

(Translation)

- Notes: 1. This document has been translated from the Japanese original for the convenience of foreign shareholders. In the event of any discrepancy between this document and the Japanese original, the original shall prevail.
2. Regarding nonresident shareholders, if you wish to exercise your voting rights, please instruct your custodians, nominees or brokers accordingly in advance of the date of the Ordinary General Meeting of Shareholders.

May 28, 2018

Dear Shareholders:

Notice of Convocation of the
149th Ordinary General Meeting of Shareholders
of Komatsu Ltd.

Komatsu Ltd.

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- * Parts of the Business Report, Consolidated Financial Statements and Non-Consolidated Financial Statements have been posted separately on our website (<https://home.komatsu/jp/ir/>).

*Information in English has been posted on our English website
(<https://home.komatsu/en/ir/>).*

- * Beginning this year the Company will no longer distribute commemorative gifts to shareholders attending the General Meeting of Shareholders. Thank you for your understanding in this matter.

To All Our Shareholders



President

A handwritten signature in black ink, appearing to read 'Shigeo Nishiyama', written in a cursive style.

I would like to extend our sincere appreciation to our valued shareholders for your understanding and support for the Komatsu Group. I hereby give notice of convocation of the 149th Ordinary General Meeting of Shareholders, which will be held on June 19, 2018. I am truly looking forward to your attendance. If you are unable to attend the meeting in person, it would be appreciated if you could exercise your voting rights by conventional postal delivery or via the Internet.

In the fiscal year ended March 31, 2018, we took steps to expand our mining equipment business, given that the leading U.S. mining equipment manufacturer Joy Global Inc. (currently Komatsu Mining Corp.) has newly joined the Komatsu Group. Furthermore, particularly with respect to our SMARTCONSTRUCTION and Autonomous Haulage System (AHS) businesses, we developed solutions that draw on information and communications technologies (ICT) and Internet of things (IoT) approaches, a Komatsu Group strength, thereby helping to improve workplace safety and productivity while reducing environmental loads.

Even with the fiscal year ending March 31, 2019 being the final fiscal year of our three-year mid-range management plan, “Together We Innovate GEMBA Worldwide—Growth Toward Our 100th Anniversary (2021) and Beyond—,” we will continue steadily implementing our three management strategies — “Growth Strategies Based on Innovation,” “Growth Strategies of Existing Businesses,” and “Structural Reforms Designed to Reinforce the Business Foundation” — thereby linking such efforts with our mindfulness toward environment, social and corporate governance (ESG) initiatives, while accelerating our pace of growth looking toward our future beyond our 100th anniversary in 2021.

We will continue to take a thorough hands-on approach, and by providing DANTOTSU (Unrivaled) products, DANTOTSU services, and DANTOTSU solutions, promote “Innovation” that creates new value in a range of GEMBA (workplaces) and contribute to our customers and the sustainable society.

Finally, I would like to take the opportunity to humbly ask our shareholders for your continued understanding and support.

May, 2018

NOTICE OF CONVOCATION OF THE
ONE HUNDRED AND FORTY-NINTH (149TH)
ORDINARY GENERAL MEETING OF SHAREHOLDERS
OF KOMATSU LTD.

Securities Code: 6301
May 28, 2018

Dear Shareholders:

Please be advised that the 149th Ordinary General Meeting of Shareholders of Komatsu Ltd. (hereinafter “the Company”) will be held in accordance with the particulars indicated in the attachment hereto. Your attendance at the meeting is cordially requested.

If you are unable to attend the above Meeting in person, it would be very appreciated if you could exercise voting rights by conventional postal delivery or via the Internet. Please exercise your voting rights after reviewing the attached “Reference Materials for the General Meeting of Shareholders” (pages 6 to 27).

Sincerely,

Tetsuji Ohashi
President
Komatsu Ltd.
3-6, Akasaka 2-chome, Minato-ku, Tokyo

Details

1. Date and Time: Tuesday, June 19, 2018 at 10:00 a.m. (Japan Time)

2. Place: “Kujaku-no-ma” (main venue), 2nd floor of the Main Building,
Imperial Hotel Tokyo
1-1, Uchisaiwai-cho 1-chome, Chiyoda-ku, Tokyo

3. Purpose:

Items to Be Reported

- (1) The Business Report and the Consolidated Financial Statements for the 149th fiscal year (April 1, 2017 – March 31, 2018), as well as the Accounting Auditors’ Report and the Audit & Supervisory Board’s Report on the Result of the Audited Consolidated Financial Statements.
- (2) The Non-Consolidated Financial Statements for the 149th fiscal year (April 1, 2017 – March 31, 2018).

Items to Be Resolved

- Item 1:** Appropriation of Surplus
- Item 2:** Election of Eight (8) Directors
- Item 3:** Election of One (1) Audit & Supervisory Board Member
- Item 4:** Payment of Bonuses for Directors
- Item 5:** Revision of the Amount of Remuneration for Directors and Audit & Supervisory Board Members
- Item 6:** Determination of the Amount of Remuneration in the Restricted Stock Compensation System for Directors

4. Matters Related to the Exercise of Voting Rights

- (1) If you exercise your voting rights twice, both by conventional postal delivery and via the Internet, the voting via the Internet shall prevail regardless of the arrival date of the mailed vote. In the case of multiple voting via the Internet, etc., the last voting shall prevail.
- (2) If you diversely exercise your voting rights, you are required to notify the Company the details and the reasons for this in writing.

Guidance on Methods for Exercise of Voting Rights

Attendance at the General Meeting of Shareholders
Date and time: Tuesday, June 19, 2018 at 10:00 a.m. (Japan Time)
The reception desk is scheduled to open at 9:00 a.m.
Please bring the enclosed Card for Exercising Voting Rights and submit it at the reception. * If, on the day of the meeting, all of the seats are taken at the main venue, guidance will be provided to a separate venue. The separate venue will have monitors displaying what is happening at the main venue. * From this year onward, commemorative gifts will no longer be distributed at the General Meeting of Shareholders.

By conventional postal delivery
Deadline for exercising voting rights: To arrive at the Company by 5:45 p.m. on Monday, June 18, 2018 (Japan Time)
Please indicate “for” or “against” for each agenda item shown on the enclosed Card for Exercising Voting Rights, and return it via the conventional postal delivery system.

Via the Internet*
Deadline for exercising voting rights: To be performed by 5:45 p.m. on Monday, June 18, 2018 (Japan Time)
Website designated by the Company: https://evote.tr.mufg.jp/
Please indicate “for” or “against” for each agenda item.

- Institutional investors can utilize the electronic platform for exercising voting rights, which is operated by ICJ, Inc.

**Voting via the Internet other than through the ICJ platform is only available for registered shareholders in Japan with Japanese language only. The ICJ platform is an electronic voting platform for institutional investors available via the ProxyEdge® system of Broadridge. For further details, please consult with your custodian(s), nominee(s) and/or broker(s).*

For Internet Disclosure: the Company’s website (<https://home.komatsu/jp/ir/>)

**Information in English has been posted on our English website (<https://home.komatsu/en/ir/>).*

- Information regarding the items listed below is not contained within this document, entitled “Notice of Convocation of the 149th Ordinary General Meeting of Shareholders of Komatsu Ltd.” In accordance with relevant laws and regulations and with Article 16 of the Company’s Articles of Incorporation, such information in Japanese has been posted separately on our website.

1	Business Report	Financial Position and Profit/Loss Trends Major Lines of Business Principal Offices and Plants Matters Regarding Stock Acquisition Rights of the Company etc.
2	Consolidated Financial Statements	Consolidated Statement of Equity Notes to Consolidated Financial Statements
3	Non-Consolidated Financial Statements	Non-Consolidated Statement of Changes in Net Assets Notes to Non-Consolidated Financial Statements

The Business Report that the Audit & Supervisory Board Members audited and the Consolidated Financial Statements and Non-Consolidated Financial Statements that the Accounting Auditor and the Audit & Supervisory Board Members audited comprise each document printed in this “Notice of Convocation of the 149th Ordinary General Meeting of Shareholders of Komatsu Ltd.” and matters mentioned in the table above that are posted on the Company’s website on the Internet.

**Information in English has been posted on our English website
(<https://home.komatsu/en/ir/>).*

- Please note that any changes in the matters described in Reference Materials for the General Meeting of Shareholders, Business Report, Non-Consolidated Financial Statements, and Consolidated Financial Statements in Japanese will be posted on our website.
**Information in English will be posted on our English website (<https://home.komatsu/en/ir/>).*

Reference Materials for the General Meeting of Shareholders

Proposed Items to Be Resolved and Reference Information:

Item 1: Appropriation of Surplus

The Company is building a sound financial position and flexible and agile corporate strength to increase its corporate value. Concerning cash dividends to shareholders, the Company continues to maintain the policy of redistributing profits by considering consolidated business results to strive to continue stable dividends.

For the 149th fiscal year, the Company has set the goal of a consolidated payout ratio of 40% or higher, and following the policy of not decreasing dividends as long as a consolidated payout ratio does not surpass 60%, as well as in consideration of the Company's business performance for this fiscal year and future business development, the Company proposes to pay a year-end dividends of surplus as follows.

(1) Type of the dividend assets	Cash
(2) Matters concerning allotment and total amount of the dividend assets	JPY 48 per one (1) common share of the Company (an increase of JPY 19 per one (1) common share of the Company over the previous fiscal year) Total amount of the dividend assets: JPY 45,301,318,752
(3) Effective date of dividends of surplus	Wednesday, June 20, 2018

Accordingly, combined with the interim dividend of JPY 36 per one (1) common share of the Company, the annual dividend will be JPY 84 per one (1) common share of the Company for this fiscal year, an increase of JPY 26 per one (1) common share of the Company over the previous fiscal year. The consolidated payout ratio is 40.3%.

Item 2: Election of Eight (8) Directors

The terms of office of all of the eight (8) Directors will expire as of the close of this Ordinary General Meeting of Shareholders.

Accordingly, the Company proposes that eight (8) Directors (including three (3) Outside Directors) be elected.

The candidates for the positions are as follows:

No. of Candidate	Name	(Reference)	
		Position and In Charge at the Company (As of May 16, 2018)	Attendance rate of the Meetings of the Board of Directors held during the fiscal year ended March 31, 2018
1	Reelection Kunio Noji	Chairperson of the Board and Director	100%
2	Reelection Tetsuji Ohashi	President and Representative Director Chief Executive Officer (CEO)	100%
3	Reelection Mikio Fujitsuka	Executive Vice President and Representative Director Corporate Controlling	100%
4	Reelection Outside Director Independent Masayuki Oku	Director	100%
5	Reelection Outside Director Independent Mitoji Yabunaka	Director	100%
6	Reelection Outside Director Independent Makoto Kigawa	Director	100%
7	New Candidate Hiroyuki Ogawa	Senior Executive Officer President of Production Division In charge of the Mid-range Management Plan	–
8	New Candidate Kuniko Urano	Senior Executive Officer Supervising Human Resources & Education, Safety & Health Care, Corporate Communications, and CSR	–

Outside Director: Candidate for Outside Director

Independent: Candidate for Director who meets the Company's independence standards (page 20) and for whom the Company has submitted an Independent Directors Notification to the Tokyo Stock Exchange (*the Japanese stock exchange on which the Company's shares are listed*).

<Reference> Policies and Procedures for Nominating Directors and Audit & Supervisory Board Members of the Company

The policy of the Board of Directors of the Company is to elect multiple members with abundant experience, sophisticated knowledge and expertise from inside and outside the Company to carry out appropriate decision-making and management supervision. Moreover, in order to increase the objectivity and transparency of its judgment in deciding on its selection of candidates as Directors and Audit & Supervisory Board Members, the Board of Directors has received advice from the Human Resource Advisory Committee. Consisting of three (3) Outside Directors, the Chairperson of the Board and the President, the Human Resource Advisory Committee discusses matters involving the appointment and discharge of Directors and Audit & Supervisory Board Members, as well as Executive Officers and others, and accordingly furnishes advice and recommendations to the Board of Directors.

The knowledge and expertise cultivated by the internal Directors and internal Audit & Supervisory Board Members over their individual careers, and their accumulated experience are taken into consideration when judging whether or not to accept the proposal for their selection. As such, short summaries of their careers are detailed.

The Company emphasizes independence when selecting Outside Directors and Outside Audit & Supervisory Board Members, and has therefore established its own "Independence Standards for Outside Directors and Outside Audit & Supervisory Board Members." Details are given on page 20.

	1. Reelection	Kunio Noji	(November 17, 1946)
	▶ Number of Years in Office:	19 years	
	▶ Attendance to the Meetings of the Board of Directors:	15/15 (100%)	
	▶ Number of Shares of the Company Held:	166,600 shares	
	▶ Important Concurrent Positions Held in Other Organizations:	Outside Director of Ricoh Company, Ltd. Outside Director of NEC Corporation	
	▶ Special Interests Between the Candidate and the Company:	None	

Career summary and position

4/1969	Joined the Company Field Testing Department, Technical Division
6/1993	General Manager of Production Control Department, Technical Division in Construction Equipment Division
2/1995	Plant Manager of Chattanooga Manufacturing Operation, Komatsu Dresser Company (currently Komatsu America Corp.)
3/1997	President of Information Systems Division
6/1997	Took office as Director
6/1999	Resigned as Director, took office as Executive Officer
4/2000	President of Production Division
6/2000	Took office as Senior Executive Officer
6/2001	Took office as Managing Director and Senior Executive Officer
4/2003	Took office as Director and Senior Executive Officer President of Construction & Mining Equipment Marketing Division
6/2007	Took office as President and Representative Director, and CEO
4/2013	Took office as Chairperson of the Board and Representative Director
4/2016	Took office as Chairperson of the Board and Director (current)

Note: Mr. Kunio Noji once retired as Director in June 1999 in accordance with the introduction of the Executive Officer (*Shikko Yakuin*) System in the same month.

	2. Reelection	Tetsuji Ohashi	(March 23, 1954)
	▶ Number of Years in Office:	9 years	
	▶ Attendance to the Meetings of the Board of Directors:	15/15 (100%)	
	▶ Number of Shares of the Company Held:	88,500 shares	
	▶ In Charge at the Company:	Chief Executive Officer (CEO)	
	▶ Important Concurrent Positions Held in Other Organizations:	None	
	▶ Special Interests Between the Candidate and the Company:	None	

Career summary and position

4/1977	Joined the Company Product Control Section, Planning & Coordination Department of Awazu Plant
6/1982	Graduate School, Stanford University, USA (until 6/1984)
10/1998	General Manager of Planning & Cooperation Department of Awazu Plant, Production Division
10/2001	Plant Manager of Moka Plant, Production Division
1/2004	President and Chief Operating Officer (COO) of Komatsu America Corp.
4/2007	Took office as Executive Officer of the Company President of Production Division
4/2008	Took office as Senior Executive Officer
6/2009	Took office as Director and Senior Executive Officer
4/2012	Took office as Director and Senior Executive Officer
4/2013	Took office as President and Representative Director (current) CEO (current)

	3. Reelection	Mikio Fujitsuka	(March 13, 1955)
	▶ Number of Years in Office:	7 years	
	▶ Attendance to the Meetings of the Board of Directors:	15/15 (100%)	
	▶ Number of Shares of the Company Held:	53,000 shares	
	▶ In Charge at the Company:	Corporate Controlling	
	▶ Important Concurrent Positions Held in Other Organizations:	None	
	▶ Special Interests Between the Candidate and the Company:	None	

Career summary and position

4/1977	Joined the Company Accounting Section, Administration Department of Awazu Plant
7/1988	Komatsu Australia Pty., Ltd. (until 2/1994)
6/2001	General Manager of Corporate Controlling Department of the Company
4/2005	Took office as Executive Officer
4/2008	President of Global Retail Finance Business Division and President and Representative Director of Komatsu Business Support Ltd.
2/2009	General Manager of Corporate Planning Division and President of Global Retail Finance Business Division
4/2010	Took office as Senior Executive Officer
4/2011	CFO
6/2011	Took office as Director and Senior Executive Officer
4/2013	Took office as Director and Senior Executive Officer
4/2016	Took office as Executive Vice President and Representative Director (current)

Outside Director Independent 	4. Reelection	Masayuki Oku	(December 2, 1944)
	▶ Number of Years in Office:	4 years	
	▶ Attendance to the Meetings of the Board of Directors:	15/15 (100%)	
	▶ Number of Shares of the Company Held:	0 shares	
	▶ Important Concurrent Positions Held in Other Organizations:	Outside Director of Panasonic Corporation Outside Director of Kao Corporation Outside Director of Chugai Pharmaceutical Co., Ltd. Non-executive Director of The Bank of East Asia, Limited Outside Audit & Supervisory Board Member of Nankai Electric Railway Co., Ltd.	
▶ Special Interests Between the Candidate and the Company:	None		

Career summary and position

4/1968	Joined The Sumitomo Bank, Ltd. (currently Sumitomo Mitsui Banking Corporation, hereinafter the "Bank")
6/1994	Took office as Director of the Bank
11/1998	Took office as Managing Director of the Bank
1/2001	Took office as Representative Director and Senior Managing Director of the Bank
4/2001	Took office as Representative Director and Senior Managing Director of Sumitomo Mitsui Banking Corporation (hereinafter "SMBC")
12/2002	Took office as Representative Director and Senior Managing Director of Sumitomo Mitsui Financial Group, Inc. (hereinafter "SMFG")
6/2003	Took office as Representative Director and Deputy President of SMBC
6/2005	Took office as Chairman of the Board and Representative Director of SMFG Took office as Representative Director and President of SMBC
4/2011	Retired from SMBC Took office as Chairman of the Board and Director of SMFG
6/2014	Took office as Director of the Company (current)
4/2017	Took office as Director of SMFG
6/2017	Took office as Honorary Advisor of SMFG (current)

Reason for nomination as candidate for Outside Director

Having served as Representative Director of Sumitomo Mitsui Banking Corporation, Mr. Masayuki Oku has been active internationally in the financial field and has considerable knowledge and rich experience in the business world.

Utilizing this knowledge and experience, his recommendations concerning the overall management of the Company are expected to contribute to sustaining and improving transparency and soundness of management as well as enhancing corporate governance. Therefore, the Company nominates him as a candidate for Outside Director.

Matters regarding independence

Mr. Masayuki Oku is unlikely to have a conflict of interest with general shareholders. For this reason, the Company considers him as an Independent Director and submitted the relevant notification to the Tokyo Stock Exchange.

Mr. Oku held the positions of Representative Director and Senior Managing Director, Representative Director and Deputy President, and Representative Director and President of Sumitomo Mitsui Banking Corporation (including the former The Sumitomo Bank, Ltd.) from January 2001 to April 2011. However, more than seven (7) years have passed since his retirement from Sumitomo Mitsui Banking Corporation, and he currently has no involvement with the execution of business at the said bank. Because the Company and its consolidated subsidiaries have several lenders and the said bank is only one lender among the several lenders of the Company and its consolidated subsidiaries, the said bank is not a business partner which has a significant impact on the Company's decision making. As of the end of the most recent fiscal year, the balance of loans from the said bank was JPY 130.7 billion, which was 16.1% of the total amount of loans. (page 43)

Facts in violation of laws and regulations or the Articles of Incorporation or facts of any other unreasonable execution of business at the other corporations

Panasonic Corporation, where Mr. Masayuki Oku has been serving as Outside Director since June 2008 to the present, was notified in December 2012 by the European Commission that it had decided to impose a fine on the said company to resolve claims that its cathode ray tubes business unit engaged in certain anticompetitive activities. Panasonic Corporation disputed the fine in court, but the Court of Justice of the European Union denied their dispute in July 2016, and the ruling to impose a fine was finalized. Also, the anticompetitive activities engaged in by the rechargeable battery business unit were settled through the payment of fines to the European Commission in December 2016. However, the aforesaid violations were before Mr. Oku took office as Outside Director of Panasonic Corporation. In addition, Panasonic Corporation entered into agreements with the United States Department of Justice in July 2013 and the Competition Bureau Canada in February 2014, respectively, to pay fines to resolve claims that its automotive parts business unit engaged in certain anticompetitive activities. Furthermore, Panasonic Corporation and its U.S. subsidiary Panasonic Avionics Corporation (hereinafter "PAC") entered into an agreement with the U.S. Securities and Exchange Commission and the U.S. Department of Justice in May 2018 to pay USD 280 million to the U.S. Government and implement various initiatives to improve compliance as a result of an investigation of suspected violations regarding the U.S. Foreign Corrupt Practices Act and other securities-related laws concerning specific transactions that PAC conducted with an airline company and the hiring of agents and consultants in relation to that transaction. While Mr. Oku was not aware of the aforesaid violations until they came to light, he continuously fulfilled his duties through Panasonic Corporation's Board of Directors and other relevant systems from the standpoint of compliance with laws and regulations, and strove to ensure that the said company did not execute business in violation of laws and regulations. Also, after these facts came to light, Mr. Oku called for a thorough investigation into the said facts and measures to prevent recurrence, and checked the contents of the said company's activities for preventing a recurrence.

<p>Outside Director Independent</p> 	5. Reelection	Mitoji Yabunaka	(January 23, 1948)
	▶ Number of Years in Office:	4 years	
	▶ Attendance to the Meetings of the Board of Directors:	15/15 (100%)	
	▶ Number of Shares of the Company Held:	0 shares	
	▶ Important Concurrent Positions Held in Other Organizations:	Outside Director of Mitsubishi Electric Corporation Outside Director of Takasago Thermal Engineering Co., Ltd.	
▶ Special Interests Between the Candidate and the Company:	None		

Career summary and position

4/1969	Joined the Ministry of Foreign Affairs (hereinafter “MOFA”)
1/2008	Took office as Vice-Minister for Foreign Affairs
8/2010	Took office as Adviser to MOFA
6/2014	Took office as Director of the Company (current)

Reason for nomination as candidate for Outside Director

Having served as Vice-Minister for Foreign Affairs, Mr. Mitoji Yabunaka has been active in such fields as international policy coordination and overseas consular work, and has considerable knowledge and rich experience in international relations.

Utilizing this knowledge and experience, his recommendations concerning the overall management of the Company are expected to contribute to the mitigation and avoidance of risk in the Company’s global business operations, and to the enhancement of the Company’s medium- and long-term corporate value. Therefore, the Company nominates him as a candidate for Outside Director.

Although Mr. Yabunaka has no experience in participating in the management of other companies directly, the Company judged that he would be able to execute the duties of Outside Director adequately because of the reasons above.

Matters regarding independence

Mr. Mitoji Yabunaka is unlikely to have a conflict of interest with general shareholders. For this reason, the Company considers him as an Independent Director and submitted the relevant notification to the Tokyo Stock Exchange.

Facts in violation of laws and regulations or the Articles of Incorporation or facts of any other unreasonable execution of business at the other corporations

In November 2012, Mitsubishi Electric Corporation (“Mitsubishi Electric”), where Mr. Mitoji Yabunaka has been serving as Outside Director since June 2012 to the present, received notification of Cease and Desist orders and Administrative Surcharge orders from the Japan Fair Trade Commission for violating the Anti-Monopoly Act of Japan with respect to some transactions of automobile parts. In September 2013, Mitsubishi Electric entered into an agreement with the U.S. Department of Justice to pay fines, and from August 2014, Mitsubishi Electric was ordered from China’s National Development and Reform Commission and the European Commission, etc. for payment of a surcharge. However, it was before Mr. Yabunaka took office as Outside Director of Mitsubishi Electric at the time of the aforesaid violation. After assuming his office, he has checked on the progress and expressed his opinions concerning the status of the facts-related investigation and measures for further strengthening the compliance system for recurrence prevention, and similar activities, through the Board of Directors’ meetings, etc.

In November 2014, Takasago Thermal Engineering Co., Ltd. (“TTE”), where Mr. Mitoji Yabunaka has been serving as Outside Director since June 2014 to the present, received a ruling which required TTE to pay a fine and a former employee of TTE received a prison sentence (suspended sentence) from the Tokyo District Court for a violation of the Anti-Monopoly Act of Japan concerning bidding for facility construction for the Hokuriku Shinkansen, and both decisions were final. Moreover, in relation to the aforesaid violation, in January 2015, TTE received a suspension of business order from the Ministry of Land, Infrastructure, Transport and Tourism. However, it was before Mr. Yabunaka took office as Outside Director of TTE at the time of the aforesaid violation. After assuming his office, in addition to providing instructions and expressing his opinions from the standpoint of compliance with laws and regulations, he has also carried out confirmation of the facts, performed thorough investigation into the cause and provided recommendations for recurrence prevention, and similar activities, through the Board of Directors’ meetings, etc.

In March 2014, Kawasaki Kisen Kaisha, Ltd. (“K” Line), where Mr. Mitoji Yabunaka served as Outside Director since June 2011 to June 2017, received notification of Cease and Desist orders and Administrative Surcharge orders from the Japan Fair Trade Commission for violating the Anti-Monopoly Act of Japan with respect to the freight transport of automobiles, etc. In September 2014, “K” Line entered into an agreement with the United States Department of Justice, in which it agreed to pay fines; in December 2015, “K” Line was ordered to pay a penalty by China’s National Development and Reform Commission, and; in February 2018, “K” Line was ordered to pay a penalty by the European Commission. While Mr. Yabunaka was not aware of the aforesaid violation until it came to light, he continuously fulfilled his duties through “K” Line’s Board of Directors and other relevant systems from the standpoint of compliance with laws and regulations, and strove to ensure that the said company did not execute business in violation of laws and regulations. Also, after the fact came to light, he has conducted investigation into the aforesaid fact, provided instructions on recurrence prevention and similar activities through the Board of Directors’ meetings, etc.

Outside Director Independent 	6. Reelection Makoto Kigawa (December 31, 1949)
	▶ Number of Years in Office: 2 years
	▶ Attendance to the Meetings of the Board of Directors: 15/15 (100%)
	▶ Number of Shares of the Company Held: 0 shares
	▶ Important Concurrent Positions Held in Other Organizations: Director and Chairman of Yamato Holdings Co., Ltd.
	▶ Special Interests Between the Candidate and the Company: None

Career summary and position

4/1973	Joined the Fuji Bank, Limited (currently Mizuho Bank, Ltd.)
4/2004	Took office as Managing Director, Chief Risk Officer / Head of Risk Management Group, and Chief Human Resources Officer / Head of Human Resources Group of Mizuho Corporate Bank, Ltd. (currently Mizuho Bank, Ltd.)
3/2005	Retired from Mizuho Corporate Bank, Ltd.
4/2005	Joined Yamato Transport Co., Ltd. (currently Yamato Holdings Co., Ltd.)
6/2005	Took office as Managing Director of Yamato Transport Co., Ltd. (currently Yamato Holdings Co., Ltd.)
11/2005	Took office as Representative Managing Director of Yamato Holdings Co., Ltd.
4/2006	Took office as Representative Director and Managing Executive Officer of Yamato Holdings Co., Ltd.
6/2006	Took office as Representative Director and Senior Managing Executive Officer of Yamato Holdings Co., Ltd.
3/2007	Took office as Representative Director and Executive Officer of Yamato Holdings Co., Ltd. Took office as Representative Director, President and Executive Officer of Yamato Transport Co., Ltd.
4/2011	Took office as Representative Director, President and Executive Officer of Yamato Holdings Co., Ltd.
4/2015	Took office as Chairman of the Board and Representative Director of Yamato Holdings Co., Ltd.
6/2016	Took office as Director of the Company (current)
4/2018	Took office as Director and Chairman of Yamato Holdings Co., Ltd. (current)

Reason for nomination as candidate for Outside Director

Having served as Representative Director of Yamato Holdings Co., Ltd. and Yamato Transport Co., Ltd., Mr. Makoto Kigawa has considerable knowledge and rich experience in the business world, including use of ICT, business model innovation and so forth, and engaging in strategic and advanced corporate management, among others.

Utilizing this knowledge and experience, his recommendations concerning the overall management of the Company are expected to contribute to appropriate monitoring of the management strategies of the Company, and to the enhancement of the Company's medium- and long-term corporate value. Therefore, the Company nominates him as a candidate for Outside Director.

Matters regarding independence

Mr. Makoto Kigawa is unlikely to have a conflict of interest with general shareholders. For this reason, the Company considers him as an Independent Director and has submitted the relevant notification to the Tokyo Stock Exchange.

Mr. Kigawa serves as Director and Chairman of Yamato Holdings Co., Ltd. The Company and its consolidated subsidiaries have transactions with Yamato Holdings Co., Ltd.'s subsidiaries, including Yamato Transport Co., Ltd. for payment of transportation expenses, etc. However, the amount of the payment is less than 0.1% of the consolidated total of cost of sales and selling, general and administrative expenses of the Company and its consolidated subsidiaries for the most recent fiscal year.

Facts in violation of laws and regulations or the Articles of Incorporation or facts of any other unreasonable execution of business at the other corporations

Mr. Makoto Kigawa has been serving as Director of Yamato Holdings Co., Ltd. since June 2005 to the present. Meanwhile, since February 2017 the Yamato Group has conducted an investigation looking into actual working hours of its employees, in response to a situation where efforts to build an operating framework had fallen behind largely amid a prevailing surge in the entity's e-commerce related business. The investigation has revealed that Yamato Holdings Co., Ltd. had been failing to recognize that many of its employees were unable to take sufficient breaks and other such issues. Yamato Holdings Co., Ltd. has taken the matter seriously, and has accordingly been implementing various structural reforms, particularly in its delivery business, to address the primary challenges of bringing about work-style reforms that include improving and thoroughly implementing labor controls, and promoting work-life balance.

	7. New Candidate Hiroyuki Ogawa (March 23, 1961)
	▶ Number of Shares of the Company Held: 10,100 shares
	▶ In Charge at the Company: President of Production Division In charge of the Mid-range Management Plan
	▶ Important Concurrent Positions Held in Other Organizations: None
	▶ Special Interests Between the Candidate and the Company: None

Career summary and position

4/1985	Joined the Company Production Engineering Section, Production Engineering Department of Kawasaki Plant
4/2004	Plant Manager of Chattanooga Manufacturing Operation, Komatsu America Corp.
4/2007	General Manager of Planning & Coordination Department of Osaka Plant, Production Division
4/2010	Took office as Executive Officer Plant Manager of Ibaraki Plant, Production Division
4/2013	President of Procurement Division in Production Division
4/2014	Representative of All Indonesia Operations Chairperson of PT Komatsu Marketing & Support Indonesia (until 3/2016)
4/2015	Took office as Senior Executive Officer
4/2016	President of Production Division (current)
4/2018	Took office as Senior Executive Officer (current)

	8. New Candidate Kuniko Urano (October 19, 1956)
	▶ Number of Shares of the Company Held: 18,100 shares
	▶ In Charge at the Company: Supervising Human Resources & Education, Safety & Health Care, Corporate Communications, and CSR
	▶ Important Concurrent Positions Held in Other Organizations: None
	▶ Special Interests Between the Candidate and the Company: None

Career summary and position

4/1979	Joined the Company Education Section, Human Resources Department
4/2005	General Manager of Logistics Planning Department, Production Division
4/2010	General Manager of Corporate Communications Department
4/2011	Took office as Executive Officer
4/2014	General Manager of Human Resources Department
4/2016	Took office as Senior Executive Officer (current)

Notes:

1. “Number of Years in Office” shown with the candidates for reelection above indicates the period from the day of the General Meeting of Shareholders when the Director was elected for the first time to the conclusion of this Ordinary General Meeting of Shareholders.
2. The names of divisions and other bodies in the Company in “Career summary and position” above show those that were applicable at each relevant time period.
3. Meeting attendance above shows attendance to the meetings of the Board of Directors held during the fiscal year ended March 31, 2018 (April 1, 2017 to March 31, 2018).
4. The Company has entered into an agreement with Mr. Masayuki Oku, Mr. Mitoji Yabunaka and Mr. Makoto Kigawa that limits their liability for damages caused by their negligence of duty under Article 423, Paragraph 1 of the Companies Act of Japan, in accordance with Article 427, Paragraph 1 of the same and the Articles of Incorporation of the Company. If their reelections are approved, the Company intends to continue the aforesaid agreement. The maximum liability amount specified in this agreement shall be equivalent to the amount stipulated by laws and regulations.

Item 3: Election of One (1) Audit & Supervisory Board Member

The term of office of Mr. Hirohide Yamaguchi as Audit & Supervisory Board Member will expire as of the close of this Ordinary General Meeting of Shareholders.

Accordingly, the Company proposes that one (1) Audit & Supervisory Board Member (including one (1) Outside Audit & Supervisory Board Member) be elected. If this election is approved, the Company's Audit & Supervisory Board Members will be five (5) members (including three (3) Outside Audit & Supervisory Board Members).

This item for resolution was reviewed and approved by the Audit & Supervisory Board.

The candidate for the position is as follows:

Outside Audit & Supervisory Board Member: Candidate for Outside Audit & Supervisory Board Member

Independent: Candidate for Audit & Supervisory Board Member who meets the Company's independence standards (page 20) and for whom the Company has submitted an Independent Audit & Supervisory Board Member Notification to the Tokyo Stock Exchange (*the Japanese stock exchange on which the Company's shares are listed*).

<p style="text-align: center;">Outside Audit & Supervisory Board Member Independent</p> 	Reelection	Hirohide Yamaguchi (March 6, 1951)
	▶ Number of Years in Office:	4 years
	▶ Attendance to the Meetings of the Board of Directors:	15/15 (100%)
	▶ Attendance to the Meetings of the Audit & Supervisory Board:	15/15 (100%)
	▶ Number of Shares of the Company Held:	0 shares
	▶ Important Concurrent Positions Held in Other Organizations:	Chairman of the Advisory Board of Nikko Research Center, Inc. Outside Audit & Supervisory Board Member of Mitsui Fudosan Residential Co., Ltd. Outside Audit & Supervisory Board Member of Nippon Yusen Kabushiki Kaisha
	▶ Special Interests Between the Candidate and the Company:	None

Career summary and position

4/1974	Joined the Bank of Japan (hereinafter "BOJ")
10/2008	Took office as Deputy Governor of BOJ
3/2013	Retired from BOJ
7/2013	Took office as Chairman of the Advisory Board of Nikko Financial Intelligence, Inc. (currently Nikko Research Center, Inc.) (current)
6/2014	Took office as Audit & Supervisory Board Member of the Company (current)

Reason for nomination as candidate for Outside Audit & Supervisory Board Member

Having served as Deputy Governor of the Bank of Japan, Mr. Hirohide Yamaguchi has been active internationally in the financial field and has considerable knowledge and rich experience in the finance world.

Utilizing this knowledge and experience, the Company expects him to execute his duties as Outside Audit & Supervisory Board Member from the standpoint of a specialist. Therefore, the Company nominates him as a candidate for Outside Audit & Supervisory Board Member.

Although Mr. Yamaguchi has no experience in participating in the management of other companies directly, the Company judged that he would be able to execute the duties of Outside Audit & Supervisory Board Member adequately because of the reasons above.

Matters regarding independence

Mr. Hirohide Yamaguchi is unlikely to have a conflict of interest with general shareholders. For this reason, the Company considers him as an Independent Audit & Supervisory Board Member and submitted the relevant notification to the Tokyo Stock Exchange.

Facts in violation of laws and regulations or the Articles of Incorporation or facts of any other wrongful execution of business at the other corporations

Mr. Hirohide Yamaguchi has been serving as an Outside Audit & Supervisory Board Member of Nippon Yusen Kabushiki Kaisha since June 2016 to the present. Whereas there have been considerable suspicions particularly regarding the possibility that illicit expenditures may have been made by locally-hired executives of NYK Car Carrier (China) Co. Ltd., which is a consolidated subsidiary of Nippon Yusen Kabushiki Kaisha and engages in the business of finished vehicle transportation domestically in China, Mr. Yamaguchi had been unaware of that activity until having received a report detailing the matter. In addition to furnishing remarks regarding legal compliance to date, Mr. Yamaguchi has also expressed his views with the aim of thoroughly identifying causes of the matter and preventing recurrence, at forums such as Board of Directors and Audit & Supervisory Board meetings.

Notes:

1. “Number of Years in Office” shown with the candidate for reelection above indicates the period from the day of the General Meeting of Shareholders when the Audit & Supervisory Board Member was elected for the first time to the conclusion of this Ordinary General Meeting of Shareholders.
2. Meeting attendance above shows attendance to the meetings of the Board of Directors and Meetings of the Audit & Supervisory Board held during the fiscal year ended March 31, 2018 (April 1, 2017 to March 31, 2018).
3. The Company has entered into an agreement with Mr. Hirohide Yamaguchi that limits his liability for damages caused by his negligence of duty under Article 423, Paragraph 1 of the Companies Act of Japan, in accordance with Article 427, Paragraph 1 of the same and the Articles of Incorporation of the Company. If his reelection is approved, the Company intends to continue the aforesaid agreement. The maximum liability amount specified in this agreement shall be equivalent to the amount stipulated by laws and regulations.

<Reference> Independence of the Company’s Audit & Supervisory Board

If Item 3 is approved and adopted, the Company’s Audit & Supervisory Board will consist of five (5) members, the majority of which (i.e., three (3) members) will be Outside Audit & Supervisory Board Members, who are also Independent Audit & Supervisory Board Members. Matters regarding the independence of Outside Audit & Supervisory Board Members is as follows. As for the independence standards, please refer to the next page.

Name (Month and year of taking office)	Matters regarding independence
Hirohide Yamaguchi (6/2014)	As mentioned in “Matters regarding independence” above.
Eiko Shinotsuka (6/2015)	Ms. Eiko Shinotsuka is unlikely to have a conflict of interest with general shareholders and is considered as an Independent Audit & Supervisory Board Member, and therefore the Company submitted the relevant notification to the Tokyo Stock Exchange.
Kotaro Ohno (6/2017)	Mr. Kotaro Ohno is unlikely to have a conflict of interest with general shareholders and is considered as an Independent Audit & Supervisory Board Member, and therefore the Company submitted the relevant notification to the Tokyo Stock Exchange.

* The important concurrent positions held in other organizations of current Outside Audit & Supervisory Board Members are mentioned in page 53.

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

The Board of Directors of the Company has determined the independence standards for Outside Directors and Outside Audit & Supervisory Board Members (collectively, "Outside Board Members") as follows.

1. Basic stance:

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

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

2. Independence standards:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Item 4: Payment of Bonuses for Directors

Under the Company’s remuneration system for Directors, the Company proposes to pay bonuses within the range of JPY 255 million in total to the eight (8) Directors who were in office as of the end of the 149th fiscal year (of which, JPY 9 million in total to the three (3) Outside Directors).

The Company requests that the details such as the individual amount and timing of payment to each Director shall be left to the decision of the Board of Directors.

As for the Company’s remuneration system for Directors, please refer to “Policy regarding the determination of remuneration” (pages 54 to 55).

<Reference> Revision of System of Remuneration for Directors

Taking the results of deliberations and reports of the Compensation Advisory Committee into consideration, the Company resolved at a meeting of the Board of Directors held on April 26, 2018 to revise the remuneration system so that it will further contribute to the enhancement of the medium- and long-term corporate value of the Company, by linking the remuneration of the Directors, excluding the Outside Directors, more closely to the Company’s performance.

Specifically, the Company will, in addition to the basic remuneration (fixed remuneration) and the performance-based remuneration linked to the consolidated performance for a single year (bonus in cash and the Stock-Based Remuneration A), newly pay to the Directors of the Company (excluding the Outside Directors) the performance-based remuneration (Stock-Based Remuneration B) that will reflect the degree of achievement of the targets raised in the mid-range management plan. The Stock-Based Remuneration A and the Stock-Based Remuneration B shall be paid in the form of restricted stock for the purpose of further fostering the same perspective on corporate value between the Directors and shareholders.

[System of Remuneration for Internal Director]

	Basic Remuneration (Fixed Remuneration)	Performance-Based Remuneration for a Single Year (Monthly Remuneration x 0 ~ 24 months)	
(Current System)	Monthly Remuneration x 12 months	Bonus in Cash (2/3 ,in principle) [up to the equivalent of 12 months’ remuneration]	Stock-Based Remuneration (1/3 ,in principle) Stock Acquisition Rights, the exercise price of which is JPY 1
↓			
(System after Revision)	Basic Remuneration (Fixed Remuneration) Monthly Remuneration x 12 months	Performance-Based Remuneration for a Single Year (Monthly Remuneration x 0 ~ 24 months) Bonus in Cash (2/3 ,in principle) [up to the equivalent of 12 months’ remuneration]	<div style="border: 2px solid red; padding: 5px;"> Performance-Based Remuneration Linked to Performance of Mid-Range Management Plan (Monthly Remuneration x 0 ~ 3 months) </div> Stock-Based Remuneration A (1/3 ,in principle) Restricted Stock Stock-Based Remuneration B Restricted Stock Newly established

For the performance-based remuneration, the bonus in cash and the Stock-Based Remuneration A shall be linked to the consolidated performance for a single year; please see page 55 for the valuation indicators. Such valuation indicators may be changed in the future by a resolution of the Board of Directors.

The Stock-Based Remuneration B shall be linked to the degree of achievement of the targets raised in the current mid-range management plan as shown in the below table and the number of shares with respect to which restrictions will be lifted shall be determined based on the values of the valuation bases

and valuation indicators in the final year of the mid-range management plan. If a new mid-range management plan is prepared in the future, the targets, valuation bases and valuation indicators as shown in the below table may be changed by a resolution of the Board of Directors.

[Targets, Valuation Bases and Valuation Indicators in Current Mid-Range Management Plan (for Fiscal Year Ended March 31, 2017 - Fiscal Year Ending March 31, 2019)]

Targets in Current Mid-Range Management Plan	Valuation Bases and Valuation Indicators
Growth (Aim at a growth rate above the industry's average)	Comparison of growth rate of consolidated sales with those of major competitors* 1
Profitability (Aim at the industry's top-level operating income ratio)	Comparison of consolidated operating income ratio with those of major competitors*1
Efficiency (Aim at 10%-level ROE)	Achievement of a consolidated ROE of 10% or more
Financial Position (Aim at the industry's top-level financial position)	Comparison of net debt-to-equity ratio*2 with those of major competitors* 1
Management focused on ESG (Environment, Social and Corporate Governance)	Achievement rate of targets in respect of mid-range ESG activities

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

*2 Net debt-to-equity ratio = (Interest-bearing debt – Cash and cash equivalents – Time deposits) / Shareholders' equity of the Company

The maximum amount of the bonus in cash, the Stock-Based Remuneration A and the Stock-Based Remuneration B shall be as described in Item 5 and Item 6 below. If Item 6 below is approved, the stock acquisition rights that have been granted to the Directors of the Company (including the Outside Directors) as the stock-based remuneration will not be newly granted.

Item 5: Revision of the Amount of Remuneration for Directors and Audit & Supervisory Board Members

It was resolved at the 135th Ordinary General Meeting of Shareholders, held in June 2004, that the maximum amount of remuneration to be paid to the Directors in total per month shall not exceed JPY 60 million and it was resolved at the 143rd Ordinary General Meeting of Shareholders, held in June 2012, that the maximum amount of remuneration to be paid to the Audit & Supervisory Board Members in total per month shall not exceed JPY 13.5 million.

On this occasion, the Company proposes to change the amount of remuneration for the Directors of the Company from a monthly amount to a yearly amount, and pay bonuses in cash in addition to the basic remuneration (fixed remuneration) to the Directors, other than the Outside Directors, in an amount that does not exceed the relevant remuneration amount. As the Company further promotes its global business operations, the Company proposes to set the remuneration amount, comprehensively taking into account the previous actual amount, the standards at other companies in and outside of Japan, and the composition of the Directors etc., so as not to exceed JPY 1,500 million per year (of which, payment to the Outside Directors shall not exceed JPY 100 million per year).

In order to clarify the Outside Directors' role to make recommendations with respect to the overall management of the Company as a member of the Board of Directors, only the basic remuneration (fixed remuneration) shall be paid to the Outside Directors hereafter.

Basic remuneration and bonus in cash to the Directors shall be determined by the Board of Directors based on reports of the Compensation Advisory Committee within the above mentioned scope of remuneration.

As the Audit & Supervisory Board Members are to be compensated commensurate with the increase in their responsibilities, the amount of remuneration for the Audit & Supervisory Board Members shall be set, in conjunction with the revision of the amount of the remuneration for the Directors, so as not to exceed JPY 200 million per year. The Company shall continue to pay only a basic remuneration (fixed remuneration) to the Audit & Supervisory Board Members.

Basic remuneration to each of the Audit & Supervisory Board Members shall be determined based upon discussion by the Audit & Supervisory Board Members within the above mentioned scope of remuneration.

The Company currently has eight (8) Directors (including three (3) Outside Directors), and assuming that Item 2 is approved and adopted as proposed, the number of the Directors will remain eight (8) (including three (3) for Outside Directors). Further, the Company currently has five (5) Audit & Supervisory Board Members, and assuming that Item 3 is approved and adopted as proposed, the number of the Audit & Supervisory Board Members will remain five (5).

The same as in the past, the employee salaries for the Directors concurrently serving as employees are not included in the amount of remuneration for the Directors of the Company.

Item 6: Determination of the Amount of Remuneration in the Restricted Stock Compensation System for Directors

Based on above “Revision of System of Remuneration for Directors” (pages 21 to 22), the Company proposes to introduce the restricted stock compensation system (hereinafter “System”) as follows.

The Company, therefore, asks for the shareholders’ approval with respect to the amount of remuneration in the form of the restricted stock to be granted to the Directors (excluding the Outside Directors) (hereinafter “Eligible Directors”) of the Company.

[Outline of the System]

(1) Overview

- Under the System, the Company shall grant Eligible Directors monetary compensation receivables for the allocation of restricted stock for each fiscal year in principle, and, by having the Eligible Directors make contribution in kind to the Company using the monetary compensation receivables as contributed assets, shall issue or dispose of its shares of common stock to the Eligible Directors and allow them to hold such shares.
- The Company shall conclude a restricted stock grant agreement (hereinafter “Grant Agreement”) with the Eligible Directors. With regard to the shares granted pursuant to the Grant Agreement (hereinafter “Granted Shares”), the Eligible Directors shall not be allowed to transfer, create a security interest on, or otherwise dispose (hereinafter “Transfer”) of them at will (hereinafter “Restrictions”) during a given period provided by the Grant Agreement (hereinafter “Restricted Period”).
The Company shall acquire from the Eligible Directors, free of charge, the Granted Shares with respect to which the Restrictions have not been lifted as a result of the occurrence of prescribed events, including the failure to accomplish performance targets determined by the Board of Directors based on reports of the Compensation Advisory Committee.
- Other details regarding the administration of the System shall be determined by the Board of Directors based on reports of the Compensation Advisory Committee.

	Stock-Based Remuneration A (Performance-Based Remuneration for a Single Year)	Stock-Based Remuneration B (Performance-Based Remuneration Linked to Performance of Mid-Range Management Plan)
(2) Framework of the remuneration system	As an alternative to Stock Acquisition Rights which have been granted as stock-based remuneration, the Company shall determine the amount of remuneration based on the Company’s single-year performance, etc. and pay a part of the amount of remuneration so determined in the form of restricted stock to the Eligible Directors each fiscal year. The Restrictions will, in principle, be lifted three (3) years after the grant of the Granted Shares.	With respect to the period of the Company’s mid-range management plan, the Company shall grant restricted stock to the Eligible Directors each fiscal year based on the base amount of remuneration for each position. After the expiry of the period of the mid-range management plan, the Company shall determine the number of shares with respect to which the Restrictions will be lifted according to the achievement status of the targets raised in the mid-range management plan, etc. In principle, the Company shall lift the Restrictions three (3) years after the grant of the Granted Shares.
(3) Amount of monetary compensation receivables to be provided and the maximum number of shares to be granted	Amount of monetary compensation receivables: No more than JPY 360 million per year; provided, however, that the employee salaries for the Directors concurrently serving as employees are not included in this amount. Total number of Granted Shares: No more than 239,000 shares during one fiscal year.	Amount of monetary compensation receivables: No more than JPY 180 million per year; provided, however, that the employee salaries for the Directors concurrently serving as employees are not included in this amount. Total number of Granted Shares: No more than 120,000 shares during one fiscal year.

	Stock-Based Remuneration A (Performance-Based Remuneration for a Single Year)	Stock-Based Remuneration B (Performance-Based Remuneration Linked to Performance of Mid-Range Management Plan)
	However, if, after the close of this Ordinary General Meeting of Shareholders, a stock split, consolidation of shares or any other situation with respect to the Company's common stock occurs that necessitates the adjustment of the total number of restricted stock to be allocated, the total number of Granted Shares shall be reasonably adjusted.	
(4) Amount to be paid per share	The amount to be paid per share shall be determined by the Board of Directors to an extent that would not be considered especially advantageous to the Eligible Directors who are granted the shares of common stock of the Company under the System, that is, the closing price of the share of common stock of the Company on the Tokyo Stock Exchange on the business day immediately preceding the date of each resolution by the Board of Directors (or the closing price on the trading day immediately prior thereto if there is no trading on such business day), etc.	
(5) Restriction Period	The Restriction Period shall be three (3) years, and the Eligible Directors shall not Transfer the Granted Shares during such period.	
(6) Lifting of Restrictions	The Company shall, in principle, lift the Restrictions on the Granted Shares at the expiry of the Restriction Period.	In principle, the Company shall, at the expiry of the Restriction Period, lift the Restrictions on all or part of the Granted Shares according to the degree of achievement of the targets raised in the mid-range management plan based on the indicators set by the Board of Directors, including the major performance indicators set in the mid-range management plan. Upon determination of the number of shares with respect to which the Restrictions will be lifted according to the achievement status of the targets raised in the mid-range management plan, etc., the Company shall as a matter of course acquire, free of charge, the Granted Shares with respect to which the Company decides not to lift the Restrictions pursuant to the above provision.
(7) Treatment upon retirement	In the event that, prior to the expiry of the Restriction Period, the Eligible Director is deemed to have retired as a Director of the Company due to his or her death, the Company shall lift the Restrictions on all of the Granted Shares after making reasonable adjustments, as necessary, to the timing of the lifting of the Restrictions. If, prior to the expiry of the Restriction Period, the Eligible Director retires as a Director of the Company without any reason recognized as legitimate by the Board of Directors of the Company, such as the expiration of the term of office as a Director (hereinafter "Legitimate Reason for Retirement"), the Company shall as a matter of course acquire, free of charge, all or part of the Granted Shares.	In the event that, prior to the expiry of the Restriction Period, the Eligible Director is deemed to have retired as a Director of the Company due to his or her death, the Company shall make reasonable adjustments, as necessary, to (i) the number of Granted Shares with respect to which the Restrictions are to be lifted and the timing of the lifting of the Restrictions during the period from the time of the grant of the Granted Shares to immediately prior to the determination of the number of shares with respect to which the Restrictions will be lifted according to the achievement status of the targets raised in the mid-range management plan, etc., or (ii) the timing of the lifting of the Restrictions during the period from the determination of the number of

	Stock-Based Remuneration A (Performance-Based Remuneration for a Single Year)	Stock-Based Remuneration B (Performance-Based Remuneration Linked to Performance of Mid-Range Management Plan)
		<p>shares with respect to which the Restrictions will be lifted according to the achievement status of the targets raised in the mid-range management plan, etc. to the expiry of the Restriction Period.</p> <p>If, prior to the expiry of the Restriction Period, the Eligible Director retires as a Director of the Company without any Legitimate Reason for Retirement, the Company shall as a matter of course acquire, free of charge, all or part of the Granted Shares.</p>
(8) Treatment upon Reorganization, etc.	<p>In the event that, during the Restriction Period, a merger agreement in which the Company becomes the non-surviving company, a share exchange agreement or a share transfer plan under which the Company becomes a wholly-owned subsidiary of another company, or any other arrangement, including the reorganization of the Company (hereinafter “Reorganization, etc.”) is resolved at a General Meeting of Shareholders of the Company (or at a meeting of the Board of Directors of the Company, if the relevant Reorganization, etc. does not require the approval of a General Meeting of Shareholders), the Company shall, by resolution of its Board of Directors, make reasonable adjustments, as necessary, to the timing of the lifting of the Restrictions.</p>	<p>In the event that, during the Restriction Period, the Reorganization, etc. is resolved at a General Meeting of Shareholders of the Company (or at a meeting of the Board of Directors of the Company, if the relevant Reorganization, etc. does not require the approval of a General Meeting of Shareholders), the Company shall, by resolution of its Board of Directors, make reasonable adjustments, as necessary, to (i) the number of Granted Shares with respect to which the Restrictions are to be lifted and the timing of the lifting of the Restrictions if such approval is obtained during the period from the time of the grant of the Granted Shares to immediately prior to the determination of the number of shares with respect to which the Restrictions will be lifted according to the achievement status of the targets raised in the mid-range management plan, etc., or (ii) the timing of the lifting of the Restrictions if such approval is obtained during the period from the determination of the number of shares with respect to which the Restrictions will be lifted according to the achievement status of the targets raised in the mid-range management plan, etc. to the expiry of the Restriction Period.</p>
(9) Other matters to be determined by the Board of Directors	Other matters relating to the System shall be determined by the Board of Directors and shall be considered to be a part of the Grant Agreement.	

Accordingly, the Company asks for the shareholders' approval of the Company's determination that, in order to provide monetary compensation receivables to grant restricted stock, the amount of remuneration for the Eligible Directors under the System shall be, separately from the amount of remuneration for the Directors (including the Outside Directors) set forth in Item 5, no more than JPY 360 million per year (provided, however, that the employee salaries for the Directors concurrently serving as employees are not included in this amount) with respect to "Stock-Based Remuneration A", and no more than JPY 180 million per year (provided, however, that the employee salaries for the Directors concurrently serving as employees are not included in this amount) with respect to "Stock-Based Remuneration B".

Specific timing of payment and allocation shall be determined by the Board of Directors based on reports by the Compensation Advisory Committee.

The Company currently has five (5) Eligible Directors, and assuming that Item 2 is approved and adopted as proposed, the number of the Eligible Directors will remain five (5). The Outside Directors will not be eligible for the System.

<Reference>

The Company, on the condition that this item is approved and adopted, plans to apply a system similar to the above restricted stock compensation system to employees of the Company and the Representative Directors of the Company's major subsidiaries after the close of this Ordinary General Meeting of Shareholders.

At the 141st Ordinary General Meeting of Shareholders held in June 2010, it was resolved that the amount of remuneration in the form of Stock Acquisition Rights to be granted to the Directors of the Company (including the Outside Directors) as the stock-based remuneration for each fiscal year shall be no more than JPY 360 million (of which, up to JPY 50 million shall be allocated for the Outside Directors. The employee salaries for the Directors concurrently serving as employees are not included in this amount.), and the Company adopted the remuneration system for the Directors to grant Stock Acquisition Rights as stock-based remuneration. However, such system will be abolished if this item is approved and adopted.

End

Business Report

(April 1, 2017 - March 31, 2018)

1. Current Conditions of Komatsu

(1) Outline of Operations and Business Results

Komatsu Ltd. (“Company”) and its consolidated subsidiaries (together “Komatsu”) has established a three-year mid-range management plan, “Together We Innovate GEMBA Worldwide–Growth Toward Our 100th Anniversary (2021) and Beyond–” with the fiscal year ending March 31, 2019 as the goal year, and is actively pursuing three management strategies: 1) Growth strategies based on innovation, 2) Growth strategies of existing businesses, and 3) Structural reforms designed to reinforce the business foundation.

For the fiscal year ended March 31, 2018 (April 1, 2017 – March 31, 2018), consolidated net sales for the year increased by 38.7% from the previous fiscal year to JPY 2,501.1 billion, due to effects of newly adding as a consolidated subsidiary Joy Global Inc. (currently Komatsu Mining Corp.; “Komatsu Mining”), a leading U.S. manufacturer of mining equipment with respect to which Komatsu acquired in April 2017. Concerning profits, operating income increased by 56.0% from the previous fiscal year, to JPY 271.5 billion. Operating income ratio was 10.9%, up 1.2 percentage points. Income before income taxes and equity in earnings of affiliated companies increased by 75.3% to JPY 291.8 billion. Net income attributable to Komatsu Ltd. increased by 73.2% to JPY 196.4 billion.

	148th Fiscal Year (April 2016 – March 2017)	Changes From 148th Fiscal Year	149th Fiscal Year (April 2017 – March 2018)
Net sales	JPY1,802.9 billion	+38.7%	JPY2,501.1 billion
Operating income	JPY 174.0 billion	+56.0%	JPY 271.5 billion
Income before income taxes and equity in earnings of affiliated companies	JPY 166.4 billion	+75.3%	JPY 291.8 billion
Net income attributable to Komatsu Ltd.	JPY 113.3 billion	+73.2%	JPY 196.4 billion

Note: The Consolidated Financial Statements of the Company are prepared in accordance with Article 120-3 Paragraph 1 of the Ordinance on Company Accounting of Japan and the method of preparation conforms to the accounting principles generally accepted in the United States of America (hereinafter “U.S. GAAP”) in terms of terminology and format.

[Construction, Mining and Utility Equipment]

	149th Fiscal Year (April 2017 – March 2018)	Changes From 148th Fiscal Year
Sales	JPY 2,280.9 billion	+44.7%
Segment profit	JPY 275.9 billion	+70.7%

Note: The amounts stated in the table above are based on the amounts before elimination of transactions between segments.

In the construction, mining and utility equipment segment, sales increased by 44.7% from the previous fiscal year to JPY 2,280.9 billion, as a result of having steadily tapped demand in China, Indonesia and many other regions, and also due to positive effects of newly adding Komatsu Mining as a consolidated subsidiary. Segment profit increased by 70.7% to JPY 275.9 billion, driven by higher sales in many

regions of the world, which more than offset temporary expenses incurred in relation to the acquisition of Komatsu Mining.

In September 2017, we embarked on sales of our medium-sized “PC200-11” hydraulic excavator and our medium-sized “PC200i-11” intelligent Machine Control hydraulic excavator, 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). Both new models offer substantially lower nitrogen oxide emissions while achieving high levels of productivity and fuel economy. Accordingly, Komatsu has been working to expand sales through market launches of the latest models featuring refined environmental performance, safety and ICT applications.

(Reference) PC200i-11

We have been further driving the evolution of intelligent Machine Control technology which governs boom, arm and bucket operations of work equipment, while checking the positioning data of their bucket teeth calculated using a global navigation satellite system (GNSS) antenna and correction data. In comparison with conventional models, the PC200i-11 offers substantially better operability and enables shorter construction times, as a result of their automatic leveling assist feature and other improvements made with respect to conventional machine control capabilities, as well as other additional new features that include bucket angle hold control and compaction control.

In addition, we have been steadily promoting our SMARTCONSTRUCTION solutions business for construction sites, launched in February 2015, and have introduced such solutions to more than 5,000 work sites thus far.

(Reference: Related websites)

Visit the special SMARTCONSTRUCTION website:

⇒ <http://smartconstruction.komatsu/>

** This website is currently available only in Japanese.*

*For those who are interested in SMARTCONSTRUCTION,
details are available in KOMATSU REPORT 2017*

⇒ <https://home.komatsu/en/ir/annual/html/2017/innovation/index.html#section1>

Sales of Construction, Mining and Utility Equipment by Region (to External Customers)

Region	149th Fiscal Year (April 2017 – March 2018)	Changes From 148th Fiscal Year
Japan	JPY 315.6 billion	+4.7%
Overseas	JPY 1,951.6 billion	+54.3%
Americas	JPY 853.0 billion	+57.6%
Europe & CIS	JPY 289.0 billion	+40.3%
China	JPY 164.7 billion	+69.2%
Asia* & Oceania	JPY 480.6 billion	+53.9%
Middle East & Africa	JPY 164.1 billion	+52.5%
Total	JPY 2,267.3 billion	+44.8%

* Excludes Japan and China.

[Topics] Business integration and creating synergies with Komatsu Mining

1. Basic approach and plans with respect to integration

Since having acquired Joy Global Inc. (currently Komatsu Mining Corp.) in April 2017, the Company has been promoting business integration premised on the notion of maintaining and improving standards of customer support. The business integration involves pursuing initiatives from the three perspectives listed below with the aim of creating effects from synergies amounting, in fiscal year 2021, to approximately 10% of Komatsu Mining’s sales for the fiscal year.

Increase sales	<ul style="list-style-type: none"> • Draw on the customer bases and sales networks of both companies, while maintaining and enhancing direct sales and direct services. • Jointly make use of service bases and suppliers within the Group. • Develop new products and ICT solutions by combining technologies of both companies, etc.
Reduce costs	<ul style="list-style-type: none"> • Promote a framework for global supply (cross sourcing). • Engage in joint purchasing and share warehousing and supply chains. • Enhance integration and specialization of business operations, etc.
Curtail investment	<ul style="list-style-type: none"> • Engage in detailed review and screening of overlapping investment (similar investment within the same region), etc.

2. Synergies Brought about by Integration

We have been making steady progress in creating synergies through integration of the Company and Komatsu Mining, amid a situation where there had been no overlap between respective mining equipment product mixes of the two companies prior to the integration.

(Mining equipment product lineup)

	Surface Mining Product									Underground Mining Product					
Name of Product															
The Company (prior to integration)	✓	✓	✓	✓	✓										
Komatsu Mining						✓	✓	✓	✓	✓	✓	✓	✓	✓	✓

From a marketing standpoint, we have managed to expand sales by leveraging the customer bases and sales networks of the two companies, which are areas where both have strengths. As a result, we have achieved increased sales particularly of its wheel loaders to customers in the U.S. and have won orders for rope shovels from customers in Latin America. The Company’s subsidiary Hensley Industries, Inc., which manufactures buckets and teeth for construction and mining equipment, has achieved an increase in sales of products geared to mining equipment.



[Wheel loader]



[Rope shovel]

In after-sales service, we have managed to generate higher sales revenues while curbing investment in part by making effective use of operating locations of both companies. Specific examples of such mutual use of both companies' bases to generate synergy include handling repairs of cylinders for rope shovels and repairs of blades for large-scale bulldozers in Chile, and operations concerning assembly and maintenance of dump trucks in Australia.



[Cylinders for rope shovels]



[Large bulldozer]

Moreover, we have managed to reduce procurement costs particularly for steel materials in the U.S., Australia, Brazil and elsewhere by consolidating sources of supply and engaging in joint purchasing. We have also reduced interest payments by modifying financing arrangements with respect to Komatsu Mining, and have furthermore constrained costs by combining our offices.

We aim to create further synergies as we continue with our efforts involving the business integration with Komatsu Mining.

[Retail Finance]

	149th Fiscal Year (April 2017 – March 2018)	Changes From 148th Fiscal Year
Revenues	JPY 60.3 billion	+22.8%
Segment profit	JPY 12.9 billion	+191.1%

Note: The amounts stated in the table above are based on the amounts before elimination of transactions between segments.

In the retail finance segment, revenues increased by 22.8% from the previous fiscal year to JPY 60.3 billion, mainly supported by increased assets in North America. Segment profit climbed by 191.1% from the previous fiscal year to JPY 12.9 billion, mainly reflecting no more allowances and provisions recorded in China.

[Industrial Machinery and Others]

	149th Fiscal Year (April 2017 – March 2018)	Changes From 148th Fiscal Year
Sales	JPY 185.4 billion	(2.9)%
Segment profit	JPY 14.4 billion	+16.0%

Note: The amounts stated in the table above are based on the amounts before elimination of transactions between segments.

In the industrial machinery and others segment, sales declined by 2.9% from the previous fiscal year, to JPY 185.4 billion. This decline came about mainly due to lower sales of presses, wire saws and products for the Ministry of Defense, despite an increase in sales of machine tools to the automobile manufacturing industry. Segment profit increased by 16.0% from the previous fiscal year, to JPY 14.4 billion.

In March 2018, the Company's subsidiary Komatsu Industries Corp. launched sales of its new H2FM630 model servo press. Equipped with a newly developed water-cooled high-torque servomotor and a large-capacity capacitor storage system, the H2FM630 achieves outstanding improvements in productivity and environmental performance, in comparison with conventional presses. Komatsu is working to expand sales by introducing its latest models which draw on its accumulated technological expertise and cutting-edge ICT advantages.

(2) ESG (Environment, Social and Corporate Governance)

In its mid-range management plan “Together We Innovate GEMBA Worldwide—Growth Toward Our 100th Anniversary (2021) and Beyond—” released in April 2016, the Company pledged to conduct management focused on ESG.

The Company has already developed initiatives focused on ESG, and based on taking actions as a “Responsible Company” starting with corporate governance, compliance, and safety, including its business partners, the Company will further enhance its initiatives to “solve social issues through core business.”

Focused Activities in Each ESG Issue in the Mid-Range Management Plan

Environment	Reducing CO ₂ emissions throughout the lifecycle of construction equipment <ul style="list-style-type: none">· Reducing CO₂ emissions produced by product use· Reducing CO₂ emissions in manufacturing
Social	Increasing the safety in customers’ workplaces Social Contribution Activities Growing together with the local communities in which Komatsu operates
Corporate Governance	Corporate Governance Thorough safety, health, and compliance Risk management

Below the Company will provide an introduction to some of the initiatives in each ESG field. With these initiatives the Company’s business activities will coincide with resolving societal issues and these initiatives will be sources of sustainable growth for the Company.

Initiatives in “E” (Environment) (Acquisition of certifications from international nonprofit organizations)

Some 90% of the carbon dioxide emitted by construction equipment throughout its lifecycle is generated during product operation. In that regard, the Company has targeted a 25% reduction in carbon dioxide emissions generated by its products during operation by the fiscal year ending March 31, 2026, in comparison with levels in the fiscal year ended March 31, 2008. Accordingly, the Company has been making progress in helping to reduce carbon dioxide emissions generated in the course of operating its construction equipment. For instance, we have been achieving greater fuel efficiency with our hybrid construction equipment and other construction equipment such as vehicles that comply with new exhaust emissions standards. We have also been proposing Komatsu Machine Tracking System (KOMTRAX) solutions to our customers involving driving methods that result in lower fuel consumption. Furthermore, our SMARTCONSTRUCTION solutions have been helping to streamline construction in recent years. The Company assesses the extent to which it has been achieving its emissions reduction target using its quantitative “CO₂ reduction contribution amount” benchmark that indicates its contribution to carbon dioxide reductions in terms of volume. That figure reflects the total amount by which carbon dioxide emissions have been reduced as a result of fuel efficiency improvements achieved by our construction equipment manufactured in respective fiscal years, in comparison with emissions of the same respective models manufactured in the base fiscal year. Consequently in the fiscal year ended March 31, 2018, the Company achieved a 7.4% reduction in carbon dioxide emissions in comparison with levels of the fiscal year ended March 31, 2008. That reduction in emissions in terms of volume amounts to approximately 210,000 tons of carbon dioxide on an annual basis, which is equivalent to the total volume of carbon dioxide emitted by the Company’s Japanese factories in the fiscal year ended March 31, 2018.

The Company’s environmental initiatives which include those that reduce carbon dioxide emissions have received high marks from external entities. For instance, we were awarded positions on the Climate A List and the Water A List in 2017 by CDP*, an international non-profit organization that operates a

system for disclosure of environmental information. The A List designations are granted to companies that take leading roles worldwide with respect to addressing issues of climate change and management of water resources. The CDP selected 160 global companies for inclusion in the 2017 A List. Among these 160 companies, 27 companies achieved both Climate Change A List and Water A List, of which six were Japanese companies including the Company. The Company will persist with initiatives that aim toward helping to achieve a sustainable society going forward.

* CDP (formerly, the Carbon Disclosure Project) is an international non-profit organization that drives companies and governments to reduce their greenhouse gas emissions, safeguard water resources and protect forests. In 2017, over 6,300 companies with some 55% of global market capitalization disclosed environmental data through CDP.

Initiatives in “S” (Social) (Clearing anti-personnel landmines and unexploded ordnance, and supporting reconstruction)

Since 2008, the Company has been partnering with the certified NPO Japan Mine Action Service (JMAS) in carrying out community development projects encompassing efforts in countries such as Cambodia that involve removing anti-personnel landmines from areas threatened by such devices and engaging in reconstruction efforts. These endeavors are making extensive use of demining machinery for removing anti-personnel landmines based on D85 bulldozer and construction equipment developed using the Company’s technical expertise and manufacturing knowledge.

Every year countless citizens continue to suffer in Cambodia and other nations long at peace subsequent to a period of war, as a consequence of anti-personnel mines buried there during times of conflict and left in the ground. Most victims are farm workers and children, many of whom have no choice but to live on land known to be surrounded by minefields. Landmine removal is a dangerous and time consuming human-intensive task. Moreover, roads leading to removal sites are often substandard, and in some cases minefields are located adjacent to schools.

Providing equipment and materials for free to countries plagued with landmines stands as one of the Company’s many social contribution activities. In addition, our policy regarding such initiatives extends to helping bring about region-wide recovery, in which regard we also focus on developing infrastructure at sites where landmines have been removed. In Cambodia, such efforts have resulted in the clearing away of ordnance from minefields covering some 1,700 hectares (17 square kilometers) over the span of 10 years beginning in 2008, along with the establishment of eight elementary schools and the development of approximately 60 kilometers of roadway.

In August 2016, we also began supporting efforts to remove unexploded ordnance in Laos. Around 36% of the land in Laos hides unexploded ordnance left behind, much of which is cluster submunitions that lead to casualties among children and farm workers every year. Leveraging the experience and technology it has accumulated thus far, the Company developed machinery for removing anti-personnel landmines (for unexploded ordnance) based on its PC130 hydraulic excavator, and has been donating equipment and materials, while also providing technological support, with respect to a project for clearing away cluster submunitions which is spearheaded by a Laotian unexploded ordnance disposal crew and JMAS of Japan.

The Company will keep contributing to society going forward through initiatives that involve removing anti-personnel landmines and other unexploded ordnance, and supporting reconstruction.

Initiatives in “G” (Corporate Governance)

Listed in “3. Corporate Governance, Directors and Audit & Supervisory Board Members, etc.” (pages 45 to 59)

(3) Capital Investment

Capital investment increased by JPY 3.6 billion from the previous fiscal year, to JPY 145.6 billion.

1) Breakdown by Segment

Segment	Invested Amounts (JPY billion)
Construction, Mining and Utility Equipment	86.2
Retail Finance	54.6
Industrial Machinery and Others	4.7
Total	145.6

2) Main Facilities Completed in the Fiscal Year Ended March 31, 2018

No items to report.

3) New Constructions, Expansions and Overhauls of Main Facilities in Progress in the Fiscal Year Ended March 31, 2018

Segment	Main Facilities
Construction, Mining and Utility Equipment	Oyama Plant: Overhauling the existing engine plant and hydraulics plant · Facility overview: production facility for engines and hydraulic equipment
	Osaka Plant: New construction of reduction gear plant · Facility overview: production facility for reduction gear

(4) Financing

In the fiscal year ended March 31, 2018, in order to appropriate funds for the acquisition of Joy Global Inc. (currently Komatsu Mining Corp.), as well as for working capital and capital investment, the Company procured funds mainly by the issuance of commercial paper and bonds, as well as through borrowings from financial institutions.

The balance of interest-bearing debt at the fiscal year-end increased by JPY 401.8 billion from the previous fiscal year-end to JPY 810.5 billion. This was mainly the result of having procured funds for the acquisition of Joy Global Inc.

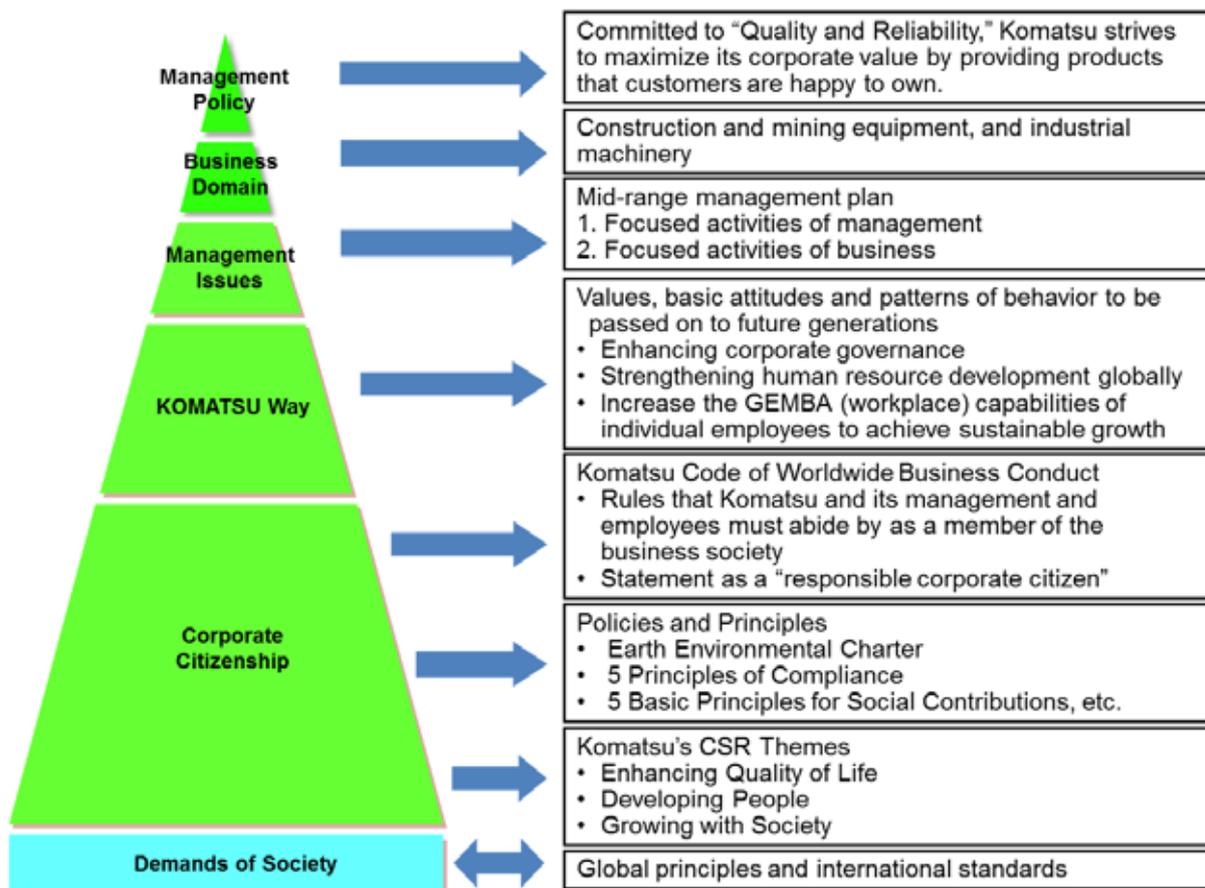
In addition, the net debt-to-equity ratio* was 0.40, compared to 0.18 at the previous fiscal year-end.

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

(5) Issues Ahead

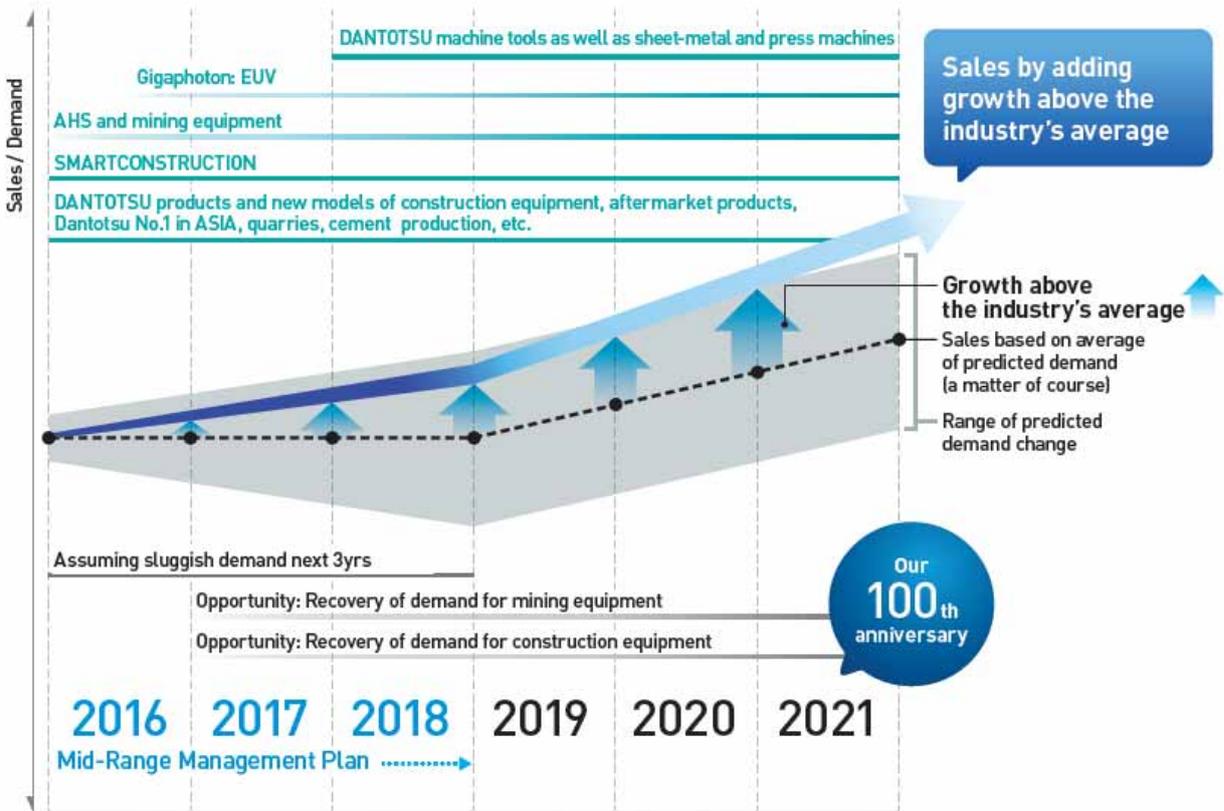
The cornerstone of Komatsu’s management lies in its commitment to Quality and Reliability and the maximization of its corporate value. We at Komatsu define our corporate value as the total sum of trust given to us by society and all stakeholders. In our three-year mid-range management plan, “Together We Innovate GEMBA Worldwide—Growth Toward Our 100th Anniversary (2021) and Beyond—” with the fiscal year ending March 31, 2019 as the goal year, by innovating customers’ GEMBA (workplaces) together with our customers and providing innovation that creates new value, toward our 100th anniversary in 2021, we aim for growth in our core businesses of construction and mining equipment and industrial machinery, and are pursuing three management strategies: 1) Growth strategies based on innovation, 2) Growth strategies of existing businesses, and 3) Structural reforms designed to reinforce the business foundation. All of us at Komatsu will work to improve business performance, further strengthen our corporate foundation, and achieve our social mission in a well-balanced manner, as we make teamwork efforts in the focused activity items by sharing The KOMATSU Way and paying more attention to ESG (Environment, Social and Corporate Governance).

Komatsu’s Management Philosophy



Growth Image Toward Our 100th Anniversary

In our mid-range management plan, “Together We Innovate GEMBA Worldwide–Growth Toward Our 100th Anniversary (2021) and Beyond–,” we aim for growth above the industry’s average by promoting growth based on innovation and of existing businesses toward our 100th anniversary in 2021.



As an investment for growth, in April 2017, the Company acquired Joy Global Inc. in U.S. (currently Komatsu Mining Corp.) through Komatsu America Corp. We will endeavor to generate synergies from the three perspectives of increasing sales, reducing costs and curtailing investment, premised on the notion of maintaining and improving standards of customer support. (Please refer to pages 30 to 31 of this document for details on the business integration with Komatsu Mining.)

Targets of the mid-range management plan

We have added “Growth” to the previous targets of “Profitability,” “Efficiency,” “Redistribution of Profits to Shareholders” and “Financial position” as indexes of our targets. Retail finance business has set its own targets in light of management efficiency and financial position.

Growth	Aim at a growth rate above the industry’s average.
Profitability	Aim at the industry’s top-level operating income ratio.
Efficiency	Aim at 10%-level ROE. *1
Shareholder return	1. Keep a fair balance between investment for growth and shareholder return (incl. stock buyback), while placing main priority on investment. 2. 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%.
Financial position	Aim at the industry’s top-level financial position.

Retail finance business	1. ROA *2: 2.0% or above 2. 5.0 or under for net debt-to-equity ratio *3
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*1 ROE=Net income attributable to Komatsu Ltd. for the year/[(Komatsu Ltd. shareholders’ equity at the beginning + Komatsu Ltd. shareholders’ equity at the end of the fiscal year)/2]

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

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

State of Progress of Management Strategies and Challenges in the Next Term

Three management strategies	State of Progress	Examples of Activities
1. Growth Strategies Based on Innovation	Achievements	<ul style="list-style-type: none"> ● Expanded intelligent Machine Control construction equipment models ● Introduced SMARTCONSTRUCTION to workplaces (a total of more than 5,000 in Japan) ● Engaged in joint planning and operation of the new LANDLOG platform which links together entire construction production processes, in conjunction with NTT DOCOMO, INC, SAP Japan Co., Ltd. and OPTiM Corp. ● Exceeded the 100-unit threshold with respect to the number of Autonomous Haulage Systems (AHS) in operation ● Developed a retrofit kit that enables a conventional human-operated truck to be operated in autonomous mode.
	Issues for the next fiscal year	<ul style="list-style-type: none"> ● To further enhance and expand SMARTCONSTRUCTION ● To develop EUV* and new products at GIGAPHOTON Inc. ● To develop next-generation KOMTRAX (Komatsu Machine Tracking System)
2. Growth Strategies of Existing Businesses	Achievements	<ul style="list-style-type: none"> ● Developed and introduced products complying with the latest exhaust regulations ● Increased sales of parts through M&A ● Expanded and upgraded curriculum of the Asia Training & Demonstration Center ● Acquired attachment business for forestry equipment in Canada
	Issues for the next fiscal year	<ul style="list-style-type: none"> ● To promote the integration with Komatsu Mining ● To continue to enhance the quarrying and cement fields ● To further enhance and expand the value chain, including the rental and used equipment business, and retail finance business
3. Structural Reforms Designed to Reinforce the Business Foundation	Achievements	<ul style="list-style-type: none"> ● Steadily implemented cost improvement activities ● Reformed global spare parts operation ● Carried out merger of three domestic sales companies (Komatsu Construction Equipment Sales and Service Japan Ltd., Komatsu Rental Ltd. and Komatsu Forklift Japan Ltd.)
	Issues for the next fiscal year	<ul style="list-style-type: none"> ● To promote ICT-driven work reforms (including work style reforms) ● To promote further cost improvement activities ● To develop human resources with global perspective and promote diversity

* EUV stands for Extreme Ultraviolet, and EUV light source is one of the next-generation semiconductor manufacturing technologies.

(6) Acquisition or Disposal of Other Companies' Shares, Other Equity Stakes or Stock Acquisition Rights

In April 2017, through Komatsu America Corp., the Company acquired Joy Global Inc. (currently Komatsu Mining Corp.), making it a wholly-owned subsidiary of Komatsu America Corp.

(7) Status of Principal Subsidiaries

1) Principal Subsidiaries (As of March 31, 2018)

Name	Location of Offices and Plants	Capital	Investment Ratio (%)	Main Businesses
Komatsu Construction Equipment Sales and Service Japan Ltd.	Head Office (Kawasaki City, Kanagawa)	JPY 950 mil	100.0	Sale and servicing of construction equipment
Komatsu Forklift Japan Ltd.	Head Office (Shinagawa-ku, Tokyo)	JPY 500 mil	100.0	Sale and servicing of industrial vehicles
Komatsu Rental Ltd.	Head Office (Yokohama City, Kanagawa)	JPY 100 mil	100.0	Rental of construction equipment, etc.
Komatsu Used Equipment Corp.	Head Office (Yokohama City, Kanagawa)	JPY 290 mil	100.0	Sale of used construction equipment, etc.
Komatsu Castex Ltd.	Head Office /Plant (Himi City, Toyama)	JPY 6,979 mil	100.0	Manufacture and sale of casting products
Komatsu Logistics Corp.	Head Office (Yokohama City, Kanagawa)	JPY 1,080 mil	100.0	Transportation, warehousing, packing and other services
Komatsu Business Support Ltd.	Head Office (Minato-ku, Tokyo)	JPY 1,770 mil	100.0	Retail financing of construction equipment
Komatsu Industries Corporation	Head Office (Kanazawa City, Ishikawa)	JPY 990 mil	100.0	Development, sale and servicing of metal forging and stamping presses and sheet-metal machines, etc.
Komatsu NTC Ltd.	Head Office /Plant (Nanto City, Toyama)	JPY 6,014 mil	100.0	Manufacture, sale and servicing of machine tools, etc.
GIGAPHOTON INC.	Head Office /Plant (Oyama City, Tochigi)	JPY 5,000 mil	100.0	Development, manufacturing, sale and servicing of excimer laser and Extreme Ultra-Violet light sources used for lithography tools in semiconductor manufacturing
Komatsu America Corp.	Head Office /Plant (USA)	USD 1,071 mil	100.0	Manufacture and sale of construction and mining equipment and supervision in the Americas
Hensley Industries, Inc.	Head Office /Plant (USA)	USD 2 thou	*100.0	Manufacture and sale of construction and mining equipment parts
Komatsu Mining Corp.	Head Office (USA)	USD 5 thou	*100.0	Manufacture, sale and servicing of mining equipment

Name	Location of Offices and Plants	Capital	Investment Ratio (%)	Main Businesses
Joy Global Underground Mining LLC	Head Office /Plant (USA)	–	*100.0	Manufacture, sale and servicing of mining equipment
Joy Global Surface Mining Inc	Head Office /Plant (USA)	USD 3 thou	*100.0	Manufacture, sale and servicing of mining equipment
Joy Global Longview Operations LLC	Head Office /Plant (USA)	–	*100.0	Manufacture, sale and servicing of mining equipment
Komatsu do Brasil Ltda.	Head Office /Plant (Brazil)	BRL 143 mil	*100.0	Manufacture of construction equipment and casting products
Komatsu Brasil International Ltda.	Head Office (Brazil)	BRL 287 mil	*100.0	Sale of construction equipment
Komatsu Holding South America Ltda.	Head Office (Chile)	USD 156 mil	*100.0	Sale and servicing of construction and mining equipment
Komatsu Cummins Chile Ltda.	Head Office (Chile)	USD 34 mil	*81.8	Sale and servicing of construction and mining equipment
Joy Global (Chile) S.A.	Head Office /Plant (Chile)	USD 1,959 thou	*100.0	Manufacture, sale and servicing of mining equipment
Komatsu Financial Limited Partnership	Head Office (USA)	–	*100.0	Retail financing of construction and mining equipment
Komatsu Finance Chile S.A.	Head Office (Chile)	USD 40 mil	*100.0	Retail financing of construction and mining equipment
Komatsu Europe International N.V.	Head Office (Belgium)	EUR 50 mil	100.0	Sale of construction and mining equipment and supervision in Europe
Komatsu UK Ltd.	Head Office /Plant (UK)	GBP 23 mil	*100.0	Manufacture of construction equipment
Komatsu Germany GmbH	Head Office /Plant (Germany)	EUR 24 mil	*100.0	Manufacture and sale of construction and mining equipment
Komatsu Italia Manufacturing S.p.A.	Head Office /Plant (Italy)	EUR 6 mil	*100.0	Manufacture of construction equipment
Komatsu Forest AB	Head Office /Plant (Sweden)	SEK 397 mil	100.0	Manufacture, sale and servicing of forestry equipment
Komatsu CIS LLC	Head Office (Russia)	RUB 5,301 mil	100.0	Sale of construction and mining equipment
Komatsu Financial Europe N.V.	Head Office (Belgium)	EUR 80 mil	*100.0	Retail financing of construction and mining equipment
Komatsu (China) Ltd.	Head Office (China)	USD 165 mil	100.0	Sale of construction and mining equipment and supervision in China
Komatsu (Changzhou) Construction Machinery Corp.	Head Office /Plant (China)	USD 41 mil	*85.0	Manufacture of construction equipment
Komatsu Shantui Construction Machinery Co., Ltd.	Head Office /Plant (China)	USD 21 mil	*60.0	Manufacture of construction equipment

Name	Location of Offices and Plants	Capital	Investment Ratio (%)	Main Businesses
PT Komatsu Indonesia	Head Office /Plant (Indonesia)	IDR 192,780 mil	94.9	Manufacture and sale of construction and mining equipment, and casting products
PT Komatsu Marketing & Support Indonesia	Head Office (Indonesia)	USD 5 mil	*94.9	Sale and servicing of construction and mining equipment
Bangkok Komatsu Co., Ltd.	Head Office /Plant (Thailand)	THB 620 mil	*74.8	Manufacture and sale of construction equipment and casting products
Komatsu India Pvt. Ltd.	Head Office /Plant (India)	INR 10,963 mil	*100.0	Manufacture and sale of construction and mining equipment
Komatsu Marketing Support Australia Pty Ltd	Head Office (Australia)	AUD 21 mil	*60.0	Sale of construction and mining equipment
Komatsu Australia Pty Ltd	Head Office (Australia)	AUD 30 mil	*60.0	Sale and servicing of construction and mining equipment
Joy Global Australia Holding Company Pty Ltd	Head Office (Australia)	AUD 443 mil	*100.0	Roles as holding company of Joy Global Australia Pty Ltd
Joy Global Australia Pty Ltd	Head Office /Plant (Australia)	AUD 609 mil	*100.0	Manufacture, sale and servicing of mining equipment
Komatsu South Africa (Pty) Ltd.	Head Office (South Africa)	ZAR 186 mil	*59.9	Sale and servicing of construction and mining equipment
Joy Global (Africa) (Proprietary) Limited	Head Office /Plant (South Africa)	ZAR 6,676	*74.9	Manufacture, sale and servicing of mining equipment
Komatsu Financial Leasing China Ltd.	Head Office (China)	RMB 1,630 mil	*100.0	Retail financing of construction equipment
Komatsu Australia Corporate Finance Pty. Ltd.	Head Office (Australia)	AUD 49 mil	*60.0	Retail financing of construction and mining equipment

Notes:

1. Figures with an asterisk (*) are the ratio of investment through subsidiaries of the Company and the ratio includes the stakes held by them.
2. Joy Global Underground Mining LLC is a limited liability company based on the state law of Delaware, the U.S., and the Company invests in it through subsidiaries. Its net asset which is equivalent to the capital amounts to USD 2,393 million.
3. Joy Global Longview Operations LLC is a limited liability company based on the state law of Texas, the U.S., and the Company invests in it through subsidiaries. Its net asset which is equivalent to the capital amounts to USD 1,027 million.
4. Komatsu Financial Limited Partnership is a limited partnership based on the state law of Delaware, the U.S., and the Company invests in it through subsidiaries. Its net asset which is equivalent to the capital amounts to USD 598 million.
5. The number of consolidated subsidiaries of the Company, including those listed above, is 227, and the number of affiliated companies accounted for by the equity method is 38.

2) Others (update on important combination)

- i) In April 2017, through Komatsu America Corp., the Company acquired Joy Global Inc. (currently Komatsu Mining Corp.), making it a wholly-owned subsidiary of Komatsu America Corp.
- ii) In February 2018, through Komatsu America Corp., the Company acquired attachment business for

forestry equipment owned by Prenbec Equipment Inc. of Canada and its group companies (the Quadco and Southstar brands).

- iii) In March 2018, the Company transferred the vacation homes management business (road maintenance, plumbing, hot-springs water supply and other businesses) of Komatsu General Services Ltd. to Himawari Co., Ltd., by conducting a series of transactions including the transfer of all issued shares of Komatsu General Services Ltd.
- iv) In April, 2018, the Company carried out an absorption-type merger of Komatsu Tokki Corporation.
- v) In April 2018, Komatsu Construction Equipment Sales and Service Japan Ltd. carried out absorption-type mergers of Komatsu Forklift Japan Ltd. and Komatsu Rental Ltd., and changed its trade name to Komatsu Customer Support Japan Ltd.

(8) Employees (As of March 31, 2018)

Segment	Number of Employees
Construction, Mining and Utility Equipment	54,842
Retail Finance	205
Industrial Machinery and Others	3,956
Others (Note 2)	629
Total	59,632

Notes:

1. The total number of employees increased by 12,428 from the end of the previous fiscal year. The increase is mainly attributable to having made Joy Global Inc. (currently Komatsu Mining Corp.) a subsidiary in April 2017.
2. “Others” above includes the number of administrative employees that cannot be classified into the above three (3) segments.

(9) Main Lenders (As of March 31, 2018)

Name of Lenders	Balance of Loans (JPY billion)
Sumitomo Mitsui Banking Corporation	130.7
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	115.0
Mizuho Bank, Ltd.	84.3
The Norinchukin Bank	61.0

Note: Effective April 1, 2018, The Bank of Tokyo-Mitsubishi UFJ, Ltd. changed its trading name to MUFG Bank, Ltd.

Pursuant to laws and regulations and Article 16 of the Company’s Articles of Incorporation, “Main Businesses” and “Principal Offices and Plants” are now available on the Komatsu corporate website.

⇒ <https://home.komatsu/en/ir/>

2. Matters Regarding the Shares and Stock Acquisition Rights of the Company etc. (As of March 31, 2018)

- (1) Number of shares authorized to be issued: 3,955,000,000 shares
- (2) Total number of shares issued and outstanding: 943,777,474 shares
(excluding 28,190,186 shares of treasury stock)
- (3) Number of shareholders: 149,459

(4) Major shareholders (top ten)

Name of Shareholders	Number of Shares Held (thousand 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:

- Shareholding ratio is calculated by subtracting treasury stock.
- Although the Company holds 28,190 thousand shares of treasury stock, it is excluded from the major shareholders listed above.

(5) Status of Stock Acquisition Rights

Number of Stock Acquisition Rights (total)	Number of Shares Subject to Stock Acquisition Rights	(Reference) Total Number of Shares Issued and Outstanding
12,270	1,227,000 shares	943,777,474 shares (excluding treasury stock)

Pursuant to laws and regulations and Article 16 of the Company's Articles of Incorporation, details of "Matters Regarding Stock Acquisition Rights of the Company etc." are now available on the Komatsu corporate website.

⇒ <https://home.komatsu/en/ir/>

3. Corporate Governance, Directors and Audit & Supervisory Board Members, etc.

(1) Basic Views on Corporate Governance

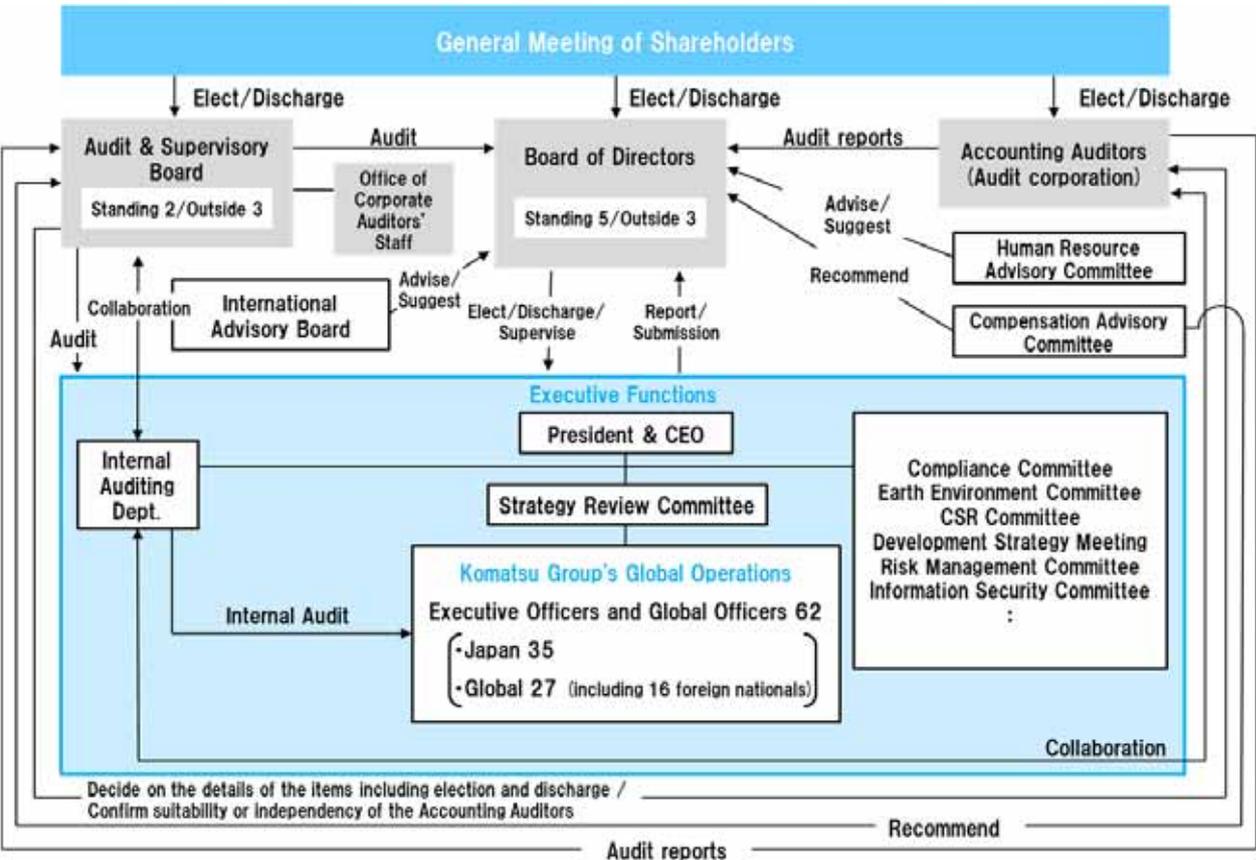
The Company considers that corporate value is the total sum of trust given to us by society and all stakeholders. To become a company which enjoys more trust from shareholders and all other stakeholders, we are working to strengthen corporate governance, improve management efficiency, advocate corporate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

(2) Corporate Governance System of the Company

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

The Company strives to make improvements to increase the effectiveness of the Board of Directors and conducts an annual evaluation and analysis of the effectiveness of the Board of Directors. In the results of the evaluation and analysis for the fiscal year ended March 31, 2018, no material issues were indicated with regard to effectiveness, with the Board achieving generally high levels in all evaluation items.

In addition, the Company has established “Systems for Ensuring the Properness of Operations” (pages 46 to 50) as its internal control systems, and continually works to enhance its corporate governance.



Note: The above diagram is as of March 31, 2018.

(3) Systems for Ensuring the Properness of Operations and Outline of Management of such Systems

1) Systems for Ensuring the Properness of Operations

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

1 Basic Policy on Internal Control

The Company considers its corporate value as the total sum of trust given to us by society and all stakeholders.

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

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

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

3 Rules and Other Systems for Risk Management

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

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

4 Systems for Ensuring Efficient Execution of Duties by Directors

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

- i) The Board of Directors shall meet in principle at least once every month and more often as needed. It shall strive to maintain transparency and soundness of management through the participation of Outside Directors. It shall also establish the Regulations of the Board of Directors and the Standards for Matters to be Referred to a Meeting of the Board of Directors, thereby clarifying the matters on which the Board of Directors should make decisions.
- ii) Together with the introduction of the Executive Officer (*Shikko Yakuin*) System, the Company shall define the separation of duties for Directors, Executive Officers and senior managers, and set up internal rules including the Regulations of Decision-Making Authority, to ensure appropriate and effective execution of duties by Directors and Executive Officers.

- iii) To promote efficient management of the Board of Directors, the Company shall establish a Strategy Review Committee consisting of Senior Executive Officers and senior managers. Based on the reviews of the Committee, Executive Officers and senior managers execute their duties within the authority delegated by the Board of Directors.

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

The Board of Directors makes decisions on important management matters in accordance with laws and regulations and the "Regulations of the Board of Directors."

In accordance with the decisions made by the Board of Directors, each Director not only executes his or her own duties but also supervises employees for the execution of their duties, and reports the conditions thereof to the Board of Directors.

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

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

6 Systems for Ensuring the Proper Operation of Komatsu (*as defined in Section 1.(1)Outline of Operations and Business Results, page 28*) Comprising the Company and Its Subsidiaries

- i) The Company shall establish the "Affiliated Company Regulations" and relevant rules to contribute to proper and efficient operation of Group management. It shall also position the "Komatsu Code of Worldwide Business Conduct," as the code to be applied by all companies affiliated with Komatsu. Under these regulations and standards, each department or division of the Company in charge of affiliated companies shall manage and support each relevant company under its supervision, and each company in Komatsu shall stipulate various regulations for the proper promotion of duties.
- ii) The Company shall assign and dispatch persons for Directors and Audit & Supervisory Board Members of major affiliated companies as needed, in order to strengthen corporate governance on a group-wide basis and monitor their management.
- iii) Important committees of the Company, including the "Compliance Committee," "Risk Management Committee" and "Export Control Committee," shall take actions with the entire Group in view, and allow representatives of affiliated companies to take part in their meetings on occasion.
- iv) The Company shall make particularly important affiliated companies regularly report to the Board of Directors of the Company on the status of business, including risks and compliance.
- v) The Internal Auditing Department of the Company shall audit each division of the Company and implement or supervise auditing of major affiliated companies that belong to Komatsu. It shall also monitor and instruct each affiliated company regarding internal control systems built by them in accordance with Company requirements and the appropriate operation. The Internal Auditing Department shall also regularly report to the Board of Directors and the Audit & Supervisory Board about the building, management of systems and results of internal control systems across the Group.

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

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

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

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

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

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

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

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

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

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

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

- i) Handling of personnel affairs (employment, appointment and personnel changes) of the employees who belong to the Office of Corporate Auditors’ Staff shall be premised on approval of the Standing Audit & Supervisory Board Members.
- ii) The employees who exclusively assist the Office of Corporate Auditors’ Staff are independent of control and command of the Directors, and their performance shall be rated by the Standing Audit & Supervisory Board Members.
- iii) The Company’s Standing Audit & Supervisory Board Members shall hold regular meetings with employees of the Office of Corporate Auditors’ Staff to confirm the execution of duties by the office.

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

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

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

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

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

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

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

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

10 Advance Payments and Reimbursements for Expenses Incurred by Audit & Supervisory Board

Members Executing Duties and Policy Related to Expenses or Debts Incurred by Executing Duties
The Audit & Supervisory Board, after discussion with the operating department, shall secure the necessary budget to implement audit plans approved by the Audit & Supervisory Board.

On receiving claims from Audit & Supervisory Board Members for expenses to be incurred related to the execution of their duties, the Company shall promptly pay expenses in all cases except where the Company deems such expenses to be clearly unnecessary for the execution of duties of the Audit & Supervisory Board Members.

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

11 Basic Policy Pertaining to the Elimination of Antisocial Forces

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

- i) The above policy shall be provided in “Komatsu Code of Worldwide Business Conduct” and diffused throughout the Company as well as each company in Komatsu.
- ii) The Company’s General Affairs Department of the Head Office shall serve as a supervising division, working with the police and other specialized external organizations, in accordance with the above policy, to take a firm and organized stand against unwarranted claims by antisocial movements and to prevent any business relationship with those movements.
- iii) The Company will do its utmost to collect information and receive education training from the above external organizations and use above information communally both within the Company and among related Group divisions.

2) Outline of Management of Systems Ensuring the Properness of Operations in fiscal year ended March 31, 2018

Overall Internal Control System	Outline
	The Company partially revised its Basic Policy on Internal Control in line with revisions to the Companies Act of Japan in April 2015. The Company is upgrading its internal control systems, on a group worldwide basis including at subsidiaries.
	Relevant “Systems for Ensuring the Properness of Operations”
	1 Basic Policy on Internal Control
Directors’ Execution of Duties	Outline
	1) The Board of Directors met 15 times a year. The Board made decisions on important management matters based on the Standards for Matters to be Referred to a Meeting of the Board of Directors, and reported on business execution. Business execution reports cover virtually 100% of businesses on a consolidated net sales basis. Even extremely small-scale businesses are reported at the Board of Directors, mainly with respect to safety, compliance, and risk. Sufficient time is secured to ensure full discussions at the Board of Directors and the Company has adopted a process of raising important matters for discussion and decision-making on predetermined days over two meetings of the Board of Directors.
	2) The Board of Directors also receives a monthly report from the President regarding recent important matters and topics, such as safety, compliance, and risk. The CFO also reports each month on the status of sales, profits and losses, orders received, and borrowings.
	3) The records of the Board meetings and other approval documents (<i>ringisho</i>) are retained and managed appropriately in accordance with internal regulations on document management.
	Relevant “Systems for Ensuring the Properness of Operations”
2 Systems for Retention and Management of Information Related to Directors’ Execution of Duties	
4 Systems for Ensuring Efficient Execution of Duties by Directors	

Risk Management	Outline
	The Risk Management Committee met twice a year. The Committee evaluated status of implementation of risk measures and worked to prevent risks from surfacing. It also reported on its reviews and activities to the Board of Directors. The Committee also worked to improve the risk management systems on a group worldwide basis including at subsidiaries.
	Relevant “Systems for Ensuring the Properness of Operations”
	3 Rules and Other Systems for Risk Management 6-2 Rules and Other Systems for Risk Management at Subsidiaries
Compliance	Outline
	The Compliance Committee conducts various activities, such as revising the Komatsu Code of Worldwide Business Conduct, providing various education and disseminating information, and upgrading and operating internal reporting system. It also reports on its reviews and activities to the Board of Directors. The Compliance Committee met twice in the fiscal year ended March 31, 2018. The Committee also conducted a “visualization survey” of latent risks. Monthly publication of the Company bulletin “Compliance for Everyone” continued into its 13th year. The Committee also conducts periodic audits with regard to major compliance risks and strives to prevent them from surfacing.
	Relevant “Systems for Ensuring the Properness of Operations”
	5 Systems for Ensuring that the Execution of Duties by Directors and Employees Complies with Laws and Regulations, and the Company’s Articles of Incorporation 6-4 Systems for Ensuring that the Execution of Duties by Directors and Employees at Subsidiaries Complies with Laws and Regulations, and the Company’s Articles of Incorporation
Management of Subsidiaries	Outline
	1) To strengthen the Group’s corporate governance, the Company dispatches its executive officers and board members of regional headquarter companies, etc. to serve as Directors and Audit & Supervisory Board Members at its 49 main subsidiaries (15 in Japan, 34 overseas) to monitor their managements. The divisions of the Company in charge of each subsidiary also maintain constant checks on the status of the subsidiaries’ Board of Directors meetings.
	2) The boards of directors resolved to implement the Basic Policy on Internal Control at the Company’s 49 main subsidiaries to further increase the internal control for the entire Group. The status of the policy’s implementation is confirmed by the Company’s Board of Directors, and the Company is working to improve it. Other subsidiaries will also establish internal control systems.
	3) It is subject to a condition that the Company received notification beforehand or provided approval beforehand in accordance with the Affiliated Company Regulations and relevant rules when subsidiaries executed matters that had a significant impact on consolidated business operations.
	Relevant “Systems for Ensuring the Properness of Operations”
	6 Systems for Ensuring the Proper Operation of Komatsu Comprising the Company and Its Subsidiaries 6-1 Systems for Ensuring Items Related to the Implementation of Duties by Directors and Other Employees at Subsidiaries are Reported to the Company 6-3 Systems for Ensuring Efficient Execution of Duties by Directors and Other Employees at Subsidiaries

Audit & Supervisory Board Members	Outline
	<p>Audit & Supervisory Board Members attend important meetings such as meetings of the Board of Directors, Strategy Review Committee, Compliance Committee, and Risk Management Committee, visit and inspect offices and plants of the Company and its subsidiaries in Japan and overseas, exchange opinions with the representative directors, other Directors and Audit & Supervisory Board Members, and management of the Company and its main subsidiaries, and hold liaison meetings and individual interviews with the standing Audit & Supervisory Board Members of subsidiaries in Japan and overseas. Through these activities, they monitor the upgrading and implementation status of the internal control system.</p> <p>They also periodically exchange opinions with the Internal Auditing Department and the Accounting Auditors and maintain close contact to enhance the effectiveness of audits.</p> <p>The Company has allocated the required employees to the Office of Corporate Auditors' Staff to assist the Audit & Supervisory Board Members in their duties, and has allocated a budget to cover the anticipated expenses necessary for execution of the Audit & Supervisory Board Members' duties based on the audit plan.</p>
	Relevant "Systems for Ensuring the Properness of Operations"
	<p>7 Employees Assisting Audit & Supervisory Board Members for Execution of Their Duties, When They Ask for Such Employees</p> <p>8 Matters Regarding the Independence of the Assistants to Audit & Supervisory Board Members from Directors and the Effectiveness of Instructions Issued to the Assistants</p> <p>9 Systems for Directors and Employees Reporting to Audit & Supervisory Board Members; Systems Relating to Other Reports to Audit & Supervisory Board Members and Ensuring Effective Audits by Audit & Supervisory Board Members</p> <p>9-1 Systems to Ensure Reports from Directors, Audit & Supervisory Board Members and Employees of Subsidiaries are Passed, Directly or via a Person Receiving such Reports, to Audit & Supervisory Board Members of the Company</p> <p>9-2 Systems to Ensure Individuals who Provide Reports to Audit & Supervisory Board Members are not Given any Disadvantageous Treatment for the Provision Thereof</p> <p>10 Advance Payments and Reimbursements for Expenses Incurred by Audit & Supervisory Board Members Executing Duties and Policy Related to Expenses or Debts Incurred by Executing Duties</p>
Elimination of Antisocial Forces	Outline
	<p>The Company and its subsidiaries in Japan have clauses in their business contracts that exclude antisocial forces and perform checks on their business partners. The Company also worked to establish the same system stated above at overseas subsidiaries.</p>
	Relevant "Systems for Ensuring the Properness of Operations"
<p>11 Basic Policy Pertaining to the Elimination of Antisocial Forces</p>	

(4) Directors and Audit & Supervisory Board Members of the Company

1) Names etc. of Directors and Audit & Supervisory Board Members (As of March 31, 2018)

Position	Name	In Charge at the Company and/or Important Concurrent Positions Held in Other Organizations
Chairperson of the Board and Director	Kunio Noji	Outside Director of Ricoh Company, Ltd.* Outside Director of NEC Corporation*
President and Representative Director	Tetsuji Ohashi	Chief Executive Officer (CEO)
Executive Vice President and Representative Director	Mikio Fujitsuka	Chief Financial Officer (CFO) Supervising Accounting & Finance and Investor Relations
Director and Senior Executive Officer	Kazunori Kuromoto	Supervising ICT Solution and Mining Business
Director and Senior Executive Officer	Masanao Mori	Supervising Human Resources & Education and Safety & Health Care
Director	Masayuki Oku	Honorary Adviser of Sumitomo Mitsui Financial Group, Inc. Outside Director of Panasonic Corporation* Outside Director of Kao Corporation* Outside Director of Chugai Pharmaceutical Co., Ltd.* Non-executive Director of The Bank of East Asia, Limited* Outside Audit & Supervisory Board Member of Nankai Electric Railway Co., Ltd.*
Director	Mitoji Yabunaka	Speciality Invited Professor (Distinguished Professor) of Ritsumeikan University Outside Director of Mitsubishi Electric Corporation* Outside Director of Takasago Thermal Engineering Co., Ltd.*
Director	Makoto Kigawa	Chairman of the Board and Representative Director of Yamato Holdings Co., Ltd.*
Standing Audit & Supervisory Board Member	Kosuke Yamane	—
Standing Audit & Supervisory Board Member	Hironobu Matsuo	—
Audit & Supervisory Board Member	Hirohide Yamaguchi	Chairman of the Advisory Board of Nikko Research Center, Inc.* Outside Audit & Supervisory Board Member of Mitsui Fudosan Residential Co., Ltd.* Outside Audit & Supervisory Board Member of Nippon Yusen Kabushiki Kaisha*
Audit & Supervisory Board Member	Eiko Shinotsuka	Professor emeritus at Ochanomizu University Outside Director of Japan Securities Finance Co., Ltd.* Outside Director of LIFENET INSURANCE COMPANY*
Audit & Supervisory Board Member	Kotaro Ohno	Attorney at law, Special Counsel of Mori Hamada & Matsumoto Outside Director of AEON Co., Ltd.* Outside Corporate Auditor of ITOCHU Corporation*

Notes:

1. Directors Masayuki Oku, Mitoji Yabunaka and Makoto Kigawa are Outside Directors.
2. Audit & Supervisory Board Members Hirohide Yamaguchi, Eiko Shinotsuka and Kotaro Ohno are Outside Audit & Supervisory Board Members.
3. An asterisk (*) indicates important concurrent positions held in other organizations.

4. Regarding important concurrent positions held by Outside Directors and Outside Audit & Supervisory Board Members in other organizations, relations between the Company and those organizations are as follows.
 - (i) Outside Director Makoto Kigawa retired as Representative Director of Yamato Holdings Co., Ltd., and has been acting as its Chairman of the Board since April 1, 2018. Although Yamato Holdings Co., Ltd., a holding company, has no direct transactions with the Company, the Company and its consolidated subsidiaries carry out transactions with Yamato Holdings Co., Ltd.'s subsidiaries, including Yamato Transport Co., Ltd. for payment of transportation expenses, etc. However, the amount of the payment is less than 0.1% of the consolidated total of cost of sales and selling, general and administrative expenses of the Company and its consolidated subsidiaries for the fiscal year ended March 31, 2018.
 - (ii) ITOCHU Corporation, where Outside Audit & Supervisory Board Member Kotaro Ohno serves as an Outside Audit & Supervisory Board Member, has invested in some of the Company's consolidated subsidiaries related to the business of marketing and sales of construction and mining equipment overseas. In addition, the Company engages in transactions with ITOCHU Corporation involving sales of construction equipment and other products. However, the amount of such payment is less than 0.1% of the Company's consolidated net sales for the fiscal year ended March 31, 2018.
 - (iii) There are no particular business relationships, etc. between the Company and other organizations at which Outside Directors and Outside Audit & Supervisory Board Members hold concurrent positions other than that set forth in (i) and (ii) above.
5. Standing Audit & Supervisory Board Members Kosuke Yamane and Hironobu Matsuo have long engaged in accounting-related duties at the Company, and have considerably profound knowledge concerning financial affairs and accounting.
6. The Company employs the Executive Officer (*Shikko Yakuin*) System.

2) Outline of Contents of Limited Liability Agreement

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

3) Remuneration for Directors and Audit & Supervisory Board Members

i) Policy regarding the determination of remuneration

In an effort to maintain an objective and transparent remuneration system, the policy and levels of remuneration for Directors and Audit & Supervisory Board Members of the Company are deliberated by the Compensation Advisory Committee, which consists of four (4) external members (two (2) Outside Audit & Supervisory Board Members, one (1) Outside Director and one (1) outside expert) and one (1) internal member. Taking its reports and recommendations into consideration, the remuneration for Directors is determined by the Board of Directors, and the remuneration for Audit & Supervisory Board Members is determined by discussions by the Audit & Supervisory Board Members, respectively, within the range previously determined by resolution of the General Meeting of Shareholders.

With regards to remuneration levels, comparison with other key, globally active manufacturers in Japan is made by the Compensation Advisory Committee and is reflected in its reports and recommendations.

The remuneration for Directors comprises basic remuneration (fixed remuneration) and performance-based remuneration linked to the Company's consolidated performance for a single fiscal year. The total amount paid of performance-based remuneration shall be calculated each year by evaluating the basic indicators of ROE^{*1}, ROA^{*2} and the operating income ratio at the percentages indicated in the table below and making adjustments for growth (growth rate of consolidated sales).

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

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

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

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

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

Two thirds (2/3) of the total amount of performance-based remuneration shall be paid in the form of cash as Directors' bonuses (provided, however, the upper limit is 12 × monthly remuneration), and the amount remaining after deducting the Directors' bonuses shall be paid by granting Stock Acquisition Rights as stock-based remuneration for the purpose of fostering the same perspective on profitability with the shareholders and consequently clarifying their incentive to enhance the long-term corporate value of the Company. (The Company will make payment of the stock-based remuneration in the form of restricted stock compensation if Item 6, "Determination of the Amount of Remuneration in the Restricted Stock Compensation System for Directors," is approved and adopted at the 149th Ordinary General Meeting of Shareholders.) However, the total amount of performance-based remuneration to Outside Directors shall have the upper limit of one third (1/3) of the basic remuneration in consideration of their role and standing. (The Company will abolish the performance-based remuneration for Outside Directors if Item 5, "Revision of the Amount of Remuneration for Directors and Audit & Supervisory Board Members," is approved and adopted at the 149th Ordinary General Meeting of Shareholders.)

Furthermore, the remuneration for Audit & Supervisory Board Members only consists of basic remuneration (fixed remuneration) designed to support their independent position with authority to audit the execution of duties by Directors without getting fettered by the movements of corporate performance of the Company.

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

* Item 5, "Revision of the Amount of Remuneration for Directors and Audit & Supervisory Board Members," and Item 6, "Determination of the Amount of Remuneration in the Restricted Stock Compensation System for Directors," are being introduced at the 149th Ordinary General Meeting of Shareholders as proposals relating to revision of the amount of remuneration and system of remuneration for Directors, and relating to revision of the amount of remuneration for Audit & Supervisory Board Members. Please refer to pages 21 to 27 of this document for an overview of such revisions.

ii) Remuneration for Directors and Audit & Supervisory Board Members for the Fiscal Year ended March 31, 2018

Classification	Number of Persons Paid	Total Amount of Remuneration Paid				
		Monetary Remuneration			Non-monetary Remuneration	
		Basic Remuneration	Bonus (Note 3)	Total	Stock-Based Remuneration (Note 4)	
Director	10	JPY 397 mil	JPY 255 mil	JPY 652 mil	JPY 73 mil	JPY 725 mil
(Outside Director included above)	3	JPY 40 mil	JPY 9 mil	JPY 49 mil	JPY 5 mil	JPY 53 mil
Audit & Supervisory Board Member	7	JPY 131 mil	–	JPY 131 mil	–	JPY 131 mil
(Outside Audit & Supervisory Board Member included above)	4	JPY 45 mil	–	JPY 45 mil	–	JPY 45 mil
Total	17	JPY 528 mil	JPY 255 mil	JPY 783 mil	JPY 73 mil	JPY 856 mil
(Outside Director and Outside Audit & Supervisory Board Member included above)	7	JPY 85 mil	JPY 9 mil	JPY 94 mil	JPY 5 mil	JPY 98 mil

Notes:

- As of the end of the fiscal year ended March 31, 2018, there are eight (8) Directors (three (3) of whom are Outside Directors) and five (5) Audit & Supervisory Board Members (three (3) of whom are Outside Audit & Supervisory Board Members). However, the numbers and amounts in the table above include those for two (2) Directors and two (2) Audit & Supervisory Board Members who have retired as of the close of the 148th Ordinary General Meeting of Shareholders in June, 2017.
- It was resolved at the 135th Ordinary General Meeting of Shareholders, held in June 2004, that the maximum amount of remuneration to be paid to Directors in total per month (excluding bonuses and stock-based remuneration) shall not exceed JPY 60 million (however, not including salaries as employees) and it was resolved at the 143rd Ordinary General Meeting of Shareholders, held in June 2012, that the maximum amount of remuneration to be paid to Audit & Supervisory Board Members in total per month shall not exceed JPY 13.5 million. It was also resolved at the 141st Ordinary General Meeting of Shareholders, held in June 2010, that the maximum amount of remuneration to be paid to Directors in the form of Stock Acquisition Rights to be granted as stock-based remuneration shall not exceed JPY 360 million in total per year (however, not including salaries as employees) and the maximum amount of remuneration to be paid to Outside Directors in total per year shall not exceed JPY 50 million out of those JPY 360 million.
- Amount of Bonuses for Directors are the total amount to be paid to Directors, which is planned to be resolved in Item 4 (Payment of Bonuses for Directors) at the 149th Ordinary General Meeting of Shareholders.
- Stock-based remuneration represents the amount of expense allocated as remuneration for Directors, which are not monetary, in accounting for the fiscal year ended March 31, 2018.
- The portions of salaries as employees for Directors concurrently serving as employees are not paid.
- Amounts of less than JPY one (1) million are rounded to the nearest million yen.

4) Major Activities of Outside Directors and Outside Audit & Supervisory Board Members in the Fiscal Year ended March 31, 2018, etc.

The status of major activities of Outside Directors and Outside Audit & Supervisory Board Members in the fiscal year ended March 31, 2018 and the matters concerning their independence are presented below.

The Company designated the Outside Directors and Outside Audit & Supervisory Board Members whose names in the name row are marked by <Independent Director> or <Independent Audit & Supervisory Board Member> as Independent Directors or Independent Audit & Supervisory Board Members, respectively, and submitted the notification to the Tokyo Stock Exchange in accordance with its regulations and related rules.

i) Outside Directors

Name	Masayuki Oku <Independent Director>
Attendance to the Meetings	Meeting of the Board of Directors 100% (15 meetings out of the 15 meetings held)
Details of Major Activities	Mr. Masayuki Oku previously served as Representative Director of Sumitomo Mitsui Banking Corporation. During the fiscal year ended March 31, 2018, based on his rich experience in the business world, he provided comments at the meetings of the Board of Directors concerning such issues as the integration process following the implementation of M&A, retail finance business, and the effectiveness of the Board of Directors. In addition, he was a member of the Company's Human Resource Advisory Committee and the Compensation Advisory Committee.

Name	Mitoji Yabunaka <Independent Director>
Attendance to the Meetings	Meeting of the Board of Directors 100% (15 meetings out of the 15 meetings held)
Details of Major Activities	Mr. Mitoji Yabunaka previously served as Vice-Minister for Foreign Affairs. During the fiscal year ended March 31, 2018, based on his standpoint as a specialist in international affairs, he provided comments at the meetings of the Board of Directors concerning such issues as trends with respect to government policy and demand in respective countries, business management in emerging countries and export controls. In addition, he was a member of the Company's Human Resource Advisory Committee.

Name	Makoto Kigawa <Independent Director>
Attendance to the Meetings	Meeting of the Board of Directors 100% (15 meetings out of the 15 meetings held)
Details of Major Activities	Mr. Makoto Kigawa previously served as Representative Director at both Yamato Holdings Co., Ltd. and Yamato Transport Co., Ltd. During the fiscal year ended March 31, 2018, based on his rich experience in the business world, he provided comments at the meetings of the Board of Directors concerning such issues as managing progress with respect to the mid-range management plan, after-sales service and providing an ICT-based open platform. In addition, he was a member of the Company's Human Resource Advisory Committee.

ii) Outside Audit & Supervisory Board Members

Name	Hirohide Yamaguchi <Independent Audit & Supervisory Board Member>
Attendance to the Meetings	Meeting of the Board of Directors 100% (15 meetings out of the 15 meetings held) Meeting of the Audit & Supervisory Board 100% (15 meetings out of the 15 meetings held)
Details of Major Activities	Mr. Hirohide Yamaguchi previously served as Deputy Governor of the Bank of Japan. During the fiscal year ended March 31, 2018, based on his professional standpoint, he provided comments at the meetings of the Audit & Supervisory Board and the meetings of the Board of Directors concerning such issues as M&A procedures, transaction and credit risk and audit frameworks. In addition, he was a member of the Company's Compensation Advisory Committee.

Name	Eiko Shinotsuka <Independent Audit & Supervisory Board Member>
Attendance to the Meetings	Meeting of the Board of Directors 100% (15 meetings out of the 15 meetings held) Meeting of the Audit & Supervisory Board 100% (15 meetings out of the 15 meetings held)
Details of Major Activities	Ms. Eiko Shinotsuka possesses wide-ranging knowledge and experience in fields such as economics, labor relations and law. During the fiscal year ended March 31, 2018, based on her professional standpoint, she provided comments at the meetings of the Audit & Supervisory Board and the meetings of the Board of Directors concerning such issues as occupational safety, effective utilization of human resources and audit plans. In addition, she was a member of the Company's Compensation Advisory Committee.

Name	Kotaro Ohno <Independent Audit & Supervisory Board Member>
Attendance to the Meetings	Meeting of the Board of Directors 100% (11 meetings out of the 11 meetings held) Meeting of the Audit & Supervisory Board 100% (11 meetings out of the 11 meetings held)
Details of Major Activities	Mr. Kotaro Ohno possesses rich experience in the legal profession. During the fiscal year ended March 31, 2018, based on his professional standpoint, he provided comments at the meetings of the Audit & Supervisory Board and the meetings of the Board of Directors concerning such issues as safety and compliance, information management and litigation risk. In addition, he was an observer of the Company's Compliance Committee.

Note: As the Outside Audit & Supervisory Board Member Mr. Kotaro Ohno was elected at the 148th Ordinary General Meeting of Shareholders held in June 2017, the maximum number of meetings of attendance for the meeting of the Board of Directors and the meeting of the Audit & Supervisory Board is different from that of the other Outside Audit & Supervisory Board Members.

(5) Status of Accounting Auditors

1) Name of Accounting Auditors

KPMG AZSA LLC

2) Amount of Remuneration for Accounting Auditors

Remuneration for the Accounting Auditor of the Company in the fiscal year ended March 31, 2018:	JPY 401 million
Total amount of money and other financial benefits that the Company and its subsidiaries should pay to the Accounting Auditor:	JPY 687 million

Notes:

1. The Audit & Supervisory Board, based upon the “Practical Guidelines for Cooperation with Financial Auditors,” etc. released by the Japan Audit & Supervisory Board Members Association, and having obtained necessary materials and having received reports from related departments and the Accounting Auditor, conducts confirmation of the auditing plans of the Accounting Auditor, the status of execution of duties, the trends in actual remuneration amount, the grounds for calculation of remuneration estimates and other matters, and having investigated appropriateness of remuneration, etc. for the Accounting Auditor, gives consent in accordance with Article 399, Paragraph 1 of the Companies Act.
2. The amount of remuneration for the Accounting Auditor of the Company in the fiscal year ended March 31, 2018 includes the sum of the amount of remuneration for auditing services in accordance with the Companies Act of Japan and the amount of remuneration for auditing work in accordance with the Financial Instruments and Exchange Act of Japan, because the two kinds of remunerations are not clearly separated each other in the audit contract concluded between the Company and the Accounting Auditor, and they cannot be recorded separately.
3. Among principal subsidiaries of the Company, thirty five (35) companies including Komatsu America Corp. are audited by Certified Public Accountants or Audit Corporations other than the Accounting Auditor of the Company.

3) Details of Non-Auditing Services

The Company pays remuneration to the Accounting Auditor principally for services regarding issuance of bonds, etc. other than services defined in Article 2, Paragraph 1 of the Certified Public Accountants Law of Japan.

4) Policy on Decision to Discharge or Not to Reappoint Accounting Auditors

When Accounting Auditors fall under any of the items in Article 340, Paragraph 1 of the Companies Act of Japan, the Audit & Supervisory Board shall discharge the Accounting Auditors based on the consent of all Audit & Supervisory Board Members.

If a problem arises concerning the independence or reliability, etc. of the Accounting Auditors, which clearly makes it difficult for the duties to be appropriately executed, the Audit & Supervisory Board shall determine details of the proposal related to the discharge or non-reappointment of the Accounting Auditors to be submitted to a General Meeting of Shareholders.

4. Global Operations of Komatsu

The Company views global management as the process of developing customer-focused activities rooted in the individual workplaces of regions worldwide, and toward that end, promotes management localization. As one part of building a framework to implement global management, in the fiscal year ended March 31, 2017, the Company introduced the “Global Officer System.”

As of April 1, 2018, 29 of the Company’s top personnel at main overseas subsidiaries are actively responsible for key business execution functions in the overseas business field as “Global Officers.”

Furthermore, 15 of these Global Officers (including five foreign nationals) have been appointed as executive officers of the Company. The employees who were appointed as executive officers are expanding their participation in management even further through participation in several global meetings in addition to their roles as regional heads.

The Company has been further accelerating the development of its intra-Group global operations through efforts to strengthen businesses overseas such as with its acquisition of Joy Global Inc. (currently Komatsu Mining Corp.), which was carried out during the fiscal year ended March 31, 2018. In addition, the Company now considers it vital for a further step forward in development as a global company to provide opportunities for all employees around the world to participate in various arenas around the world, across national borders, regardless of their nationality, gender, and so forth, and is further promoting systems and a framework to implement this directive.

5. Initiatives to Promote the Empowerment of Women

The Company aims to provide a working environment in which employees are able to sufficiently realize and utilize their abilities regardless of gender, age or other such factors. To this end, the Company is promoting the empowerment of women, elderly people, and people with disabilities, and supporting work-life balance of employees across the organization. Because the Company considers the low number of female managers in comparison to male managers to be an issue in particular need of further improvement, the Company is vigorously pushing ahead with various measures in this area. These include making concerted efforts to employ and train more women, and providing a working environment in which female employees can continue developing their careers after maternity leave.

The number of the Company’s female managers as of April 1, 2018, was 109 persons (the ratio of female managers was 6.2%, and the number had increased by 59 persons over five fiscal years). Meanwhile, the Company has set a target of bringing the ratio of female managers to 10% by April 2021. The respective Komatsu Group companies in Japan and overseas have also set quantitative targets particularly in terms of ratios of female employees in their workforces and ratios of female managers, and furthermore they have been taking action accordingly through various initiatives geared to achieving those benchmarks, with efforts that include placing focus on training on the topic of career planning.

End

Consolidated Financial Statements

Consolidated Balance Sheet

(As of March 31, 2018)

	(JPY million)	
	(Reference)	
	149th Fiscal Year	148th Fiscal Year
Assets		
Current assets:		
Cash and cash equivalents	144,397	119,901
Time deposits	2,460	2,289
Trade notes and accounts receivable, net	792,714	619,265
Inventories	730,288	533,897
Deferred income taxes and other current assets	127,732	144,169
Total current assets	1,797,591	1,419,521
Long-term trade receivables, net	362,367	313,946
Investments:		
Investments in and advances to affiliated companies	32,879	30,330
Investment securities	9,213	67,716
Other	2,655	2,424
Total investments	44,747	100,470
Property, plant and equipment-less accumulated depreciation and amortization	740,528	679,027
Goodwill	155,881	40,072
Other intangible assets-less accumulated amortization	173,215	61,083
Deferred income taxes and other assets	98,209	42,363
Total assets	3,372,538	2,656,482

	(JPY million)	
	(Reference)	
	149th Fiscal Year	148th Fiscal Year
Liabilities		
Current liabilities:		
Short-term debt	259,093	128,452
Current maturities of long-term debt	70,806	89,391
Trade notes, bills and accounts payable	303,556	240,113
Income taxes payable	66,541	25,136
Deferred income taxes and other current liabilities	289,665	217,090
Total current liabilities	989,661	700,182
Long-term liabilities:		
Long-term debt	480,698	190,859
Liability for pension and retirement benefits	86,374	65,247
Deferred income taxes and other liabilities	72,215	51,679
Total long-term liabilities	639,287	307,785
Total liabilities	1,628,948	1,007,967
Equity		
Komatsu Ltd. shareholders' equity		
Common stock	67,870	67,870
Capital surplus	138,450	138,285
Retained earnings:		
Appropriated for legal reserve	45,828	45,368
Unappropriated	1,491,965	1,357,350
Accumulated other comprehensive income (loss)	(29,150)	18,682
Treasury stock at cost	(50,423)	(50,881)
Total Komatsu Ltd. shareholders' equity	1,664,540	1,576,674
Noncontrolling interests	79,050	71,841
Total equity	1,743,590	1,648,515
Total liabilities and equity	3,372,538	2,656,482

Consolidated Statement of Income

(From April 1, 2017 to March 31, 2018)

	(JPY million)	
	(Reference)	
	149th Fiscal Year	148th Fiscal Year
Net sales	2,501,107	1,802,989
Cost of sales	1,765,832	1,286,424
Selling, general and administrative expenses	432,298	339,986
Impairment loss on long-lived assets	6,629	1,743
Impairment loss on goodwill	13,413	–
Other operating income (expenses), net	(11,354)	(739)
Operating income	271,581	174,097
Other income (expenses), net:		
Interest and dividend income	5,255	3,462
Interest expense	(18,372)	(8,212)
Gain on sales of investment securities, net	49,083	178
Other, net	(15,740)	(3,056)
Total	20,226	(7,628)
Income before income taxes and equity in earnings of affiliated companies	291,807	166,469
Income taxes:		
Current	87,039	51,991
Deferred	(652)	(1,586)
Total	86,387	50,405
Income before equity in earnings of affiliated companies	205,420	116,064
Equity in earnings of affiliated companies	3,545	3,302
Net income	208,965	119,366
Less: Net income attributable to noncontrolling interests	12,555	5,985
Net income attributable to Komatsu Ltd.	196,410	113,381

Non-Consolidated Financial Statements

Non-Consolidated Financial Statements are based on Japanese accounting standards.

Non-Consolidated Balance Sheet

(As of March 31, 2018)

	(JPY million)	
	(Reference)	
	149th Fiscal Year	148th Fiscal Year
Assets		
Current assets:		
Cash and deposits	227,016	148,066
Notes receivable-trade	1,104	1,244
Accounts receivable-trade	190,861	163,060
Merchandise and finished goods	33,634	37,421
Work in process	41,404	30,395
Raw materials and supplies	2,986	2,816
Prepaid expenses	3,275	3,407
Deferred tax assets	12,212	8,973
Short-term loans receivable	57,218	56,467
Accounts receivable-other	19,461	15,887
Other current assets	1,968	1,969
Allowance for doubtful accounts	(375)	(376)
Total current assets	590,770	469,336
Non-current assets:		
Property, plant and equipment:		
Buildings	86,582	84,269
Structures	15,303	14,590
Machinery and equipment	35,765	40,058
Vehicles	671	754
Tools, furniture and fixtures	9,376	9,408
Rental equipment	52,548	61,101
Land	43,943	43,190
Construction in progress	3,690	5,919
Total property, plant and equipment	247,880	259,292
Intangible assets:		
Software	15,182	12,611
Other intangible assets	285	579
Total intangible assets	15,467	13,190
Investments and other assets:		
Investment securities	1,316	55,330
Stocks of subsidiaries and affiliates	380,415	290,227
Investments in capital of subsidiaries and affiliates	41,449	41,576
Long-term loans receivable	16,559	16,379
Long-term prepaid expenses	1,995	2,075
Deferred tax assets	8,897	-
Other investments	6,387	7,255
Allowance for doubtful accounts	(1,482)	(1,519)
Allowance for investment loss	(4,132)	(2,748)
Total investments and other assets	451,407	408,576
Total non-current assets	714,755	681,060
Total assets	1,305,526	1,150,396

	(JPY million)	
	(Reference)	
	149th Fiscal Year	148th Fiscal Year
Liabilities		
Current liabilities:		
Notes payable-trade	501	32
Accounts payable-trade	115,300	107,640
Short-term loans payable	30,500	32,270
Commercial papers	68,000	19,000
Current portion of bonds	–	30,000
Accounts payable-other	7,779	7,911
Accrued expenses	25,230	21,010
Income taxes payable	37,541	11,912
Advances received	828	546
Deposits received	25,565	25,466
Provision for bonuses	9,079	8,343
Provision for directors' bonuses	213	145
Provision for product warranties	8,806	6,897
Other current liabilities	5,696	3,454
Total current liabilities	335,041	274,629
Non-current liabilities:		
Bonds payable	70,000	20,000
Long-term loans payable	35,498	37,500
Deferred tax liabilities	–	4,338
Provision for product warranties	4,489	1,557
Provision for retirement benefits	38,923	37,067
Other long-term liabilities	8,410	7,063
Total non-current liabilities	157,321	107,526
Total liabilities	492,363	382,156
Net Assets		
Shareholders' equity:		
Capital stock	70,120	70,120
Capital surplus:	140,340	140,281
Legal capital surplus	140,140	140,140
Other capital surplus	200	141
Retained earnings:		
Legal retained earnings	18,036	18,036
Other retained earnings:	631,275	557,491
Reserve for special depreciation	271	368
Reserve for advanced depreciation of non-current assets	11,737	12,084
General reserve	210,359	210,359
Retained earnings brought forward	408,907	334,680
Total retained earnings	649,312	575,528
Treasury stock	(50,052)	(50,457)
Total shareholders' equity	809,720	735,472
Valuation and translation adjustments:		
Valuation difference on available-for-sale securities	–	30,119
Deferred gains or losses on hedges	992	301
Total valuation and translation adjustments	992	30,421
Stock acquisition rights:		
Stock acquisition rights	2,449	2,345
Total stock acquisition rights	2,449	2,345
Total net assets	813,162	768,240
Total liabilities and net assets	1,305,526	1,150,396

Non-Consolidated Statement of Income

(From April 1, 2017 to March 31, 2018)

	(JPY million)	
	(Reference)	
	149th Fiscal Year	148th Fiscal Year
Net sales	868,403	685,938
Cost of sales	624,762	516,070
Gross profit	243,640	169,868
Selling, general and administrative expenses	131,830	126,845
Operating income	111,809	43,023
Non-operating income:		
Interest and dividends income	40,732	38,778
Other non-operating income	1,335	1,596
Non-operating expenses:		
Interest expenses	1,239	1,112
Transfer pricing taxation adjustment	6,630	–
Other non-operating expenses	9,083	5,537
Ordinary income	136,924	76,747
Extraordinary income:		
Gain on sales of land	44	451
Gain on sales of investment securities	46,096	142
Gain on sales of stocks of subsidiaries and affiliates	–	4,333
Extraordinary losses:		
Impairment loss	284	133
Loss on valuation of investment securities	145	–
Loss on liquidation of subsidiaries and affiliates	11,613	–
Income before income taxes	171,022	81,541
Income taxes:		
Income taxes-current	40,993	15,577
Income taxes-deferred	(5,090)	(1,356)
Net income	135,119	67,320

Auditors' Report

[English Translation of the Independent Auditor's Report Originally Issued in the Japanese Language]

Independent Auditor's Report

May 10, 2018

The Board of Directors
Komatsu Ltd.

KPMG AZSA LLC
Hiroshi Miura (Seal)
Designated Limited Liability Partner
Engagement Partner
Certified Public Accountant

Masafumi Tanabu (Seal)
Designated Limited Liability Partner
Engagement Partner
Certified Public Accountant

Shin Suzuki (Seal)
Designated Limited Liability Partner
Engagement Partner
Certified Public Accountant

We have audited the consolidated financial statements, comprising the consolidated balance sheet, the consolidated statement of income, the consolidated statement of equity and the related notes of Komatsu Ltd. and its subsidiaries as of March 31, 2018 and for the year from April 1, 2017 to March 31, 2018 in accordance with Article 444, Paragraph 4 of the Companies Act of Japan.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the provision of the second sentence of Article 120, Paragraph 1 of the Ordinance on Company Accounting of Japan, as applied mutatis mutandis pursuant to Article 120-3, Paragraph 3 of the said Regulations, which permits the omission of certain disclosure items required under the accounting principles generally accepted in the United States of America (hereinafter "U.S. GAAP"), and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that is free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audit as independent auditor. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected and applied depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statements audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used, the method of their application, and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above, which omit some disclosure items required under U.S. GAAP in accordance with the provision of second sentence of Article 120, Paragraph 1 of the Ordinance on Company Accounting of Japan, as applied mutatis mutandis pursuant to Article 120-3, Paragraph 3 of the said Regulations, present fairly, in all material respects, the financial position and the results of operations of Komatsu Ltd. and its consolidated subsidiaries as of the date and for the period for which the consolidated financial statements were prepared.

Other Matter

Our firm and engagement partners have no interest in the Company which should be disclosed pursuant to the provisions of the Certified Public Accountants Law of Japan.

Notes to the Reader of Independent Auditor's Report:

The Independent Auditor's Report herein is the English translation of the Independent Auditor's Report as required by the Companies Act of Japan.

END

Independent Auditor's Report

May 10, 2018

The Board of Directors
Komatsu Ltd.

KPMG AZSA LLC
Hiroshi Miura (Seal)
Designated Limited Liability Partner
Engagement Partner
Certified Public Accountant

Masafumi Tanabu (Seal)
Designated Limited Liability Partner
Engagement Partner
Certified Public Accountant

Shin Suzuki (Seal)
Designated Limited Liability Partner
Engagement Partner
Certified Public Accountant

We have audited the non-consolidated financial statements, comprising the non-consolidated balance sheet, the non-consolidated statement of income, the non-consolidated statement of changes in net assets and the related notes, and the supplementary schedules of Komatsu Ltd. as of March 31, 2018 and for the 149th fiscal year from April 1, 2017 to March 31, 2018, in accordance with Article 436, Paragraph 2, Item 1 of the Companies Act of Japan.

Management's Responsibility for the Financial Statements and Others

Management is responsible for the preparation and fair presentation of the financial statements and the supplementary schedules in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of the financial statements and the supplementary schedules that is free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements and the supplementary schedules based on our audit as independent auditor. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and the supplementary schedules are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the supplementary schedules. The procedures selected and applied depend on our judgment, including the assessment of the risks of material misstatement of the financial statements and the supplementary schedules, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements and the supplementary schedules in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statements audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used, the method of their application, and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and the supplementary schedules.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements and the supplementary schedules referred to above present fairly, in all material respects, the financial position and the results of operations of Komatsu Ltd. as of the date and for the period for which the financial statements and the supplementary schedules were prepared in accordance with accounting principles generally accepted in Japan.

Other Matter

Our firm and engagement partners have no interest in the Company which should be disclosed pursuant to the provisions of the Certified Public Accountants Law of Japan.

Notes to the Reader of Independent Auditor's Report:

The Independent Auditor's Report herein is the English translation of the Independent Auditor's Report as required by the Companies Act of Japan.

END

Audit & Supervisory Board's Report

Regarding the execution of duties by the Directors for the 149th Fiscal Year from April 1, 2017 to March 31, 2018, we have prepared this Audit Report upon deliberation based on the audit reports prepared by each Audit & Supervisory Board Member and hereby report as follows:

1. Auditing Methods Employed by the Audit & Supervisory Board Members and Audit & Supervisory Board and Details of Such Methods
 - (1) We established auditing policies, allocation of duties and other relevant matters, and received reports from each Audit & Supervisory Board Member regarding their execution of audits and results thereof, as well as reports from the Directors, other relevant personnel, and the Accounting Auditor regarding execution of their duties, and sought explanations as necessary.
 - (2) Each Audit & Supervisory Board Member complied with the auditing standards of Audit & Supervisory Board Members established by the Audit & Supervisory Board, followed the auditing policies, allocation of duties, and other relevant matters, communicated with such as the Directors, the Internal Auditing Department and other employees, and made efforts to establish the environment for collecting department information and auditing, and conducted audits by the following methods.
 - 1) Audit & Supervisory Board Members participated in the meetings of the Board of Directors and other important meetings, received reports from such as the Directors and employees regarding execution of their duties, sought explanations as necessary, examined important authorized documents and associated information, and studied the operations and status of assets at the head office and principal offices. With respect to subsidiaries, we communicated and exchanged information with Directors and Audit & Supervisory Board Members of subsidiaries, and received reports with respect to their business from subsidiaries as necessary.
 - 2) Concerning the content of the resolution of the Board of Directors concerning the maintenance of the systems necessary to ensure that the execution of duties by the Directors complies with laws and regulations and the Articles of Incorporation, and other systems necessary to ensure the properness of operations of a Stock Company and its subsidiaries stipulated in Article 100, Paragraph 1 and Paragraph 3 of the Ordinance for Enforcement of the Companies Act of Japan; and concerning the systems that are maintained based on such resolutions (Internal Control Systems): reports were regularly received from Directors and employees and others regarding the status of establishment and operation, and when necessary, explanation was sought and opinions were expressed.
 - 3) Furthermore, we monitored and verified whether the Accounting Auditor maintained its independence and implemented appropriate audits, and we received reports from the Accounting Auditor regarding the execution of its duties and sought explanations as necessary. In addition, we received notice from the Accounting Auditor that “the System for ensuring that duties are executed properly” (matters set forth in each item of Article 131 of the Ordinance on Company Accounting of Japan) is organized in accordance with the “Quality Management Standards Regarding Audits” (Business Accounting Council, October 28, 2005) and other relevant standards, and sought explanations as necessary.

Based on the above methods, we examined the Business Report and supplementary schedules thereof, the non-consolidated financial statements (“non-consolidated balance sheet,” “non-consolidated statement of income,” “non-consolidated statement of changes in net assets,” and “notes to non-consolidated financial statements”) and supplementary schedules thereof, and consolidated

financial statements (“consolidated balance sheet,” “consolidated statement of income,” “consolidated statement of equity,” and “notes to consolidated financial statements”) for this fiscal year.

2. Result of Audit

(1) Results of Audit of Business Report and Other Relevant Documents

- 1) We confirm that the Business Report and supplementary schedules thereof fairly represent the Company’s condition in accordance with the related laws and regulations and the Articles of Incorporation.
- 2) We have found no significant evidence of wrongful acts or violations of either related laws and regulations, or the Articles of Incorporation with regard to the execution of duties by the Directors.
- 3) We confirm that the content of the resolution of the Board of Directors regarding Internal Control Systems is appropriate. In addition, we have found no matters to remark on in regard to the description of the Internal Control System in the Business Report and the execution of duties by the Directors regarding the Internal Control Systems.

(2) Result of Audit of non-consolidated financial statements and supplementary schedules thereof

We confirm that the methods and results of the audit employed by the Accounting Auditor, KPMG AZSA LLC, are proper.

(3) Result of Audit of consolidated financial statements

We confirm that the methods and results of the audit employed by the Accounting Auditor, KPMG AZSA LLC, are proper.

May 16, 2018

The Audit & Supervisory Board

Kosuke Yamane (Seal)
Standing Audit & Supervisory Board Member

Hironobu Matsuo (Seal)
Standing Audit & Supervisory Board Member

Hirohide Yamaguchi (Seal)
Audit & Supervisory Board Member

Eiko Shinotsuka (Seal)
Audit & Supervisory Board Member

Kotaro Ohno (Seal)
Audit & Supervisory Board Member

(Note) Audit & Supervisory Board Members Hirohide Yamaguchi, Eiko Shinotsuka and Kotaro Ohno are Outside Audit & Supervisory Board Members as stipulated in the Companies Act of Japan.

END

(Translation)

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

May 28, 2018

Dear Shareholders:

Items Disclosed on Internet Concerning Notice of Convocation of the 149th Ordinary General Meeting of Shareholders of Komatsu Ltd.

Komatsu Ltd. (hereinafter “the Company”) has posted information regarding the items listed below on the Company’s website (<https://home.komatsu.jp/ir/>); in Japanese language as part of its provision of notice of convocation of the 149th Ordinary General Meeting of Shareholders of Komatsu Ltd. in accordance with relevant laws and regulations and with Article 16 of the Articles of Incorporation of the Company.

I Business Report

1. Financial Position and Profit/Loss Trends
2. Major Lines of Business
3. Principal Offices and Plants
4. Matters Regarding Stock Acquisition Rights of the Company etc.

II Consolidated Financial Statements

1. Consolidated Statement of Equity
2. Notes to Consolidated Financial Statements

III Non-Consolidated Financial Statements

1. Non-Consolidated Statement of Changes in Net Assets
2. Notes to Non-Consolidated Financial Statements

*Information in English has been posted on our English website
(<https://home.komatsu/en/ir/>).*

Komatsu Ltd.

Items Disclosed on Internet

I Business Report

1. Financial Position and Profit/Loss Trends

	146th Fiscal Year (April 2014 - March 2015)	147th Fiscal Year (April 2015 - March 2016)	148th Fiscal Year (April 2016 - March 2017)	149th Fiscal Year (April 2017 - March 2018)
Net sales (JPY billion)	1,978.6	1,854.9	1,802.9	2,501.1
Operating income (JPY billion)	242.0	208.5	174.0	271.5
Income before income taxes and equity in earnings of affiliated companies (JPY billion)	236.0	204.8	166.4	291.8
Net income attributable to Komatsu Ltd. (JPY billion)	154.0	137.4	113.3	196.4
Net income attributable to Komatsu Ltd. per share (JPY)	162.07	145.80	120.26	208.25
ROE* ¹ (%)	10.6	9.0	7.3	12.1
ROA* ² (%)	8.7	7.6	6.3	9.7
Total assets (JPY billion)	2,798.4	2,614.6	2,656.4	3,372.5
Komatsu Ltd. shareholders' equity (JPY billion)	1,528.9	1,517.4	1,576.6	1,664.5

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

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

Note: Net income attributable to Komatsu Ltd. per share is calculated based on the number of shares deducting the average total number of treasury stock during the term from the average total number of shares outstanding during the term.

2. Major Lines of Business (As of March 31, 2018)

Segment	Principal Products and Businesses	
Construction, Mining and Utility Equipment	Excavating Equipment	Hydraulic excavators, rope shovels, mini excavators and backhoe loaders
	Loading Equipment	Wheel loaders, mini wheel loaders and skid-steer loaders
	Grading and Roadbed Preparation Equipment	Bulldozers, motor graders and vibratory rollers
	Hauling Equipment	Off-highway dump trucks, articulated dump trucks and crawler carriers
	Forestry Equipment	Harvesters, forwarders and feller bunchers
	Tunneling Machines	Shield machines and tunnel-boring machines
	Underground Mining Equipment	Continuous miners and longwall shearers
	Recycling Equipment	Mobile crushers, mobile soil recyclers and mobile tub grinders
	Industrial Vehicles	Forklift trucks
	Other Equipment	Railroad maintenance equipment
	Engines and Components	Diesel engines, diesel generator sets and hydraulic equipment
	Casting Products	Steel castings and iron castings
	Logistics	Transportation, warehousing and packing
Retail Finance	Retail Financing	Leasing and installment of construction and mining equipment
Industrial Machinery and Others	Metal Forging and Stamping Presses	Servo presses and mechanical presses
	Sheet-Metal Machines	Laser cutting machines, fine-plasma cutting machines, press brakes and shears
	Machine Tools	Transfer machines, machining centers, crankshaft millers, grinding machines and wire saws
	Defense Systems	Ammunition and armored personnel carriers
	Temperature-Control Equipment	Thermoelectric modules and temperature-control equipment for semiconductor manufacturing
	Others	Excimer laser used for lithography tools in semiconductor manufacturing

3. Principal Offices and Plants (As of March 31, 2018)

(1) The Company

Offices	Head Office (Minato-ku, Tokyo), Development Division Manda District (Hiratsuka City, Kanagawa)
Plants	Awazu Plant (Komatsu City, Ishikawa), Kanazawa Plant (Kanazawa City, Ishikawa), Osaka Plant (Hirakata City, Osaka), Rokko Plant (Kobe City, Hyogo), Ibaraki Plant (Hitachinaka City, Ibaraki), Shonan Plant (Hiratsuka City, Kanagawa), Oyama Plant (Oyama City, Tochigi), Tochigi Plant (Oyama City, Tochigi), Koriyama Plant (Koriyama City, Fukushima)

Note: The bases belonging to the Development Division that are annexed to plants are included in respective plants.

(2) Principal Subsidiaries

Name	Location of Offices and Plants
Komatsu Construction Equipment Sales and Service Japan Ltd.	Head Office (Kawasaki City, Kanagawa)
Komatsu Forklift Japan Ltd.	Head Office (Shinagawa-ku, Tokyo)
Komatsu Rental Ltd.	Head Office (Yokohama City, Kanagawa)
Komatsu Used Equipment Corp.	Head Office (Yokohama City, Kanagawa)
Komatsu Castex Ltd.	Head Office / Plant (Himi City, Toyama)
Komatsu Logistics Corp.	Head Office (Yokohama City, Kanagawa)
Komatsu Business Support Ltd.	Head Office (Minato-ku, Tokyo)
Komatsu Industries Corporation	Head Office (Kanazawa City, Ishikawa)
Komatsu NTC Ltd.	Head Office / Plant (Nanto City, Toyama)
GIGAPHOTON Inc.	Head Office / Plant (Oyama City, Tochigi)
Komatsu America Corp.	Head Office / Plant (USA)
Hensley Industries, Inc.	Head Office / Plant (USA)
Komatsu Mining Corp.	Head Office (USA)
Joy Global Underground Mining LLC	Head Office / Plant (USA)
Joy Global Surface Mining Inc	Head Office / Plant (USA)
Joy Global Longview Operations LLC	Head Office / Plant (USA)
Komatsu do Brasil Ltda.	Head Office / Plant (Brazil)
Komatsu Brasil International Ltda.	Head Office (Brazil)
Komatsu Holding South America Ltda.	Head Office (Chile)
Komatsu Cummins Chile Ltda.	Head Office (Chile)
Joy Global (Chile) S.A.	Head Office / Plant (Chile)
Komatsu Financial Limited Partnership	Head Office (USA)
Komatsu Finance Chile S.A.	Head Office (Chile)
Komatsu Europe International N.V.	Head Office (Belgium)
Komatsu UK Ltd.	Head Office / Plant (UK)
Komatsu Germany GmbH	Head Office / Plant (Germany)
Komatsu Italia Manufacturing S.p.A.	Head Office / Plant (Italy)
Komatsu Forest AB	Head Office / Plant (Sweden)
Komatsu CIS LLC	Head Office (Russia)
Komatsu Financial Europe N.V.	Head Office (Belgium)
Komatsu (China) Ltd.	Head Office (China)

Name	Location of Offices and Plants
Komatsu (Changzhou) Construction Machinery Corp.	Head Office / Plant (China)
Komatsu Shantui Construction Machinery Co., Ltd.	Head Office / Plant (China)
PT Komatsu Indonesia	Head Office / Plant (Indonesia)
PT Komatsu Marketing & Support Indonesia	Head Office (Indonesia)
Bangkok Komatsu Co., Ltd.	Head Office / Plant (Thailand)
Komatsu India Pvt. Ltd.	Head Office / Plant (India)
Komatsu Marketing Support Australia Pty Ltd	Head Office (Australia)
Komatsu Australia Pty Ltd	Head Office (Australia)
Joy Global Australia Holding Company Pty Ltd	Head Office (Australia)
Joy Global Australia Pty Ltd	Head Office / Plant (Australia)
Komatsu South Africa (Pty) Ltd.	Head Office (South Africa)
Joy Global (Africa) (Proprietary) Limited	Head Office / Plant (South Africa)
Komatsu Financial Leasing China Ltd.	Head Office (China)
Komatsu Australia Corporate Finance Pty. Ltd.	Head Office (Australia)

4. Matters Regarding Stock Acquisition Rights of the Company etc.**(1) Status of Stock Acquisition Rights (As of March 31, 2018)**

Name (Issue Date)	Number of Stock Acquisition Rights	Number of Shares Subject to Stock Acquisition Rights (Number of Shares per one (1) Stock Acquisition Right)	Paid-in Amount per one (1) Share	Exercise Price per one (1) Share	Period for Exercise of Stock Acquisition Rights
No. 14 Stock Acquisition Rights (August 2, 2010)	21	2,100 shares (100 shares)	Without consideration	JPY 1	From August 2, 2013 to July 31, 2018
No. 15 Stock Acquisition Rights (August 1, 2011)	197	19,700 shares (100 shares)	JPY 2,268	JPY 1	From August 1, 2014 to July 31, 2019
No. 16 Stock Acquisition Rights (August 1, 2011)	266	26,600 shares (100 shares)	Without consideration	JPY 1	From August 1, 2014 to July 31, 2019
No. 17 Stock Acquisition Rights (August 1, 2012)	187	18,700 shares (100 shares)	JPY 1,470	JPY 1	From August 1, 2015 to July 31, 2020
No. 18 Stock Acquisition Rights (August 1, 2012)	823	82,300 shares (100 shares)	Without consideration	JPY 1	From August 1, 2015 to July 31, 2020
No. 19 Stock Acquisition Rights (August 1, 2013)	251	25,100 shares (100 shares)	JPY 1,932	JPY 1	From August 1, 2016 to July 31, 2021
No. 20 Stock Acquisition Rights (August 1, 2013)	1,527	152,700 shares (100 shares)	Without consideration	JPY 1	From August 1, 2016 to July 31, 2021
No. 21 Stock Acquisition Rights (August 1, 2014)	386	38,600 shares (100 shares)	JPY 2,010	JPY 1	From August 1, 2017 to July 31, 2022
No. 22 Stock Acquisition Rights (August 1, 2014)	1,685	168,500 shares (100 shares)	Without consideration	JPY 1	From August 1, 2017 to July 31, 2022

Name (Issue Date)	Number of Stock Acquisition Rights	Number of Shares Subject to Stock Acquisition Rights (Number of Shares per one (1) Stock Acquisition Right)	Paid-in Amount per one (1) Share	Exercise Price per one (1) Share	Period for Exercise of Stock Acquisition Rights
No. 23 Stock Acquisition Rights (August 3, 2015)	499	49,900 shares (100 shares)	JPY 1,989	JPY 1	From August 3, 2018 to July 31, 2023
No. 24 Stock Acquisition Rights (August 3, 2015)	1,930	193,000 shares (100 shares)	Without consideration	JPY 1	From August 3, 2018 to July 31, 2023
No. 25 Stock Acquisition Rights (August 1, 2016)	505	50,500 shares (100 shares)	JPY 1,721	JPY 1	From August 1, 2019 to July 31, 2024
No. 26 Stock Acquisition Rights (August 1, 2016)	1,996	199,600 shares (100 shares)	Without consideration	JPY 1	From August 1, 2019 to July 31, 2024
No. 27 Stock Acquisition Rights (August 1, 2017)	281	28,100 shares (100 shares)	JPY 2,599	JPY 1	From August 1, 2020 to July 31, 2025
No. 28 Stock Acquisition Rights (August 1, 2017)	1,716	171,600 shares (100 shares)	Without consideration	JPY 1	From August 1, 2020 to July 31, 2025
Total	12,270	1,227,000 shares	[Reference: Total number of issued shares: 943,777,474 shares (excluding treasury stock)]		

Notes:

1. The type of shares subject to Stock Acquisition Rights shall be common stock of the Company.
2. "Exercise price" above means the "amount of assets to be paid upon exercise of Stock Acquisition Rights."

(2) Stock Acquisition Rights Held by Directors and Audit & Supervisory Board Members of the Company (As of March 31, 2018)

1) Stock Acquisition Rights Held by Directors (excluding Outside Directors)

Name	Number of Holders of Stock Acquisition Rights	Number of Stock Acquisition Rights Owned	Number of Shares Subject to Stock Acquisition Rights
No. 19 Stock Acquisition Rights	2	180	18,000 shares
No. 21 Stock Acquisition Rights	3	244	24,400 shares
No. 23 Stock Acquisition Rights	5	379	37,900 shares
No. 25 Stock Acquisition Rights	5	378	37,800 shares
No. 27 Stock Acquisition Rights	5	263	26,300 shares

2) Stock Acquisition Rights Held by Outside Directors

Name	Number of Holders of Stock Acquisition Rights	Number of Stock Acquisition Rights Owned	Number of Shares Subject to Stock Acquisition Rights
No. 21 Stock Acquisition Rights	2	14	1,400 shares
No. 23 Stock Acquisition Rights	2	12	1,200 shares
No. 25 Stock Acquisition Rights	3	21	2,100 shares
No. 27 Stock Acquisition Rights	3	18	1,800 shares

3) Stock Acquisition Rights Held by Audit & Supervisory Board Members

Name	Number of Holders of Stock Acquisition Rights	Number of Stock Acquisition Rights Owned	Number of Shares Subject to Stock Acquisition Rights
No. 20 Stock Acquisition Rights	2	50	5,000 shares
No. 22 Stock Acquisition Rights	2	54	5,400 shares
No. 24 Stock Acquisition Rights	2	50	5,000 shares
No. 26 Stock Acquisition Rights	1	26	2,600 shares

Note: Above indicates Stock Acquisition Rights issued at the time when incumbent Audit & Supervisory Board Member, as of March 31, 2018, was an employee of the Company (prior to being elected as Audit & Supervisory Board Member).

(3) Stock Acquisition Rights Issued During the Fiscal Year Ended March 31, 2018 to Employees of the Company and Directors of the Subsidiaries of the Company

Name	Grantees	Number of Grantees	Number of Stock Acquisition Rights Issued	Number of Shares Subject to Stock Acquisition Rights
No. 28 Stock Acquisition Rights	Employees of the Company	78	1,522	152,200 shares
	Representative Directors of the subsidiaries of the Company	10	194	19,400 shares

II Consolidated Financial Statements

1. Consolidated Statement of Equity

(From April 1, 2017 to March 31, 2018)

(JPY million)

	Common stock	Capital surplus	Retained earnings		Accumulated other comprehensive income (loss)
			Appropriated for legal reserve	Unappropriated	
Balance at the beginning of current period	67,870	138,285	45,368	1,357,350	18,682
Cash dividends				(61,335)	
Transfer to retained earnings appropriated for legal reserve			460	(460)	
Other changes					
Comprehensive income (loss):					
Net income				196,410	
Other comprehensive income (loss), net of tax					
Foreign currency translation adjustments					(21,180)
Net unrealized holding gains (losses) on securities available for sale					(29,433)
Pension liability adjustments					404
Net unrealized holding gains (losses) on derivative instruments					2,377
Comprehensive income					
Issuance and exercise of stock acquisition rights		103			
Purchase of treasury stock					
Sales of treasury stock		62			
Balance at the end of current period	67,870	138,450	45,828	1,491,965	(29,150)

	Treasury stock	Total Komatsu Ltd. shareholders' equity	Non-controlling interests	Total equity
Balance at the beginning of current period	(50,881)	1,576,674	71,841	1,648,515
Cash dividends		(61,335)	(5,010)	(66,345)
Transfer to retained earnings appropriated for legal reserve		-		-
Other changes		-	1,280	1,280
Comprehensive income (loss):				
Net income		196,410	12,555	208,965
Other comprehensive income (loss), net of tax				
Foreign currency translation adjustments		(21,180)	(1,647)	(22,827)
Net unrealized holding gains (losses) on securities available for sale		(29,433)	-	(29,433)
Pension liability adjustments		404	10	414
Net unrealized holding gains (losses) on derivative instruments		2,377	21	2,398
Comprehensive income		148,578	10,939	159,517
Issuance and exercise of stock acquisition rights		103		103
Purchase of treasury stock	(54)	(54)		(54)
Sales of treasury stock	512	574		574
Balance at the end of current period	(50,423)	1,664,540	79,050	1,743,590

2. Notes to Consolidated Financial Statements

Basis of Preparation of Consolidated Financial Statements

1. The number of consolidated subsidiaries and affiliated companies accounted for by the equity method

- | | |
|--|---|
| (1) Number of consolidated subsidiaries: | 227 companies |
| | (New additions: 99 companies, exclusions: 15 companies) |
| (2) Number of affiliated companies accounted for by the equity method: | 38 companies |
| | (New addition: 1 company, exclusion: 1 company) |

The number of consolidated subsidiaries increased due mainly to the acquisition of Joy Global Inc. during the fiscal year ended March 31, 2018.

2. Significant Accounting Policies

- (1) Basis of preparation of Consolidated Financial Statements
The Consolidated Financial Statements of Komatsu Ltd. and its subsidiaries (hereinafter “Komatsu”) are prepared in accordance with Article 120-3, Paragraph 1 of the Ordinance on Company Accounting of Japan, and the method of preparation conforms to the accounting principles generally accepted in the United States of America (hereinafter “U.S. GAAP”) in terms of terminology and format. However, some description and notes under the mandatory requirements of U.S. GAAP are omitted within the scope of stipulations in the provision of the second sentence of Article 120, Paragraph 1, as applied mutatis mutandis pursuant to Article 120-3, Paragraph 3 of the said Ordinance.
- (2) Method and basis of valuation of inventories
Inventories are stated at the lower of cost or market. The cost of finished products and work in process is mainly valued by the specific identification method and the cost of raw materials and supplies is stated at periodic average cost. The cost of finished parts is mainly stated using the first-in first-out method.
- (3) Method and basis of valuation of investment securities
Komatsu has applied the Financial Accounting Standards Board (FASB) Accounting Standards Codification™ (hereinafter “Codification”) Topic 320, “Investments–Debt and Equity Securities.”
Available-for-sale securities:
Stated at fair market value based on market prices at the balance sheet date (Unrealized gains and losses are reported, net of applicable income taxes, as a separate component of equity, and the cost of securities sold is determined using the moving-average method).
- (4) Depreciation and amortization of fixed assets
Depreciation of property, plant and equipment:
Depreciated using the straight-line method.

Amortization of intangible assets:
Amortized using the straight-line method.
In accordance with Codification Topic 350, “Intangibles–Goodwill and Other,” goodwill and other intangible assets whose useful lives cannot be determined are not amortized and reviewed for impairment at least annually.

(5) Allowances

Allowance for doubtful receivables:

To cover possible credit losses on accounts receivables or loans, an allowance for doubtful receivables is provided in the amount deemed uncollectible, which is calculated on the basis of historical default rates for normal claims, or on the basis of individual assessments for specific claims on obligors threatened with bankruptcy.

Liability for pension and retirement benefits:

In accordance with Codification Topic 715, "Compensation–Retirement Benefits," to prepare for the payment of pension and retirement benefits to employees, a provision is made in the amount deemed necessary as of the balance sheet date based on projected benefit obligations and fair value of the plan assets. Komatsu recognized the funded status (i.e., the difference between the fair value of plan assets and the projected benefit obligations) of its pension plans in the consolidated balance sheet, with a corresponding adjustment to accumulated other comprehensive income (loss), net of tax.

Prior service cost is amortized on a straight-line basis over the average remaining service period of employees at the time of occurrence of such cost.

Regarding net actuarial loss, an excessive amount of the "corridor" (10% of projected benefit obligations, or fair value of plan assets, whichever is the larger) is amortized on a straight-line basis over the average remaining service period of employees at the time of occurrence.

(6) Changes in accounting policies

From the fiscal year ended March 31, 2018, Komatsu has adopted the Accounting Standards Update ("ASU") 2015-17, "Income Taxes: Balance Sheet Classification of Deferred Taxes" and classified deferred tax assets and liabilities as noncurrent in the consolidated balance sheets.

From the fiscal year ended March 31, 2018, Komatsu has adopted the Staff Accounting Bulletin ("SAB") 118, "Income Tax Accounting Implications of the Tax Cuts and Jobs Act (the "Act")" and the ASU 2018-05, "Income Taxes: Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118." During a measurement period, SAB 118 and ASU 2018-05 allow for recording provisional amounts based on a reasonable estimate for an income tax accounting effect of the Act enacted on December 22, 2017. Komatsu records provisional amounts in its consolidated financial statements based on the information available as of the issue date of this report for an income tax accounting effect of the Act.

From the fiscal year ended March 31, 2018, Komatsu has early adopted the ASU 2017-04, "Intangibles-Goodwill and Other: Simplifying the Test for Goodwill Impairment." ASU 2017-04 eliminates the conventional two-step goodwill impairment test and requires only the one-step quantitative impairment test, whereby a goodwill impairment loss will be measured as the excess of a reporting unit's carrying amount over its fair value. Accordingly, Komatsu recorded an impairment loss based on the update for the fiscal year ended March 31, 2018.

(7) Accounting for consumption taxes, etc.

Consumption taxes, etc. are separately accounted for by excluding them from each transaction amount.

Notes to Consolidated Balance Sheet

(1) Allowance for doubtful trade notes and accounts receivable and long-term trade receivables: JPY 23,657 million

(2) Accumulated depreciation of property, plant and equipment: JPY 850,395 million

(3) Accumulated other comprehensive income (loss) consists of foreign currency translation adjustments, net unrealized holding gains (losses) on securities available for sale, pension liability adjustments and net unrealized holding gains (losses) on derivative instruments.

(4) Assets pledged as collateral:

Other current assets	JPY	247 million
Total	JPY	247 million

(5) Guarantee obligations

Guarantee obligations for borrowings made by employees, affiliated companies, customers and others: JPY 15,034 million

Guarantee obligations for subsidiaries to perform the obligations of the terms and conditions of contracts JPY 13,694 million

Notes Concerning Per Share Information

(1) Komatsu Ltd. shareholders' equity per share JPY 1,764.58

(2) Basic net income attributable to Komatsu Ltd. per share JPY 208.25

(3) Diluted net income attributable to Komatsu Ltd. per share JPY 207.97

Notes Concerning Financial Instruments

(1) Status of financial instruments

The basic financial policy of Komatsu is to secure funds necessary for future business activities and maintain proper liquidity.

In accordance with this policy, Komatsu principally uses cash flows from operating activities, and also makes bank borrowings and issues commercial papers as necessary, to meet short-term fund demands. In order to flexibly meet medium to long-term fund demands, Komatsu has established an authorized limit of bond issues and a euro medium term note program.

Concerning trade notes and accounts receivable and long-term trade receivables, Komatsu conducts business activities with customers, dealers and associated companies on a global scale and disperses these accounts receivable to prevent the concentration of credit risk.

A portion of foreign currency denominated accounts receivable and debts are vulnerable to the risk of foreign exchange fluctuation.

To alleviate these risks, Komatsu enters into foreign exchange contracts and currency swap contracts based on foreign currency cash flow projections.

Investment securities are equity securities with market value and fair values thereof are determined each quarter.

Komatsu enters into interest rate swap contracts and interest rate cap contracts to manage the risk of interest rates on short-term and long-term debt.

Derivatives carry a risk of credit loss by nonperformance of contract by the other party in the transaction. However, Komatsu does not assume such possibility due to the high credit rating of the other parties in such transactions. Komatsu does not enter into derivative contracts for the purpose of trading or speculative gain.

(2) Matters concerning fair values of financial instruments

Consolidated balance sheet amounts and fair values of financial instruments, and their variances are as follows:

	(JPY million)		
	Consolidated balance sheet amount*	Fair value*	Balance
(1) Cash and cash equivalents	144,397	144,397	–
(2) Time deposits	2,460	2,460	–
(3) Trade notes and accounts receivable, net	792,714	792,714	–
(4) Long-term trade receivables, net	362,367	362,367	–
(5) Investment securities, marketable equity securities	1,528	1,528	–
(6) Short-term debt	(259,093)	(259,093)	–
(7) Trade notes, bills and accounts payable	(303,556)	(303,556)	–
(8) Long-term debt, including current portion	(551,504)	(551,188)	316
(9) Derivatives, net	4,225	4,225	–

* The figures in parentheses indicate those posted in liabilities.

Notes:

1. Method of measurement of fair values of financial instruments and matters concerning securities and derivatives

(1) Cash and cash equivalents, (2) Time deposits, and (3) Trade notes and accounts receivable, net

Since these accounts are settled in a short period of time, their consolidated balance sheet amounts approximate their fair values.

(4) Long-term trade receivables, net

Fair values of long-term trade receivables are measured by discounting future cash flows at presently expected discount rates. As a result, their consolidated balance sheet amounts approximate their fair values.

(5) Investment securities, marketable equity securities

Fair values of marketable equity securities whose fair values are estimable are measured based on their market values and the results are reflected as consolidated balance sheet amounts.

(6) Short-term debt and (7) Trade notes, bills and accounts payable

Since these accounts are settled in a short period of time, their consolidated balance sheet amounts approximate their fair values.

(8) Long-term debt, including current portion

Fair values of long-term debt are measured either based on prices on the exchange market or based on the present value of future cash flow for each borrowing calculated by discounting at the borrowing rate at the end of the fiscal year that should be applied to borrowings with similar maturities.

(9) Derivatives, net

Fair values of derivatives mainly consisting of forward foreign exchange contracts and interest rate swap contracts are measured based on quotes obtained from brokers and the results are reflected as consolidated balance sheet amounts.

2. Unlisted investment securities (consolidated balance sheet amount: JPY 7,685 million) are primarily non-marketable equity securities, and therefore are not included in “Investment securities, marketable equity securities.”

Notes Concerning Investment and Rental Property

The total amount of land and buildings held by Komatsu as rental property is immaterial.

Significant Subsequent Events

No items to report.

Other Notes

Amounts less than JPY 1 million in the Consolidated Financial Statements and its Notes are rounded to the nearest million yen.

III Non-Consolidated Financial Statements

1. Non-Consolidated Statement of Changes in Net Assets

(From April 1, 2017 to March 31, 2018)

(JPY million)

	Shareholders' equity							
	Capital stock	Capital surplus			Retained earnings			
		Legal capital surplus	Other capital surplus	Total capital surplus	Legal retained earnings	Other retained earnings		
						Reserve for special depreciation	Reserve for advanced depreciation of non-current assets	General reserve
Balance at the beginning of current period	70,120	140,140	141	140,281	18,036	368	12,084	210,359
Changes of items during the period								
Reversal of reserve for special depreciation						(96)		
Reversal of reserve for advanced depreciation of non-current assets							(346)	
Dividends from surplus								
Net income								
Purchase of treasury stock								
Disposal of treasury stock			59	59				
Net changes of items other than shareholders' equity								
Total changes of items during the period	-	-	59	59	-	(96)	(346)	-
Balance at the end of current period	70,120	140,140	200	140,340	18,036	271	11,737	210,359

(JPY million)

	Shareholders' equity				Valuation and translation adjustments			Stock acquisition rights	Total net assets
	Retained earnings		Treasury stock	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Total valuation and translation adjustments		
	Other retained earnings	Total retained earnings							
	Retained earnings brought forward								
Balance at the beginning of current period	334,680	575,528	(50,457)	735,472	30,119	301	30,421	2,345	768,240
Changes of items during the period									
Reversal of reserve for special depreciation	96	–		–					–
Reversal of reserve for advanced depreciation of non-current assets	346	–		–					–
Dividends from surplus	(61,335)	(61,335)		(61,335)					(61,335)
Net income	135,119	135,119		135,119					135,119
Purchase of treasury stock			(39)	(39)					(39)
Disposal of treasury stock			444	504					504
Net changes of items other than shareholders' equity					(30,119)	690	(29,429)	103	(29,325)
Total changes of items during the period	74,226	73,783	404	74,248	(30,119)	690	(29,429)	103	44,922
Balance at the end of current period	408,907	649,312	(50,052)	809,720	–	992	992	2,449	813,162

2. Notes to Non-Consolidated Financial Statements

Significant Accounting Policies

(1) Method and basis of valuation of securities

Investments in subsidiaries and affiliated companies:

Stated at cost determined by the moving-average method.

Available-for-sale securities:

Securities whose market value is readily determinable:

Stated at fair market value, based on market quotation at the balance sheet date.

(Unrealized gains and losses are reported, net of applicable income taxes, as a separate component of net assets. The cost of securities sold is determined based on the moving-average method.)

Securities whose market value is not readily determinable:

Stated at cost determined by the moving-average method.

(2) Method and basis of valuation of inventories

Merchandise and finished goods, work in process:

Stated at cost (specific identification method).

Raw materials and supplies:

Stated at cost (periodic average method).

The value stated in the balance sheet is computed according to write-downs based on the decreased profitability.

(3) Depreciation of non-current assets

Property, plant and equipment (excluding lease assets):

Straight-line method

Intangible assets (excluding lease assets):

Straight-line method

Lease assets

Lease assets pertaining to finance leases that do not transfer ownership of leased property to the lessee:

Straight-line method over the lease period as the useful life

(4) Allowances and provisions

1) Allowance for doubtful accounts

To cover possible credit losses on accounts receivables or loans, an allowance for doubtful accounts is provided in the amount deemed uncollectible, which is calculated on the basis of historical default rates for normal claims, or on the basis of individual assessments for specific claims on obligors threatened with bankruptcy.

2) Allowance for investment loss

In order to prepare for losses from investing in domestic and overseas unlisted companies, allowance for investment loss is accounted for by taking into consideration the financial position of the issuer and fluctuation of the foreign exchange of the country of the issuer.

3) Provision for bonuses

Provision for bonuses is provided for payment prospect of bonuses to employees at an amount considered to be recorded for the fiscal year.

4) Provision for directors' bonuses

Provision for directors' bonuses is provided for payment prospect of bonuses to Directors at an amount considered to be recorded for the fiscal year.

5) Provision for product warranties

Provision for product warranties is provided for product after-sales service expenses based on the historical performance, etc.

6) Provision for retirement benefits

In order to provide for employee retirement benefits, the Company accrues liabilities for severance payments and pension at the amount calculated based on the projected benefit obligations and plan assets at the balance sheet date.

When calculating the projected benefit obligations, the benefit formula basis is used to attribute expected benefits to the period through to the end of the fiscal year. Prior service cost is charged to income when incurred. Actuarial loss is amortized in an amount proportionally appropriated on a straight-line basis over a 10-year period, which is shorter than the average remaining service period of employees, beginning with the following term when the difference is recognized.

(5) Accounting for income and expenses

In principle, the total amount of the sale price is accounted at the time of delivery to the customer for domestic sales, and at the time of lading for exports.

For large machinery and other items necessitating installation work, the sale is accounted when the installation is completed.

(6) Other significant information for preparation of financial statements

1) Accounting for consumption taxes, etc.

Consumption taxes, etc. are separately accounted for by excluding them from each transaction amount.

2) Application of consolidated taxation system in Japan

The Company applies a consolidated tax payment system.

Notes to Non-Consolidated Balance Sheet

(1) Accumulated depreciation of property, plant and equipment:	JPY 438,560 million
(2) Contingency liability	
Balance of guarantees for bonds and debt for borrowings from financial institutions by subsidiaries and affiliates:	JPY 125,186 million
Balance of guarantees for debt for borrowings from financial institutions by employees (home loans):	JPY 798 million
Balance of keep-well agreements for the bonds of subsidiaries and affiliates:	JPY 115,283 million
(3) Receivables from, and debts payable to subsidiaries and affiliates	
Short-term receivables from subsidiaries and affiliates:	JPY 204,556 million
Short-term debts payable to subsidiaries and affiliates:	JPY 76,019 million
Long-term receivables from subsidiaries and affiliates:	JPY 17,207 million

Notes to Non-Consolidated Statement of Income

(1) Trading with subsidiaries and affiliates

Sales:	JPY 690,135 million
Purchases:	JPY 138,535 million
Trading other than operating transactions:	JPY 54,111 million

(2) Transfer pricing taxation adjustment

Adjustments paid or to be paid to Komatsu America Corp. based on the agreement of the prior applications submitted for approval regarding transfer pricing.

(3) Gain on sales of investment securities

Gain on sale of stocks of Cummins Inc., etc.

(4) Impairment loss

As for the Company's asset groups, dormant assets and rental assets are grouped individually while operating assets are grouped as per management accounting items.

After examining non-current assets based on this grouping for decreases in value, the book value of assets whose fair market value is lower than the book value was lowered to the recoverable amount and the resulting difference was recorded as an impairment loss.

The recoverable amount was measured using the net selling price.

In the fiscal year, the Company recorded an impairment loss under extraordinary loss for the following asset group.

Application	Type	Region	Impairment Loss (JPY million)
Dormant assets	Land	Kinki area	280
Dormant assets	Land	Chubu area	3

(5) Loss on liquidation of subsidiaries and affiliates

Loss on sale of stocks, etc. due to transfer of vacation homes management business of Komatsu General Services Ltd.

Notes to Non-Consolidated Statement of Changes in Net Assets

(1) Type and number of shares issued

Type	Number of Shares at Fiscal Year-beginning	Increase During the Fiscal Year	Decrease During the Fiscal Year	Number of Shares at Fiscal Year-end
Common stock	971,967,660	–	–	971,967,660

(2) Type and number of treasury stock

Type	Number of Shares at Fiscal Year-beginning	Increase During the Fiscal Year	Decrease During the Fiscal Year	Number of Shares at Fiscal Year-end
Common stock ^{*1,2}	28,429,298	11,455	250,567	28,190,186

Notes:

1. The 11,455-share increase in the number of treasury stock of common stock is due to the purchase of shares constituting less than one unit of shares.
2. The 250,567-share decrease in the number of treasury stock of common stock consists of the following.
 - 1) 250,400 shares by the exercise of stock options
 - 2) 167 shares by the sales of shares constituting less than one unit of shares

(3) Dividends

1) Payment amount of dividends

Resolution	Type of Shares	Total Dividends (JPY million)	Dividend per Share (JPY)	Record Date	Effective Date
Ordinary General Meeting of Shareholders held on June 20, 2017	Common stock	27,362	29	March 31, 2017	June 21, 2017
Meeting of the Board of Directors held on October 27, 2017	Common stock	33,972	36	September 30, 2017	November 30, 2017

2) Dividends of which record date is in the fiscal year and effective date is in the next fiscal year

Planned Resolution	Type of Shares	Resource of Dividends	Total Dividends (JPY million)	Dividend per Share (JPY)	Record Date	Effective Date
Ordinary General Meeting of Shareholders to be held on June 19, 2018	Common stock	Retained earnings	45,301	48	March 31, 2018	June 20, 2018

(4) Matters concerning Stock Acquisition Rights

Breakdown of Stock Acquisition Rights	Type of Shares Allocated for Stock Acquisition Rights	Number of Shares Allocated for Stock Acquisition Rights			
		Number of Shares at Fiscal Year-beginning	Increase During the Fiscal Year	Decrease During the Fiscal Year	Number of Shares at Fiscal Year-end
2009 Stock Acquisition Rights No. 1 ^{*1,2}	Common stock	22,000	–	22,000	–
2009 Stock Acquisition Rights No. 2 ^{*1,2}	Common stock	29,000	–	29,000	–
2010 Stock Acquisition Rights No. 1 ^{*1,2}	Common stock	5,000	–	5,000	–
2010 Stock Acquisition Rights No. 2 ^{*1,2}	Common stock	7,200	–	5,100	2,100
2011 Stock Acquisition Rights No. 1 ^{*1,2}	Common stock	20,400	–	700	19,700
2011 Stock Acquisition Rights No. 2 ^{*1,2}	Common stock	54,400	–	27,800	26,600
2012 Stock Acquisition Rights No. 1 ^{*1,2}	Common stock	19,400	–	700	18,700
2012 Stock Acquisition Rights No. 2 ^{*1,2}	Common stock	116,400	–	34,100	82,300
2013 Stock Acquisition Rights No. 1 ^{*1,2}	Common stock	36,100	–	11,000	25,100
2013 Stock Acquisition Rights No. 2 ^{*1,2}	Common stock	199,000	–	46,300	152,700
2014 Stock Acquisition Rights No. 1 ^{*1,2}	Common stock	58,900	–	20,300	38,600
2014 Stock Acquisition Rights No. 2 ^{*1,2}	Common stock	216,900	–	48,400	168,500

Breakdown of Stock Acquisition Rights	Type of Shares Allocated for Stock Acquisition Rights	Number of Shares Allocated for Stock Acquisition Rights			
		Number of Shares at Fiscal Year-beginning	Increase During the Fiscal Year	Decrease During the Fiscal Year	Number of Shares at Fiscal Year-end
2015 Stock Acquisition Rights No. 1 ^{*1, 3}	Common stock	49,900	–	–	49,900
2015 Stock Acquisition Rights No. 2 ^{*1, 3}	Common stock	193,000	–	–	193,000
2016 Stock Acquisition Rights No. 1 ^{*1, 3}	Common stock	50,500	–	–	50,500
2016 Stock Acquisition Rights No. 2 ^{*1, 3}	Common stock	199,600	–	–	199,600
2017 Stock Acquisition Rights No. 1 ^{*1, 3, 4}	Common stock	–	28,100	–	28,100
2017 Stock Acquisition Rights No. 2 ^{*1, 3, 4}	Common stock	–	171,600	–	171,600

Notes:

1. Stock Acquisition Rights No. 1 were issued as remuneration for Directors of the Company as per the Companies Act of Japan. Stock Acquisition Rights No. 2 were issued without consideration to employees of the Company or others as per the Companies Act of Japan.
2. The decrease in shares recorded during the fiscal year for the Stock Acquisition Rights is due to exercise of Stock Acquisition Rights.
3. As of March 31, 2018, the period during which Stock Acquisition Rights may be exercised has not arrived.
4. The increase in shares recorded during the fiscal year for the Stock Acquisition Rights is due to new issue of Stock Acquisition Rights.

Notes Concerning Tax Effect Accounting

Major reasons for the accrual of deferred tax assets and deferred tax liabilities

(Deferred tax assets)

Provision for product warranties	JPY	4,054	million
Inventories	JPY	677	million
Accrued enterprise tax	JPY	1,860	million
Provision for bonuses	JPY	2,769	million
Provision for retirement benefits	JPY	10,929	million
Allowance for investment loss	JPY	1,260	million
Impairment loss	JPY	928	million
Investment securities and stocks of subsidiaries and affiliates	JPY	2,875	million
Excess over depreciation limit	JPY	1,642	million
Excess allowance for doubtful accounts	JPY	566	million
Others	JPY	6,485	million
Subtotal deferred tax assets	JPY	34,049	million
Less valuation allowance	JPY	(5,779)	million
Total deferred tax assets	JPY	28,270	million

(Deferred tax liabilities)

Reserve for advanced depreciation of non-current assets	JPY	(5,244)	million
Others	JPY	(1,915)	million
Total deferred tax liabilities	JPY	(7,160)	million
Net deferred tax assets	JPY	21,110	million

Notes Concerning Related Party Transactions
Subsidiaries and other affiliated companies

(JPY million)

Attribute	Company Name	Holding Voting Rights	Relationship with Related Party	Transaction	Transaction Amount	Category	Outstanding Balance
Subsidiary	Komatsu America Corp.	Holding directly 100%	Manufacture and sale of the Company's products	Sale of products, etc.*1	161,369	Accounts receivable-trade	13,130
				Underwriting of capital increase*2	88,715	—	—
	Komatsu Construction Equipment Sales and Service Japan Ltd.	Holding directly 100%	Sale of the Company's products Dispatched Director	Sale of products, etc.*1	146,950	Accounts receivable-trade	37,603
				Cash Management System lending*3	16,041	Short-term loans receivable	14,797
	Komatsu CIS LLC	Holding directly 100%	Sale of the Company's products	Sale of products, etc.*1	50,021	Accounts receivable-trade	12,743
	Komatsu Industries Corporation	Holding directly 100%	Sale of the Company's products	Sale of products, etc.*1	32,269	Accounts receivable-trade	16,397
	Komatsu Business Support Ltd.	Holding directly 100%	Retail financing of the Company's products	Cash Management System lending*3	28,628	Short-term loans receivable	12,050
						Long-term loans receivable	16,559
	Komatsu Rental Ltd.	Holding directly 100%	Rental of the Company's products	Cash Management System lending*3	19,323	Short-term loans receivable	19,046
	Komatsu (China) Ltd.	Holding directly 100%	Sale of the Company's products	Fund borrowing*4	—	Long-term loans payable	28,498
Komatsu Finance America Inc.	Holding indirectly 100%	Financing within Komatsu Group, fundraising, etc.	Guarantee obligation*5	85,792	—	—	

In the above amounts, consumption taxes, etc. are not included in the transaction amounts.

Notes concerning transaction conditions and policies, etc. for their determination

1. Product selling prices and other sales conditions are decided by negotiation, taking into account market conditions.
2. The underwriting of capital increase is all amount of the underwriting of the capital increase implemented by Komatsu America Corp.
3. The interest rates on Cash Management System lending are reasonably decided taking market interest rates into consideration. Transaction amount shows the average balance during the fiscal year because the transactions are repetitive.
4. The interest rates on fund borrowing are reasonably decided taking market interest rates into consideration.
5. The guarantee obligation applies to bonds issued by Komatsu Finance America Inc.

Notes Concerning Per Share Information

(1) Net assets per share	JPY	859.01
(2) Net income per share	JPY	143.18

Notes Concerning Significant Subsequent Events

The Company plans to guarantee a commercial paper program (a maximum issue amount of USD 1,000 million) and a commitment line agreement (a maximum loan amount of USD 1,000 million) established by its wholly-owned subsidiary in the U.S., Komatsu Finance America Inc., based on a resolution of the Board of Directors held on April 12, 2018.

Other Notes

Amounts less than JPY 1 million in the Non-Consolidated Financial Statements and its Notes are rounded down.