

<Komatsu IR Day 2016 Meeting>

Retail Finance Business

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Executive Officer

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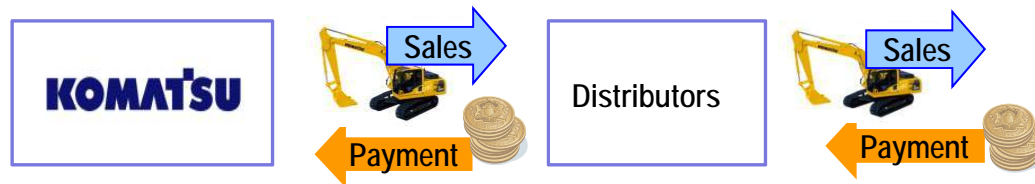
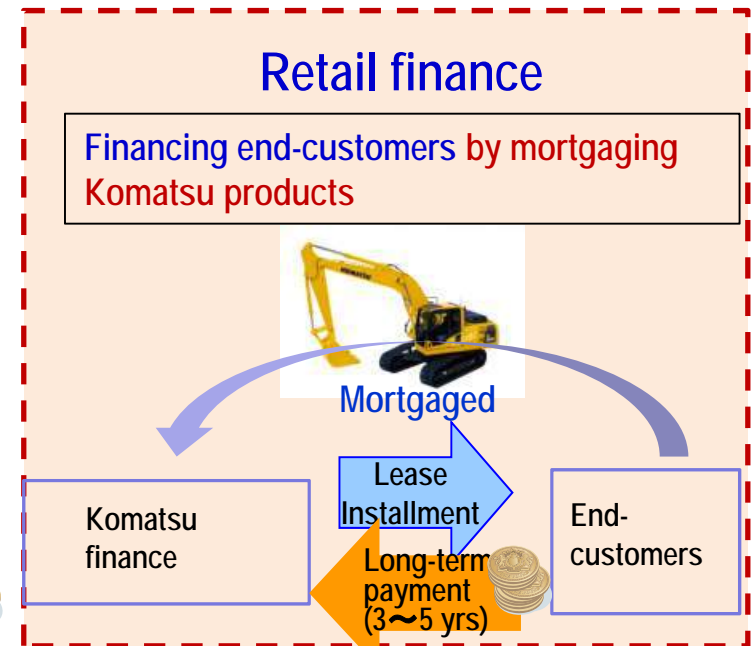
1. Outline of Komatsu's Retail Finance Operation

Characteristics

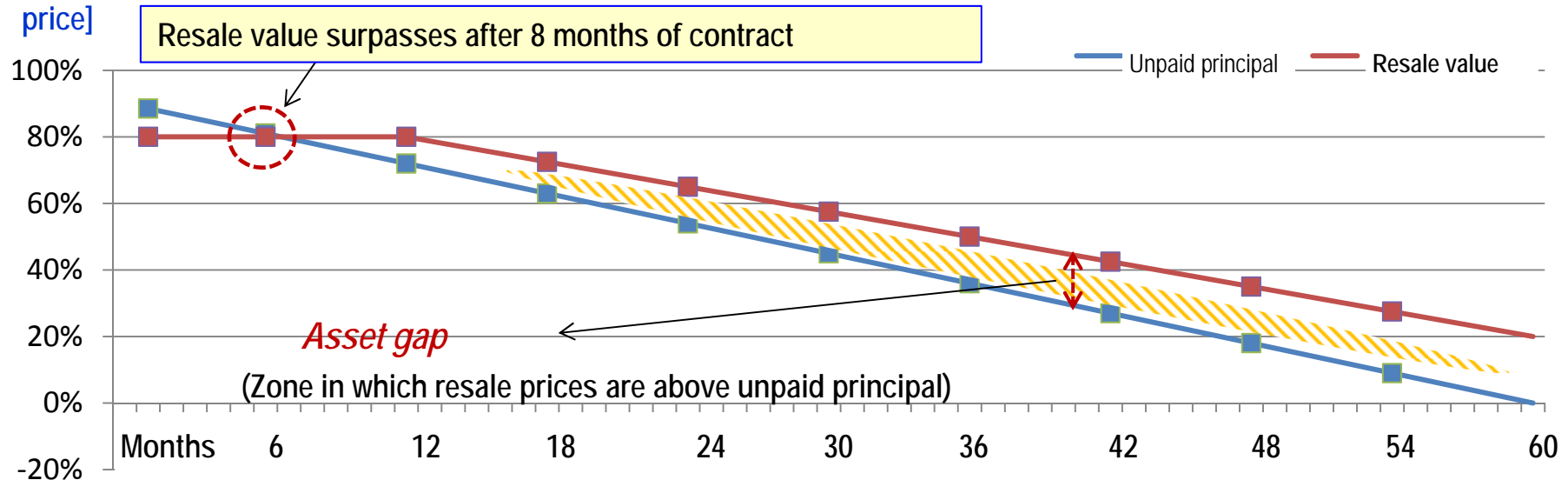
Because construction equipment has high resale value, our risk of bad debts is limited, when customers go bankrupt. However

1) recovery of equipment, and
 2) good conditions of equipment which makes resale easier are important. In this regard, we capitalize on

- utilization of KOMTRAX
- knowledge of the laws related to foreclosure in relevant countries, and
- collaboration with our distributors



[Resale value and unpaid principal in the case of 5-year installment payments with down payment of 10% of the machine price]



2. Objectives of Komatsu Retail Finance

Objectives

- 1) To reduce customers' financial burdens.
- 2) To offer a variety of plans, including the residual value-set lease and packaged lease (machine price, maintenance fee, insurance premium, etc.).
- 3) To sustain high selling prices (presentation of low interest rate menus).
- 4) To shorten the sales cycle (promotion of replacement with new machines by means of short-term finance, setting residual values and trade-ins).
- 5) To control the market and prices of used equipment.

Komatsu's strengths

Characteristics of Komatsu Retail Finance

Win-Win relationship with end-users

[Komatsu's advantages over general financial institutions]

1. Global resale channels in the rental-to-used equipment business
2. Better information concerning small to medium-scale customers gained from daily sales activities
3. Means to reduce risks
 - Use of **KOMTRAX** (machine locations, operating conditions, engine locking, etc.)
 - Repair & Maintenance** enabling to maintain and increase resale value

1. Speedy screening
2. Competitive financing terms
3. No need for end-customers to mortgage anything other than concerned machines as a general rule
4. **Low-interest rate campaigns** with subsidies from Komatsu and/or distributor
5. **Higher credit approval rate than general financial institutions** through distributors' assistance in the recovery and resale as well as risk sharing

1. One-stop shopping, incl. machine price and maintenance fee
2. Flexible deployment of machines in tandem with construction work contents
3. Periodic replacement of machines in alignment with termination of the contract
4. Flexible terms of payment according to customer's requests

4. Footprints of Retail Finance Business

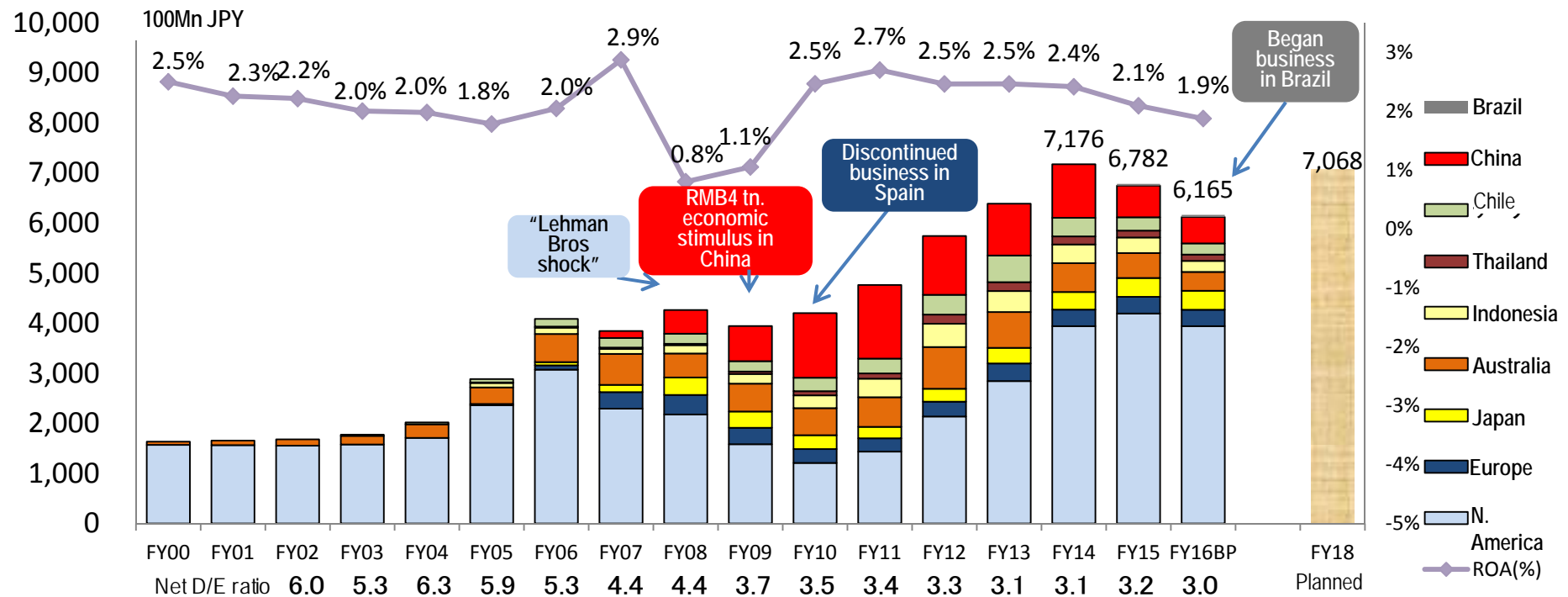
[Basic policies]

1. Positioning: A sales tool of Komatsu products and independence of screening
2. Utilize Komatsu's strengths.
 - 1) Effective use of KOMTRAX (Info. about machine location, operating conditions, engine lock, etc.)
 - 2) Contribute to expansion of the value chain (collaboration with the used equipment and rental businesses)
 - 3) Stably supply funds to end-customers.
3. Emphasize soundness of both compliance and financial position.
4. Gather and share retail information.
5. Collaborate with distributors.

Mid-range targets

- ROA: At least 2.0%
- Net debt-to-equity ratio: 5.0 or under

[Total assets and ROA of the retail finance business]



5. Brief History of Retail Finance Business

[Policy changes]

- 1980s ~ early 2000: Never take risks of retail finance. (Took in the retail finance company of Komatsu-Dresser Co. when establishing the joint-venture company with KDC)
- Since 2004: Full-scale entry in the retail finance business

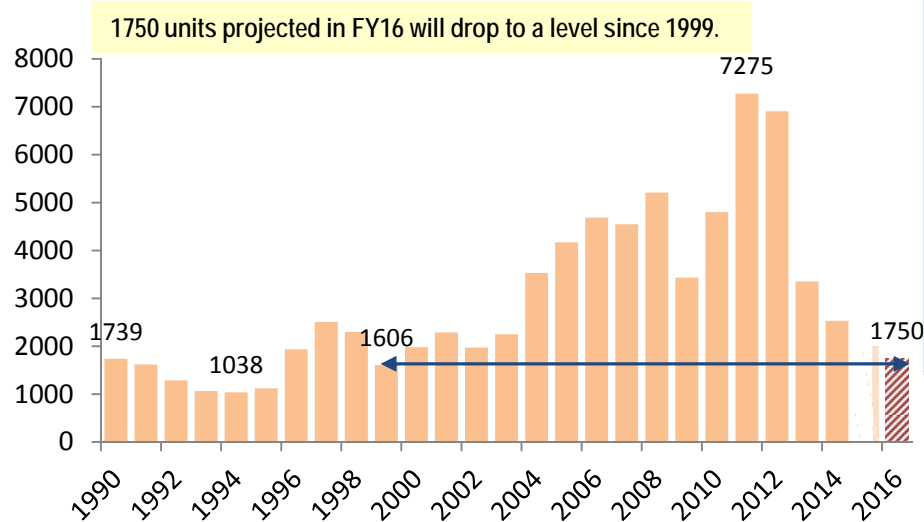
	1970s	1980s	1990s	2000s	2010s
				Policy to strengthen retail finance (2004) Established Global Retail Finance Division (2008) Began using KOMTRAX in credit control Improved Komatsu's credit rating: S&P BBB(2004) → A (2007)	
Construction equipment	Japan	Direct sales by Komatsu (branches and subsidiaries) Wholly owned distributors (since 1976) Independent distributors Financing scheme: Installment payments offered by distributors		Expanded regional coverage of wholly owned distributors ('01—'05) KBS (100% stake) began financing (2005)	Established Komatsu Construction Equipment Sales & Service Japan (2009)
	Europe			Established KFE (100% stake) (2005)	
	China			Established Komatsu China (2001) Established KFLC (100% stake) (2007)	
	Thailand			Established KBL (60% stake) (2005)	
	Brazil				Established BKB (100% stake) (2015)
	Mining equipment	USA		Established KDC, J/V with Dresser (1988) → Currently, KAC Dresser Finance est. (1982) → Established KFLP by succeeding KDCFLP (1991)	
Australia				Established KACF (1995) (60% stake in 2009 through capital increase)	
Chile				Established KCCA (rental, used equipment and finance combined) (81.8% stake) (2003)	Established KFCH (2014) by transferring KCCA's finance business (100% stake)
Indonesia				Established KAF (50% stake) (2005)	

6. FY2016 Basic Policies and Focused Efforts

[Macro environment in 2016]

Prices of commodities and crude oil will continue to decline, worsening the business results of commodity majors. Normalization of slowing economic growth of China. Downgrading of Strategic Markets, such as Brazil. End to quantitative easing in USA.

Demand for mining equipment



[Projected effects on the retail finance business]

- ◆ Decline of new contracts. Decline in finance assets mainly in commodity-exporting countries
- ◆ Worsening terms of financing (high risks). Lowering finance margins.
- ◆ Increase in applications to makers' finance plans as affected by worsening funding environment for end-customers.
- ◆ While purchase of new equipment will be curtailed, finance needs will increase for parts and overhauls.
- ◆ Increase in finance needs in Strategic Markets (esp. construction equipment)

Basic policies	Contents	Specific measures
Develop and maintain sound portfolios.	Accurate analysis of customers' financial position and Maintenance of sound balance sheet	Increase manpower specifically to reinforce collection of debt. Prevent overdues by using KOMTRAX.
Work to become an indispensable finance company.	Collaboration with the Marketing Division Differentiation from competitors	Expand finance for purchase of parts. Low interest-rate finance by using subsidies.
Expand business into new regions. (Principle of asset-backed finance will be emphasized regardless of the regions.)	Feasibility studies on provision of a diverse range of finance solution from mid- to long-range	Studies on entering Strategic Markets (Latin America, Africa and Asia) Studies on cross-boarder finance and collaboration with JBIC and local financial institutions
Maintain an appropriate D/E ratio.	Target on a consolidated basis = about 5.0	Increase in dividend and capital as needed

Profiles of Retail Finance Companies

KFLP (USA & Canada)

Start-up	1982/11
Products	Installment, lease
Main customers	Construction Mining equipment Distributors
Employees (16/3E)	41
Ratio of users	83.6%

KFE (France, Germany & Italy)

Start-up	2005/7
Products	Installment, lease
Main customers	Construction equipment
Employees (16/3E)	18
Ratio of users	48.5%

KFLC (China)

Start-up	2007/5
Products	Lease
Main customers	Construction equipment
Employees (16/3E)	22
Ratio of users	48.6%

KCCA + KFCH (Chile)

Start-up (KFCH)	2003/9 2014/9
Products	Installment, lease
Main customers	Construction equipment - Mining equipment
Employees (16/3E)	9
Ratio of users	17.4%

KBL (Thailand)

Start-up	2005/10
Products	Installment, lease
Main customers	Construction equipment
Employees	35
Ratio of users	73.4%

KBS (Japan)

Start-up	2005/4
Products	Installment, lease
Main customers	Construction equip
Employees (16/3E)	21
Ratio of users	8.5%
(Share of finance)	35%

BKB (Brazil)

Established	2015/12
Products	Installment
Main customers	Construction equipment Forest machinery
Employees (16/3E)	19

KAF (Indonesia)

Start-up	2005/5
Products	Lease
Main customers	Mining equipment Construction equipment
Employees (16/3E)	19
Ratio of users	24.5%

KACF (Australia)

Start-up	1995/4
Products	Installment, lease
Main customers	Construction Mining equipment
Employees (16/3E)	17
Ratio of users 率	40.8%

- **Blue frame:** Mainly construction equipment **Green frame:** Mainly mining equipment
- Credit backup: Lending by mortgaging machines (installment and lease)
- Credit period: 3 to 5 years