanufactures used components, such as engines and hydraulic equipment, through a variety of processes to the level of quality comparable to new components. Reman components are used for periodic replacement. While their quality and performance are guaranteed on par with those of new components, their prices are lower than those of new ones, and Reman contributes to savings of resources through reuse and recycling.

KRI supplies Reman components worldwide within the Komatsu Group.

Introducing quality control activities

“KRI was established in 2007, the youngest of Komatsu Group companies in Indonesia. When he was transferred to KRI, he found an urgent need to anchor quality control methods in the company,” recalls Kurnianto. He and Hiroki Nakamura, a Japanese expat from KRI’s Mother Plant (Oyama Plant), embarked on company-wide QC training to ensure all employees thoroughly understand the basics of QC activities for improvement. They formed QC circles and held conventions twice a year. After the basics were anchored in the company in 2014, they launched the “Aggressive and Proactive” campaign to step up their efforts in supporting distributors and their end-customers, by directly finding their needs and promoting KAIZEN.

In the last few years, mining companies, which are Reman customers, have curtailed capital investment, while keeping up production. It appears that this trend will linger a few more years. “For mining customers to sustain their productivity, the importance of Reman should further grow,” confirms Kurnianto.

KRI is working to supply high-quality Reman products flexibly, according to customer needs, in order for the Komatsu Group to enhance its position worldwide. KRI stands fully ready to accomplish its goal.
“Getting ready to step up production for expanding demand in India”

Hari Krishnan J.,
Senior Manager,
Planning & Coordination Department,
Komatsu India Pvt. Ltd. (KIPL)

New manufacturing plant and production transfer

With over 17 years of experience in the automobile industry in the area of production planning control, Krishnan joined KIPL in 2006 as the first national employee in the Planning & Coordination Department. Since then he has been responsible for HANSEI (sales and production planning) as well as cost and inventory controls. He was also involved in the green field plant start-up of dump trucks, and most recently in the smooth transfer of the production of hydraulic excavators from LTCEL, a subsidiary of Larsen & Tourbro Limited (L&T), to KIPL’s new plant which began operation in Chennai in May 2015.

This transfer project began in April 2013 and is scheduled to be completed in September 2016. In India, under the partnership with L&T, Komatsu engaged in production, sales and service of hydraulic excavators over the years. Since April 2013, KIPL has become responsible for production and L&T for sales and service, in order to ensure further growth by capitalizing on each other’s strengths. This transfer involves 5 models, ranging from 6-ton to 20-ton classes.

In the course of the transfer, he recalls, “It was a challenging task to meet market demand and achieve monthly sales and production targets, while keeping a 50-to-50 balance of the volume of production between KIPL and LTCEL.” In the same period, KIPL has also launched the production of the PC210-8M0 model, designed exclusively to respond to local market needs, and has begun installation of KOMTRAX in all excavator models.

Growing Indian economy

In response to the 20% increase of demand for hydraulic excavators in India, Nepal and Bhutan since the second half of 2015, they worked to double their production volume within the short period of December 2015 to February 2016 with the help of their Mother Plant in Japan. He says, “We are very excited about the projected expansion of demand in India and we should be able to complete the transfer before schedule. Our current top priority is to reduce our production costs by further promoting local contents in order to reduce the risk of foreign exchange fluctuations.”
“Well prepared to capitalize on the market recovery in India”

Krishna Kumar,
Manager of Marketing Department,
KIPL

Promoting sales in the premium market sector

With a wealth of marketing experience in the construction equipment industry, Kumar joined KIPL in 2010 as Assistant Manager of the Marketing Department. KIPL is focused on the premium market sector of high-quality, high-performance and high-efficiency hydraulic excavators in India. Together with L&T, they have been making a variety of sales promotion efforts. “Caravan demo” is one in which they carry the machine on a trailer and travel all across India for display, and for machine demonstration in some areas where Komatsu machine presence is low. This program is accompanied by specialists from Sales, Service and Parts departments to ensure the accurate and attractive explanation of machine features and customer benefits.

Seeding activities

Kumar is also responsible for a diverse range of other marketing-related initiatives in India, such as 1) prediction of demand for construction equipment, 2) coordination between the plant and distributors to ensure the smooth supply of equipment, while keeping KIPL’s inventory at an optimal level, 3) introduction of Life Cycle Cost (LCC)-based sales promotion, 4) introduction of new models to respond to local market needs, 5) KOMTRAX (Komatsu Machine Tracking System)-related activities, ranging from promotion and training to data analysis.

Kumar places top priority on increasing Komatsu’s market share in India by continuing all above activities, while periodically reviewing the results of each activity and adjusting the level of priority. He reassuringly states, “We engaged in these activities, as seeding activities, even in the last two years when demand dropped for hydraulic excavators. Now that the Indian economy is getting stronger, fueling infrastructure development and increasing demand for hydraulic excavators, I feel good days are coming for us to harvest the crop in next two years.”
ESG (SUSTAINABILITY)

Reinforcement of ESG Efforts

Over the years, the Komatsu Group has made proactive ESG efforts, namely environmental, social and corporate governance. We believe the importance of ESG efforts will steadily become stronger into the future. In our new mid-range management plan, we will maintain focused efforts as we place emphasis on the environment, on society and on corporate governance.

Environmental Conservation Efforts

The reduction of CO₂ emissions is our important task for environmental conservation. Construction equipment in operation accounts for about 90% of the total amount of CO₂ emissions produced throughout its lifecycle (chart on the right). We will help our customers reduce CO₂ emissions from their machines by considering environmental performance and applying ICT to improve fuel consumption, when we develop new products.

Corporate Social Responsibility Efforts

We at the Komatsu Group have set our basic principle to make CSR efforts through core businesses. Based on this principle, we would like to engage in social contribution activities that make the best use of our strengths to fulfill our responsibilities to society.

As part of our CSR efforts, under the leadership of different Komatsu Group companies around the world, we engage in support activities to solve local problems.

For example, in Japan we provide support to Japan’s agriculture business, which is facing serious problems of aging and no newcomers, by capitalizing on our manufacturing expertise.

We will continue to pay close attention to the needs of local communities around the world in order to deeply anchor the social contribution activities of Komatsu Group companies.
ENVIRONMENTAL INDEXES

Reducing CO₂ Emissions in Manufacturing Operations

CO₂ Emissions (Japan)

CO₂ Emissions (Overseas)

Amount of Waste Generated

Waste Generated in Japan

Waste Generated Overseas

Purchase Electricity

Water Used and Index Per Units of Manufacturing Value in Japan

* Reflects results of the reviews of the data on KC9 for the year of 2009 and earlier
KOMATSU REPORT 2016

CORPORATE GOVERNANCE, COMPLIANCE AND RISK MANAGEMENT

Komatsu maintains the basic management policy of commitment to Quality and Reliability to maximize its corporate value. Komatsu believes that its corporate value is the total sum of trust given to it by society and all its stakeholders.

To increase the total sum of trust, Komatsu needs to not only improve business results but also enhance the soundness and transparency of management.

Corporate Governance

We, at Komatsu, believe our corporate value is the total sum of trust given to us by society and all stakeholders. To become a company which enjoys even more trust from shareholders and all other stakeholders, we are working to strengthen corporate governance, improve management efficiency, advocate corporate ethics and ensure sound management on a group-wide basis.

In April 2016, we appointed top management officers of Komatsu Group’s overseas subsidiaries to the posts of Global Officers in order to strengthen globally consolidated management. To further improve the transparency of management for our shareholders and investors, we disclose information in a fair and timely manner and actively engage in investor relations’ activities by holding meetings with shareholders and investors.

Compliance

As the importance of corporate social responsibility is growing today, it is indispensable for all companies to respond to social trust by ensuring that each and every employee not only fully understands corporate responsibility but also complies with the Rule of the Business Community, not limited to laws and regulations in a narrow sense.

In addition, the Komatsu Group is strongly conscious of its slogan of SLODC, i.e., Safety and Law take priority over Quality, Delivery and Cost, as it works to ensure compliance.

Risk Management

We define all states of uncertainty, which can threaten the sustainable growth of the Komatsu Group. We recognize the problems related to compliance as major risks, in particular, the environment, product quality, accidents, information security and other matters, and we are thus implementing corresponding countermeasures.
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: 47,017 (Komatsu Ltd. and 141 consolidated subsidiaries)
Non-consolidated: 10,449

Shareholder Information

Shares of Common Stock Issued and Outstanding
943,224,753 shares (excluding 28,742,907 shares of treasury stock)

Number of Shareholders
198,287

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

Depositaries (ADRs)
The Bank of New York Mellon
101 Barclay Street, New York, NY 10286, U.S.A.
Tel: 1-(212)-888-6825 for international calls and 888-269-2377 (888-BNY-ADRS) for calls within U.S.A.
URL: http://www.adrbnymellon.com
Ticker Symbol: KMTUY
**Major Shareholders**

<table>
<thead>
<tr>
<th>Name of Shareholders</th>
<th>Number of Shares Held (thousand shares)</th>
<th>Shareholding Ratio (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan Trustee Services Bank, Ltd. (Trust Account)</td>
<td>47,724</td>
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<tr>
<td>The Master Trust Bank of Japan, Ltd. (Trust Account)</td>
<td>45,252</td>
<td>4.79</td>
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<td>State Street and Trust Company 505223 (Standing proxy: Mizuho Bank, Ltd., Settlement &amp; Clearing Services Division)</td>
<td>38,809</td>
<td>4.11</td>
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<tr>
<td>Taiyo Life Insurance Company</td>
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<td>3.60</td>
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<tr>
<td>Nippon Life Insurance Company</td>
<td>26,626</td>
<td>2.82</td>
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<td>Sumitomo Mitsui Banking Corporation</td>
<td>17,835</td>
<td>1.89</td>
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<td>The Bank of New York Mellon SA/NV 1.0 (Standing proxy: The Bank of Tokyo-Mitsubishi UFJ, Ltd.)</td>
<td>16,574</td>
<td>1.75</td>
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<tr>
<td>State Street Bank West Client - Treaty 505234 (Standing proxy: Mizuho Bank, Ltd., Settlement &amp; Clearing Services Division)</td>
<td>13,729</td>
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<tr>
<td>Japan Trustee Services Bank, Ltd. (Trust Account 7)</td>
<td>13,128</td>
<td>1.39</td>
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<tr>
<td>The Bank of New York Mellon as Depositary Bank for Depositary Receipt Holders (Standing proxy: Sumitomo Mitsui Banking Corporation)</td>
<td>12,230</td>
<td>1.29</td>
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</tbody>
</table>

**Notes:**
1) Shareholding ratio is calculated by subtracting treasury stock.
2) Although the Company holds 28,742 thousand shares of treasury stock, it is excluded from the major shareholders listed above.

**Breakdown of Shareholders**

- Financial: 34.3% (187 shareholders, 333,672,602 shares)
- Foreign: 40.1% (873 shareholders, 390,671,597 shares)
- Individual and other: 20.0% (195,659 shareholders, 194,397,775 shares)
- Corporate: 2.5% (1,417 shareholders, 24,839,084 shares)
- Securities: 2.9% (151 shareholders, 28,386,602 shares)

Note: Percentage figures are shown after dropping the last two places of decimals.

**Stock Prices on the Tokyo Stock Exchange**

Please refer to our website.
http://www.komatsu.com/CompanyInfo/ir/