KOMATSU LTD
Form 20-F
June 29, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 20-F

(Mark One)

¨ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

or

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended March 31, 2012

or

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

or

¨ **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
Date of event requiring this shell company report __________

For the transition period from __________ to __________

COMMISSION FILE NUMBER: 1-7239

KABUSHIKI KAISHA KOMATSU SEISAKUSHO

(Exact name of Registrant as specified in its charter)

KOMATSU LTD.

(Translation of Registrant s name into English)

JAPAN

(Jurisdiction of incorporation or organization)

2-3-6 Akasaka, Minato-ku, Tokyo 107-8414, Japan

(Address of principal executive offices)

Masahiko Kanagawa or Tetsuou Yamashita

Telephone: +81-3-5561-2604

Facsimile: +81-3-3586-0374

Address: 2-3-6 Akasaka, Minato-ku, Tokyo 107-8414, Japan

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of each class	Name of each exchange on which registered
None	N/A

Securities registered or to be registered pursuant to Section 12(g) of the Act.

None

(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

Common Stock*

(Title of Class)

* 24,177,913 American Depositary Shares evidenced by American Depositary Receipts, each American Depositary Share representing 1 share of Common Stock of Komatsu Ltd.

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the period covered by the annual report.

952,261,022 shares (excluding 30,869,238 shares of Treasury Stock)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes ¨ No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP x International Financial Reporting Standards as issued by the International Accounting Standards Board ¨ Other ¨

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 ¨ Item 18 ¨

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

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In this document, KOMATSU LTD. is hereinafter referred to as the Company, and together with its consolidated subsidiaries as Komatsu.

Cautionary Statement with respect to forward-looking statements:

This annual report contains forward-looking statements that reflect management s views and assumptions in the light of information currently available with respect to certain future events, including expected financial position, operating results and business strategies. These statements can be identified by the use of terms such as will, believes, should, projects, plans, expects and similar terms and expressions that identify events or expectations. Actual results may differ materially from those projected, and the events and results of such forward-looking assumptions cannot be assured. Any forward-looking statements speak only as of the date of this annual report, and the Company assumes no duty to update such statements.

Factors that may cause actual results to differ materially from those predicted by such forward-looking statements are identified in Item 3.D. Risk Factors and elsewhere in this annual report and include, but are not limited to, unanticipated changes in demand for Komatsu s principal products, owing to changes in the economic conditions in Komatsu s principal markets; changes in exchange rates or the impact of increased competition; unanticipated costs or delays encountered in achieving Komatsu s objectives with respect to globalized product sourcing and new information technology tools; uncertainties as to the results of Komatsu s research and development efforts and its ability to access and protect certain intellectual property rights; the impact of regulatory changes and accounting principles and practices; and the introduction, success and timing of business initiatives and strategies.

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PART I

Item 1. Identity of Directors, Senior Management and Advisers

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

A. Selected Financial Data

The following selected financial data for each of the fiscal years ended March 31, 2008 through March 31, 2012 have been derived from the Company s audited consolidated financial statements prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP). It should be read in conjunction with the Company s audited consolidated balance sheets as of March 31, 2011 and 2012, the related consolidated statements of income, shareholders equity and cash flows for the three fiscal years ended March 31, 2012 and the notes thereto that appear elsewhere in this annual report.

Selected Financial Data

	(Millions of yen, except per share amounts)				
	2012	**2011**	**2010**	**2009**	**2008**
Income Statement Data:					
Net sales 1)	1,981,763	1,843,127	1,431,564	2,021,743	2,243,023
Operating income 1)	256,343	222,929	67,035	151,948	332,850
Income from continuing operations before income taxes and equity in earnings of affiliated companies 1)	249,609	219,809	64,979	128,782	322,210
Income taxes 1)	74,470	64,706	25,364	42,293	115,794
Income from continuing operations attributable to Komatsu Ltd. less applicable income taxes 1)	167,041	150,752	33,559	78,797	203,826
Income from discontinued operations attributable to Komatsu Ltd. less applicable income taxes 1)					4,967
Net income attributable to Komatsu Ltd.	167,041	150,752	33,559	78,797	208,793
Per Share Data:					
Income from continuing operations attributable to Komatsu Ltd. less applicable income taxes					
- Basic	173.47	155.77	34.67	79.95	204.88
- Diluted	173.32	155.66	34.65	79.89	204.61
Net income attributable to Komatsu Ltd.					
- Basic	173.47	155.77	34.67	79.95	209.87
- Diluted	173.32	155.66	34.65	79.89	209.59
Cash dividends					
Yen	41.00	26.00	26.00	44.00	38.00
U.S. cents 2)	50.00	31.33	27.96	44.44	38.00
Depreciation and amortization	90,106	89,467	91,319	98,354	75,664
Capital Investment 1) 3)	122,038	97,738	96,191	162,512	145,730
Research and development expenses 1)	54,843	49,005	46,449	53,736	49,673

(Millions of yen)

Balance Sheet Data:					
Total assets	2,320,529	2,149,137	1,959,055	1,969,059	2,105,146
Komatsu Ltd. shareholders equity	1,009,696	923,843	833,975	814,941	887,126
Capital stock	67,870	67,870	67,870	67,870	67,870
Number of shares issued at year-end	983,130,260	998,744,060	998,744,060	998,744,060	998,744,060
Number of shares outstanding at year-end	952,261,022	967,902,641	968,039,976	967,822,292	995,103,847

Notes:

1) In the fiscal year ended March 31, 2008, Komatsu sold the outdoor power equipment (OPE) business of Komatsu Zenoah Co. and its subsidiaries. As a result, operating results and the gain recognized on the sale of the OPE business of Komatsu Zenoah Co. and its subsidiaries are presented as Income from discontinued operations attributable to Komatsu Ltd. less applicable income taxes.

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2) The conversion rate between the Japanese yen to the U.S. dollar for the fiscal year ended March 31, 2012 is ¥82 to U.S.$1.00, the approximate buying rate of Japanese yen as of noon on March 31, 2012 in The City of New York as reported by the Federal Reserve Board.

3) The term Capital Investment as used in the above Selected Financial Data should be distinguished from the term Capital Expenditures as used in the consolidated statements of cash flows. The term Capital Investment as used in the above Selected Financial Data is defined to refer to costs relating to the purchase of property, plant and equipment including properties under capital leases on an accrual basis which reflect the effect of timing differences between acquisition dates and payment dates. Komatsu s management uses this financial indicator to manage its capital investment and believes that this indicator is useful to investors in that this indicator presents accrual based capital investment in addition to the cash based capital expenditures provided in the consolidated statements of cash flows.

The following table provides the noon buying rates for Japanese yen in The City of New York as reported by the Federal Reserve Bank of New York and the Federal Reserve Board expressed in Japanese yen per U.S. dollar for the periods indicated. The average Japanese yen exchange rates represent average noon buying rates on the last business day of each month for the respective period. On June 15, 2012, the noon buying rate in The City of New York as reported by the Federal Reserve Board for Japanese yen was ¥78.65 = U.S.$1.00.

Yen Exchange Rates per U.S. dollar:

(Yen)

	Average	High	Low	Period-End
Year ended March 31				
2008	113.61	96.88	124.09	99.85
2009	100.85	87.80	110.48	99.15
2010	92.49	86.12	100.71	93.40
2011	85.00	78.74	94.68	82.76
2012	78.86	75.72	85.26	82.41

	High	Low	Period-End
2011			
December	76.98	78.13	76.98
2012			
January	76.28	78.13	76.34
February	76.11	81.10	81.10
March	80.86	83.78	82.41
April	79.81	82.62	79.81
May	78.29	80.36	78.29

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B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

Given that Komatsu operates on a global scale with development, production, sales and other bases established around the world, Komatsu is exposed to a variety of risks. Komatsu has identified the following risks as its primary risks based on information currently available to it. The statements set forth in this section should be considered carefully in conjunction with Item 5. Operating and Financial Review and Prospects and the Consolidated Financial Statements that appear elsewhere in this annual report on Form 20-F. The risks discussed below are risks that may, individually or in the aggregate, make Komatsu s actual results differ materially from its expected or past results. It should be noted, however, that it is impossible to predict or identify all risks that may be applicable to Komatsu. The below list of risks should not be considered to be a complete list of risks that could materially affect Komatsu s results of operations and/or financial condition. Komatsu s results of operations and/or financial condition may also be affected in the future by other risks that are currently unknown or that are not currently considered significant or material.

(1) Economic and market conditions

The business environment in which Komatsu operates and the market demand for its products may change substantially as a result of economic and market conditions, which differ from region to region.

In economically-advanced regions in which Komatsu operates, Komatsu s business is generally affected by cyclical changes in the economies of such regions. Therefore, factors which are beyond Komatsu s control, such as levels of housing starts, industrial production, public investments in infrastructure development and private-sector capital outlays, may affect demand for Komatsu s products.

In newly-developing markets, where Komatsu has expanded its business in recent years, Komatsu has been making capital investments in line with the increase in its business, while constantly paying careful attention to the changes in demand for its products. However, these economies are impacted by a number of unstable factors, such as commodity prices and considerable reliance on exports to economically-advanced countries, and thus, changes in these factors could adversely affect Komatsu s business results.

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Furthermore, when economic and/or market conditions change more drastically than forecasted, Komatsu may also experience, among other things, fewer orders of its products, an increase in cancellation of orders by customers and a delay in the collection of receivables.

These changes in the economic and market conditions and the business environment in which Komatsu operates may lead to a decline in sales, and inefficient inventory levels and/or production capacities, thereby causing Komatsu to record lower profitability and incur additional expenses and losses. As a result, Komatsu s results of operations may be adversely affected.

(2) Foreign currency exchange rate fluctuations

A substantial portion of Komatsu s overseas sales is affected by foreign currency exchange rate fluctuations. In general, an appreciation of the Japanese yen against another currency would adversely affect Komatsu s results of operations, while a depreciation of the Japanese yen against another currency would have a favorable impact thereon. In addition, foreign currency exchange rate fluctuations may also affect the comparative prices between products sold by Komatsu and products sold by its foreign competitors in the same market, as well as the cost of materials used in the production of such products. Komatsu strives to alleviate the effect of such foreign currency exchange rate fluctuations by, for example, locating its production bases globally and positioning such bases closer to the respective markets in which the products manufactured by such bases are sold. Komatsu also engages in hedging activities to minimize the effects of short-term foreign currency exchange rate fluctuations. Despite Komatsu s efforts, if the foreign currency exchange rates fluctuate beyond Komatsu s projected fluctuation range, Komatsu s results of operations may be adversely affected.

(3) Fluctuations in financial markets

While Komatsu is currently working to improve the efficiency of its assets by reducing its interest-bearing debt, its aggregate short- and long-term interest-bearing debt was approximately ¥650 billion as of March 31, 2012. Although Komatsu has strived to reduce the effect of interest rate fluctuations using various measures, including procuring funds at fixed interest rates, an increase in interest rates may increase Komatsu s interest expenses and thereby adversely affect Komatsu s results of operations. In addition, fluctuations in the financial markets, such as fluctuations in the fair value of marketable securities and interest rates, may also increase the unfunded obligation portion of Komatsu s pension plans or pension liabilities, which may result in an increase in pension expenses. Such an increase in interest expenses and pension expenses may adversely affect Komatsu s results of operations and financial condition.

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(4) Laws and regulations of different countries

Komatsu is subject to governmental regulations and approval procedures in the countries in which it operates. If the government of a given country were to introduce new laws and regulations or revise existing laws and regulations relating to customs duties, currency restrictions and other legal requirements, Komatsu may incur expenses in order to comply with such laws and regulations or its development, production, sales and service operations may be affected adversely by them. With respect to transfer pricing between Komatsu and its affiliated companies, Komatsu is careful to comply with applicable taxation laws of Japan and the concerned foreign governments. Nevertheless, it is possible that Komatsu may be viewed by the concerned tax authorities as having used inappropriate pricing. Furthermore, if intergovernmental negotiations were to fail, Komatsu may be charged with double or additional taxation. When facing such an unexpected situation, Komatsu may experience an unfavorable impact on its business results.

(5) Environmental laws and regulations

Komatsu s products and business operations are required to meet increasingly stringent environmental laws and regulations in the numerous countries in which Komatsu operates. To this end, Komatsu expends a significant share of its management resources, such as research and development expenses, to comply with environmental and other related regulations. If Komatsu is required to incur additional expenses and make additional capital investments due to revised environmental regulations adopted in the future, or if its development, production, sales and service operations are adversely affected by such revised regulations, Komatsu may experience an unfavorable impact on its business results.

(6) Product and quality liability

While Komatsu endeavors to sustain and improve the quality and reliability of its operations and products based on stringent standards established internally, Komatsu may face product and quality liability claims or become exposed to other liabilities if unexpected defects in its products result in recalls or accidents. If the costs for addressing such claims or other liabilities are not covered by Komatsu s existing insurance policies or other protective means, such claims may adversely affect its financial condition.

(7) Alliances and collaborative relationships

Komatsu has entered into various alliances and collaborative relationships with distributors, suppliers and other companies in its industry to reinforce its international competitiveness. Through such arrangements, Komatsu is working to improve its product development, production, sales and service capabilities. While Komatsu expects its alliances and collaborative relationships to be successful, Komatsu s failure to attain expected results or the termination of such alliances or collaborative relationships may adversely affect Komatsu s results of operations.

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(8) Procurement, production and other matters

Komatsu s procurement of parts and materials for its products is exposed to fluctuations in commodity prices, mainly in the price of steel materials. Price increases in commodities may increase the cost of materials and therefore the production cost of Komatsu s products. In addition, a shortage of product parts and materials, bankruptcies of suppliers or production discontinuation by suppliers of products used by Komatsu may make it difficult for Komatsu to engage in the timely procurement of parts and materials and manufacture of its products, thereby lowering Komatsu s production efficiency. In an effort to reduce any adverse effect to its business as a result of an increase in the cost of materials, Komatsu strives to reduce other costs and pass on any increase in the cost of materials to its customers through price adjustments of its products. Komatsu strives to minimize the effects of possible procurement or manufacturing issues by securing new suppliers or promoting closer collaboration among its related business divisions. However, if the increase in commodity prices were to exceed Komatsu s expectations or a prolonged shortage of materials and parts were to occur, Komatsu s results of operations may be adversely affected.

(9) Information security, intellectual property and other matters

Komatsu may obtain confidential information concerning its customers and individuals in the normal course of its business. Komatsu also holds confidential business and technological information. Komatsu safeguards such confidential information with the utmost care. To safeguard such confidential information from unauthorized access, tampering, destruction, leakage, losses and other damages, Komatsu employs appropriate safety measures, including implementing technological safety measures and strengthening its information management capabilities. If a leak of confidential information concerning customers and individuals were to occur, Komatsu may become liable for damages, or its reputation or its customers confidence in Komatsu may be adversely affected. In addition, if Komatsu s confidential business and technological information were leaked or misused by a third party, or Komatsu s intellectual properties were infringed upon by a third party, or Komatsu were held liable for infringing on a third party s intellectual property rights, Komatsu s business results may be adversely affected.

(10) Natural calamities, wars, terrorism, accidents and other matters

If natural disasters (such as earthquakes, tsunamis and floods), epidemics, wars, terrorist acts, accidents (such as radioactive contamination), fires and explosions, unforeseeable criticism or interference by third parties or computer virus infections were to occur in the regions in which Komatsu operates, Komatsu may incur extensive damage to one or more of its facilities that then could not become fully operational within a short period of time. Even if Komatsu s operations were not directly harmed by such events, confusion in logistic and supply networks, shortages in the supply of electric power, gas and other utilities, telecommunication problems and/or problems of supplier s production may continue for a long period of time. Accordingly, if delays or disruption in the procurement of materials and parts, or the production and sales of Komatsu s products and services, or deterioration of the capital-raising environment or other adverse developments were to take place as a result of such events, Komatsu s business results may be adversely affected.

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Item 4. Information on the Company

A. History and Development of the Company

The Company was incorporated in May 1921 as a joint stock corporation (kabushiki kaisha) in accordance with Japanese law under the name Kabushiki Kaisha Komatsu Seisakusho (Komatsu Ltd. in English). Its registered office is located at 2-3-6 Akasaka, Minato-ku, Tokyo 107-8414, Japan, and its telephone number is +81-3-5561-2604 (Corporate Controlling Department).

Shortly after its formation in 1921, the Company commenced the production and marketing of sheet-forming presses. In 1931, the Company produced Japan s first crawler-type farm tractor and in the 1940s the Company began its production of bulldozers in Japan. The Company broadened its product line-up by beginning production of motor graders and dump trucks in the 1950s and wheel loaders and hydraulic excavators in the 1960s.

The history and development of Komatsu s global operations can be divided into three phases: (1) exports from Japan, (2) offshore production and (3) management of its global production and distribution network.

Since its first export to Argentina in 1955, Komatsu has gradually increased exports of its products. Komatsu established its first liaison office in India in 1964 and established sales companies in Europe, the United States and Asia between 1967 and 1971.

During the 1970s and 1980s, Komatsu started establishing its production facilities offshore and enhanced its offshore production by locating manufacturing plants close to their respective markets. In 1975, Komatsu commenced offshore production with the production of bulldozers in Brazil by Komatsu do Brasil Ltda., its first manufacturing plant outside Japan. Subsequently, Komatsu increased its global presence by establishing manufacturing plants in Indonesia, the United Kingdom and the United States during the 1980s. For example, during the 1980s, Komatsu established a joint venture company in the United States with Dresser Industries Inc. named Komatsu Dresser Company (now known as Komatsu America Corp., KAC).

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During the 1990s, Komatsu strengthened its overseas manufacturing capabilities and made efforts to optimize its production and distribution network on a global basis through various methods, including forming alliances and entering into joint ventures. For instance, Komatsu established Komatsu Cummins Engine Co., Ltd. and Industrial Power Alliance Ltd. in Japan and Cummins Komatsu Engine Company in the United States, with Cummins Engine Company (now known as Cummins Inc.). In addition, Komatsu entered into three joint ventures in China, and a joint venture with Mannesmann Demag of Germany to establish Demag Komatsu GmbH (now known as Komatsu Mining Germany GmbH).

The following are some of the significant transactions in the development of Komatsu s business in recent years.

In January 2007, the Company signed a definitive agreement to sell the OPE business of Komatsu Zenoah Co. to a Japanese subsidiary of Husqvarna AB of Sweden. After Komatsu Zenoah Co. split its OPE business and established Zenoah Co., Komatsu Zenoah Co. was merged into Komatsu Utility Co., Ltd. in April 2007, as a result of which Komatsu Utility Co., Ltd. became Zenoah Co. s parent company. In the same month, Komatsu Utility Co., Ltd. sold all of its shares of Zenoah Co. to HUSQVARNA JAPAN LTD. (now known as Husqvarna Zenoah Co., Ltd.), thereby completing the sale of the OPE business.

In January 2008, to generate more synergy, the Company launched a takeover bid to obtain all issued shares of NIPPEI TOYAMA, which resulted in the Company owning 93.7% of the equity interest of such entity.

In August 2008, the Company and NIPPEI TOYAMA implemented a share exchange and NIPPEI TOYAMA became a wholly owned subsidiary of the Company. In October 2008, NIPPEI TOYAMA changed its name and is now known as Komatsu NTC Ltd.

In April 2009, Komatsu Tokyo Ltd. (Komatsu Tokyo), a wholly owned subsidiary of the Company, merged with 11 other consolidated subsidiaries of the Company, consisting of 10 sales subsidiaries and Komatsu All Parts Support Ltd., through an absorption-type merger. In the same month, the Company transferred its sales and service business for construction equipment (excluding underground construction equipment) in Japan to Komatsu Tokyo through an absorption-type company split. Upon the completion of these transactions, Komatsu Tokyo changed its name and is now known as Komatsu Construction Equipment Sales and Service Japan Ltd.

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In April 2010, Komatsu Industries Corporation (Komatsu Industries), a wholly owned subsidiary of the Company, took over the product development and sales and service operations of the large-sized press business, previously conducted by the Company s Industrial Machinery Division, by way of an absorption-type corporate split.

In April 2011, the Company merged with Komatsu Utility Co., Ltd. in an absorption-type merger. Komatsu Utility Co., Ltd. was a wholly owned subsidiary of the Company that produced and sold forklift trucks and mini construction equipment.

PRINCIPAL CAPITAL INVESTMENT

Komatsu invests capital each year in the development and production of new products and the improvement of the operating efficiency of its production infrastructure, primarily focusing on the Construction, Mining and Utility Equipment operating segment. Komatsu s capital investment for the fiscal years ended March 31, 2012, 2011 and 2010 were ¥122,038 million, ¥97,738 million and ¥96,191 million, respectively. Capital investment for the fiscal year ended March 31, 2012 by operating segment was as follows.

Capital Investment by Operating Segment

	Millions of Yen	Percentage Change as compared to the
	Fiscal Year ended March 31, 2012	**Fiscal Year ended March 31, 2011**
Construction, Mining and Utility Equipment	¥ 115,518	25.5%
Industrial Machinery and Others	6,520	14.6%
Total	¥ 122,038	24.9%

Notes:

1) Amounts include certain leased machinery and equipment accounted for as capital leases in accordance with Financial Accounting Standards Board Accounting Standards Codification 840.

2) The term Capital Investment as used in the above table should be distinguished from the term Capital Expenditures as used in the consolidated statements of cash flows. The term Capital Investment as used in the above table is defined to refer to costs relating to the purchase of property, plant and equipment including properties under capital leases on an accrual basis which reflect the effect of timing differences between acquisition dates and payment dates. Komatsu s management uses this financial indicator to manage its capital investment and believes that this indicator is useful to investors in that this indicator presents accrual based capital investment in addition to the cash based capital expenditures provided in the consolidated statements of cash flows.

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In the fiscal year ended March 31, 2012, Komatsu made capital investments in the construction, mining and utility equipment business to expand its production capacity in response to increased demand for its equipment, and to strengthen its sales and service operations in the Strategic Markets (see below for a further description of Strategic Markets). For example, Komatsu expanded production capacities of Komatsu (Changzhou) Construction Machinery Corp. and Komatsu (Shandong) Construction Machinery Corp. in anticipation of mid- to long-range market growth. In the industrial machinery and others business, Komatsu made capital investments to increase its capacity to produce presses and machine tools in response to increased demand in light of the recovery of capital investments by the automobile manufacturing industry.

Komatsu considers the markets in Japan, North America and Europe to be its Traditional Markets and the markets in China, Latin America, Asia, Oceania, Africa, the Middle East and the Commonwealth of Independent States (CIS) as its Strategic Markets .

The following table sets forth in further detail the principal construction projects Komatsu undertook during the fiscal year ended March 31, 2012.

Main facilities completed in the fiscal year ended March 31, 2012

Operating segment	Main facilities
Construction, Mining and Utility Equipment	Komatsu (Changzhou) Construction Machinery Corp.: Relocation (expansion) of plant Products: Hydraulic excavators, wheel loaders, dump trucks, etc. Location: Changzhou, Jiangsu, China

Komatsu s capital investments for the fiscal year ended March 31, 2012 were primarily financed by funds on hand and bank borrowings.

For information on Komatsu s expected principal capital investments for the fiscal year ended March 31, 2013, see Item 4.D. Property, Plants and Equipment.

B. Business Overview

GENERAL

Komatsu is a global company that engages in the manufacturing, development, marketing and sale of a diversified range of industrial-use products and services. With Quality and Reliability as the cornerstone of its management policy, Komatsu is committed to providing safe and innovative products and services that satisfy its customers needs and expectations.

The manufacturing operations of Komatsu are conducted primarily at plants located in Japan, the United States, Brazil, the United Kingdom, Germany, Sweden, Italy, Indonesia, China, Thailand, India and Russia. Komatsu s products are primarily sold under the Komatsu brand name and almost all of its sales and service activities are conducted through its sales subsidiaries, affiliates and independent distributors who primarily sell products to retail dealers in their respective geographic area.

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PRODUCTS AND SERVICES

The following table sets forth Komatsu s net sales by operating segments for the fiscal years ended March 31, 2012, 2011 and 2010, which is derived from the Company s audited consolidated financial statements.

Net Sales by Operating Segments

	(Millions of Yen)					
	Fiscal Year Ended March 31, 2012		Fiscal Year Ended March 31, 2011		Fiscal Year Ended March 31, 2010	
Construction, Mining and Utility Equipment	¥ 1,739,348	87.8%	¥ 1,615,689	87.7%	¥ 1,268,575	88.6%
Industrial Machinery and Others	242,415	12.2%	227,438	12.3%	162,989	11.4%
Total	¥ 1,981,763	100.0%	¥ 1,843,127	100.0%	¥ 1,431,564	100.0%

(1) Construction, Mining and Utility Equipment
The Construction, Mining and Utility Equipment operating segment has been Komatsu s mainstay operating segment during the last several decades. Net sales from this operating segment accounted for 87.8% of Komatsu s total net sales for the fiscal year ended March 31, 2012.

Komatsu offers various types of construction, mining and utility equipment, ranging from super-large machines capable of mining applications to general construction equipment and mini construction equipment for urban use. Komatsu s range of products in this operating segment also includes a wide variety of attachments to be used with its products. Komatsu s principal products in this operating segment fall into the following categories:

Category	**Principal Products and Businesses**
Excavating Equipment	Hydraulic excavators, 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, tunnel-boring machines and small-diameter pipe jacking machines
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

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To remain competitive in this operating segment, Komatsu introduced the DANTOTSU Strategy in 2003 and has been working to increase the number of DANTOTSU products. DANTOTSU means unique and unrivaled in Japanese. Komatsu only designates a product as DANTOTSU if such product is considered unique and unrivaled as compared to those produced by Komatsu s competitors, due to the fact that such product is equipped with one or more features that its competitors cannot match for some time. Since the introduction of DANTOTSU products, Komatsu has been working to replace many of its product models with DANTOTSU products. Komatsu plans to continue making model changes to replace some of its existing construction, mining and utility equipment product models with DANTOTSU products.

In addition to manufacturing and developing new products, Komatsu has been focused on downstream businesses, such as the used equipment business and the equipment rental business. Komatsu Used Equipment Corp. has been facilitating the sale of used equipment by holding annual auctions in several locations in Japan since the mid-1990s.

The principal products developed and introduced to the market in the Construction, Mining and Utility Equipment operating segment during the fiscal year ended March 31, 2012 are listed below:

Company	Product	Model
Komatsu Ltd.	Hydraulic Excavators	PC60-8, PC118MR-8, PC200F-8, PC220-10, PC300-10, PC400-10
	Wheeled Hydraulic Excavators	PW98MR-8, PW118MR-8
	Bulldozers	D65-17, D155-7
	Wheel Loader	WA380-7, WA380Z-6, WA500-7
	Dump Trucks	HD785-7, 960E-2, HM300-3, HM400-3
	Forklifts Trucks	FD250-7

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(2) Industrial Machinery and Others

Net sales from the Industrial Machinery and Others operating segment accounted for 12.2% of Komatsu s total net sales for the fiscal year ended March 31, 2012. The products available in this operating segment are used by a wide range of businesses and include industrial machinery, such as forging and sheet metal machinery and other services. Komatsu s principal products in this operating segment fall into the following categories:

Category	**Principal Products and Businesses**
Metal Forging and Stamping Presses	Large-sized presses, servo presses, small- and medium-sized presses and forging presses
Sheet Metal Machines	Laser cutting machines, 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	Prefabricated commercial-use structures, excimer lasers used for lithography tools in semiconductor manufacturing

The principal products developed and introduced to the market in the Industrial Machinery and Others operating segment during the fiscal year ended March 31, 2012 are listed below:

Company	Product	Model
Komatsu Industries Corporation	Large-sized presses	H4F2000
	Plasma cutting machines	TFP3051LL
Komatsu NTC Ltd.	Machining centers	N30Hi
	Wire saws	PV500D

PRINCIPAL MARKETS

Komatsu operates and competes in the following six principal markets: (1) Japan, (2) the Americas, (3) Europe and CIS, (4) China, (5) Asia (excluding Japan and China) and Oceania and (6) the Middle East and Africa.

In this annual report, information regarding net sales by geographic segment is presented in the following two ways: (1) by customer location (based on the country where the purchaser is located) and (2) by sales origin (based on the country where the seller is located). The following table sets forth Komatsu s net sales recognized by customer location for the fiscal years ended March 31, 2012, 2011 and 2010. Net sales data by sales origin are set forth in Item 5.A. Operating and Financial Review and Prospectus as well as Note 22 to the Company s audited consolidated financial statements, included elsewhere in this report.

	(Millions of Yen)					
	Fiscal Year Ended March 31, 2012		Fiscal Year Ended March 31, 2011		Fiscal Year Ended March 31, 2010	
Japan	¥ 402,505	20.3%	¥ 349,184	18.9%	¥ 323,813	22.6%
The Americas	460,814	23.3%	397,427	21.6%	323,984	22.7%
Europe and CIS	207,848	10.5%	165,418	9.0%	127,377	8.9%
China	270,017	13.6%	428,208	23.2%	270,870	18.9%
Asia (excluding Japan and China) and Oceania	513,575	25.9%	398,366	21.6%	299,864	20.9%
Middle East and Africa	127,004	6.4%	104,524	5.7%	85,656	6.0%
Total	¥ 1,981,763	100.0%	¥ 1,843,127	100.0%	¥ 1,431,564	100.0%

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SALES AND DISTRIBUTION

Komatsu s international and domestic sales and distribution for its Construction, Mining and Utility Equipment operating segment are conducted primarily through a network of subsidiaries, affiliates and independent distributors. Except as noted below where Komatsu s subsidiaries sell their products directly to customers, construction, mining and utility equipment is typically sold through independent distributors, who purchase such equipment from the Company and its subsidiaries that manufacture such equipment.

Komatsu s construction, mining and utility equipment sales and distribution operations in Japan focus principally on retail sales to customers, partly on an installment basis, and are undertaken by independent distributors, and Komatsu s subsidiaries and affiliates who purchase such equipment from the Company. In addition, Komatsu has enhanced its equipment rental services business in Japan, especially for its construction and utility equipment, in response to strong demand from customers. Komatsu s subsidiaries and independent distributors form Komatsu s service network in Japan, providing total customer-support services.

Komatsu s overseas construction, mining and utility equipment sales and service network is a global network and covers almost all parts of the world. With the exception of some sales of mining equipment in certain areas, Komatsu sells its products to customers through independent distributors around the world who typically purchase such equipment from the Company and its subsidiaries. With respect to mining equipment, in the areas where there is high demand, such as Australia, Chile and South Africa, there are situations when Komatsu s subsidiaries in such areas provide sales and services directly to customers. Komatsu s liaison offices provide both sales support and technical support to independent distributors. The Company s major sales subsidiaries and affiliates are located in the United States, Brazil, Belgium, Russia, China, Indonesia, and the United Arab Emirates. These subsidiaries and affiliates provide technical assistance to the independent distributors and carry spare parts so that such parts can be delivered on a timely basis to its customers and distributors. These subsidiaries and affiliates as well as independent distributors provide the services that customers may require with respect to their construction, mining and utility equipment outside of Japan.

In addition, to provide customers with financing for their purchase of construction, mining and utility equipment, Komatsu has established finance subsidiaries in its major markets of Japan, the United States, Chile, Europe, Thailand, Indonesia, Australia and China.

Komatsu s sales of products in the Industrial Machinery and Others operating segment include direct sales to customers and sales through independent distributors and unaffiliated trading companies. For example, large presses are mainly sold directly to customers while small- and medium-sized presses are primarily sold through independent distributors.

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SOURCES OF SUPPLY

As it is neither economical nor efficient for Komatsu to manufacture all of its necessary components and parts, Komatsu produces some of its major equipment components internally and purchases other components and parts, such as electrical components, tires, hoses and batteries, from specialized suppliers. Specialized suppliers are Komatsu s business partners that supply components and parts that are particularly important to maintaining the quality of Komatsu s products or business partners who specialize in supplying particular components and parts. Komatsu also procures some of its parts, such as metal forgings, machine components, sheet metal parts and various accessories, from other business partners. Therefore, the fluctuations in prices of materials for such components, such as steel materials, may affect Komatsu s results of operations. In addition, a shortage of product parts and materials, bankruptcies of suppliers or production discontinuation by suppliers of products used by Komatsu may make it difficult for Komatsu to engage in the timely procurement of parts and materials and manufacture of its products. Nevertheless, Komatsu believes that it has adequate and reliable sources of supply for its material components, parts and raw materials, and that it has appropriate alternative sources available for such supplies consistent with its prudent business practices.

SEASONALITY

In general, Komatsu s businesses have historically experienced some seasonal fluctuations in sales. While there are variations by market and product, Komatsu s consolidated sales volume is customarily the highest during the fourth quarter. However, this seasonality has generally not been material to Komatsu s results of operations.

PATENTS AND LICENSES

Komatsu holds numerous Japanese and foreign patents, design patents and utility model registrations relating to its products. It also has a number of applications pending for Japanese and foreign patents. Under Japanese law, a utility model registration is a right granted with respect to inventions of less originality than those which qualify for patents. Komatsu also manufactures a variety of products under licensing agreements with various other companies.

While Komatsu considers all of its patents and licenses to be important for the operation of its business, it does not consider any of its patents or licenses or any related group of them to be so important that its expiration or termination would materially affect Komatsu s business as a whole, nor does it believe that any category of its activities is materially dependent upon patents or licenses, or patent or license protection. Komatsu also owns and maintains a substantial number of trademarks and trade names that are registered or otherwise protected under the laws of various jurisdictions.

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COMPETITIVE ENVIRONMENT

Construction, Mining and Utility Equipment

As a manufacturer of a full line-up of construction and mining equipment, Komatsu provides a broad range of products from super-large equipment for mining use to general construction equipment and mini construction equipment for urban use.

While there is intense competition in all of the product categories in this operating segment, based on sales amount, Komatsu continues to be one of the market leaders in respect of construction and mining equipment in every geographic region in which it operates. In many countries in the Asian market, Komatsu is the market leader in respect of construction and mining equipment based on sales amount.

Komatsu s competitors in the construction and mining equipment business consist of global competitors, regional competitors and locally specialized competitors. Major global competitors include Caterpillar Inc. (Caterpillar), Hitachi Construction Machinery Co., Ltd. (Hitachi Construction), Volvo Construction Equipment NV (Volvo) and Liebherr Group (Liebherr Group). The competitive environment differs according to regions and product models.

North America is the largest market for construction equipment in the world and Caterpillar is the market leader based on sales. Deere & Company, which has formed an alliance with Hitachi Construction, also holds a strong market position in construction equipment in North America based on sales. With respect to mining equipment, Komatsu s main competitor in North America is Caterpillar, which has a full line-up of products.

In Europe, in addition to global manufacturers with a full line-up of construction equipment, such as Caterpillar, Volvo and Liebherr Group, there are many regional or locally specialized competitors who have firm footings in the local construction equipment markets. Komatsu competes with different competitors in each country or region in Europe and it is expected that the construction equipment markets in Europe will continue to be very competitive.

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In Asia, Komatsu s competitors in the construction equipment market include Caterpillar, Hitachi Construction and Korean manufacturers, such as Hyundai Heavy Industries Co., Ltd. and Doosan Infracore Co., Ltd. In China, Komatsu competes with a number of locally specialized construction equipment manufacturers in addition to the above-mentioned competitors. With respect to mining equipment, Komatsu s main competitor in Asia (including China) is Caterpillar, a mining equipment manufacturer with a full line-up of products.

As for industrial vehicles, Komatsu competes with global competitors that offer a full line-up of forklift trucks, such as Toyota Industries Corporation (Toyota), as well as locally specialized manufacturers. The major markets for forklift trucks have traditionally been Europe, the United States and Japan. Recently, China has overtaken Europe and has developed into the largest market for forklift trucks. While European and U.S. manufacturers of forklift trucks sell not only forklift trucks but also warehousing equipment, Komatsu and other Japanese manufacturers (excluding Toyota) of forklift trucks primarily focus on forklift trucks. In China, Komatsu competes with a number of locally specialized manufacturers in addition to European, U.S., Korean and Japanese manufacturers.

Despite the competitive environment, Komatsu believes that the following strengths provide Komatsu with a competitive advantage in the global construction, mining and utility equipment market:

DANTOTSU products

DANTOTSU products are products that have truly outstanding features or qualities in terms of, among others, fuel efficiency, information and communication technology (ICT) and environmental features, such as lower CO_2 emissions and fuel consumption. Komatsu designates a product as a DANTOTSU product when it believes the product has features that its competitors will not be able to match for some time.

KOMTRAX (Komatsu Machine Tracking System)

KOMTRAX is a machine monitoring system developed by Komatsu and was introduced in 2001 to the market as standard equipment for Komatsu s small and medium-sized construction machines. KOMTRAX collects information about the machine, such as the latest machine location, service meter, working status and other conditions about the machine. It provides KOMTRAX users (Komatsu, distributors and customers) with KOMTRAX information through communication infrastructures (such as satellite or mobile network) and web-based application technologies. The system is used as a fact finding tool to remotely visualize machines in operation at job sites. By sharing machine information compiled at job sites with customers, distributors can assist customers in reducing their operating costs and minimizing downtime of their machines, and can improve the efficiency and quality of their customer support services. In addition, by having an understanding of the actions taken by distributors (which information is available through KOMTRAX), Komatsu is also better able to support the distributors business.

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KOMTRAX Plus provides the means to monitor the health of major components on large machines, such as mining equipment. More specifically, KOMTRAX Plus transmits machine data to Komatsu and service personnel so that effective preventative maintenance can be undertaken in advance, thereby reducing customers repair costs and minimizing unscheduled downtime of equipment.

AHS (Autonomous Haulage System)

AHS is a system that controls the operation of super-large autonomous dump trucks that are used in large-scale mines. Komatsu first introduced AHS in copper mines in northern Chile, where it is currently in full use. Komatsu started to provide AHS for use in iron ore mines in western Australia at the end of 2008 as its second installation.

Hybrid

In June 2008, Komatsu launched the world s first hybrid hydraulic excavator that consumes less fuel and emits less carbon dioxide (CO_2). Komatsu believes that it has a competitive advantage in the market with respect to this type of equipment not only because it was one of the first to develop and market this type of equipment but also because the equipment is equipped with advanced technologies that reduce CO_2 emissions and fuel consumption, which are features that customers have been focused on in recent years. As of March 31, 2012, Komatsu has introduced hybrid excavators in Japan, North, Central and South America, Europe, China, Southeast Asia and Oceania.

Industrial Machinery and Others

In the Industrial Machinery and Others operating segment, Komatsu s principal products include (1) metal forging and stamping presses, (2) sheet metal machines and (3) machine tools. As discussed below, the market for these products is highly competitive.

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(1) Metal Forging and Stamping Presses

Komatsu manufactures and sells stamping presses that are used to press doors and roofs of automobiles and various other parts into shapes. Komatsu s stamping presses can be divided into large-sized presses, and medium- and small-sized presses.

With respect to large-sized presses, which are mainly sold to automobile manufacturers, Komatsu considers Ishikawajima-Harima Heavy Industries Co., Ltd., Hitachi Zosen Fukui Corporation and AIDA Engineering, Ltd. (AIDA) of Japan and Schuler AG of Germany to be its major competitors. In Japan, Japanese manufacturers, including Komatsu, have an advantage over non-Japanese manufacturers. Likewise, in Germany, German manufacturers enjoy dominant positions and have a competitive advantage over non-German manufacturers. In other markets, regional and locally specialized competitors in addition to the above-mentioned major manufacturers compete with each other, making the market highly competitive.

With respect to small- and medium-sized presses, Asia (including Japan) is Komatsu s largest market. Major competitors of Komatsu for these products include AIDA and Amada Co., Ltd. (Amada) of Japan, The Minster Machine Company of the United States and Chin Fong Machine Industrial Co., Ltd. of Taiwan.

(2) Sheet Metal Machines

Komatsu s sheet metal machines business is primarily focused on machines that cut and bend steel sheets, and Japan is Komatsu s major market for such machines. Komatsu s competitors consist of other Japanese manufacturers, such as Amada, Mitsubishi Electric Corporation, Yamazaki Mazak Corporation and Koike Sanso Kogyo Co., Ltd. Amada enjoys a large market share in this business due to its large product line-up.

One of the principal product of Komatsu s sheet metal machine business is its plasma cutting machines. With technology that is original to Komatsu, Komatsu s plasma cutting machines boast high productivity and outstanding cost performance in terms of both operating and initial costs while maintaining a cutting quality that is equivalent to that of laser cutting machines. Such features are highly valued in this market and has enabled Komatsu to improve its profitability in this business.

In addition, Komatsu s 3D laser cutting machines that can be used to cut three dimensional objects are highly valued in the sheet metal machine market.

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(3) Machine Tools

The principal products of Komatsu s machine tool business are machine tools that are used to cut and fabricate engine parts (transfer machines, crankshaft millers and grinding machines), general-purpose machining centers and wire saws. Major competitors in the market for machine tools used to cut and fabricate engine parts include JTEKT Corporation and ENSHU Limited of Japan and Gebrüder Heller Maschinenfabrik GmbH of Germany. Komatsu believes that it continues to maintain a competitive edge in the global market for machine tools used to cut and fabricate engine parts based on its technological edge and broad product line-up.

In addition, wire saws that are used to slice silicon ingots, which are used to manufacture solar cells, are one of the principal products of Komatsu s machine tools business and China is Komatsu s major market for such machines. Major competitors in the wire saw market include Swiss manufacturers HCT Shaping Systems SA and Meyer Burger Technology AG.

REGULATIONS

Komatsu is subject to a wide range of laws and regulations in the countries and regions where it operates, including safety regulations, restrictions on emissions, noise and vibration from its products, and various environmental controls regulating the manufacturing processes, such as the management of toxic chemicals and hazardous wastes, green procurement and recycling. Failure to comply can result in fines or penalties. Komatsu strives to comply with applicable laws and regulations. Komatsu does not expect that the costs of compliance with existing and reasonably foreseeable laws and regulations will have a material effect upon its financial position and results of operations, but it can be difficult to predict and estimate compliance costs and the burden new laws may impose on its operations. Some of the important laws and regulations that affect Komatsu s businesses are summarized below.

Regulations regarding engine emissions

The Ministry of Land, Infrastructure and Transport of Japan (MLIT) introduced the approval system for low-emission type construction equipment used in construction in 1997, setting the maximum emission levels by model and power range. Under this system, manufacturers are required to file an application with MLIT for the approval of their low-emission type construction equipment which meets the standards set forth by MLIT. In 2006, a new law took effect in Japan to control exhaust emissions from off-road specific vehicles in the power range of 19kW to 560kW. In connection with the implementation of this new law, maximum emission levels for such equipment were lowered and the MLIT approval system was modified to require manufacturers to file an application with MILT for the approval of such off-road specific vehicles (which previously was not required). MLIT and related ministries further introduced new maximum emission limits, which are similar to the Interim Tier 4 standards in the U.S. and the Stage III B standards in Europe, and the first stage of such new limits has become effective in Japan since 2011. The next set of emission level limits that must be complied with in Japan is expected to become effective in 2014 and is similar to the Tier 4 standards in the U.S. and the Stage IV standards in Europe, both of which are also expected to become effective in 2014.

In the United States, the U.S. Environmental Protection Agency (EPA) establishes emission standards for diesel engines used in construction equipment, and the Tier I standards for engines of 130kW or greater first took effect in 1996. Since then, the EPA has lowered emission standards and the Interim Tier 4 standards, which are currently in effect, have been phased-in since 2011. The even more stringent Tier 4 standards are scheduled to be phased-in starting 2014.

In Europe, the Engine Emissions Directive 97/68/EC regarding measures against emission of gaseous and particulate pollutants from internal combustion engines to be installed in off-road mobile machinery went into effect in 1999. The Directive was amended by several Directives and the newest Directive 2011/88/EU took effect in 2011. The Stage III B standards have been phased-in since 2011. The next stage (Stage IV standards) is scheduled to be phased-in starting 2014, similar to Japan and the United States.

In China, the national standard for Engine Emissions GB20891-2007, introduced by the Law on Prevention and Control of Atmospheric Pollution and the Environmental Protection Law, was issued in 2007 and went into effect in 2007. The Stage II standards, which are currently in effect, have been phased-in since 2009. Both standards are mandatory, and similar to the EU Directives 97/68/EC. Ministry of Environmental Protection (MEP) and its local delegates supervise implementation of the standards.

Regulations regarding noise and vibration

In Japan, MLIT established the approval system for low-noise emission and low-vibration type construction equipment in 1983. Under this system, manufacturers are required to file an application with MLIT for the approval of their low-noise and low-vibration type construction equipment which meet the standards set forth by MLIT. Initially, this approval system for noise emission and vibration was only used for noise emission. The current measurement method and limits on noise emission levels for the type approval system have been in effect since October 1997. While the maximum standards for noise emission established by MLIT are not legally binding, these maximum standards must be complied with in Japan in practice since only construction equipment that have obtained the required approvals are allowed to be used in construction projects under the direct control of MLIT. The type approval system has been in use for low-vibration type construction equipment since October 1996. Similar to the type approval system for noise emission, the maximum standards for vibration set by MLIT are not legally binding. However, unlike the type approval system for noise emission, construction equipment, such as vibratory hammers and hydraulic excavators, that have not obtained such approvals are allowed to be used in construction projects under the direct control of MLIT.

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In Europe, Directive 95/27/EC of the European Parliament and of the Council of June 1995 amending Council Directive 86/662/EEC on the limitation of noise emitted by hydraulic excavators, rope-operated excavators, dozers, loaders and excavator-loaders has been in effect since January 1997. This directive defined the maximum permissible sound-power levels of airborne noise emitted by these earth-moving machines under dynamic operating conditions and required manufacturers to obtain an EC type-examination certificate. The second stage of this directive, which requires further noise reduction, has been in effect since January 2006. Separately, in January 2002, Directive 2000/14/EC of the European Parliament and of the Council relating to the noise emission in the environment by equipment for use outdoors went into effect. This regulation applies to a wide range of product types from gardening equipment to construction and waste-management equipment, and requires such products to bear a CE-mark and indicate their guaranteed sound-power level before they could be sold in the European market. Under such directive, manufacturers are required to confirm that the noise emitted from their products would not exceed the guaranteed sound-power level. The second stage of this directive, which required further noise reduction, has been in effect since January 2006. The European Union periodically reviews and updates its noise regulations, and stricter noise limitations is expected to be imposed for some types of machines manufactured by Komatsu.

Regulations regarding hazardous substances

Responding to the increase in environmental conservation awareness around the world, Komatsu has been making efforts for several decades to reduce the use of asbestos, lead and other substances of environmental concern.

In response to the enactment of the European regulation addressing Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH) in June 2007, Komatsu reviewed the list of substances approved for limited use and revised the designation of certain substances within its manufacturing plants to reduced or banned as appropriate. Through cooperation with suppliers, Komatsu has initiated a system to strengthen its control over substances of environmental concern used in its products, as manufacturers like Komatsu are required by REACH to provide information to consumers (i.e., customers that purchased the equipment new or used) about the name(s) and the amount(s) of substance(s) used in each machine/part.

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Regulations regarding Safety

In Europe, the Machinery Directive 89/392/EEC, which sets forth the essential requirements on machine safety, was published in 1989 and became effective in 1995. This Directive requires manufacturers to consider and meet certain standards relating to the health and safety of the operator of the equipment when designing and manufacturing equipment. The Directive 89/392/EEC was amended by several Directives and codified into Directive 98/37/EC in 1998. Based on Directive 98/37/EC, a newly amending Machinery Directive 2006/42/EC was published in 2006 and became effective on December 29, 2009. This new Machinery Directive updated Directive 98/37/EC in several respects. For example, the new Machinery Directive required manufacturers to provide clearer instructions as to the operation of its equipment. More specifically, to avoid any misunderstandings as to the operation or handling of the equipment due to various languages being used in the EU member states, the new Directive recommended decals (pictorial diagrams) to be placed on the equipment warning the operator of safety and handling issues. In light of such recommendation, Komatsu replaced all safety labels that had a textual explanation with those that have pictorial diagrams and simplified its decals. Another update included in the new Machinery Directive was to require manufacturers to improve the visibility of the operator of the equipment. In response to such update, Komatsu has made rear view cameras or mirror systems a standard feature of large-size machines it sells in Europe.

In China, the national standard GB25684 Earth-moving machinery Safety was issued by AOSIO and the Standardization Administration in 2010 and became effective on January 1, 2012. This standard is based on ISO 20474 (which provides comprehensive safety requirements); however, due to technological issues particular to China, not all of the requirements set forth in ISO 20474 are required to be satisfied under national standard GB25684. For example, manufacturers are encouraged, but not required, to follow the requirements relating to electromagnetic compatibility and visibility under national standard GB25684. Komatsu has applied some of the safety features incorporated in products sold in Europe to products manufactured and sold in China, such as the battery disconnect switch (i.e., switch that blocks the flow of electricity to prevent (1) equipment service personnel from being electrocuted while inspecting or maintaining equipment or (2) electrical discharge of the battery when the equipment is not in use for long periods of time) and decals, to respond to the new Chinese safety requirements.

Komatsu and its products are also subject to other health and safety regulatory standards, such as the Roll Over Protective Structures standards set forth by the Occupational Safety and Health Administration of the U.S. Department of Labor. Komatsu expects to become subject to additional health and safety standards that are to become effective in the future, including safety requirements for large machines that are used in the mining industry.

MANAGEMENT POLICY AND STRATEGIES

Below describes Komatsu s basic management policy and its mid- to long-range management plans.

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Basic Management Policy

The cornerstone of Komatsu s management is commitment to Quality and Reliability to maximize its corporate value. This commitment is not limited to delivering safe and innovative products and services which incorporate the viewpoints of customers but also to enhancing the Quality and Reliability of all organizations, businesses, employees and management of the entire Komatsu Group. Continuing to improve Quality and Reliability is Komatsu management s top task on an ongoing basis.

Mid- to Long-Range Management Plan and Issues Ahead

In the construction, mining and utility equipment business, demand for mining equipment as well as parts and services is expected to continue increasing against the backdrop of high commodity prices. Demand for construction equipment is also expected to continue growing steadily in the Strategic Markets, primarily in Asia, as well as in the Traditional Markets of North America and Japan. With respect to the industrial machinery and others business, Komatsu expects that demand for machinery will continue to grow as automobile production increases, especially in the Strategic Markets.

The fiscal year ending March 31, 2013 is the final fiscal year of Komatsu s mid-range management plan entitled Global Teamwork for Tomorrow . While focusing on so called brand management activities (which are activities that Komatsu engages in to build relationships with customers and promote mutual business growth of both Komatsu and its customers), Komatsu plans to continue focusing its efforts on the following four important activities: (1) promotion of ICT applications to products and parts; (2) further advancement of environmental friendliness and safety in machine performance; (3) expansion of sales and service operations in the Strategic Markets; and (4) promotion of continuous Kaizen (improvement) by strengthening workplace capability. Komatsu also plans to identify tasks for future growth and incorporate them in the next mid-range management plan.

(1) Promotion of ICT Applications to Products and Parts

Komatsu plans to analyze information obtained from KOMTRAX-installed machines, which exceeded 260,000 units worldwide as of March 31, 2012, and KOMTRAX Plus (fleet management system for mining equipment)-installed machines to help its customers improve their productivity and management. Komatsu also plans to utilize such information to further enhance its sales and production planning and expand sales in what is often considered the value chain (i.e., parts, services, used equipment, rental equipment and retail finance). With respect to AHS, which is used in large-scale mines, Komatsu plans to steadfastly proceed with the joint project with Rio Tinto to deploy 150 driverless dump trucks in mines in Australia. Komatsu is also planning to make efforts to expand the application of AHS to other models and introduce such models in different regions. For example, Komatsu is planning to apply AHS to HD785 large dump trucks and introduce such models in Indonesia. In addition, Komatsu plans to establish additional sales and service operations for ICT-intensive construction equipment, which is designed to automate construction projects, and support the development of new products to expand this business in the future.

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(2) Further Advancement of Environmental Friendliness and Safety in Machine Performance

To help customers reduce CO_2 emissions from their machines, Komatsu plans to make advancements in hybrid, hydrostatic transmission (HST) and power electronics technologies for construction equipment and forklift trucks. In addition, Komatsu plans to make advancements in its AC Servo technology for presses. Komatsu also plans to launch its hybrid hydraulic excavators on a worldwide basis. As of March 31, 2012, Komatsu introduced its hybrid hydraulic excavators in 12 countries, and approximately 1,500 units were in operation around the world. Furthermore, by leveraging its leading-edge technologies, its strength in in-house development and its production of key components, such as engines, hydraulic units and control systems, Komatsu continues to make progress in its efforts to develop new products that comply with the new emissions standards in Japan, North America and Europe. Komatsu is also working to successfully introduce its products to the market by further upgrading its after-sales service programs, including extending the warranty period of its products in some situations.

(3) Expansion of Sales and Service Operations in the Strategic Markets

In the Strategic Markets and the mining equipment business, both of which Komatsu expects future growth, Komatsu is making an effort to not only provide products that are superior in terms of safety, quality, delivery and costs (SQDC), but also to maximize the operation time of its machines by delivering appropriate parts and services promptly. To accomplish this, Komatsu plans to continue training its distributors to service its products through arrangements with academic institutions in China and Russia, and establishing a specialized training center for global mining support engineers in the Philippines. With respect to the Reman business (i.e., business that remanufactures and sells components), Komatsu expanded its production capacities for large engines at PT Komatsu Reman Indonesia and PT Komatsu Remanufacturing Asia last year, and has opened new facilities in China, Russia and India. In Asia and other regions where Komatsu expects competition from local emerging market manufacturers, Komatsu plans to market used Komatsu equipment that are of high quality along with new Komatsu equipment to further enhance its brand power.

(4) Promotion of Continuous Kaizen (Improvement) by Strengthening Workplace Capability

Komatsu plans to further enhance its workplace capability (i.e., the ability of employees to continue Kaizen (improvement) activities) and promote human resource development by ensuring that all of its departments engage continuously in Kaizen (improvement) activities with certain themes and goals. More specifically, Komatsu plans to focus its efforts on (i) reducing electric power consumption at its plants in Japan by 50% (as compared to prior usage), (ii) engaging in the visualization of its supply chain (which, for example, means to establish databases containing information regarding its suppliers), (iii) further improving its core technological strengths in measurement and simulation, and (iv) developing sales, production and inventory management systems centering on the Global HANSEI (sales and production) Operation Center, which opened at the Osaka Plant in May 2011.

Based on the belief that its corporate value is the total sum of trust given to Komatsu by society and all of its stakeholders, Komatsu is further strengthening its corporate governance structure to ensure sound and transparent management, while improving management efficiency. In addition, Komatsu is committed to fostering a corporate culture whereby its employees comply with the various laws and regulations, etc. and share an understanding of The Komatsu Way. Through these measures, Komatsu intends to not only improve its business performance but also achieve in a well balanced manner the goals of further improving its corporate organization and being a socially responsible corporate citizen.

* *The KOMATSU Way:*

When the founder of Komatsu established the Company in 1921, he defined the guiding principles of the Company to be overseas expansion, quality first, technology innovation and human resource development. Komatsu s management believes that Komatsu s strengths were forged by earlier generations of employees based on these principles and these principles are still ingrained in the minds of Komatsu employees today. Komatsu s management defines The KOMATSU Way to consist of Komatsu s strengths, the beliefs that support the strengths, and the basic attitudes and patterns of behavior. Komatsu s management believes that Komatsu can further enhance its reliability and achieve growth if its employees continue to believe in and pursue The KOMATSU Way.

Below are the financial targets that management has established for the Global Teamwork for Tomorrow mid-range management plan.

Numerical Targets of the Global Teamwork for Tomorrow

Items	Targets for Fiscal Year Ending March 31, 2013
Operating margin	15% or above
ROE: Return on equity 1)	20%
Net debt-to-equity ratio 2)	0.4 or below
Excluding debt of retail finance companies	0.2 or below
Consolidated payout ratio	20 - 40% (stably)

Notes:

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

2) Net debt-to-equity ratio = (Interest-bearing debt - cash and cash equivalents - time deposits)/shareholders equity

[Guidelines for the Numeric Targets of the Global Teamwork for Tomorrow]

Items	Fiscal Year Ending March 31, 2013		
Guideline on sales	JPY2,000 billion ± JPY100 billion		
Guidelines on exchange rate	USD1	EUR1	RMB1
	JPY90	JPY125	JPY13.5

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C. Organizational Structure

As of March 31, 2012, the Komatsu group included the Company, 141 consolidated subsidiaries and 37 affiliates accounted for by the equity method. The Company is the parent of the Komatsu group. The following is a list of the principal consolidated subsidiaries as of March 31, 2012.

Name	Country of Incorporation	Ownership Interest (proportion of voting power held) (%)
Komatsu Castex Ltd.	Japan	100.0
Komatsu Construction Equipment Sales and Service Japan Ltd.	Japan	100.0
Komatsu Used Equipment Corp.	Japan	100.0
Komatsu Rental Ltd.	Japan	100.0
Komatsu Forklift Japan Ltd.	Japan	100.0
Komatsu Logistics Corp.	Japan	100.0
Komatsu Industries Corporation	Japan	100.0
Komatsu NTC Ltd.	Japan	100.0
Komatsu Business Support Ltd.	Japan	100.0
Gigaphoton Inc.	Japan	100.0
Komatsu America Corp.	U.S.A.	100.0
Komatsu do Brasil Ltda.	Brazil	100.0
Komatsu Brasil International Ltda.	Brazil	100.0
Komatsu Holding South America Ltda.	Chile	100.0
Komatsu Cummins Chile Ltda.	Chile	81.8
Komatsu Cummins Chile Arrienda S.A.	Chile	81.8 (100.0)
Komatsu Financial Limited Partnership	U.S.A.	100.0
Komatsu Europe International N.V.	Belgium	100.0
Komatsu UK Ltd.	U.K.	100.0
Komatsu Hanomag GmbH	Germany	100.0
Komatsu Mining Germany GmbH	Germany	100.0
Komatsu France S.A.S.	France	100.0
Komatsu Utility Europe S.p.A.	Italy	100.0
Komatsu Italia S.p.A.	Italy	100.0
Komatsu Forest AB	Sweden	100.0
Komatsu CIS LLC	Russia	100.0
Komatsu Financial Europe N.V.	Belgium	100.0
Komatsu Southern Africa (Pty) Ltd.	South Africa	80.0
PT Komatsu Indonesia	Indonesia	94.9
PT Komatsu Marketing & Support Indonesia	Indonesia	94.9 (100.0)
Bangkok Komatsu Co., Ltd.	Thailand	74.8
Komatsu Marketing Support Australia Pty. Ltd.	Australia	60.0
Komatsu Australia Pty. Ltd.	Australia	60.0 (100.0)
Komatsu Australia Corporate Finance Pty. Ltd.	Australia	60.0
Komatsu (China) Ltd.	China	100.0
Komatsu (Changzhou) Construction Machinery Corp.	China	85.0
Komatsu Shantui Construction Machinery Co., Ltd.	China	60.0

Komatsu Financial Leasing China Ltd.	China	100.0

Notes:

1) Percentage of ownership interest includes indirect ownership.

2) The Company s significant subsidiaries (as such term is defined in Rule 1-02(w) of Regulation S-X) are Komatsu America Corp. and Komatsu (China) Ltd.

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D. Property, Plants and Equipment

Komatsu s manufacturing operations for the Construction, Mining and Utility Equipment operating segment are conducted in 43 plants, 12 of which are located in Japan. As of March 31, 2012, 28 principal plants (out of 43 plants) had an aggregate manufacturing floor space of 1,889 thousand square meters (20,333 thousand square feet). Komatsu uses additional floor space at such plants and elsewhere as laboratories, office space, and employee housing and welfare facilities. Komatsu is capable of increasing production output at its manufacturing facilities by adjusting their manufacturing schedules.

Komatsu owns most of the manufacturing facilities and the land on which such facilities are located. A portion of the properties owned by Komatsu is subject to mortgages or other types of liens. As of March 31, 2012, the net book value of the properties owned by Komatsu was ¥529,656 million, none of which were subject to encumbrances.

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The name and location of Komatsu s principal plants, their approximate aggregate floor space, and the principal products manufactured therein as of March 31, 2012 are as follows:

Name and Location	Floor Space Thousand sq. meter	Thousand sq. ft	Principal products
Japan			
Awazu Plant Komatsu, Ishikawa	253	2,722	Small- and medium-sized hydraulic excavators, small- and medium-sized wheel loaders, small- and medium-sized bulldozers, motor graders
Kanazawa Plant Kanazawa, Ishikawa	25	269	Super-large hydraulic excavators, presses
Osaka Plant Hirakata, Osaka	156	1,679	Medium- and large-sized hydraulic excavators, large-sized bulldozers, recycling equipment
Oyama Plant 1) Oyama, Tochigi	225	2,422	Diesel engines, hydraulic equipment, axle
Ibaraki Plant Hitachinaka, Ibaraki	63	678	Large-sized wheel loaders, dump trucks
Koriyama Plant Koriyama, Fukushima	34	366	Hydraulic equipment
Shonan Plant Shonan, Kanagawa	9	97	Controllers, monitors, KOMTRAX terminals, hybrid components
Tochigi Plant Oyama, Tochigi	92	990	Forklift trucks, mini excavators, mini wheel loaders
Komatsu Castex Ltd. Himi, Toyama	101	1,087	Steel castings, iron castings, patterns for casting
Komatsu NTC Ltd. Nanto, Toyama	68	732	Transfer machines, machining centers, laser cutting machines, grinding machines
The Americas			
Komatsu America Corp. Tennessee, U.S.A.	31	334	Medium-sized hydraulic excavators, articulated dump trucks, forestry equipment (crawler type)
South Carolina, U.S.A.	20	215	Wheel loaders, forklift trucks
Illinois, U.S.A.	63	678	Large-sized dump trucks
Hensley Industries, Inc. Texas, U.S.A.	19	205	Buckets, teeth, edges, adapters
Komatsu do Brasil Ltda. São Paulo, Brazil	68	732	Medium-sized hydraulic excavators, small- and medium-sized wheel loaders, medium-sized bulldozers, motor graders

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Name and Location	Floor Space Thousand sq. meter	Thousand sq. ft	Principal products
Europe			
Komatsu UK Ltd. Birtley, UK	60	646	Medium- and large-sized hydraulic excavators
Komatsu Hanomag GmbH Hannover, Germany	77	829	Wheeled hydraulic excavators, small- and medium-sized wheel loaders, mini wheel loaders
Komatsu Forest AB Umea, Sweden	16	172	Forestry equipment (wheel type)
Komatsu Mining Germany GmbH Düsseldorf, Germany	27	291	Super-large hydraulic excavators
Komatsu Utility Europe S.p.A. Este, Italy	43	463	Mini excavators, backhoe loaders, skid steer loaders
Komatsu Manufacturing Rus, LLC Yaroslavl, Russia	39	420	Medium-sized hydraulic excavators
Asia (excluding Japan) and Oceania			
PT Komatsu Indonesia Jakarta, Indonesia	139	1,496	Medium- and large-sized hydraulic excavators, small- and medium-sized bulldozers, dump trucks and hydraulic equipment
PT Komatsu Undercarriage Indonesia Bekasi, Indonesia	30	323	Undercarriage components and spare parts
Komatsu (Changzhou) Construction Machinery Corp. Jiangsu, China	71	764	Medium-sized hydraulic excavators, medium-sized wheel loaders, dump trucks
Komatsu Shantui Construction Machinery Co., Ltd. Shandong, China	65	700	Small- and medium-sized hydraulic excavators
Komatsu Undercarriage China Corp. Shandong, China	18	194	Crawler components
Komatsu (Shandong) Construction Machinery Corp. Shandong, China	54	581	Mini excavators, forklift trucks, hydraulic equipment, steel castings
Bangkok Komatsu Co., Ltd. Chonburi, Thailand	23	248	Medium-sized hydraulic excavators

Note:

1) Komatsu Cummins Engine Co., Ltd. is located at the Oyama Plant.

The head office of the Company is located in an office building in Tokyo, Japan which Komatsu owns. Komatsu considers that its manufacturing plants and other facilities are well maintained and believes that its plant capacity is adequate for its current operating requirements. To the best of management s knowledge, management does not believe that there are any significant environmental issues that may materially affect Komatsu s utilization of its assets.

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Plans for Capital Investments

As of the filing date of this annual report, Komatsu plans to make capital investments of ¥125,000 million in the fiscal year ending March 31, 2013. Of such amount, Komatsu has committed to make capital investments totaling approximately ¥12,500 million as of March 31, 2012.

The amount of capital investment expected to be made in the fiscal year ending March 31, 2013, the principal investment objectives and the sources of funding by operating segment are set forth in the below table.

Operating Segment	Approximate expected capital investment amount in the fiscal year ending March 31, 2013 (Millions of Yen)	Principal investment objectives	Sources of funding
Construction, Mining and Utility Equipment	118,000	To expand production capacity, renew obsolete equipment and streamline production, etc.	Funds on hand, bank borrowings, etc.
Industrial Machinery and Others	7,000	To renew obsolete equipment and streamline production, etc.	Funds on hand, bank borrowings, etc.
Total	125,000		

Note: Capital investment amounts exclude consumption tax.

With respect to the Construction, Mining and Utility Equipment operating segment, Komatsu plans to make capital investments to increase its capacity to produce components and spare parts for mining equipment in response to increased demand. In addition, Komatsu plans to continue making capital investments to produce components which comply with the next emission standards that are scheduled to be introduced in Japan, North America and Europe.

With respect to the Industrial Machinery and Others operating segment, Komatsu plans to continue making capital investments to renew obsolete equipment and streamline its production operations.

Item 4A. Unresolved Staff Comments

None.

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Item 5. Operating and Financial Review and Prospects

A. Operating Results

Overview

The following discussion and analysis provides information that Komatsu s management believes to be relevant in understanding Komatsu s consolidated financial condition and results of operations. For the convenience of the reader, Japanese yen amounts have been converted to U.S. dollar amounts at the rate of ¥82 to U.S.$1.00, the approximate buying rate of Japanese yen as of noon on March 31, 2012 in New York City as reported by the Federal Reserve Board.

Komatsu s Business

Komatsu is a global organization engaged primarily in the manufacturing, development, marketing and sale of industrial-use equipment and products. Komatsu has the following two operating segments: (1) Construction, Mining and Utility Equipment and (2) Industrial Machinery and Others.

For the fiscal year ended March 31, 2012, the Construction, Mining and Utility Equipment operating segment and the Industrial Machinery and Others operating segment accounted for approximately 87.8% and 12.2% of consolidated net sales, respectively. Of the consolidated net sales for the fiscal year ended March 31, 2012, 20.3% of net sales were derived from sales to external customers located in Japan and 79.7% of net sales were derived from sales to external customers located outside of Japan. For additional information regarding Komatsu s products, competitive position, organizational structure, and property, plant and equipment, see Item 4. Information on the Company.

The average exchange rate between the Japanese yen and the U.S. dollar was ¥78.86 for the fiscal year ended March 31, 2012 and ¥85.00 for the fiscal year ended March 31, 2011. For additional discussion on the effect of foreign currency exchange rate fluctuations on Komatsu s business, see Risk Factors in Item 3.D. Key Information and Comparison of Fiscal Years ended March 31, 2012 and 2011 and Comparison of Fiscal Years ended March 31, 2011 and 2010 in Item 5.A. Operating Results.

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General Overview

Assistance Efforts for the Restoration and Reconstruction of the Regions Affected by the Great East Japan Earthquake and Subsequent Tsunami

In response to the massive destruction caused by the Great East Japan Earthquake and subsequent tsunami on March 11, 2011, the Komatsu Group established the Tohoku Operation Department in April 2011 to accurately assess the needs of the damaged region so that it could provide appropriate assistance specifically responsive to such needs. Mainly under the leadership of this Department, Komatsu continues to provide assistance to the affected region by, among other things, lending without charge construction equipment, forklift trucks, prefabricated structures for use as temporary shelters and other equipment, donating prefabricated structures for use as clinics, nursery schools and other facilities, and providing scholarships for college students who have been adversely affected by this disaster. As of March 31, 2012, these assistance efforts totaled approximately ¥2.0 billion in monetary terms. In addition to the above-described assistance, Komatsu decided on May 29, 2012 to provide additional assistance worth approximately ¥800 million, which will center on lending without charge Komatsu s equipment and facilities, in anticipation of reconstruction efforts continuing for a long time in the affected region and many of such region s local governments continuing to request equipment and facilities.

To assist the reconstruction efforts, over 650 Komatsu Group employees in 55 business operations throughout Iwate, Fukushima and Miyagi prefectures have been delivering the necessary construction equipment promptly by carefully monitoring the local needs. At the same time, they have placed providing maintenance service as their top-priority so that existing construction equipment will operate continuously in the damaged region. In addition to these efforts, Komatsu developed radio-controlled construction equipment that has been deployed at the Fukushima Dai-Ichi Nuclear Power Plant and exposed to a high degree of radioactivity. Komatsu also expects that its intensive construction technologies (ICT , which is used for the automation of construction sites) will be used to remove radioactive soil. The Komatsu Group will continue to engage in group-wide assistance activities for the reconstruction of the damaged region.

Operations and Business Results

With respect to the market segments in which Komatsu operates, demand for products in both the Construction, Mining and Utility Equipment operating segment and the Industrial Machinery and Others operating segment increased. In the Construction, Mining and Utility Equipment operating segment, while demand for construction equipment decreased in China, such decrease in demand was offset by the increase in demand for such equipment in Komatsu s other Strategic Markets (such as Asia (excluding China)) and its Traditional Markets of Japan and North America. With respect to mining equipment, demand for new equipment remained high against the backdrop of high commodity prices. Komatsu also increased its parts sales and service revenues in the mining equipment sector as the number of Komatsu s mining equipment in operation continued to increase. In the Industrial Machinery and Others operating segment, while demand for wire saws declined from the previous fiscal year in light of the Chinese government s credit squeeze measure and the reduction of government subsidies related to solar energy use in Europe, demand for presses and machine tools increased from the previous fiscal year, reflecting the recovery of capital investments by the automobile manufacturing industry.

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In light of such market environment, Komatsu s business continued to grow. During the fiscal year ended March 31, 2012, Komatsu continued its efforts to increase sales of new equipment and realize sales of products at higher prices. As increased commodity prices pushed up the prices of materials used to produce Komatsu products, such as steel materials and other purchased parts, Komatsu also worked to absorb such increased costs by increasing the sales prices of its products. In addition, Komatsu worked to reduce production costs through improvements in its production efficiency, as represented by the 30% productivity improvement campaign that Komatsu has been promoting for its plants in Japan since the global financial crisis in 2008. Through these continuous measures to increase the sales price and decrease the cost of its production, Komatsu further strengthened its highly-profitable business structure that is capable of flexibly responding to foreign exchange and market demand fluctuations.

Also, Komatsu expanded its production capacity in response to increased demand for its equipment and strengthened its sales and service operations in the Strategic Markets. For example, Komatsu expanded production capacities of Komatsu (Changzhou) Construction Machinery Corp. and Komatsu (Shandong) Construction Machinery Corp. by anticipating mid- to long-range market growth in China. At Komatsu Manufacturing Rus LLC, Komatsu expanded its lineup of products manufactured at such plant and began the production of the HD785 dump truck mainly for mining application in addition to the production of hydraulic excavators.

In addition, the fiscal year ended March 31, 2012 was the second fiscal year of the Mid- to Long-Range Management Plan, which focuses on the further advancement of environmental friendliness and safety in machine performance. Consistent with such plan, Komatsu is working to expand the sales of hybrid hydraulic excavators that feature improved fuel consumption and CO_2 emissions volume. For example, Komatsu launched new HB205 and HB215LC hybrid hydraulic excavators outside of Japan, which have already been launched in 12 countries, such as China and other countries in North America, Europe, Central and South America, Southeast Asia and Oceania. In addition, Komatsu has been working to expand sales of new emission standards-compliant models in North America and Europe.

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Summary of Operating Results

Consolidated net sales for the fiscal year ended March 31, 2012 increased by 7.5% from the fiscal year ended March 31, 2011 to ¥1,981,763 million (U.S.$24,168 million) due to increased sales in both the Construction, Mining and Utility Equipment operating segment as well as the Industrial Machinery and Others operating segment. While demand for construction equipment decreased in China, such decrease in demand was offset by the increase in demand for such equipment in Komatsu s other Strategic Markets (such as Asia (excluding China)) and its Traditional Markets of Japan and North America. With respect to mining equipment, demand for new equipment remained high against the backdrop of high commodity prices. Komatsu also increased its parts sales and service revenues in the mining equipment sector as the number of Komatsu s mining equipment in operation continued to increase. Komatsu was able to capture this increase in demand for construction and mining equipment, and increase sales from the previous fiscal year in part because it was able to quickly restore its production facilities to normal conditions after the Great East Japan Earthquake and subsequent tsunami. In the Industrial Machinery and Others operating segment, demand for wire saws declined from the previous fiscal year in light of the Chinese government s credit squeeze measure and the reduction of government subsidies related to solar energy use in Europe, both of which decreased net sales. The decrease in solar cell prices also contributed to such decreased net sales in wire saws as Komatsu s customers that manufacture solar cells reduced their capital investments in light of the weak business environment. Despite such decrease in wire saw sales, demand for presses and machine tools increased from the previous fiscal year, reflecting the recovery of capital investments by the automobile manufacturing industry, and contributed to the increase in net sales of the Industrial Machinery and Others operating segment. The addition of Gigaphoton Inc. as a consolidated subsidiary during the fiscal year also contributed to the increase in net sales of the Industrial Machinery and Others operating segment.

Operating income for the fiscal year ended March 31, 2012 was ¥256,343 million (U.S.$3,126 million), which increased by 15.0% from the fiscal year ended March 31, 2011. This increase in operating income was due primarily to positive factors such as (1) the increase in demand for construction equipment in Japan, North America and the Strategic Markets (except China) as well as for high-margin mining equipment and parts, and (2) various efforts undertaken by Komatsu, such as the realization of sales of products at higher prices and the reduction of production costs, which outweighed negative factors such as unfavorable changes in foreign exchange rates, such as the sharp appreciation of the Japanese yen against the U.S. dollar, Euro and Renminbi.

Income before income taxes and equity in earnings of affiliated companies for the fiscal year ended March 31, 2012 increased by 13.6% from the fiscal year ended March 31, 2011 to ¥249,609 million (U.S.$3,044 million).

Net income attributable to Komatsu Ltd. for the fiscal year ended March 31, 2012 increased by 10.8% to ¥167,041 million (U.S.$2,037 million) from the fiscal year ended March 31, 2011.

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Key Management Indices

Management uses the following six financial indicators to assess Komatsu s consolidated financial condition and consolidated results of operations: (1) net sales, (2) segment profit, (3) operating income, (4) operating margin, (5) return on equity ratio (ROE) and (6) net debt-to-equity ratio (Net DER). Set forth below is a summary of these key indicators for the fiscal years ended March 31, 2012 and 2011.

Management considers consolidated segment profit to be one of its key management indices because it enables management to evaluate financial data without taking into account the effect of nonrecurring events and other factors unrelated to business activities, such as impairment loss or interest income/expense. Consolidated segment profit is not a consolidated income statement measurement under U.S. GAAP.

The following table summarizes information relating to the reconciliation of consolidated segment profit and consolidated operating income.

	Millions of yen		Millions of U.S. dollars
	2012	2011	2012
Consolidated Segment Profit	¥ 258,663	¥ 234,972	$ 3,154
Impairment losses on long-lived assets	(3,106)	(5,142)	(38)
Other operating income (expenses), net	786	(6,901)	10
Consolidated Operating Income	¥ 256,343	¥ 222,929	$ 3,126

Management Indices	Results for Fiscal Year Ended March 31, 2012	2011	Percentage Change 2012 vs. 2011
Consolidated Net Sales	¥ 1,981,763 million	¥ 1,843,127 million	7.5%
Consolidated Segment Profit	¥ 258,663 million	¥ 234,972 million	10.1%
Consolidated Operating Income	¥ 256,343 million	¥ 222,929 million	15.0%
Consolidated Operating Margin 1)	12.9%	12.1%	0.8 points
ROE 2)	17.3%	17.2%	0.1 points
Net DER 3)	0.56	0.50	0.06

Notes:

1) Operating Margin = Operating Income/Net Sales

2) ROE = Net Income attributable to Komatsu Ltd. for the fiscal year/{(Komatsu Ltd. Shareholders Equity at the beginning of the fiscal year) + (Komatsu Ltd. Shareholders Equity 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

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Consolidated Net Sales

Consolidated net sales for the fiscal year ended March 31, 2012 increased by 7.5%, or ¥138,636 million, to ¥1,981,763 million (U.S.$24,168 million) from ¥1,843,127 million for the fiscal year ended March 31, 2011. This increase was due to increased sales in both the Construction, Mining and Utility Equipment operating segment as well as the Industrial Machinery and Others operating segment. While demand for construction equipment decreased in China, such decrease in demand was offset by the increase in demand for such equipment in Komatsu s other Strategic Markets (such as Asia (excluding China)) and its Traditional Markets of Japan and North America. With respect to mining equipment, demand for new equipment remained high against the backdrop of high commodity prices. Komatsu also increased its parts sales and service revenues in the mining equipment sector as the number of Komatsu s mining equipment in operation continued to increase. Komatsu was able to capture this increase in demand for construction and mining equipment, and increase sales from the previous fiscal year in part because it was able to quickly restore its production facilities to normal conditions after the Great East Japan Earthquake and subsequent tsunami. In the Industrial Machinery and Others operating segment, demand for wire saws declined from the previous fiscal year in light of the Chinese government s credit squeeze measure and the reduction of government subsidies related to solar energy use in Europe, both of which decreased net sales. The decrease in solar cell prices also contributed to such decreased net sales in wire saws as Komatsu s customers that manufacture solar cells reduced their capital investments in light of the weak business environment. Despite such decrease in wire saw sales, demand for presses and machine tools increased from the previous fiscal year, reflecting the recovery of capital investments by the automobile manufacturing industry, and contributed to the increase in net sales of the Industrial Machinery and Others operating segment. The addition of Gigaphoton Inc. as a consolidated subsidiary during the fiscal year also contributed to the increase in net sales of the Industrial Machinery and Others operating segment.

Consolidated Segment Profit

Consolidated segment profit for the fiscal year ended March 31, 2012 increased by 10.1% to ¥258,663 million (U.S.$3,154 million) as compared to the fiscal year ended March 31, 2011. This increase in segment profit was due primarily to positive factors such as (1) the increase in demand for construction equipment in Japan, North America and the Strategic Markets (except China) as well as for high-margin mining equipment and parts, and (2) various efforts undertaken by Komatsu, such as the realization of sales of products at higher prices and the reduction of production costs, which outweighed negative factors such as unfavorable changes in foreign exchange rates, such as the sharp appreciation of the Japanese yen against the U.S. dollar, Euro and Renminbi.

Consolidated Operating Income, Consolidated Operating Margin

Consolidated operating income for the fiscal year ended March 31, 2012 was ¥256,343 million (U.S.$3,126 million), up by 15.0% or ¥33,414 million from ¥222,929 million for the fiscal year ended March 31, 2011. This increase in operating income was due primarily to positive factors such as (1) the increase in demand for construction equipment in Japan, North America and the Strategic Markets (except China) as well as for high-margin mining equipment and parts, and (2) various efforts undertaken by Komatsu, such as the realization of sales of products at higher prices and the reduction of production costs, which outweighed negative factors such as unfavorable changes in foreign exchange rates, such as the sharp appreciation of the Japanese yen against the U.S. dollar, Euro and Renminbi.

Consolidated operating margin for the fiscal year ended March 31, 2012 increased by 0.8 percentage points to 12.9% from 12.1% for the fiscal year ended March 31, 2011.

ROE

Net income attributable to Komatsu Ltd. for the fiscal year ended March 31, 2012 increased by 10.8% to ¥167,041 million (U.S.$2,037 million) compared with the fiscal year ended March 31, 2011 due primarily to the increase in operating income. As a result, ROE for the fiscal year ended March 31, 2012 increased by 0.1 percentage points to 17.3% from 17.2% for the fiscal year ended March 31, 2011.

Net DER

Komatsu s aggregate interest-bearing debt as of March 31, 2012 was ¥647,800 million (U.S.$7,900 million), which increased by ¥103,732 million as compared to March 31, 2011. This increase was mainly due to increased borrowings to finance the purchase of a number of components used in the production of equipment in response to greater demand, especially demand for mining equipment. Komatsu increased its inventory in anticipation of an increase in demand for such equipment.

Net interest-bearing debt after deducting cash and deposits also increased by ¥104,704 million to ¥563,814 million (U.S.$6,876 million) in the fiscal year ended March 31, 2012. As a result, Net DER for the fiscal year ended March 31, 2012 increased to 0.56 from 0.50 for the fiscal year ended March 31, 2011.

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Critical Accounting Policies

Komatsu prepares its consolidated financial statements in conformity with U.S. GAAP. Komatsu s management regularly makes certain estimates and judgments that Komatsu believes are reasonable based upon available information. These estimates and judgments affect the reported amounts of assets and liabilities as of the date of the financial statements, the reported amounts of income and expenses during the periods presented, and the disclosed information regarding contingent liabilities and debts. These estimates and judgments are based on Komatsu s historical experience, terms of existing contracts, Komatsu s observance of trends in the industry, information provided by its customers and information available from other outside sources, as appropriate.

By their nature, these estimates and judgments are subject to an inherent degree of uncertainty, and may differ from actual results. For a summary of Komatsu s significant accounting policies, including the critical accounting policies discussed below, see Note 1 to the Consolidated Financial Statements. Komatsu s management believes that the following accounting policies are critical in fully understanding and evaluating Komatsu s reported financial results.

(1) Allowance for Doubtful Receivables

Komatsu estimates the collectability of its trade receivables taking into consideration numerous factors, including the current financial position of each customer. Komatsu establishes an allowance for expected losses based on individual credit information, historical experience and assessment of overdue receivables. Komatsu continually analyzes data obtained from internal and external sources in order to become familiar with customers credit situations. Since Komatsu s historical loss experiences have fallen within their original estimates and established provisions, Komatsu s management believes its allowance for doubtful receivables to be adequate. The total bad debt expenses for the fiscal years ended March 31, 2012, 2011 and 2010 were ¥2,105 million, ¥5,307 million and ¥7,457 million, respectively. If the composition of Komatsu s trade receivable were to change or the financial position of each customer were to change due to an unexpected significant shift in the economic environment, it is possible that the accuracy of its estimates could be affected and thus its financial position and results of operations could be materially affected. For additional information, see Note 4 to the Consolidated Financial Statements.

(2) Deferred Income Tax Assets and Uncertain Tax Positions

Komatsu estimates income taxes and income tax payable in accordance with applicable tax laws in each of the jurisdictions in which it operates. Net operating loss carry forwards and temporary differences resulting from differing treatment of items for taxation and financial accounting and reporting purposes are recognized on Komatsu s consolidated balance sheet by adjusting the effect for deferred income tax assets and liabilities. Komatsu is required to assess the likelihood that each of its group company s deferred tax assets will be recovered from future taxable income estimated for each group company and the available tax planning strategies. Komatsu s management estimates its future taxable income and considers the likelihood of recovery of deferred tax assets based on the management plan authorized by the board of directors, periodic operational reports of each group company, future market conditions and tax planning strategies, and, to the extent Komatsu s management believes that any such recovery is not likely, each group company establishes a valuation allowance to reduce the amount of deferred tax assets reflected in the consolidated balance sheet. Changes to the amount and timing of future taxable income determined by Komatsu s management could result in increases to the valuation allowance.

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Benefits derived from uncertain tax positions are recognized when a particular tax position meets the more-likely-than-not recognition threshold based on the technical merits of such position. A benefit is measured as the largest amount of benefit that is greater than 50 percent likely of being realized upon a final settlement with the appropriate taxing authority. Komatsu assesses the likelihood of sustaining such tax positions at each reporting date, with any changes in estimate reflected in the financial statements for the period during which such changes occur, until such time as the positions are effectively settled.

While Komatsu s management believes that all deferred tax assets after adjustments for valuation allowance will be realized and all material uncertain tax positions that are recognized will be successfully sustained, Komatsu may be required to adjust its deferred tax assets or valuation allowance or reserve for unrecognized tax benefits if its estimates differ from actual results due to poor operating results, lower future taxable income as compared to estimated taxable income or different interpretations of tax laws by the relevant tax authorities. These adjustments to the valuation allowance or recognized tax benefits could materially affect Komatsu s financial position and results of operations.

For additional information, see Note 15 to the Consolidated Financial Statements.

For the fiscal years ended March 31, 2012 and 2011, management changed its assessment of the ability to realize the deferred tax assets of certain wholly owned subsidiaries and reduced their valuation allowances. The ability to merge such subsidiaries with the Company was not considered prudent as of March 31, 2011 and/or March 31, 2010, as applicable, and therefore management believed at such times the likelihood of the ability to realize the deferred tax assets of such subsidiaries was unlikely. Consequently, valuation allowances were established on those deferred tax assets. During the fiscal years ended March 31, 2012 and 2011, the mergers of such subsidiaries into the Company, as applicable, were deemed prudent, and therefore the Company decided to execute such mergers due to changes in the operations of such subsidiaries and their respective business outlooks. More specifically, the decrease in valuation allowance for the fiscal year ended March 31, 2012 was due primarily to a change in assessment of the likelihood of recovery of a deferred tax asset in light of the fact that the Company merged with Komatsu Rental Ltd., which decreased valuation allowance by ¥12,686 million. The decrease in valuation allowance for the fiscal year ended March 31, 2011 was due primarily to a change in assessment of the likelihood of recovery of a deferred tax asset in light of the fact that the Company merged with Komatsu Utility Co., Ltd., which decreased valuation allowance by ¥13,579 million.

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(3) Valuation of Long-Lived Assets and Goodwill

Komatsu s long-lived assets are reviewed for potential impairment whenever events or changes in circumstance indicate that the carrying amount of an asset may not be recoverable, such as a decrease in future cash flows caused by a change in business environment. The recoverability of assets to be held and used is measured by comparing the carrying amount of a particular asset to the estimated future undiscounted cash flow expected to be generated by such asset. Such future undiscounted cash flow is estimated in accordance with Komatsu s management plan. The management plan is established by taking into consideration, to the extent possible, management s best estimates on the fluctuation of sales prices, changes in manufacturing costs and sales, general and administrative expenses based on expected sales volumes derived from market forecasts available through outside research institutions and through customers.

If the carrying amount of an asset exceeds its future undiscounted cash flow and such asset is considered unrecoverable and identified as an impaired asset, Komatsu recognizes an impairment loss based on the amount by which the carrying amount of the asset exceeds its fair value. Fair value is customarily measured based on the asset s future discounted cash flow, and the rate used to discount such cash flow is the weighted average capital cost reflecting the fluctuation risk of future cash flow in the capital markets. As an alternative to such customary method, fair value may also be measured based on an independent appraisal. Long-lived assets to be disposed of are reported at the lower of the carrying amount or fair value less costs of sales.

Consolidated impairment loss on long-lived assets for use for the fiscal years ended March 31, 2012, 2011 and 2010 were ¥3,106 million, ¥5,142 million and ¥3,332 million, respectively.

Komatsu reviews its goodwill annually for impairment as of March 31. An impairment of goodwill is deemed to occur when the carrying amount of the reporting unit, including goodwill, exceeds its estimated fair value. Impairment losses on goodwill are recognized by conducting a two step test. The first of the two step test, which is used to identify potential impairment, compares the fair value of a reporting unit with its carrying amount, including goodwill. If the carrying amount of a reporting unit exceeds its fair value, the second step of the test is performed. The second step of the test, which is used to measure the amount of impairment loss, compares the implied fair value of the goodwill of the reporting unit with the carrying amount of that goodwill. Determination of the implied fair value of the goodwill requires management to estimate the fair value of other identifiable assets and liabilities of the reporting unit based on discounted cash flows, appraisals or other valuation methods. If the carrying amount of the goodwill of the reporting unit exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess.

Komatsu completed its annual impairment assessment of goodwill for the fiscal year ended March 31, 2012. Management concluded that no goodwill impairment had occurred as of March 31, 2012. The fair value of each of Komatsu s reporting units substantially exceeded their respective carrying amounts.

In the event that Komatsu s strategy or market conditions in which it operates changes, estimates of future cash flows to be generated by an asset and evaluations of fair value would be affected, and the assessment of the ability to recover the carrying amount of long-lived assets and goodwill may change. Accordingly, such changes in assessment could materially affect Komatsu s financial position and results of operations.

(4) Fair Value of Financial Instruments

The fair values of derivative financial instruments, consisting principally of foreign currency contracts and interest swap agreements, are estimated by obtaining quotes from brokers based on observable market inputs.

While fair value estimates are made at a specific point in time based on relevant market information and information about the financial instruments, these estimates are subjective in nature. The estimated fair values may change due to uncertainties of the financial markets, and may therefore differ from actual results. The fair values of marketable investment securities are stated at market price. In the case of a decrease in market price, in periodically assessing other-than-temporary impairment of marketable investment securities and investments in affiliates, Komatsu considers the period and amount of its decline, and the financial conditions and prospects of each subject company. The realized losses in investment securities for the fiscal years ended March 31, 2012, 2011 and 2010 were ¥2,613 million, ¥156 million and ¥204 million, respectively. While Komatsu believes that there are no major impairments of its investment securities or investments in affiliates at present, if the performance and business conditions of any subject company deteriorate due to a change in business circumstances, Komatsu may recognize an impairment of its investments.

(5) Pension Liabilities and Expenses

The amount of Komatsu s pension obligations and net period pension costs are dependent on certain assumptions used to calculate such amounts. These assumptions are described in Note 12 to the Consolidated Financial Statements and include the discount rate, expected rate of return on plan assets and rates of increase in compensation. In accordance with U.S. GAAP, actual results that differ from these assumptions are accumulated and amortized over future service years of employees and therefore generally affect Komatsu s recognized expenses and recorded obligations during such future periods.

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The discount rate is determined based on the rates of return of high-quality fixed income investments currently available and expected to be available until the maturity of the pension benefits. The expected long-term rate of return on plan assets is determined by taking into consideration the current expectations for future returns and actual historical returns of each plan asset category.

While Komatsu believes that its assumptions are appropriate, in the event that actual results differ significantly from these assumptions or significant changes are made to these assumptions, Komatsu s pension obligations and future expenses may be affected.

The following table illustrates the sensitivity of pension obligations and net periodic pension costs to changes in discount rates and expected long-term rate of return on pension plan assets, while holding all other assumptions constant, for Komatsu s pension plans as of March 31, 2012.

	Pension obligations	Net periodic pension costs
Change in assumption	(Billions of Yen)	(Billions of Yen)
0.5% increase/ decrease in Discount rate	-11.3 /+12.3	-1.1 /+1.2
0.5% increase/ decrease in expected long-term rate of return		-0.4 / +0.4

Comparison of the Fiscal Years Ended March 31, 2012 and 2011

The following tables set forth selected consolidated financial and operating information, including numerical data expressed as a percentage of total consolidated net sales for the periods indicated, and the changes in each consolidated financial line item between the indicated fiscal years.

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Consolidated Statements of Income Information

	Millions of Yen Fiscal Years Ended March 31, 2012		2011		Percentage change 2012 vs. 2011	Millions of U.S. dollars 2012
Net sales	**¥ 1,981,763**	100.0%	¥ 1,843,127	100.0%	7.5%	**$ 24,168**
Cost of sales	**1,440,765**	72.7%	1,343,464	72.9%	7.2%	**17,570**
Selling, general and administrative expenses	**282,335**	14.2%	264,691	14.4%	6.7%	**3,443**
Impairment losses on long-lived assets	**3,106**	0.2%	5,142	0.3%	-39.6%	**38**
Other operating income (expenses), net	**786**	0.0%	(6,901)	-0.4%		**9**
Operating income	**256,343**	12.9%	222,929	12.1%	15.0%	**3,126**
Other income (expenses), net	**(6,734)**		(3,120)		115.8%	**(82)**
Interest and dividend income	**3,776**		4,493		-16.0%	**46**
Interest expense	**(7,784)**		(6,475)		20.2%	**(95)**
Other, net	**(2,726)**		(1,138)		139.5%	**(33)**
Income before income taxes and equity in earnings of affiliated companies	**249,609**	12.6%	219,809	11.9%	13.6%	**3,044**
Income taxes						
Current	**66,420**		57,923			**810**
Deferred	**8,050**		6,783			**98**
Total	**74,470**	3.8%	64,706	3.5%	15.1%	**908**
Income before equity in earnings of affiliated companies	**175,139**	8.8%	155,103	8.4%	12.9%	**2,136**
Equity in earnings of affiliated companies	**1,609**	0.1%	2,724	0.1%	-40.9%	**19**
Net income	**176,748**	8.9%	157,827	8.6%	12.0%	**2,155**
Less net income attributable to noncontrolling interests	**(9,707)**	-0.5%	(7,075)	-0.4%	37.2%	**(118)**
Net income attributable to Komatsu Ltd.	**¥ 167,041**	8.4%	¥ 150,752	8.2%	10.8%	**$ 2,037**

	Yen		U.S. cents
Per share data			
Net income attributable to Komatsu Ltd.:			
Basic	**173.47**	155.77	**211.55**
Diluted	**173.32**	155.66	**211.37**
Cash dividends per share	**¥ 41.00**	¥ 26.00	**¢ 50.00**

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Net Sales

Consolidated net sales for the fiscal year ended March 31, 2012 increased by 7.5%, or ¥138,636 million, to ¥1,981,763 million (U.S.$24,168 million) from ¥1,843,127 million for the fiscal year ended March 31, 2011. This increase was due to increased sales in both the Construction, Mining and Utility Equipment operating segment as well as the Industrial Machinery and Others operating segment.

For the fiscal year ended March 31, 2012, net sales to external customers for the Construction, Mining and Utility Equipment operating segment increased by 7.7%, or ¥123,659, to ¥1,739,348 million (U.S.$21,212 million) as compared to the fiscal year ended March 31, 2011. While demand for construction equipment decreased in China, such decrease in demand was offset by the increase in demand for such equipment in Komatsu s other Strategic Markets (such as Asia (excluding China)) and its Traditional Markets of Japan and North America. With respect to mining equipment, demand for new equipment remained high against the backdrop of high commodity prices. Komatsu also increased its parts sales and service revenues in the mining equipment sector as the number of Komatsu s mining equipment in operation continued to increase. Komatsu was able to capture this increase in demand for construction and mining equipment, and increase sales from the previous fiscal year in part because it was able to quickly restore its production facilities to normal conditions after the Great East Japan Earthquake and subsequent tsunami. Various efforts made by Komatsu also contributed to the increase in sales. For example, Komatsu took continuous measures to increase the sales price of its products. Komatsu also accelerated the launch of its new HB205 and HB215 LC hybrid hydraulic excavators outside of Japan, which have already been launched in 12 countries, such as China and other countries in North America, Europe, Central and South America, Southeast Asia and Oceania, targeting its sale promotions primarily on heavy-use customers who desire and are sensitive to fuel efficiency. These hybrid hydraulic excavators were well received and contributed to the increase in sales. In addition, Komatsu continued to work to expand sales of new emission standards-compliant models in North America and Europe.

For the fiscal year ended March 31, 2012, net sales to external customers in the Industrial Machinery and Others operating segment increased by 6.6%, or ¥14,977 million, to ¥242,415 million (U.S.$2,956 million) as compared to the fiscal year ended March 31, 2011. Sales of wire saws decreased in the second quarter of the fiscal year ended March 31, 2012 in light of the credit squeeze measure implemented by the Chinese government, the reduction of solar energy use subsidies provided by governments in Europe. The decrease in solar cell prices also contributed to such decreased net sales in wire saws as Komatsu s customers that manufacture solar cells reduced their capital investments in light of the weak business environment. As a result, sales of wire saws for the fiscal year ended March 31, 2012 decreased sharply from the previous fiscal year. Sales of presses and machine tools, on the other hand, increased from the previous fiscal year in light of increased capital investments made by the automobile manufacturing industry, which showed signs of recovery. In addition, Gigaphoton Inc. became a consolidated subsidiary in May 2011. The increase in the sales of presses and machine tools and the inclusion of Gigaphoton Inc. as a consolidated subsidiary for the fiscal year ended March 31, 2012 offset the decrease in sales of wire saws for such fiscal year.

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Cost of Sales

Cost of sales on a consolidated basis increased by 7.2%, or ¥97,301 million, to ¥1,440,765 million (U.S.$17,570 million) for the fiscal year ended March 31, 2012 from ¥1,343,464 million for the fiscal year ended March 31, 2011. On the other hand, the ratio of cost of sales to net sales for the fiscal year ended March 31, 2012 decreased to 72.7% from 72.9% for the fiscal year ended March 31, 2011. This decrease was due primarily to (1) certain costs being absorbed due to increased sales volume, (2) the realization of product sales at higher prices and (3) Komatsu s efforts to reduce manufacturing costs by improving production efficiency. Such factors offset unfavorable changes in foreign exchange rates as the Japanese yen strengthened sharply against the U.S. dollar, Euro and Renminbi.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased by 6.7% for the fiscal year ended March 31, 2012 to ¥282,335 million (U.S.$3,443 million) from ¥264,691 million for the fiscal year ended March 31, 2011, due primarily to (1) the increase in selling expenses, such as shipping and handling costs and sales commission, which primarily resulted from the increase in sales volume, (2) the increase in expenses to strengthen product support capabilities (such as expenses relating to increasing the number of depots that supply Komatsu parts) and services to customers (such as expenses relating to increasing the number of facilities that provide maintenance and repair services) and (3) the increase in R&D expenses such as the development of next generation engines that comply with newly adopted emissions regulations that will become effective in the near future and new hybrid products. On the other hand, the ratio of selling, general and administrative expenses to net sales decreased by 0.2 percentage points to 14.2% as compared to 14.4% for the fiscal year ended March 31, 2011, due to Komatsu s continuous efforts to decrease fixed costs by reforming and improving the efficiency of its back-office functions.

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Impairment Losses on Long-Lived Assets

Consolidated impairment losses on long-lived assets for the fiscal year ended March 31, 2012 amounted to ¥3,106 million (U.S.$38 million) as compared to ¥5,142 million for the fiscal year ended March 31, 2011.

Other Operating Income (Expenses), net

For the fiscal year ended March 31, 2012, Komatsu recognized consolidated other operating income, net of ¥786 million as compared to consolidated other operating expenses, net of ¥6,901 million for the fiscal year ended March 31, 2011.

Operating Income

Consolidated operating income for the fiscal year ended March 31, 2012 increased by 15.0%, or ¥33,414 million, to ¥256,343 million (U.S.$3,126 million) as compared to ¥222,929 million for the fiscal year ended March 31, 2011. This increase in operating income was due primarily to positive factors such as (1) the increase in sales for construction equipment in Japan, North America and the Strategic Markets (except China) as well as for high-margin mining equipment and parts, and (2) various efforts undertaken by Komatsu, such as the realization of sales of products at higher prices and the reduction of production costs, which outweighed negative factors such as unfavorable changes in foreign exchange rates, such as the sharp appreciation of the Japanese yen against the U.S. dollar, Euro and Renminbi.

As a result, operating margin for the fiscal year ended March 31, 2012 increased by 0.8 percentage points to 12.9% from 12.1% for the fiscal year ended March 31, 2011.

Other Income (Expenses), net

Consolidated other expenses, net for the fiscal year ended March 31, 2012 amounted to ¥6,734 million (U.S.$82 million) as compared to ¥3,120 million for the fiscal year ended March 31, 2011. This increase was due primarily to the increase in losses recorded upon the revaluation of investment in securities by ¥2,457 million for the fiscal year ended March 31, 2012 to ¥2,613 million as compared to ¥156 million for the fiscal year ended March 31, 2011 due to the decline in the stock market. Interest expense for the fiscal year ended March 31, 2012 increased by 20.2%, or ¥1,309 million, to ¥7,784 million as compared to ¥6,475 million for the fiscal year ended March 31, 2011, due primarily to the increase in borrowings from external sources during the fiscal year ended March 31, 2012. In addition, interest and dividend income decreased by 16.0%, or ¥717 million, to ¥3,776 million for the fiscal year ended March 31, 2012 as compared to ¥4,493 million for the fiscal year ended March 31, 2011.

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Income Before Income Taxes and Equity in Earnings of Affiliated Companies

As a result of the above factors, consolidated income before income taxes and equity in earnings of affiliated companies for the fiscal year ended March 31, 2012 increased by 13.6%, or ¥29,800 million, to ¥249,609 million (U.S.$3,044 million) as compared to ¥219,809 million for the fiscal year ended March 31, 2011.

Income Taxes

Consolidated income tax expense for the fiscal year ended March 31, 2012 increased by ¥9,764 million to ¥74,470 million (U.S.$908 million) from ¥64,706 million for the fiscal year ended March 31, 2011. The actual effective tax rate for the fiscal year ended March 31, 2012 increased to 29.8% from 29.4% for the fiscal year ended March 31, 2011.

The difference between the Japanese statutory tax rate of 40.8% and the actual effective tax rate of 29.8% was caused by (1) income of certain overseas subsidiaries being taxed at a rate lower than the Japanese statutory tax rate, which became less of a factor for the fiscal year ended March 31, 2012 as compared to the fiscal year ended March 31, 2011 as income of subsidiaries being taxed at a higher rate in the U.S. increased while income of subsidiaries being taxed at a lower rate in China decreased, and (2) deferred tax benefits caused by the reduction of the valuation allowance for certain deferred tax assets. For additional information, see Note 15 to the Consolidated Financial Statements.

Income Before Equity in Earnings of Affiliated Companies

As a result of the above factors, consolidated income before equity in earnings of affiliated companies for the fiscal year ended March 31, 2012 increased by ¥20,036 million to ¥175,139 million (U.S.$2,136 million) as compared to ¥155,103 million for the fiscal year ended March 31, 2011.

Equity in Earnings of Affiliated Companies

Consolidated equity in earnings of affiliated companies for the fiscal year ended March 31, 2012 decreased by ¥1,115 million to ¥1,609 million (U.S.$19 million) as compared to ¥2,724 million for the fiscal year ended March 31, 2011, due primarily to decreased earnings recorded by affiliated companies held under the equity accounting method, such as Komatsu Cummins Engine Co., Ltd., L&T-Komatsu Limited.

Net income

As a result of the above factors, consolidated net income for the fiscal year ended March 31, 2012 increased by 12.0%, or ¥18,921 million, to ¥176,748 million (U.S.$2,155 million) as compared to ¥157,827 million for the fiscal year ended March 31, 2011.

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Net Income Attributable to Noncontrolling Interests

Net income attributable to noncontrolling interests for the fiscal year ended March 31, 2012 increased by ¥2,632 million to ¥9,707 million (U.S.$118 million) as compared to ¥7,075 million for the fiscal year ended March 31, 2011. Noncontrolling interests in income of consolidated subsidiaries increased mainly as a result of an increase in earnings recorded primarily by subsidiaries in the Construction, Mining and Utility Equipment operating segment, including Komatsu Marketing Support Australia Pty Ltd.

Net Income Attributable to Komatsu Ltd.

As a result of the above, consolidated net income attributable to Komatsu Ltd. for the fiscal year ended March 31, 2012 increased by 10.8%, or ¥16,289 million, to ¥167,041 million (U.S.$2,037 million) as compared to ¥150,752 million for the fiscal year ended March 31, 2011. Accordingly, basic net income attributable to Komatsu Ltd. per share rose to ¥173.47 for the fiscal year ended March 31, 2012 from ¥155.77 for the fiscal year ended March 31, 2011. Diluted net income attributable to Komatsu Ltd. per share rose to ¥173.32 for the fiscal year ended March 31, 2012 from ¥155.66 for the fiscal year ended March 31, 2011.

Performance by Operating Segments

The following table presents net sales and segment profit broken down by operating segments for the fiscal years ended March 31, 2012 and 2011. In evaluating the financial data for each operating segment, Komatsu s management considers sales by the location of its external customers to be particularly helpful for the Construction, Mining and Utility Equipment operating segment, its primary operating segment. Accordingly, in addition to providing performance information by operating segments, the below table and related discussion provide information regarding sales in the Construction, Mining and Utility Equipment operating segment broken down by geographic locations of Komatsu s external customer.

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Performance by Operating Segments

	Millions of Yen Fiscal Years Ended March 31, 2012	2011	Percentage Change 2012 vs. 2011	Millions of U.S. dollars 2012
Net sales:				
Construction, Mining and Utility Equipment				
External Customers	**¥ 1,739,348**	¥ 1,615,689	7.7%	**$ 21,212**
Japan	**286,342**	251,597	13.8%	**3,492**
The Americas	**443,044**	386,758	14.6%	**5,403**
Europe and CIS	**200,404**	164,007	22.2%	**2,444**
China	**201,312**	334,270	-39.8%	**2,455**
Asia (excluding Japan, China) and Oceania	**481,277**	374,577	28.5%	**5,869**
Middle East and Africa	**126,969**	104,480	21.5%	**1,548**
Intersegment	**4,925**	2,392	105.9%	**60**
Total	**1,744,273**	1,618,081	7.8%	**21,272**
Industrial Machinery and Others				
External Customers	**242,415**	227,438	6.6%	**2,956**
Intersegment	**8,724**	10,916	-20.1%	**106**
Total	**251,139**	238,354	5.4%	**3,063**
Elimination	**(13,649)**	(13,308)	-2.6%	**(166)**
Consolidated Net Sales	**¥ 1,981,763**	¥ 1,843,127	7.5%	**$ 24,168**
Segment Profit:				
Construction, Mining and Utility Equipment	**¥ 246,291**	¥ 220,830	11.5%	**$ 3,004**
Industrial Machinery and Others	**16,779**	20,965	-20.0%	**205**
Total	**263,070**	241,795	8.8%	**3,209**

Notes:

1) Transfers between segments are made at estimated arm s-length prices.

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Construction, Mining and Utility Equipment

Net sales

Total net sales to external customers in the Construction, Mining and Utility Equipment operating segment for the fiscal year ended March 31, 2012 increased by 7.7%, or ¥123,659 million, to ¥1,739,348 million (U.S.$21,212 million) as compared to ¥1,615,689 million for the fiscal year ended March 31, 2011. This increase in sales was due primarily to positive factors such as (1) the increase in demand for Komatsu s construction equipment in Japan, North America and other Strategic Markets (excluding China), which offset the decrease in demand for such equipment in China, and the increase in demand for new mining equipment as well as increased sales of mining parts and services (which collectively increased net sales in this operating segment by approximately ¥155.2 billion) and (2) the realization of product sales at higher prices (which increased net sales in this operating segment by approximately ¥34.7 billion). Such factors offset unfavorable changes in foreign exchange rates as the Japanese yen strengthened sharply against the U.S. dollar, Euro and Renminbi (which decreased net sales in this operating segment by approximately ¥64.0 billion).

Net sales to external customers in Japan for the fiscal year ended March 31, 2012 increased by 13.8%, or ¥34,745 million, to ¥286,342 million (U.S.$3,492 million) as compared to ¥251,597 million for the fiscal year ended March 31, 2011. This increase was due primarily to an increase in demand for construction equipment, particularly from rental companies using such equipment for reconstruction of the regions damaged by the earthquake and subsequent tsunami. To support the reconstruction efforts, Komatsu enhanced its sales and service operation by opening the Tohoku Service Center of the Tohoku Operation Department and the Miyagi Center of the Komatsu Safety Training Center Ltd. In addition, Komatsu worked to quickly restore the operations of its branches that were destroyed or damaged in the Tohoku area.

Net sales to external customers in the Americas for the fiscal year ended March 31, 2012 increased by 14.6%, or ¥56,286 million, to ¥443,044 million (U.S.$5,403 million) as compared to ¥386,758 million for the fiscal year ended March 31, 2011. While the housing sector in North America still did not show any notable signs of recovery, demand for construction and mining equipment in North America remained strong in the rental, energy development and mining industries. Demand for new construction and utility equipment by equipment rental companies continued to increase as such companies replaced some of their older equipment with newer equipment. The increase in energy development such as shale gas fracking also contributed to the increase in demand for construction equipment. In addition, to capture the strong demand in North America, Komatsu worked to increase its sales of new emission standards-compliant models, which were launched during Komatsu s first fiscal quarter (quarter ended June 30, 2011), as well as hybrid hydraulic excavators. In particular, Komatsu reinforced its sales promotion activities in respect of this equipment in North America, targeting primarily heavy-use customers who desire and are sensitive to fuel efficiency. In Latin America, demand for mining equipment was strong, mainly in Chile, against the backdrop of increasing commodity prices.

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Net sales to external customers in Europe and CIS for the fiscal year ended March 31, 2012 increased by 22.2%, or ¥36,397 million to ¥200,404 million (U.S.$2,444 million) as compared to ¥164,007 million for the fiscal year ended March 31, 2011. In Europe, while concerns over an economic slowdown continued against the backdrop of fiscal problems, demand for construction equipment remained steady mainly in major markets such as Germany and France during the fiscal year ended March 31, 2012. Komatsu s efforts to expand sales of parts by teaming up with local distributors and launch new emission standards-compliant models and hybrid hydraulic excavators in this area also contributed to the improved sales in Europe as compared to the previous fiscal year. In CIS, demand for Komatsu equipment remained firm, centering on those equipment in the mining sector, such as coal, gold and mines, as well as the energy sector, such as oil and natural gas.

Net sales to external customers in China for the fiscal year ended March 31, 2012 decreased by 39.8%, or ¥132,958 million to ¥201,312 (U.S.$2,455 million) million as compared to ¥334,270 million for the fiscal year ended March 31, 2011. This decrease was due primarily to the implementation of credit squeeze measures by the Chinese government, which decreased demand especially in the civil engineering industry as the commencement of new construction projects was delayed due to the lack of funding.

Net sales to external customers in Asia (excluding Japan and China) and Oceania for the fiscal year ended March 31, 2012 increased by 28.5%, or ¥106,700 million to ¥481,277 million (U.S.$5,869 million) as compared to ¥374,577 million for the fiscal year ended March 31, 2011. Demand for mining equipment continued to expand in Indonesia, the largest market for Komatsu products in Southeast Asia, while demand for construction equipment continued to remain strong in the civil engineering, agriculture and forestry sectors in that country as well. Favorable economic conditions in Indonesia helped fuel the need for steady coal supplies in response to domestic electricity demand. Consequently, the demand for Komatsu s mining equipment grew in light of the increased domestic coal production in Indonesia. Demand for construction equipment also increased steadily in India, Malaysia and other countries in Asia. In Australia, demand for Komatsu equipment remained strong, especially with respect to mining equipment against the backdrop of increasing commodity prices. In November 2011, Komatsu and Rio Tinto entered into a Memorandum of Understanding, agreeing to operate over 150 driverless dump trucks in iron ore mines in Australia by the end of 2015. Komatsu and Rio Tinto are currently working together to ensure the success of this project. For example, Komatsu established a support center for this project in Perth in December 2011.

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Net sales to external customers in the Middle East and Africa for the fiscal year ended March 31, 2012 increased by 21.5%, or ¥22,489 million to ¥126,969 million (U.S.$1,548 million) as compared to ¥104,480 million for the fiscal year ended March 31, 2011. While political and social conditions remained unstable in some countries in this region, demand for equipment increased, especially for use in mines in Africa. In South Africa, where the market for equipment used in mines and infrastructure developments continued to expand, Komatsu s concerted efforts to expand sales of KOMTRAX (Komatsu Machine Tracking System) installed construction equipment contributed to the increase in sales. In other African countries, Komatsu strengthened its sales and product support operations by increasing the number of training centers and expanding on-the-job training programs for distributor s service engineers by dispatching personnel that have an in-depth understanding of the equipment to such distributors, which also contributed to an increase in sales in this region.

Segment Profit

Segment profit for the Construction, Mining and Utility Equipment operating segment for the fiscal year ended March 31, 2012 increased by 11.5%, or ¥25,461 million, to ¥246,291 million (U.S.$3,004 million) from ¥220,830 million for the fiscal year ended March 31, 2011. Factors that contributed to this increase include (1) increased sales (which increased segment profit by approximately ¥39.8 billion) and (2) the realization of sales at higher prices (which increased segment profit by approximately ¥34.7 billion). Such factors were partially offset by (1) unfavorable changes in foreign exchange rates as the Japanese yen strengthened sharply against the U.S. dollar, Euro and Renminbi (which decreased segment profit by approximately ¥34.2 billion) and (2) increased manufacturing costs in response to increased steel prices (which increased segment profit by approximately ¥3.0 billion).

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Industrial Machinery and Others

Net Sales

Total net sales to external customers in the Industrial Machinery and Others operating segment for the fiscal year ended March 31, 2012 increased by 6.6%, or ¥14,977 million, to ¥242,415 million (U.S.$2,956 million) as compared to ¥227,438 million for the fiscal year ended March 31, 2011. Demand for wire saws declined from the previous fiscal year in light of the Chinese government s credit squeeze measure and the reduction of government subsidies related to solar energy use in Europe, both of which contributed to the decrease in net sales in this operating segment. The decrease in solar cell prices also contributed to such decreased net sales in wire saws as Komatsu s customers that manufacture solar cells reduced their capital investments in light of the weak business environment. Despite such decrease in wire saw sales, demand for presses and machine tolls increased from the previous fiscal year, reflecting the recovery of capital investments by the automobile manufacturing industry, and contributed to the increase in net sales of the Industrial Machinery and Others operating segment. The addition of Gigaphoton Inc. as a consolidated subsidiary during the fiscal year also contributed to the increase in net sales of the Industrial Machinery and Others operating segment.

Segment Profit

Segment profit for the Industrial Machinery and Others operating segment for the fiscal year ended March 31, 2012 decreased by 20.0%, or ¥4,186 million, to ¥16,779 million (U.S.$205 million) from ¥20,965 million for the fiscal year ended March 31, 2011. This decrease was due primarily to the decrease in demand for higher-margin wire saws.

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Comparison of the Fiscal Years ended March 31, 2011 and 2010

The following tables set forth selected consolidated financial and operating information, including numerical data expressed as a percentage of total consolidated net sales for the periods indicated, and the changes in each consolidated financial line item between the indicated fiscal years.

Consolidated Statements of Income Information

	Millions of Yen				Percentage change
	Fiscal Years Ended March 31,				
	2011		2010		2011 vs. 2010
Net sales	**¥ 1,843,127**	100.0%	¥ 1,431,564	100.0%	28.7%
Cost of sales	**1,343,464**	72.9%	1,101,559	76.9%	22.0%
Selling, general and administrative expenses	**264,691**	14.4%	249,286	17.4%	6.2%
Impairment losses on long-lived assets	**5,142**	0.3%	3,332	0.2%	54.3%
Other operating expenses, net	**(6,901)**	-0.4%	(10,352)	-0.7%	-33.3%
Operating income	**222,929**	12.1%	67,035	4.7%	232.6%
Other income (expenses), net	**(3,120)**		(2,056)		51.8%
Interest and dividend income	**4,493**		6,158		-27.0%
Interest expense	**(6,475)**		(8,502)		-23.8%
Other, net	**(1,138)**		288		495.1%
Income before income taxes and equity in earnings of affiliated companies	**219,809**	11.9%	64,979	4.5%	238.3%
Income taxes					
Current	**57,923**		32,722		
Deferred	**6,783**		(7,358)		
Total	**64,706**	3.5%	25,364	1.8%	155.1%
Income before equity in earnings of affiliated companies	**155,103**	8.4%	39,615	2.8%	291.5%
Equity in earnings of affiliated companies	**2,724**	0.1%	1,588	0.1%	71.5%
Net income	**157,827**	8.6%	41,203	2.9%	283.0%
Less net income attributable to noncontrolling interests	**(7,075)**	-0.4%	(7,644)	-0.5%	-7.4%
Net income attributable to Komatsu Ltd.	**¥ 150,752**	8.2%	¥ 33,559	2.3%	349.2%

	Yen	
Per share data		
Net income attributable to Komatsu Ltd.:		
Basic	**155.77**	34.67
Diluted	**155.66**	34.65
Cash dividends per share	**¥ 26.00**	¥ 26.00

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Net Sales

Consolidated net sales for the fiscal year ended March 31, 2011 increased by 28.7%, or ¥411,563 million, to ¥1,843,127 million from ¥1,431,564 million for the fiscal year ended March 31, 2010. This increase was due primarily to increased sales in the Construction, Mining and Utility Equipment operating segment as well as the Industrial Machinery and Others operating segment.

For the fiscal year ended March 31, 2011, net sales to external customers for the Construction, Mining and Utility Equipment operating segment increased by 27.4%, or ¥347,114, to ¥1,615,689 million as compared to the fiscal year ended March 31, 2010. Demand for construction and mining equipment remained high in the Strategic Markets, especially China, Asia and Latin America, and demand for such equipment recovered and increased from the previous fiscal year in the Traditional Markets of Japan, North America and Europe. Komatsu made various efforts to capitalize on this recovery in global demand for construction, mining and utility equipment and increase sales to customers, including expanding its production capacity and reinforcing its product support operations in the Strategic Markets in light of the fact that it anticipates medium- to long-term growth in such markets. More specifically, Komatsu increased its production capabilities by commencing production at Komatsu Manufacturing Rus, LLC in June 2010, which is Komatsu s first assembly plant in Russia for construction and mining equipment, and completing the construction of an additional plant in China of Komatsu (Changzhou) Construction Machinery Corp., which began production in January 2011. In addition, Komatsu established Komatsu China Mining Limited, which commenced operations in October 2010, to provide sales and product support for mining equipment and related parts exclusively for large-scale mining customers. In December 2010, Komatsu also introduced new HB205 and HB215LC hybrid hydraulic excavators in Japan, which offer improved fuel consumption and CO_2 emissions volume. These excavators were well received and contributed to the increase in net sales.

For the fiscal year ended March 31, 2011, net sales to external customers in the Industrial Machinery and Others operating segment increased by 39.5%, or ¥64,449 million, to ¥227,438 million as compared to the fiscal year ended March 31, 2010. This increase was partly due to increased sales of wire saws used to manufacture silicon ingots, which are used in solar cells, as solar cell manufacturers in Asia, especially in China, increased their capital investments in the fiscal year ended March 31, 2011. Increased sales in the Industrial Machinery and Others operating segment was also partly due to increased sales of large presses and other machinery as capital investments in the automobile industry started to recover in the Strategic Markets, such as China, India and Brazil.

Cost of Sales

Cost of sales on a consolidated basis increased by 22.0%, or ¥241,905 million, to ¥1,343,464 million for the fiscal year ended March 31, 2011 from ¥1,101,559 million for the fiscal year ended March 31, 2010. On the other hand, the ratio of cost of sales to net sales for the fiscal year ended March 31, 2011 decreased to 72.9% from 76.9% for the fiscal year ended March 31, 2010. This decrease was due primarily to (1) certain cost being absorbed due to increased sales volume, (2) the realization of product sales at higher prices and (3) Komatsu s efforts to reduce manufacturing costs by improving production efficiency. Such factors offset (1) unfavorable changes in foreign exchange rates as the Japanese yen strengthened sharply against the U.S. dollar, Euro and Renminbi, and (2) losses resulting from temporary disruption of production of ¥470 million caused by the Great East Japan Earthquake and the subsequent tsunami.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased by 6.2% for the fiscal year ended March 31, 2011 to ¥264,691 million from ¥249,286 million for the fiscal year ended March 31, 2010, due primarily to (1) the increase in selling expenses, such as shipping and handling costs and sales commission, which primarily resulted from the increase in sales volume, (2) the increase in expenses to strengthen product support capabilities (such as expenses relating to increasing the number of depots that supply Komatsu parts) and services to customers (such as expenses relating to increasing the number of facilities that provide maintenance and repair services) and (3) the increase in R&D expenses such as the development of next generation engines that comply with newly adopted emissions regulations that will become effective in the near future and new hybrid products. On the other hand, the ratio of selling, general and administrative expenses to net sales decreased by a 3.0 percentage point to 14.4% as compared to 17.4% for the fiscal year ended March 31, 2010, due to Komatsu s continuous efforts to decrease fixed costs by reforming and improving the efficiency of its back-office functions.

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Impairment Losses on Long-Lived Assets

Consolidated impairment losses on long-lived assets for the fiscal year ended March 31, 2011 amounted to ¥5,142 million as compared to ¥3,332 million for the fiscal year ended March 31, 2010. Such losses for the fiscal year ended March 31, 2011 include software asset impairment of ¥2,744 million and damaged losses of ¥1,217 million, which loss was caused by the Great East Japan Earthquake and the subsequent tsunami.

Other Operating Expenses, net

For the fiscal year ended March 31, 2011, consolidated other operating expenses, net decreased by ¥3,451 million to ¥6,901 million as compared to ¥10,352 million for the fiscal year ended March 31, 2010. This decrease was due primarily to the fact that Komatsu recognized a decrease of its expenses associated with structural reforms of its production and sales operations, such as reorganization and relocation costs, because the structural reforms engaged in during fiscal year ended March 31, 2011 were not as extensive as in the prior fiscal year. Such decrease in expenses associated with structural reforms was partially offset by costs and expenses of the amount of ¥2,860 million resulting from the damages caused by the Great East Japan Earthquake and the subsequent tsunami. Such costs and expenses reflect a write-off expense of ¥2,060 million and relief expenses to the affected areas of ¥800 million.

Operating Income

Consolidated operating income for the fiscal year ended March 31, 2011 increased by ¥155,894 million, to ¥222,929 million as compared to ¥67,035 million for the fiscal year ended March 31, 2010. This increase in operating income was due primarily to positive factors such as (1) the increase in demand for Komatsu products as a result of increased natural resource developments on a worldwide basis and increased infrastructure developments by governments in various countries in an effort to stimulate their respective economies, (2) various efforts undertaken by Komatsu, such as the realization of sales of products at higher prices and the reduction of production costs, and (3) the decrease in expenses associated with structural reforms of its production and sales operations as compared to the fiscal year ended March 31, 2010, which outweighed negative factors such as (1) unfavorable changes in foreign exchange rates, such as the sharp appreciation of the Japanese yen against the U.S. dollar, Euro and Renminbi, and (2) costs and expenses resulting from the damages caused by the Great East Japan Earthquake and the subsequent tsunami.

As a result, operating margin for the fiscal year ended March 31, 2011 increased by 7.4 percentage points to 12.1% from 4.7% for the fiscal year ended March 31, 2010.

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Other Income (Expenses), net

Consolidated other expenses, net for the fiscal year ended March 31, 2011 increased by ¥1,064 million, to ¥3,120 million as compared to ¥2,056 million for the fiscal year ended March 31, 2010. This increase was due primarily to the increase in foreign exchange rate losses by ¥5,259 million for the fiscal year ended March 31, 2011 to a loss of ¥4,193 million as compared to a gain of ¥1,066 million for the fiscal year ended March 31, 2010. Interest expense for the fiscal year ended March 31, 2011 decreased by 23.8%, or ¥2,027 million, to ¥6,475 million as compared to ¥8,502 million for the fiscal year ended March 31, 2010. This decrease in interest expense, which contributed to the decrease in other expenses, was due primarily to lower interest rates and the decrease in borrowings from external sources during the fiscal year ended March 31, 2011. Interest and dividend income decreased by 27.0%, or ¥1,665 million, to ¥4,493 million for the fiscal year ended March 31, 2011 as compared to ¥6,158 million for the fiscal year ended March 31, 2010.

Income Before Income Taxes and Equity in Earnings of Affiliated Companies

As a result of the above factors, consolidated income before income taxes and equity in earnings of affiliated companies for the fiscal year ended March 31, 2011 increased by 238.3%, or ¥154,830 million, to ¥219,809 million as compared to ¥64,979 million for the fiscal year ended March 31, 2010.

Income Taxes

Consolidated income tax expense for the fiscal year ended March 31, 2011 increased by ¥39,342 million to ¥64,706 million from ¥25,364 million for the fiscal year ended March 31, 2010. The actual effective tax rate for the fiscal year ended March 31, 2011 decreased to 29.4% from 39.0% for the fiscal year ended March 31, 2010. This decrease was due primarily to a reduction in the valuation allowance at certain consolidated subsidiaries related to changes in assessment about the likelihood of recovery of certain deferred tax assets.

The difference between the Japanese statutory tax rate of 40.8% and the actual effective tax rate of 29.4% was caused by income of certain overseas subsidiaries being taxed at a rate lower than the Japanese statutory tax rate, and deferred tax benefits caused by the reduction of the valuation allowance for certain deferred tax assets. For additional information, see Note 15 to the Consolidated Financial Statements.

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Income Before Equity in Earnings of Affiliated Companies

As a result of the above factors, consolidated income before equity in earnings of affiliated companies for the fiscal year ended March 31, 2011 increased by ¥115,488 million to ¥155,103 million as compared to ¥39,615 million for the fiscal year ended March 31, 2010.

Equity in Earnings of Affiliated Companies

Consolidated equity in earnings of affiliated companies for the fiscal year ended March 31, 2011 increased by ¥1,136 million to ¥2,724 million as compared to ¥1,588 million for the fiscal year ended March 31, 2010, due primarily to increased earnings recorded by affiliated companies held under the equity accounting method, such as Komatsu Cummins Engine Co., Ltd., Gigaphoton Inc. and other affiliated companies.

Net income

As a result of the above factors, consolidated net income for the fiscal year ended March 31, 2011 increased by ¥116,624 million, to ¥157,827 million as compared to ¥41,203 million for the fiscal year ended March 31, 2010.

Net Income Attributable to Noncontrolling Interests

Net income attributable to noncontrolling interests for the fiscal year ended March 31, 2011 decreased by ¥569 million to ¥7,075 million as compared to ¥7,644 million for the fiscal year ended March 31, 2010. Noncontrolling interests in income of consolidated subsidiaries decreased mainly as a result of a decline in earnings recorded primarily by subsidiaries in the Construction, Mining and Utility Equipment operating segment, such as Komatsu Shantui Construction Machinery Co, Ltd.

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Net Income Attributable to Komatsu Ltd.

As a result of the above, consolidated net income attributable to Komatsu Ltd. for the fiscal year ended March 31, 2011 increased by ¥117,193 million, to ¥150,752 million as compared to ¥33,559 million for the fiscal year ended March 31, 2010. Accordingly, basic net income attributable to Komatsu Ltd. per share rose to ¥155.77 for the fiscal year ended March 31, 2011 from ¥34.67 for the fiscal year ended March 31, 2010. Diluted net income attributable to Komatsu Ltd. per share rose to ¥155.66 for the fiscal year ended March 31, 2011 from ¥34.65 for the fiscal year ended March 31, 2010.

Performance by Operating Segments

The following table presents net sales and segment profit broken down by operating segments for the fiscal years ended March 31, 2011 and 2010. In evaluating the financial data for each operating segment, Komatsu s management considers sales by the location of its external customers to be particularly helpful for the Construction, Mining and Utility Equipment operating segment, its primary operating segment. Accordingly, in addition to providing performance information by operating segments, the below table and related discussion provide information regarding sales in the Construction, Mining and Utility Equipment operating segment broken down by geographic locations of Komatsu s external customer.

	Millions of Yen Fiscal Years Ended March 31,		Percentage Change
	2011	**2010**	**2011 vs. 2010**
Net sales:			
Construction, Mining and Utility Equipment			
External Customers	**¥ 1,615,689**	¥ 1,268,575	27.4%
Japan	**251,597**	228,505	10.1%
The Americas	**386,758**	306,135	26.3%
Europe and CIS	**164,007**	122,018	34.4%
China	**334,270**	244,509	36.7%
Asia (excluding Japan, China) and Oceania	**374,577**	281,878	32.9%
Middle East and Africa	**104,480**	85,530	22.2%
Intersegment	**2,392**	2,690	-11.1%
Total	**1,618,081**	1,271,265	27.3%
Industrial Machinery and Others			
External Customers	**227,438**	162,989	39.5%
Intersegment	**10,916**	15,619	-30.1%
Total	**238,354**	178,608	33.5%
Elimination	**(13,308)**	(18,309)	-27.3%
Consolidated Net Sales	**¥ 1,843,127**	¥ 1,431,564	28.7%
Segment Profit:			
Construction, Mining and Utility Equipment	**¥ 220,830**	¥ 83,061	165.9%
Industrial Machinery and Others	**20,965**	2,998	599.3%
Total	**241,795**	86,059	181.0%

Notes:

1) Transfers between segments are made at estimated arm s-length prices.

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Construction, Mining and Utility Equipment

Net sales

Total net sales to external customers in the Construction, Mining and Utility Equipment operating segment for the fiscal year ended March 31, 2011 increased by 27.4%, or ¥347,114 million, to ¥1,615,689 million as compared to ¥1,268,575 million for the fiscal year ended March 31, 2010. This increase in sales was due primarily to positive factors such as (1) the increase in demand for Komatsu products during the fiscal year as a result of increased natural resource developments on a worldwide basis and increased infrastructure developments by governments in various countries in an effort to stimulate their respective economies (which increased net sales in this operating segment by approximately ¥398.8 billion) and (2) the realization of product sales at higher prices (which increased net sales in this operating segment by approximately ¥29.3 billion). Such factors offset unfavorable changes in foreign exchange rates as the Japanese yen strengthened sharply against the U.S. dollar, Euro and Renminbi (which decreased net sales in this operating segment by approximately ¥81.6 billion).

Net sales to external customers in Japan for the fiscal year ended March 31, 2011 increased by 10.1%, or ¥23,092 million, to ¥251,597 million as compared to ¥228,505 million for the fiscal year ended March 31, 2010. While public works began to decline in the second half of the fiscal year ended March 31, 2011, private-sector capital investment, such as housing starts and capital investments by corporation, remained strong throughout the fiscal year. Against this backdrop, demand for construction equipment in Japan increased, especially sales to equipment rental companies, which also contributed to an increase in sales of construction equipment as compared to the previous fiscal year. In addition, in December 2010, Komatsu launched new HB205 and HB215LC hybrid hydraulic excavators in the Japanese market. Customers responded well to such newly introduced hydraulic excavators, which also contributed to the increase in net sales to customers in Japan.

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Net sales to external customers in the Americas for the fiscal year ended March 31, 2011 increased by 26.3%, or ¥80,623 million, to ¥386,758 million as compared to ¥306,135 million for the fiscal year ended March 31, 2010. While U.S. housing starts remained sluggish during the fiscal year ended March 31, 2011, overall demand for construction, mining and utility equipment in North America showed signs of recovery, supported by strong demand in the rental equipment business and mining industries. Equipment rental companies increased their construction and utility equipment fleet, and replaced some of their older equipment with newer equipment in light of the increase in demand for rental equipment. Mining customers increased their capital investments and purchased additional equipment to increase their production as demand for commodities increased in light of growth in the world economy. In Latin America, demand for equipment used in various areas, such as mining, construction, agriculture and forestry, continued to increase in Brazil, the largest market for Komatsu products in Latin America. This increased demand in Brazil was due in part to increased infrastructure developments to prepare for the 2014 World Cup and 2016 Olympics, which are to be held in Brazil. In addition, demand for mining equipment increased in Chile as the number of mining development projects increased.

Net sales to external customers in Europe and CIS for the fiscal year ended March 31, 2011 increased by 34.4%, or ¥41,989 million to ¥164,007 million as compared to ¥122,018 million for the fiscal year ended March 31, 2010. In Europe, demand for construction equipment headed for recovery mainly in major markets such as Germany, the United Kingdom and France during the fiscal year ended March 31, 2011, as construction activity started to show signs of recovery. In addition, Komatsu s efforts to strengthen its product support capability and expand sales of parts by teaming up with local distributors in this area also contributed to the improved sales in Europe as compared to the previous fiscal year. In CIS, demand increased for large equipment, centering on those equipment used in coal and gold mining as well as equipment used in the natural resources development projects, such as oil and gas projects. Mining customers in CIS increased their capital investments and purchased additional equipment to increase their production as demand for commodities increased in light of growth in the world economy.

Net sales to external customers in China for the fiscal year ended March 31, 2011 increased by 36.7%, or ¥89,761 million to ¥334,270 million as compared to ¥244,509 million for the fiscal year ended March 31, 2010. In China, demand for construction and mining equipment remained strong during the fiscal year ended March 31, 2011, reflecting a strong demand for natural resources in the mining industry and advancements in infrastructure development and urbanization especially in the inner regions of China. Komatsu s enhanced sales efforts following the Chinese New Year in February especially contributed to the increase in net sales to customers in China.

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Net sales to external customers in Asia and Oceania for the fiscal year ended March 31, 2011 increased by 32.9%, or ¥92,699 million to ¥374,577 million as compared to ¥281,878 million for the fiscal year ended March 31, 2010. In Asia, the economies of various countries showed signs of recovery as governments increased the number of infrastructure development projects to stimulate their respective economies. In Indonesia, the largest market for Komatsu products in Southeast Asia, demand for mining equipment continued to expand. In addition, demand for construction equipment remained strong in the civil engineering, agriculture and forestry sectors in Indonesia. Demand for construction equipment was also strong in India, Thailand, Malaysia and some of the other Asian countries. Komatsu s concerted efforts in Southeast Asia to expand sales of KOMTRAX (Komatsu Machine Tracking System) installed construction equipment also contributed to the increase in sales in Asia. In Australia, although the major flood that occurred in the second half of the fiscal year ended March 31, 2011 caused some mining companies to experience operational difficulties that adversely affected the shipping of their commodities, which decreased demand for Komatsu s products for a short period thereafter, overall demand for mining equipment in Australia remained firm.

Net sales to external customers in the Middle East and Africa for the fiscal year ended March 31, 2011 increased by 22.2%, or ¥18,950 million to ¥104,480 million as compared to ¥85,530 million for the fiscal year ended March 31, 2010. While political and social conditions have continued to be unstable in some countries in this region, demand for equipment increased as the conditions surrounding mining development projects and infrastructure development projects improved. As a result, sales improved from the previous fiscal year.

Segment Profit

Segment profit for the Construction, Mining and Utility Equipment operating segment for the fiscal year ended March 31, 201 increased by ¥137,769 million, to ¥220,830 million from ¥83,061 million for the fiscal year ended March 31, 2010. Factors that contributed to this increase include (1) increased sales (which increased segment profit by approximately ¥131.9 billion), (2) the realization of sales at higher prices (which increased segment profit by approximately ¥29.3 billion) and (3) lower manufacturing costs (which increased segment profit by approximately ¥15.1 billion). Such factors were partially offset by (1) unfavorable changes in foreign exchange rates as the Japanese yen strengthened sharply against the U.S. dollar, Euro and Renminbi (which decreased segment profit by approximately ¥37.0 billion) and (2) an increase in depreciation expenses relating to fixed assets (which decreased segment profit by approximately ¥1.6 billion).

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Industrial Machinery and Others

Net Sales

Total net sales to external customers in the Industrial Machinery and Others operating segment for the fiscal year ended March 31, 2011 increased by 39.5%, or ¥64,449 million, to ¥227,438 million as compared to ¥162,989 million for the fiscal year ended March 31, 2010. This increase was mainly due to the increase in sales of wire saws for use in slicing silicon ingots for the solar cell market, as capital investment remained brisk in Asia, especially in China. As the automobile manufacturing industry began to recover and make capital investments in the Strategic Markets, such as China, India, Brazil, and some other countries, orders for large presses and other machinery increased and contributed to the increase in net sales for the fiscal year ended March 31, 2011.

Segment Profit

Segment profit for the Industrial Machinery and Others operating segment for the fiscal year ended March 31, 2011 increased by ¥17,967 million, to ¥20,965 million from ¥2,998 million for the fiscal year ended March 31, 2010. This increase was due primarily to the increase in demand for Komatsu products (which increased segment profit by approximately ¥18.9 billion), which fully offset the increase in costs, such as fixed costs (which decreased segment profit by approximately ¥0.9 billion).

B. Liquidity and Capital Resources

Cash Flow

Set forth below is the condensed consolidated statements of cash flows information for the fiscal years ended March 31, 2012, 2011 and 2010.

Condensed Consolidated Statements of Cash Flows Information

	Millions of yen Fiscal Years Ended March 31,			Millions of U.S. dollars
	2012	2011	2010	**2012**
Net cash provided by operating activities	**¥ 105,608**	¥ 150,402	¥ 182,161	**$ 1,288**
Net cash used in investing activities	**(124,539)**	(88,509)	(72,967)	**(1,519)**
Net cash provided by (used in) financing activities	**18,781**	(56,365)	(116,363)	**229**
Effect of exchange rate change on cash and cash equivalents	**(995)**	(3,733)	(965)	**(12)**
Net increase (decrease) in cash and cash equivalents	**(1,145)**	1,795	(8,134)	**(14)**
Cash and cash equivalents, beginning of year	**84,224**	82,429	90,563	**1,027**
Cash and cash equivalents, end of year	**¥ 83,079**	¥ 84,224	¥ 82,429	**$ 1,013**

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Fiscal Year Ended March 31, 2012

Despite the fact that net income increased from the previous fiscal year as Komatsu recognized an increase in net sales (and increased its cash collections), net cash provided by operating activities amounted to ¥105,608 million (U.S.$1,288 million), a decrease of ¥44,794 million from ¥150,402 million for the previous fiscal year, mainly due to the increased purchase of a number of components used in the production of equipment in response to greater demand, especially demand for mining equipment. In addition, the increase in payment for income tax, which was due to the increase in taxable income compared to the fiscal year ended March 31, 2011, also contributed to the decrease in net cash provided by operating activities. The decrease in net cash provided by operating activities was partially offset by the increase in cash collections resulting from increased sales as compared to the previous fiscal year and an advance payment received from a customer in the mining business to secure specific purchase orders in the amount of ¥14,719 million (U.S.$180 million). The advance payment from the customer will be recorded as a sale when the corresponding revenue is recognized in the subsequent years.

Net cash used in investing activities totaled ¥124,539 million (U.S.$1,519 million), an increase of ¥36,030 million from ¥88,509 million for the previous fiscal year, mainly due to the purchase of fixed assets as well as acquisitions of subsidiary shares and minority equity stakes in companies. The purchase of fixed assets, which totaled ¥126,090 million (U.S.$1,538 million) for the fiscal year ended March 31, 2012, increased mainly due to the need to expand production capacity in response to increased demand for its equipment and to strengthen its sales and service operations in the Strategic Markets. The acquisition of shares of subsidiaries included the acquisition of an additional 50% equity stake in Gigaphoton Inc. for ¥7,500 million, as a result of which Gigaphoton Inc. became a consolidated subsidiary of the Company.

While cash was used for the redistribution of profits to shareholders during the fiscal year ended March 31, 2012 in the form of dividend payments and the repurchase of Komatsu s own shares for retirement, net cash provided by financing activities amounted to ¥18,781 million (U.S.$229 million) due to long-term debt financing and an increase in short-term debt.

Fiscal Year Ended March 31, 2011

Despite the fact that net income increased from the previous fiscal year as Komatsu recognized an increase in net sales (and increased its cash collections) in light of growth in the world economy, net cash provided by operating activities decreased by ¥31,759 million from ¥182,161 million for the previous fiscal year to ¥150,402 million, mainly due to the increased purchase of a number of components used in the production of equipment in response to greater demand. Komatsu increased its inventory in anticipation of an increase in demand for its equipment.

Net cash used in investing activities increased by ¥15,542 million from the previous fiscal year to ¥88,509 million. This increase was due primarily to capital expenditures for the fiscal year ended March 31, 2011 increasing by ¥8,419 million from the previous fiscal year to ¥100,820 million. Capital expenditures increased mainly due to the need to expand production capacity in order to respond to increased sales.

Net cash used in financing activities decreased by ¥59,998 million from the previous fiscal year to ¥56,365 million, mainly due to the decrease in repayments in respect of outstanding debt obligations. Short-term financing to purchase components used in the production of equipment and capital expenditures increased as compared to the previous fiscal year.

Capital Investment

Komatsu s management defines Capital Investment as costs relating to the purchase of property, plant and equipment, including properties under capital leases on an accrual basis, which reflects the effect of timing differences between acquisition dates and payment dates. Komatsu s management uses this financial indicator to manage its capital investment and believes that this indicator is useful to investors in that this indicator presents accrual based capital investment in addition to the cash based capital expenditures provided in the consolidated statements of cash flows.

In the fiscal year ended March 31, 2012, Komatsu made capital investments in the construction, mining and utility equipment business to expand its production capacity in response to increased demand for its equipment, and to strengthen its sales and service operations in the Strategic Markets. For example, in anticipation of mid- to long-range market growth, Komatsu expanded production capacities of Komatsu (Changzhou) Construction Machinery Corp. and Komatsu (Shandong) Construction Machinery Corp. in China. In the Industrial Machinery and Others operating segment, Komatsu made capital investments to increase its capacity to produce presses and machine tools in response to increased capital investments by the automobile manufacturing industry.

As a result, Komatsu s capital investment on a consolidated basis for the fiscal year ended March 31, 2012 was ¥122,038 million (U.S.$1,488 million), an increase of ¥24,300 million from the fiscal year ended March 31, 2011. Komatsu plans to make investments totaling ¥125,000 million for the fiscal year ending March 31, 2013. For information about capital investment plans for the fiscal year ending March 31, 2013, see Item 4.D. Property, Plants and Equipment.

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Source of Funds and Liquidity Management

Komatsu s principal capital resources policy is to maintain sufficient capital resources to be able to respond promptly to future capital needs in connection with its operations and to maintain an appropriate level of liquidity. Consistent with this policy, Komatsu has secured various sources of funding, such as loans, corporate bonds, notes and lines of credit. Komatsu expects to use cash generated from its operations and funds procured through such external sources to satisfy future capital expenditures and working capital needs. In addition, in order to improve the efficiency and effectiveness of its cash management, Komatsu s overseas subsidiaries participate in a global cash pooling arrangement with a single financial institution, which is used to fund their liquidity needs. Participating overseas subsidiaries are allowed to withdraw cash from this financial institution based upon the aggregate cash deposits made to such financial institution. This arrangement contains specific provisions for the right to offset positive and negative cash balances on a global basis. Komatsu s consolidated Balance Sheet as of March 31, 2012 reflects cash net of withdrawals of ¥28,823 million (U.S.$352 million) in this global cash pooling arrangement.

Transfer of funds from subsidiaries in the form of cash dividends, loans or advances are restricted by applicable local regulations of countries in which some of Komatsu s subsidiaries are located. Nonetheless, Komatsu does not expect these restrictions to have a significant impact on its ability to meet its cash obligations.

Komatsu s short-term funding needs have been met mainly by cash flows from its operating activities, as well as by bank loans and the issuance of commercial paper.

As of March 31, 2012, certain consolidated subsidiaries of the Company maintained committed credit line agreements totaling ¥58,395 million (U.S.$712 million) with financial institutions to secure liquidity. As of March 31, 2012, approximately ¥12,544 million (U.S.$153 million) was available to be used under such credit line agreements, which contain customary covenants. Komatsu is not subject to any covenants limiting its ability to incur additional indebtedness. In addition, the Company has a ¥120,000 million (U.S.$1,463 million) commercial paper program, ¥75,000 million (U.S.$915 million) of which was unused as of March 31, 2012. The amount of capital raised through its commercial paper program has depended upon Komatsu s financial needs, investor demand and market conditions, as well as the ratings outlook for Komatsu.

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To fulfill Komatsu s medium- to long-term funding needs, the Company has established a bond program as well as a Euro Medium Term Note (EMTN) program. As discussed below, in addition to the Company, some of its subsidiaries may also issue EMTNs under the EMTN program. In November 2010, the Company s bond program was renewed such that it could issue up to ¥100,000 million (U.S.$1,219 million) of variable-term bonds within a two year period. Under this renewed program, the Company has issued ¥30,000 million (U.S.$366 million) of bonds as of March 31, 2012 and ¥70,000 million (U.S.$854 million) remains unused. As of March 31, 2012, the Company also has ¥120,000 million (U.S.$1,463 million) aggregate principal amount of bonds outstanding, which was issued under the bond program prior to its 2010 renewal. As for EMTNs, the Company, Komatsu Finance America Inc. and Komatsu Capital Europe S.A. have established a U.S.$1.2 billion EMTN program. Any of these three issuer entities can issue notes in various currencies under the EMTN program. The principal amount of notes outstanding as of March 31, 2012 under the EMTN program was ¥56,098 million (U.S.$684 million).

For additional information about the interest rate structure and maturity dates for these borrowings, see Note 11 to the Consolidated Financial Statements.

Fiscal 2012 Financial Position

Komatsu s short-term debt as of March 31, 2012, which primarily consisted of commercial paper increased by ¥85,516 million to ¥215,824 million (U.S.$ 2,632 million) from March 31, 2011. Such short-term debt was used as working capital.

Komatsu s long-term debt, including the debt with maturity dates on or before March 31, 2013, increased by ¥18,216 million to ¥431,976 million (U.S.$5,268 million) in the fiscal year ended March 31, 2012 as compared to the fiscal year ended March 31, 2011. As of March 31, 2012, Komatsu s long-term debt, excluding market value adjustment, consisted of (1) ¥243,342 million in loans from banks, insurance companies and other financial institutions, (2) ¥120,000 million in unsecured bonds, (3) ¥56,098 million in EMTNs and (4) ¥12,536 million in capital lease obligations. Such long-term debt was used primarily for capital expenditures and long-term working capital needs. For information about the interest rate structure and maturity dates for these borrowings, see Note 11 to the Consolidated Financial Statements.

As a result, Komatsu s interest-bearing debt as of March 31, 2012, including its capital lease obligations, increased by ¥103,732 million to ¥647,800 million (U.S.$7,900 million) as compared to March 31, 2011. Net interest-bearing debt after deducting cash and deposits also increased by ¥104,704 million to ¥563,814 million (U.S.$6,876 million) in the fiscal year ended March 31, 2012. As a result, Komatsu s net debt-to-equity ratio as of March 31, 2012 was 0.56, compared to 0.50 as of March 31, 2011.

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At March 31, 2012, total working capital increased by ¥92,278 million to ¥536,662 million (U.S.$6,545 million). The current ratio, which is calculated by dividing current assets by current liabilities, as of March 31, 2012, was 162.1%, which reflected a increase of 6.6 percentage points from the fiscal year ended March 31, 2011. In management s opinion, the working capital is sufficient for the Komatsu s present requirements.

Based on anticipated cash flows from its operating activities, the available sources of funds and the level of its current ratio (which is calculated by dividing current assets by current liabilities), Komatsu believes that it has sufficient means to satisfy its liquidity needs and future obligations.

As of March 31, 2012, Komatsu has committed to make capital investments totaling approximately ¥12,500 million (U.S.$152 million). With respect to the Construction, Mining and Utility Equipment operating segment, Komatsu plans to make capital investments to increase its capacity to produce components, spare parts and repair parts for mining equipment in response to increased demand. In addition, Komatsu plans to continue making capital investments to produce components which comply with the next round of emission standards scheduled to be introduced in Japan, North America and Europe. With respect to the Industrial Machinery and Others operating segment, Komatsu plans to continue making capital investments to renew obsolete equipment.

As of March 31, 2012, Komatsu s total cash and cash equivalents was ¥83,079 million (U.S.$1,013 million). Out of total cash and cash equivalents, ¥58,911 million (U.S.$ 718 million) was held outside of Japan in various overseas subsidiaries as of March 31, 2012. Under current tax laws and regulations, if cash and cash equivalents associated with the overseas subsidiaries undistributed earnings were to be repatriated in the form of dividends or deemed distributions to Komatsu, Komatsu would be subject to additional Japanese income taxes and foreign withholding taxes in certain countries. However, Komatsu considers almost half of these funds to be indefinitely invested in its overseas operations and does not intend to repatriate them as of March 31, 2012.

Credit Ratings

The Company obtains credit ratings from three rating agencies: Standard and Poor s Ratings Services (S&P), Moody s Investors Service, Inc. (Moody s) and Rating and Investment Information, Inc. (R&I). As of March 31, 2012, the Company s issuer ratings were as follows:

S&P: A (long-term)

Moody s: A2 (long-term)

R&I: AA- (long-term), a-1+ (short-term)

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C. Research and Development, Patents and Licenses, etc.

Komatsu is actively engaged in research and development activities for new technologies, new products and new services consistent with its commitment to provide Quality and Reliability. Komatsu s research and development activities are conducted by various groups within Komatsu. With respect to the Construction, Mining and Utility Equipment operating segment, the Research Division and the Development Division as well as development centers that focus on construction, mining and utility equipment are involved in research and development activities. The Industrial Machinery Division and the technology departments of Komatsu s subsidiaries and affiliates are responsible for research and development activities relating to the Industrial Machinery and Others operating segment.

The following table presents Komatsu s research and development expenses for the fiscal years ended March 31, 2012, 2011 and 2010. Research and development expenses are recognized when incurred.

	Millions of yen			Millions of
	Fiscal Years Ended March 31,			U.S. dollars
R&D expenses	**2012**	2011	2010	**2012**
Construction, Mining and Utility Equipment	**¥ 42,960**	¥ 40,241	¥ 40,359	**$ 524**
Industrial Machinery and Others	**11,883**	8,764	6,090	**145**
Total	**¥ 54,843**	¥ 49,005	¥ 46,449	**$ 669**

The objectives of the research and development activities by operating segment for the fiscal years ended March 31, 2012 are described below.

(1) Construction, Mining and Utility Equipment

In order to develop construction, mining and utility equipment that can be used in various parts of the world, Komatsu has established research and development centers in Japan and overseas, and has encouraged joint research and development programs as well as personnel exchanges. With the goal of assisting its customers to improve their productivity, Komatsu s medium- and long-term research and development objectives are as follows: (1) to make advancements in the use of ICT and (2) to increase the environmental friendliness of its products.

Komatsu has been engaged in the research and development of ICT, including remote management technology (which enables remote management of equipment by obtaining information regarding machine locations, operating conditions and vehicle health using state-of-the-art remote sensing and telecommunication technologies), control technology and intelligent machine technology (which, for example, provide information as to when, for how long and in what mode the equipment was operated, whether the engine should be shut down based on the time it has been idle, and the machine location, digging position and grading height using a GPS based system, such that the operators of equipment with such technology can complete jobs more efficiently, economically and accurately).

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Equipment with control systems and management systems using these technologies have been rapidly penetrating the construction and mining equipment market. Komatsu is striving to achieve the complete automation of its equipment and is making advances to actively use ICT in its construction and mining equipment taking into consideration customers needs and preferences.

Komatsu has made advances in research and development relating to energy conservation, component recycling and reuse, and the evaluation of environmental loads through lifecycle assessment techniques based on the belief that it is possible to reduce environmental burdens while achieving economic efficiency. In particular, Komatsu has placed special emphasis on research and development activities relating to technologies that reduce fuel consumption, which are conducive to both the environment (by reducing CO_2 emissions) and the economy (by decreasing fuel expenses). For example, in the fiscal year ended March 31, 2008, Komatsu became the world s first company to release a hybrid excavator, which it released in the Japanese and Chinese markets. Hybrid excavators typically consume less fuel when functioning at the maximum level as compared to conventional excavators and also emits lower levels of NOx and CO_2. As of the date hereof, Komatsu s hybrid hydraulic excavators are sold not only in Japan and China but also in the North American, European, Central and South American, Southeast Asian and Oceania markets. In addition, construction equipment with clean diesel engines that meet stringent emission standards (US EPA Tier 4 Interim and EU Stage IIIB), which were phased in starting in 2011, are being released. Komatsu also has expanded its line of mini-construction equipment, which meet the emission standards enforced in China. Komatsu has developed and introduced forklift trucks, which meet the emission standards in Japan. Komatsu is continuously seeking to develop new technology to meet stricter exhaust gas emission standards that are to become effective in the future. In addition, Komatsu is working to make further improvements to the working conditions for machine operators by enhancing safety measures and reducing noise and vibration levels of its machines.

(2) Industrial Machinery and Others

Research and development in the Industrial Machinery and Others operating segment is principally conducted in the fields of large presses and fabricating machinery (which is conducted by Komatsu Industries Corporation), machine tools (which is conducted by Komatsu NTC Ltd.) and other industrial machinery (which is conducted by KELK Ltd. and Gigaphoton Inc.).

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In the category of large-sized presses, Komatsu Industries Corporation has developed a system expansion model, H4F2000, of the AC servo press in response to customers calls for improvement in terms of productivity and formability. At the same time, Komatsu Industries Corporation developed the AC servo die cushions of 400 tons and introduced it to the market.

In the category of fabricating machinery, Komatsu Industries Corporation has developed a new plasma cutting machine, TFP3051LL, which is expected to have twice the useful life of a conventional machine and has improved cutting quality compared to earlier models.

With respect to machine tools, Komatsu NTC Ltd. started the development of new crankshaft milling machines during the fiscal year ended March 31, 2012 and is currently selling N30Hi, a crankshaft milling machine that consumes less energy than conventional models, mainly to the automobile parts machining industries. With respect to wire saws, model PV500D, which is exclusively used to cut diamonds, went on sale for the solar cell industry during the fiscal year ended March 31, 2012 and a new model, SP300Di, has been developed to cut sapphire, which is used as a base material for LED lights.

In terms of other products, KELK Ltd. has been engaged in the research and development of high-performance temperature control equipment, high-performance thermoelectric heat exchange units, micro thermo-modules for use in optical communications and thermoelectric power generation modules. Gigaphoton Inc. has been engaged in the research and development to improve ArF excimer laser for immersion lithography tools and EUV light source for the next generation lithography tools.

D. Trend Information

With respect to the construction, mining and utility equipment business, Komatsu expects that demand will further expand in the high-margin domain of mining equipment, parts and service. While the prices of natural resources have decreased slightly recently, the overall prices of natural resources continue to remain high. As a result, mining activity by Komatsu s clients continues to remain high in areas such as Australia, South America and Southeast Asia. Accordingly, Komatsu expects that new mining equipment will continue to be in demand. Komatsu also expects that its parts sales will increase as the number of Komatsu s mining equipment in operation increases. This is because some of this equipment will need to be overhauled. Komatsu also expects that demand for construction and utility equipment will increase especially in North America and Japan. In North America, demand for new construction and utility equipment by equipment rental companies is expected to continue increasing as such companies replace some of their older equipment with newer equipment. The increase in energy development in North America, such as shale gas fracking development, is also expected to contribute to the increase in demand for construction equipment. In Japan, demand for new equipment is expected to continue increasing from rental companies as such companies continue to use such equipment for the reconstruction of the regions affected by the Great East Japan Earthquake and subsequent tsunami.

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In the industrial machinery and others business, Komatsu expects that the demand for presses and machine tools will remain steady. This is because the number of automobiles manufactured on a worldwide basis is expected to continue increasing and, as a result, capital investments by automobile manufacturers is expected to increase. In particular, in the Strategic Market, such as in India, China and Brazil, where automobile production is increasing rapidly, demand for Komatsu s presses and machine tools is growing.

Komatsu will strive to capitalize on these market expansions by not only expanding its sales of new equipment but also sales in the entire value chain, which includes its parts sales and services. Komatsu will also continue to increase the sales price of its products and decrease production costs.

Forward looking statements

This annual report contains forward-looking statements which reflect management s current views with respect to certain future events, including expected financial position, operating results, and business strategies. These statements can be identified by the use of terms such as will, believes, should, projects and similar terms and expressions that identify future events or expectations. Actual results may differ materially from those projected, and the events and results of such forward-looking assumptions cannot be assured.

Factors that may cause actual results to differ materially from those predicted by such forward-looking statements include, but are not limited to, unanticipated changes in demand for Komatsu s principal products, owing to changes in the economic conditions in Komatsu s principal markets; changes in exchange rates or the impact of increased competition; unanticipated cost or delays encountered in achieving Komatsu s objectives with respect to globalized product sourcing and new Information Technology tools; uncertainties as to the results of Komatsu s research and development efforts and its ability to access and protect certain intellectual property rights; and, the impact of regulatory changes and accounting principles and practices.

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E. Off-Balance Sheet Arrangements

Commitments and Contingent Liabilities

As of March 31, 2012, Komatsu had ¥1,875 million (U.S.$23 million) of contingent liabilities with financial institutions for discounted and transferred receivables on a recourse basis.

Komatsu provides guarantees to third parties in connection with loans borrowed by its employees and affiliated companies, customers and other companies. These guarantees relate mainly to housing loans extended to Komatsu s employees. The guarantees that support loans borrowed by Komatsu s affiliated companies, customers and other companies are issued to enhance the creditworthiness of these affiliated companies, customers and other companies.

For each guarantee issued, Komatsu is required to perform under such guarantee if the borrower defaults on a payment required to be made by the applicable contract s terms. The contract terms range from 10 years to 30 years in the case of employees housing loans, and from 1 to 11 years in the case of loans borrowed by Komatsu s affiliated companies, customers and other companies. The maximum aggregate amount of undiscounted payments Komatsu would have had to make in the event that a payment default were to occur for all of these loans was ¥92,955 million (U.S.$1,134 million) as of March 31, 2012. The fair value of the liabilities recognized for Komatsu s obligations as guarantor under these guarantees as of March 31, 2012 were believed to be insignificant by Komatsu s management. Some of these guarantees were secured by collateral or insurance issued to the Company.

Komatsu s management believes that losses from these contingent liabilities, if any, would not have a material effect on the consolidated financial statements of Komatsu.

Komatsu is involved in certain legal actions and claims arising in the ordinary course of its business. It is the opinion of Komatsu s management and legal counsel that such litigation and claims will be resolved without any material effect on Komatsu s financial position.

Komatsu has business activities with customers, distributors and associates around the world and the trade receivables from such parties are well diversified to minimize credit risk concentrations. Komatsu s management does not expect to incur losses on such trade receivables in excess of established allowances.

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Komatsu also issues contractual product warranties under which they generally guarantee the performance of products delivered and services rendered for a certain period or term. Changes in accrued product warranty costs for the fiscal years ended March 31, 2012 and 2011 are summarized below:

	Millions of yen Fiscal Years Ended March 31,		Millions of U.S. dollars
	2012	2011	**2012**
Balance at beginning of year	**¥ 28,531**	¥ 23,758	**$ 348**
Addition	**28,234**	27,091	**344**
Utilization	**(26,211)**	(21,352)	**(320)**
Other	**(20)**	(966)	**(0)**
Balance at end of year	**¥ 30,534**	¥ 28,531	**$ 372**

Securitization

Komatsu used to have account receivables securitization programs; however, all such programs were terminated during the fiscal year ended March 31, 2010. Accordingly, neither the Company nor any of its consolidated subsidiaries had any account receivables that had been securitized as of March 31, 2011 or March 31, 2012.

F. Tabular Disclosure of Contractual Obligations

The following tables set forth Komatsu s contractual obligations as of March 31, 2012.

	Millions of yen Cash payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Short-term debt obligations	¥ 215,824	¥ 215,824	¥	¥	¥
Long-term debt obligations (excluding capital lease obligations)	417,650	113,079	217,401	86,718	452
Capital (Finance) lease obligations	12,536	5,339	5,759	1,061	377
Operating lease obligations	10,491	3,398	4,038	1,646	1,409
Interest on interest-bearing debt (including capital lease obligations)	20,408	13,464	5,620	1,253	71
Pension and other post-retirement obligations	5,024	5,024			
Total	¥ 681,933	¥ 356,128	¥ 232,818	¥ 90,678	¥ 2,309

Long-term debt obligations exclude market value adjustments of ¥1,790 million (U.S.$22 million).

Interest on interest-bearing debt is based on rates in effect as of March 31, 2012.

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Pension and other post-retirement obligations reflect contributions expected to be made during the year ending March 31, 2013 only, as the amounts of funding obligations beyond the next year are not yet determinable.

Obligations related to derivative activities are summarized in Foreign Exchange Risk and Interest Rate Risk under Item 11. Quantitative and Qualitative Disclosures about Market Risk.

G. Safe Harbor

Any information disclosed under Item 5.E. Off Balance Sheet Arrangements and Item 5.F. Tabular Disclosure of Contractual Obligations that is not historical in nature is deemed to be a forward-looking statement. See Cautionary Statement with respect to forward-looking statements for more information.

Item 6. Directors, Senior Management and Employees

A. Directors and Senior Management

Set forth below are the Directors and Corporate Auditors of the Company, their date of birth, current position with the Company, prior positions, the dates when they assumed such positions and other principal business activities performed outside the Company as of June 21, 2012. The Company s senior management is comprised of all of the directors (excluding outside directors) listed below.

Board of Directors

Masahiro Sakane

Date of Birth:	Jan. 7, 1941
Director Since:	Jun. 1989
Current Positions:	Chairman of the Board and Director (since Jun. 2010)

Prior Positions:

Jun. 2007	Chairman of the Board and Representative Director
Jun. 2003	President, Representative Director and Chief Executive Officer
Jun. 2001	President and Representative Director
Jun. 1999	Executive Vice President and Representative Director
Jun. 1997	Executive Managing Director
Jun. 1994	Managing Director
Jun. 1989	Director
Jun. 1989	General Manager, Business Development Division
Apr. 1963	Joined the Company

Principal Business Activities Outside the Company:

	Outside Director of Nomura Holdings, Inc.
	Outside Director of Tokyo Electron Limited
	Outside Director of Asahi Glass Co., Ltd.

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Kunio Noji*

Date of Birth:	Nov. 17, 1946
Director Since:	Jun. 2001
Current Positions:	President, Representative Director and Chief Executive Officer (since Jun. 2007)

Prior Positions:

Apr. 2003	Director and Senior Executive Officer (Senmu)
Jun. 2001	Managing Director
Jun. 2000	Senior Executive Officer (Joumu)
Jun. 1999	Executive Officer
Jun. 1997	Director
Mar. 1997	General Manager, Information Systems Division
Apr. 1969	Joined the Company

Principal Business Activities Outside the Company:

	None

Yoshinori Komamura*

Date of Birth:	Feb. 20, 1948
Director Since:	Jun. 2005
Current Positions:	Executive Vice President and Representative Director (since Jun. 2010) Supervising Marketing and Product Support for Construction and Mining Equipment, Forest Machines, Forklift, AHS and Rental & Used Equipment, Human Resources (since Apr. 2012)

Prior Positions:

Apr. 2007	Senior Executive Officer (Senmu)
Jun. 2005	Director
Apr. 2005	Senior Executive Officer (Joumu) President of Construction and Mining Equipment Marketing Division
Jun. 1999	President and Representative Director of Komatsu Europe International N.V.
Apr. 1970	Joined the Company

Principal Business Activities Outside the Company:

	None

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Mamoru Hironaka*

Date of Birth:	Sept. 27, 1950
Director Since:	Jun. 2011
Current Positions:	Director (since Jun. 2011) President of Utility Equipment Division (since Apr. 2011) Senior Executive Officer (Senmu) (since Apr. 2009)

Prior Positions:

Apr. 2010	Executive Vice President and Representative Director of Komatsu Utility Co., Ltd.
Apr. 2007	Senior Executive Officer (Joumu)
Apr. 2004	Vice President of Construction & Mining Equipment Marketing Division
Jun. 2001	Executive Officer
Jun. 2000	General Manager of Product Planning Department, Development Division
Apr. 1974	Joined the Company

Principal Business Activities Outside the Company:

None

Tetsuji Ohashi*

Date of Birth:	Mar. 23, 1954
Director Since:	Jun. 2009
Current Positions:	Director (since Jun. 2009) Supervising Business Planning and Strategy, HANSEI Operation, and Industrial Machinery (since Apr. 2012) Senior Executive Officer (Senmu) (since Apr. 2012) Supervising Production and Information Strategy (since Apr. 2007)

Prior Positions:

Apr. 2011	Supervising Environment
Apr. 2008	Senior Executive Officer (Joumu)
Apr. 2007	President of Production Division Executive Officer
Oct. 1998	General Manager of Planning & Coordination Dept. of Awazu Plant, Production Division
Apr. 1977	Joined the Company

Principal Business Activities Outside the Company:

None

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Mikio Fujitsuka*

Date of Birth:	Mar. 13, 1955
Director Since:	Jun. 2011
Current Positions:	Director (since Jun. 2011) Chief Financial Officer (CFO) (since Apr. 2011) Supervising Investor Relations (since Apr. 2011) Senior Executive Officer (Joumu) (since Apr. 2010)

Prior Positions:

Feb. 2009	General Manager of Corporate Planning Department and President of Global Retail Finance Business Division
Apr. 2008	President of Global Retail Finance Business Division
Apr. 2005	Executive Officer
Jun. 2001	General Manager of Corporate Controlling Department
Apr. 1977	Joined the Company

Principal Business Activities Outside the Company:

None

Fujitoshi Takamura*

Date of Birth:	Dec 21, 1954
Director Since:	Jun. 2011
Current Positions:	Director (since Jun. 2011) Supervising Research (since Apr. 2011) Senior Executive Officer (Joumu) (since Apr. 2010) President of Development Division (since Apr. 2010)

Prior Positions:

Apr. 2009	Vice President of Development Division
Apr. 2006	Executive Officer
Apr. 2004	General Manager of Construction Equipment Technical Center 1, Development Division
Apr. 1977	Joined the Company

Principal Business Activities Outside the Company:

None

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Kensuke Hotta

Date of Birth:	Oct. 12, 1938
Director Since:	Jun. 2008
Current Position:	Outside Director (since Jun. 2008)

Positions Outside the Company:

Dec. 2008	Chairman and Representative Director of Greenhill & Co. Japan Ltd. (current position)
Dec. 2007	Senior Advisor of Morgan Stanley Japan Securities Co., Ltd. (now known as Morgan Stanley MUFG Securities Co., Ltd.)
Oct. 2007	Chairman and Representative Director of Hotta Partners Inc. (current position)
Apr. 2006	Chairman and Representative Director of Morgan Stanley Japan Securities Co., Ltd. (now known as Morgan Stanley MUFG Securities Co., Ltd.)
Jan. 2001	Chairman of Morgan Stanley Japan Limited
Jun. 1997	Deputy President and Representative Director of the Sumitomo Bank, Ltd. (now known as Sumitomo Mitsui Banking Corporation, hereinafter the Bank)
Oct. 1992	Senior Managing Director and Representative Director of the Bank
Oct. 1990	Managing Director of the Bank
Jun. 1987	Director of the Bank
Apr. 1962	Joined the Bank

Principal Business Activities Outside the Company:

Chairman and Representative Director of Greenhill & Co. Japan Ltd.

Chairman and Representative Director of Hotta Partners Inc.

Outside Corporate Auditor of SEIREN CO., LTD

Outside Director of HIROSE ELECTRIC CO., LTD.

Noriaki Kano

Date of Birth:	Apr. 29, 1940
Director Since:	Jun. 2008
Current Position:	Outside Director (since Jun. 2008)

Positions Outside the Company:

Jun. 2006	Professor Emeritus at Tokyo University of Science (current position)
Oct. 1982	Professor at Faculty of Engineering, Tokyo University of Science

Principal Business Activities Outside the Company:

Professor Emeritus at Tokyo University of Science

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Kouichi Ikeda

Date of Birth:	Apr. 21, 1940
Director Since:	Jun. 2010
Current Position:	Outside Director (since Jun. 2010)

Positions Outside the Company:

Jul. 2011	Corporate Advisor of Asahi Group Holdings, Ltd. (current position)
Mar. 2010	Corporate Advisor of Asahi Breweries, Ltd. (now known as Asahi Group Holdings, Ltd.; hereinafter the Asahi Breweries, Ltd.)
Mar. 2006	Chairman of the Board and Chief Executive Officer of Asahi Breweries, Ltd.
Jan. 2002	President and Chief Operating Officer of Asahi Breweries, Ltd.
Mar. 2001	Senior Managing Director and Senior Managing Executive Officer of Asahi Breweries, Ltd.
Mar. 2000	Senior Managing Executive Officer of Asahi Breweries, Ltd.
Mar. 1999	Senior Managing Director of Asahi Breweries, Ltd.
Mar. 1997	Managing Director of Asahi Breweries, Ltd.
Mar. 1996	Director of Asahi Breweries, Ltd.
Apr. 1963	Joined Asahi Breweries, Ltd.

Principal Business Activities Outside the Company:

Corporate Advisor of Asahi Group Holdings, Ltd.
Outside Corporate Auditor of Sumitomo Chemical Company, Limited
Outside Director of Watabe Wedding Corporation

Corporate Auditors

Kyoji Torii

Date of Birth:	Sep. 5, 1951
Corporate Auditor Since:	Jun. 2009
Current Positions:	Corporate Auditor (Full Time) (since Jun. 2009)

Prior Positions:

Jun. 2009	Assistant to Corporate Auditor
Jun. 2007	General Manager of Planning & Administration Dept., Defense Systems Division
Jun. 1999	General Manager of Affiliated Companies Dept.
Apr. 1974	Joined the Company

Principal Business Activities Outside the Company:

None

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Makoto Morimoto

Date of Birth:	Jul. 18, 1954
Corporate Auditor Since:	Jun. 2012
Current Positions:	Corporate Auditor (Full Time) (since Jun. 2012)

Prior Positions:

Jun. 2012	Assistant to Corporate Auditor
Apr. 2008	General Manager of Internal Audit Dept.
Sep. 2006	General Manager of Corporate Controlling Dept.
Apr. 2004	General Manager of Corporate Accounting Dept.
Apr. 1977	Joined the Company

Principal Business Activities Outside the Company:

	None

Makoto Okitsu

Date of Birth:	Dec. 2, 1939
Corporate Auditor Since:	Jun. 2006
Current Position:	Outside Corporate Auditor (since Jun. 2006)

Positions Outside the Company:

Jun. 2008	Advisor of Teijin Limited (current position)
Jun. 2006	Chairman and Director of Teijin Limited
Jun. 2005	Chairman and Director of Nabtesco Corporation (previously known as Teijin Seiki Co., Ltd.)
Jun. 2005	Chairman and Representative Director of Teijin Limited
Jun. 2004	Director of Teijin Limited
Sep. 2003	President and Representative Director of Nabtesco Corporation
Jun. 1999	Director of Teijin Limited
Jun. 1998	President and Representative Director of Teijin Seiki Co., Ltd.
Jun. 1996	Managing Director of Teijin Seiki Co., Ltd.
Jun. 1994	Director of Teijin Seiki Co., Ltd.
Apr. 1963	Joined Teijin Limited

Principal Business Activities Outside the Company:

	Advisor of Teijin Limited

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Hiroyuki Kamano

Date of Birth:	Jul. 21, 1945
Corporate Auditor Since:	Jun. 2007
Current Position:	Outside Corporate Auditor (since Jun. 2007)

Positions Outside the Company:

Oct. 1988	Partner of the Kamano Sogo Law Offices (current position)
Apr. 1981	Registered as attorney-at-law (bengoshi)
Dec. 1978	Retired from the Ministry of Foreign Affairs
Apr. 1971	Entered the Ministry of Foreign Affairs

Principal Business Activities Outside the Company:

Partner (attorney-at-law) of Kamano Sogo Law Offices
Outside Director of Sumitomo Life Insurance Company
Outside Director of NGK Insulators, Ltd.

Kunihiro Matsuo

Date of Birth:	Sep. 13, 1942
Corporate Auditor Since:	Jun. 2009
Current Position:	Outside Corporate Auditor (since Jun. 2009)

Positions Outside the Company:

Sep. 2006	Registered as attorney-at-law (bengoshi)
Jun. 2006	Retired from the position of Prosecutor-General of Supreme Public Prosecutors Office
Jun. 2004	Prosecutor- General of Supreme Public Prosecutors Office
Sep. 2003	Superintending Prosecutor of Tokyo High Public Prosecutors Office
May 1998	Prosecutor of Supreme Public Prosecutors Office
Apr. 1988	Counsellor of Minister s Secretariat, Ministry of Justice
Apr. 1968	Appointed as Prosecutor of Tokyo District Public Prosecutors Office

Principal Business Activities Outside the Company:

Attorney-at-Law
Outside Director of Asahi Glass Co., Ltd.
Outside Director of Tokyo Stock Exchange Group, Inc.
Outside Corporate Auditor of Toyota Motor Corporation
Outside Corporate Auditor of Mitsui & Co., Ltd.
Outside Corporate Auditor of Brother Industries, Ltd.

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Notes:

1) Directors Kensuke Hotta, Noriaki Kano and Kouichi Ikeda satisfy the requirements for outside director set forth in Article 2, Item 15 of the Corporation Act of Japan.

2) Corporate auditors Makoto Okitsu, Hiroyuki Kamano and Kunihiro Matsuo satisfy the requirements for outside corporate auditors set forth in Article 2, Item 16 of the Corporation Act of Japan.

3) With respect to the standards for independence of outside directors and outside corporate auditors, the Company makes determinations by reference to the Guidelines Concerning Listed Company Compliance, Etc. of the Tokyo Stock Exchange, which lists circumstances when a conflict of interest may arise between general shareholders and an outside director or corporate auditor. The Company has determined that Directors Kensuke Hotta, Noriaki Kano and Kouichi Ikeda and Corporate Auditors Makoto Okitsu, Hiroyuki Kamano and Kunihiro Matsuo are independent as none of them have any special relationship with the Company and there are no conflicts of interest between general shareholders and any one of them.

4) The Company introduced an executive officer system in June 1999. As of June 21, 2012, the Company has 37 officers including six persons simultaneously holding the position of director. Such persons have been marked with an asterisk next to their names in the above table.

5) There are no family relationships between any of the directors or corporate auditors of the Company.

6) There are no arrangements or understandings with major shareholders, customers, suppliers or others, pursuant to which any of the directors or corporate auditors of the Company were selected as a director or member of senior management.

Corporate Governance

Basic Stance on Corporate Governance

To continue to enjoy the trust and confidence of its stakeholders, Komatsu is working to strengthen its corporate governance structure, improve its management efficiency, conduct its business ethically and ensure sound management on a group-wide basis. To provide management transparency for its shareholders and investors, Komatsu discloses information in a fair and timely manner and actively engages in investor relations activities by holding meetings in Japan and overseas to explain its business results.

Current Corporate Governance Structure

The below paragraphs provide a brief description of Komatsu s current corporate governance structure, including its organizational framework, decision-making process and collaboration efforts.

a. Organizational Framework

In 1999, Komatsu introduced the executive officer system and has since worked to separate management decision-making and supervisory functions within the confines of the law. At the same time, in addition to having reduced the number of members of the Board of Directors of the Company and appointed outside directors and corporate auditors, the Company has been implementing operational reforms of its Board of Directors through which Board members can discuss important management issues thoroughly and make decisions promptly in order to enhance the effectiveness of the Board of Directors.

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The Company s Board of Directors meets every month, discusses and adopts resolutions concerning important matters and determines the management policies of Komatsu. The Company s Board of Directors also closely supervises and monitors the performance of the management duties undertaken by representative and other directors. Three outside directors, each of whom satisfy the requirements for independence as set forth under the listed company rules of the Tokyo Stock Exchange and the Osaka Securities Exchange, have been appointed to the Company s Board of Directors (which consisted of ten persons as of March 31, 2012) to enhance management transparency and objectivity.

With respect to corporate auditors (which consisted of five persons as of March 31, 2012), Komatsu has consistently made sure that at least half of them are outside corporate auditors. Currently, all three outside corporate auditors also satisfy the requirements for independence as set forth under the listed company rules of the Tokyo Stock Exchange and the Osaka Securities Exchange. Each corporate auditor attends the Company s Board of Directors meetings and other important meetings and audits the performance of duties by directors. The Board of Corporate Auditors of the Company performs such audit functions by meeting every month, determines audit policies, establishes the scope of responsibilities and accountability, and receives periodic status update reports from the directors as to the performance of his or her management duties. The Company has established the Office of Auditors Staff and assigned five employees who work as full-time and part-time assistants to the corporate auditors.

In order to ensure that its outside directors and outside corporate auditors can perform their duties as expected and that the Company can find highly qualified candidates in the future, the Company has entered into limited liability agreements that limit the liability of the outside directors and outside corporate auditors in the event of a dereliction of duty in accordance with Article 427, Paragraph 1 of the Corporation Act. The limit on liability provided in said agreements shall be as prescribed by laws and regulations.

b. Support for Outside Directors and Outside Corporate Auditors

As a general rule, the Company provides materials for Board meetings to outside directors and outside corporate auditors in advance of the meetings so that they have sufficient time to review the matters that are to be discussed. With respect to matters that may be of particular importance, the Board of Directors discusses them at the Board meeting prior to the Board meeting where such matters are scheduled for resolution. In this manner, the Company ensures that the directors have sufficient time to review the matters before decisions are made and that they will have an opportunity to consider the points noted in earlier discussions before deciding upon such matters.

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c. Collaboration between Corporate Auditors and Independent Public Accounting Firm

To complete the audit process effectively and efficiently, corporate auditors exchange opinions with the contracted independent public accounting firm concerning audit policies, audit items to be focused upon and audit approaches. Corporate auditors also observe the independent public accounting firm when the firm audits Komatsu s business bases, affiliated companies and other related entities. Corporate auditors and the independent public accounting firm also hold meetings to exchange audit information as needed during a given fiscal year. These exchanges lead to better collaboration between corporate auditors and the independent public accounting firm and a more expeditious audit process. In addition, corporate auditors receive reports of the independent public accounting firm s review at the end of the first, second and third quarters, and review and confirm important financial statement matters at the end of the second quarter and the fiscal year-end. Furthermore, corporate auditors evaluate the methods and results of the independent public accounting firm s review and audit by listening to their summaries and analyzing their review and audit reports.

When the Board of Corporate Auditors approves the engagement of an accounting firm to perform audit and non-audit work, the Board defines the policies, procedures and other related matters for such work, and conducts preliminary reviews of individual procedures followed by the accounting firm in order to maintain the independence of the accounting firm from Komatsu.

d. Collaboration between Corporate Auditors and the Internal Audit Department

The Internal Audit Department, in cooperation with other related departments, regularly audits business bases and affiliated companies both in Japan and overseas, evaluates the effectiveness of their internal control, reinforces their risk management and works to prevent misconduct and errors. Corporate auditors observe audits by the Internal Audit Department, form their own audit opinions, and give advice and recommendations to the Internal Audit Department.

In addition to reporting its audit results to the Board of Corporate Auditors, the Internal Audit Department works closely with the corporate auditors by providing various information relevant to their duties on a routine basis. There are 26 employees in the Internal Audit Department.

e. Collaboration between the Internal Audit Department and the Independent Public Accounting Firm

In assessing the effectiveness of internal control, the Internal Audit Department and the independent public accounting firm collaborate as needed by exchanging opinions and sharing information.

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Komatsu has entered into an audit contract with KPMG AZSA LLC and receives audit services for its accounts in connection with both non-consolidated and consolidated financial statements. Komatsu has also entered into consultation contracts with a number of law firms, receiving advice on important legal issues as needed, in an effort to reduce its legal risk.

In 1995, Komatsu established the International Advisory Board (IAB) to obtain objective advice and suggestions concerning Komatsu as a global company from internationally leading figures. IAB meets once a year to exchange opinions on various matters.

B. Compensation

In an effort to maintain an objective and transparent remuneration system, the policy and levels of remuneration for Directors and Corporate Auditors of the Company are deliberated by the Compensation Advisory Committee, which consists of four external members (two Outside Corporate Auditors, one Outside Director and one outside expert) and one internal member. Taking its recommendations into consideration, the remuneration for Directors is determined by the Board of Directors and the remuneration for Corporate Auditors is determined by discussions amongst the Corporate Auditors. Such remuneration for Directors and Corporate Auditors must be within the aggregate remuneration limits approved at a meeting of the shareholders. After such remuneration for Directors and Corporate Auditors are determined by the Board of Directors and Corporate Auditors, respectively, the determined remuneration is subject to approval at the general meeting of shareholders in accordance with the Corporation Act of Japan.

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

The remuneration for Directors is composed of a fixed, monthly remuneration and a variable remuneration linked to Komatsu s consolidated performance. The variable remuneration for Directors is linked to Komatsu s consolidated performance as measured by Komatsu s consolidated return-on-equity and return-on-asset performance indicators, subject to certain adjustment indicators for growth and segment profit margins, as set forth in further detail in the below table. The variable remuneration can range from 0% up to a maximum of 60% of the total annual remuneration paid to Directors. Two-thirds of the total amount of the variable remuneration is expected to be paid out in the form of cash bonuses, and the remaining one-third as stock-based remuneration in the form of stock acquisition rights. Stock-based remuneration in the form of stock acquisition rights is provided so that Directors foster the same perspective on corporate value as shareholders and are incentivized to work towards enhancing the long-term corporate value of the Company. In the event that the variable remuneration is 0%, only the fixed, monthly remuneration will be paid out to Directors.

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	Indicator	Ratio
Basic Indicators	Consolidated ROE (Net income attributable to Komatsu Ltd. divided by Komatsu Ltd. shareholders equity)	70%
	Consolidated ROA (Income before income taxes and equity in earnings of affiliated companies divided by total assets)	30%
Adjustment Indicators	Adjustment according to growth rate of consolidated sales and profit margin of segment	

The remuneration for Corporate Auditors only consists of a fixed, monthly remuneration. This remuneration arrangement is designed to support their independent position, with authority to audit the execution of duties by the Directors and without being influenced by changes in the corporate performance of the Company.

While Komatsu had a retirement allowance system for its Directors and Corporate Auditors in the past, such system was terminated as of June 2007.

The aggregate compensation, including cash bonuses and stock reacquisition rights, paid to all Directors and Corporate Auditors by the Company for the fiscal year ended March 31, 2012 for their respective services, was ¥1,077 million. The breakdown of the compensation is set forth below.

(Millions of Yen)

		Monetary Remuneration			Non-Monetary Remuneration, Etc.	
Remuneration	Number of Persons Paid	Salary	Cash Bonus	Total	Stock Acquisition Rights	Total Amount of Remuneration Paid
Directors	**13**	**424**	**339**	**763**	**198**	**961**
(Outside Directors included above)	**(3)**	**(40)**	**(9)**	**(49)**	**(5)**	**(53)**
Corporate Auditors	**5**	**117**		**117**		**117**
(Outside Corporate Auditors included above)	**(3)**	**(44)**	**( )**	**(44)**	**( )**	**(44)**
Total	**18**	**540**	**339**	**879**	**198**	**1,077**
(Outside Directors and Outside Corporate Auditors included above)	**(6)**	**(83)**	**(9)**	**(92)**	**(5)**	**(97)**

Notes:

1) As of the end of the fiscal year ended March 31, 2012, there were ten (10) Directors (three (3) of whom were Outside Directors) and five (5) Corporate Auditors (three (3) of whom were Outside Corporate Auditors). The numbers of persons and the remuneration amounts set forth in the above table, however, also include numbers and remuneration amounts paid during the fiscal year ended March 31, 2012 to three (3) Directors who retired as of the close of the 142nd ordinary general meeting of shareholders (held on June 22, 2011).

2) During the 135th ordinary general meeting of shareholders (held in June 2004), the shareholders resolved that the aggregate maximum amount of remuneration to be paid to Directors per month (excluding bonuses and stock acquisition rights) shall not exceed ¥60 million (excluding any amounts that are paid as a salary to Directors who are concurrently an employee of the Company) and the aggregate maximum amount of remuneration to be paid to Corporate Auditors per month shall not exceed ¥10 million. At the 141st ordinary general meeting of shareholders (held in June 2010), the shareholders approved the establishment of the maximum limit of ¥360 million (excluding any amounts that are paid as a salary to Directors who are concurrently an employee of the Company) for the yearly remuneration for Directors of the Company in the form of stock acquisition rights (of which no more than ¥50 million shall be allocated to Outside Directors).

3) The remuneration value for stock acquisition rights included in the Total Amount of Remuneration Paid is the amount that has been recorded by the Company from an accounting perspective as Non-Monetary Compensation, etc. for the fiscal year ended March 31, 2012.

4) No additional salary was paid to those Directors who concurrently were employees of the Company.

5) The figures in the above table have been rounded to the nearest Yen one million.

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Below are the names, titles and amounts of remuneration paid by the Company to persons whose remuneration (including cash bonuses and stock acquisition rights) equaled or exceeded ¥100 million for the fiscal year ended March 31, 2012.

(Millions of Yen)

Name and Title	Monetary Remuneration Salary	Monetary Remuneration Cash Bonus	Monetary Remuneration Total	Non-Monetary Remuneration, Etc. Stock Acquisition Rights	Total Amount of Remuneration Paid
Kunio Noji, President Representative Director and Chief Executive Officer	92	80	171	45	216
Masahiro Sakane, Chairman of the Board and Director	84	73	156	45	201
Yoshinori Komamura, Executive Vice President and Representative Director	55	48	103	28	131

Notes:

1) The remuneration value for stock acquisition rights included in the Total Amount of Remuneration Paid is the amount that has been recorded by the Company from an accounting perspective as Non-Monetary Compensation, etc. for the fiscal year ended March 31, 2012. More specifically, Kunio Noji and Masahiro Sakane have each been granted the right to acquire 19,700 shares of the common stock of the Company and Yoshinori Komamura has been granted the right to acquire 12,300 shares of the common stock of the Company (all at an exercise price per share of ¥1). In accordance with the Accounting Standards Board of Japan Statement No. 8 Accounting Standard for Share-based Payment, the remuneration value for stock acquisition rights that has been recorded by the Company from an accounting perspective for the fiscal year ended March 31, 2012 has been calculated by multiplying the fair value per share (¥2,268 per share) as of the grant date (August 1, 2011) by the number of shares granted.

2) The retirement allowance system for Directors and Corporate Auditors has been abolished as of June 2007.

3) The figures in the above table have been rounded to the nearest Yen one million. Accordingly, the amounts do not necessarily add up to figures provided under Monetary Remuneration Total or Total Amount of Remuneration Paid.

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Cash Bonuses

Cash bonuses to be received by the Directors are determined by a resolution adopted at the ordinary general meeting of shareholders of the Company held in June of each year. Cash bonuses so paid are not deductible by the Company for tax purposes, and are reported for financial reporting purposes under selling, general and administrative expenses as a charge against income for the fiscal year in which they are paid. The Company does not grant bonuses to its Corporate Auditors.

Retirement Allowance

At the ordinary general meeting of shareholders held on June 22, 2007, a resolution was passed to abolish the retirement benefit system for Directors and Corporate Auditors and to pay each Director and Corporate Auditor the amount of retirement benefits for the period of service up to June 22, 2007 at the time of their respective retirement. Accordingly, Komatsu did not make any provision for retirement allowance for the fiscal year ended March 31, 2012 and will not make any provision for retirement allowance in the future.

Stock-Based Remuneration

Komatsu has stock-based remuneration plans for (1) the Directors of the Company and (2) certain employees of the Company and directors of major subsidiaries of the Company. Under these plans, the Company may grant rights to subscribe for or purchase shares of common stock of the Company (stock acquisition rights) upon approval by shareholders at the ordinary general meeting of shareholders. The Company does not grant stock acquisition rights to its Corporate Auditors.

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At the 141st ordinary general meeting of shareholders held on June 23, 2010, the shareholders approved the establishment of the maximum limit of ¥360 million for the yearly remuneration for Directors of the Company in the form of stock acquisition rights (of which no more than ¥50 million shall be allocated for Outside Directors). Within this maximum limit, the Company may issue stock acquisition rights upon resolution of the Board of Directors. The maximum number of stock acquisition rights to be issued on a date within one year from the day of the ordinary general meeting of shareholders of the respective fiscal year is 2,390 units (of which a total number of 330 units is allocated for Outside Directors). The maximum number of shares of common stock of the Company subject to stock acquisition rights is 239,000 shares (of which 33,000 shares are allocated for Outside Directors).

During the fiscal year ended March 31, 2012, the Company granted to its Directors 872 stock acquisition rights conferring the right to purchase a total number of 87,200 shares of common stock of the Company. The exercise price for these stock acquisition rights granted as of August 1, 2011 was ¥1 per share. These stock acquisition rights are exercisable from August 1, 2014 to July 31, 2019.

For additional information regarding the stock acquisition rights granted to Directors and certain employees of the Company and Directors of its subsidiaries during the fiscal year ended March 31, 2012, see Item 6.E. Share Ownership.

C. Board Practices

All Directors and Corporate Auditors are elected at a general meeting of shareholders. Directors serve a one year term and Corporate Auditors serve a four year term pursuant to the Company s Articles of Incorporation. However, a Director or a Corporate Auditor may serve any number of consecutive terms.

The Board of Directors elects from its members a certain number of Representative Directors who have the power severally to represent the Company in all matters, and elects a President from the Representative Directors. At its discretion, the Board of Directors may also elect a Chairman from among its members and may grant special titles to one or more Directors as it deems necessary. At the present time, the President and the Executive Vice President are Representative Directors.

The Corporate Auditors of the Company are not required to be, and are not, certified public accountants. Each Corporate Auditor audits the performance of the Directors, and may at any time request the Directors to report on the business activities of the Company or investigate the business as well as the financial situation of the Company. Certain powers are provided under the Corporation Act of Japan to enable the Corporate Auditors to carry out these functions. Further, each Corporate Auditor continues to perform the function of examining the annual financial documents and the rendering of an opinion thereon for the general meeting of shareholders. The Corporate Auditors may not at the same time be Directors, managers or employees of the Company or of any of its subsidiaries. The Company does not have an audit committee.

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For information relating to the period during which each of the Company s Directors and Corporate Auditors have served in their respective offices, see Item 6.A. Directors and Senior Management.

The Company does not have a remuneration committee but does have a Compensation Advisory Committee that is comprised of a majority of external experts as noted in Item 6.B. Compensation.

None of the Directors have entered into service contracts with the Company or any of its subsidiaries providing for benefits upon termination of employment.

D. Employees

The following table shows the number of employees of the Company by operating segment as of March 31, 2012, 2011 and 2010.

Number of employees by operating segment

	As of March 31,		
	2012	2011	2010
Construction, Mining and Utility Equipment	**39,462** **(6,171)**	36,470 (4,950)	33,766 (3,926)
Industrial Machinery and Others	**4,057** **(1,034)**	3,924 (904)	4,180 (901)
Corporate	**687** **(162)**	665 (110)	572 (113)
Total	**44,206** **(7,367)**	41,059 (5,964)	38,518 (4,940)

Notes:

1) The numbers in parentheses refer to the average number of temporary employees during the relevant fiscal year ended March 31, which are not included in the number of employees.

2) The number of employees under Corporate refers to employees working for administrative departments who cannot be classified into the two operating segments.

3) The number of employees as of March 31, 2012 increased by 3,147 as compared to the number as of March 31, 2011. This increase was due primarily to the expansion of Komatsu s business and the inclusion of employees of newly consolidated subsidiaries.

The Company has a labor contract with the Komatsu Labor Union covering conditions of employment. This contract, which provides that all employees except management and certain other enumerated personnel must become union members, has been renegotiated every two years and its present term runs until August 2013.

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The employees of the Company s principal Japanese subsidiaries are covered by separate labor contracts between such subsidiaries and the unions representing their employees. These contracts contain provisions generally similar to those contained in the Company s contract with the Komatsu Labor Union. Certain overseas employees of the Company and subsidiaries are also covered by labor contracts between their employer and unions in the relevant locale representing the employees.

Management and the Komatsu Labor Union have negotiations and meetings on a regular basis in order to discuss various issues and share concerns relating to the financial condition of Komatsu. The Company believes that management has a good relationship with the Komatsu Labor Union.

E. Share Ownership

The following table sets forth the number of shares owned by the Directors and Corporate Auditors of the Company as of May 31, 2012.

Name	Position	Number of shares held (in thousands)
Masahiro Sakane	Chairman of the Board, Director	110
Kunio Noji	President, Representative Director	81
Yoshinori Komamura	Executive Vice President, Representative Director	30
Mamoru Hironaka	Director	19
Tetsuji Ohashi	Director	21
Mikio Fujitsuka	Director	18
Fujitoshi Takamura	Director	17
Kensuke Hotta	Director	1
Noriaki Kano	Director	17
Kouichi Ikeda	Director	
Kyoji Torii	Corporate Auditor (Full time)	18
Makoto Morimoto	Corporate Auditor (Full time)	14
Makoto Okitsu	Corporate Auditor	
Hiroyuki Kamano	Corporate Auditor	3
Kunihiro Matsuo	Corporate Auditor	
Total		**353**

Note: The number of shares for each Director and Corporate Auditor are rounded down. Accordingly, the sum of the amounts indicated in the Number of shares held (in thousands) column may not add up to the figure provided as the Total.

The total number of shares of the Company s stock owned by the Company s Directors and Corporate Auditors is less than one percent of the issued and outstanding shares of common stock of the Company.

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As noted in Item 6.B. Compensation, during the fiscal year ended March 31, 2012, Directors of the Company were granted 872 stock acquisition rights (conferring the right to purchase a total number of 87,200 shares of common stock of the Company), and the exercise price for these stock acquisition rights granted as of August 1, 2011 was ¥1 per share. These stock acquisition rights are exercisable from August 1, 2014 to July 31, 2019.

Pursuant to approval by the shareholders at the ordinary general meeting of shareholders, certain employees of the Company and directors of major subsidiaries of the Company were granted in the aggregate 2,529 stock acquisition rights (conferring the right to purchase a total number of 252,900 shares of common stock of the Company) during the fiscal year ended March 31, 2012. The exercise price for these stock acquisition rights granted as of August 1, 2011 was ¥1 per share. These stock acquisition rights are exercisable from August 1, 2014 to July 31, 2019.

At the 143rd ordinary general meeting of shareholders held on June 20, 2012, it was approved that the Company grant no more than 2,555 stock acquisition rights (conferring the right to purchase a total number of 255,500 shares of common stock of the Company) to employees of the Company and directors of major subsidiaries of the Company. At such ordinary general meeting of shareholders, the Company s Board of Directors was given the authority to issue such stock acquisition rights to employees of the Company and directors of major subsidiaries of the Company as it deems appropriate.

Item 7. Major Shareholders and Related Party Transactions

A. Major Shareholders

The following table shows the number of the Company s shares held by the 10 major shareholders of the Company and their ownership percentage as of March 31, 2012.

Major Shareholders as of March 31, 2012

Name of Major Shareholders	Number of Shares Held (in thousands)	Percentage (%)
Japan Trustee Services Bank, Ltd. (Trust Account)	51,214	5.20
The Master Trust Bank of Japan, Ltd. (Trust Account)	43,285	4.40
Taiyo Life Insurance Company	38,000	3.86
Nippon Life Insurance Co.	33,283	3.38
JPMorgan Chase Bank 380055	32,478	3.30
SSBT OD05 OMNIBUS ACCOUNT TREATY CLIENTS	24,489	2.49
The Bank of New York Mellon as Depositary Bank for Depositary Receipt Holders	24,177	2.45
State Street Bank and Trust Company	24,047	2.44
Sumitomo Mitsui Banking Corporation	17,835	1.81
Mellon Bank, N.A. as Agent for its Client Mellon Omnibus US Pension	12,982	1.32
Total of Top 10 Shareholders	**301,795**	**30.69**

Notes:

1) The figures for each shareholder are rounded. Accordingly, the sum of the amounts indicated in each column does not necessarily add up to the figures provided as Total of Top 10 Shareholders.

2) 30,330 thousand shares of treasury stock held by the Company are excluded from the Major Shareholders list above.

3) Shares held by the Japan Trustee Services Bank, Ltd. and The Master Trust Bank of Japan, Ltd. are held through trusts.

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To the best knowledge of the Company, no significant change has occurred in the ownership percentage of the major shareholders listed above during the past three years.

The Company s major shareholders are not entitled to any voting rights that are not provided to the other shareholders.

As of March 31, 2012, 20.7% of the shares of common stock issued (983,130,260 shares) were held of record by 226 residents of the United States, of which 24,177,913 shares were in the form of ADSs and 179,696,484 shares were held of record in the form of common stock.

To the best knowledge of the Company, the Company is not, directly or indirectly, controlled by another corporation or another entity, by the Government of Japan or by any foreign government, nor does any person own more than 10% of the Company s common stock.

There are no arrangements that are known to the Company the operation of which may at a subsequent date result in a change in control of the Company.

B. Related Party Transactions

In the ordinary course of business, Komatsu purchases and sells materials, supplies and services from and to its affiliates accounted for by the equity method. Komatsu regularly has trade accounts and other receivables payable by, and accounts payable to, its affiliates accounted for by the equity method. Furthermore, Komatsu has made loans to its affiliates accounted for by the equity method for the fiscal year ended March 31, 2012. Komatsu believes all of these transactions with, and loans to, its affiliates accounted for by the equity method to be arms-length transactions. In addition, Komatsu does not consider the amounts of these transactions with, or loans to, its affiliates accounted for by the equity method to be material to its business.

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For additional information, see Note 7 to the Consolidated Financial Statements included elsewhere in this report.

C. Interests of Experts and Counsel

Not applicable.

Item 8. Financial Information

A. Consolidated Statements and Other Financial Information

See the Consolidated Financial Statements and Notes to the Consolidated Financial Statements included in the Company s Financial Report to Shareholders for the fiscal year ended March 31, 2012 attached hereto.

Legal Proceedings

Komatsu is involved in certain legal actions and claims arising out of the ordinary course of its business. It is the opinion of Komatsu s management and its legal counsel that such litigation and claims will be resolved without any material effect on Komatsu s financial position or profitability.

Dividend Policy

The Company makes effort to provide steady dividend payments, taking into consideration the consolidated business results in determining the amount of profit to redistribute. The Company s goal is to provide a consolidated dividend payout ratio of 20% or higher and the Company maintains a policy of not decreasing dividends as long as the consolidated payout ratio does not surpass 40%. The Company distributes dividends twice a year (i.e., year-end dividends and interim dividends). The resolutions for the distributions of year-end dividends and of interim dividends are adopted at the ordinary general meeting of shareholders and at the meeting of the Board of Directors. For the fiscal year ended March 31, 2012, the Company set interim dividends of ¥21.0 per share, and year-end dividends of ¥21.0 per share, for a total annual per share dividend of ¥42.0.

Any retained earnings will be used to expand Komatsu s business and to strengthen its business bases by making effective investments to further globalize its operations and to develop and introduce new products using the technologies in which Komatsu enjoys technological advantages.

The Company may distribute interim dividends pursuant to Article 454, Paragraph 5 of the Corporation Act of Japan. Under the Articles of Incorporation of the Company, the Company may distribute interim dividends upon adoption of resolutions by the Board of Directors. The record date for interim dividends is September 30 of each year.

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B. Significant Changes

No significant change has occurred since the date of the Company s annual financial statements.

Item 9. The Offer and Listing

A. Offer and Listing Details

The shares of common stock of the Company have been listed on the Tokyo Stock Exchange (TSE) and the Osaka Securities Exchange in Japan since May 1949.

In the United States, the Company s American Depositary Shares (ADSs) are traded over-the-counter in the form of ADRs and are issued and exchanged by The Bank of New York Mellon in New York as the depositary. The Bank of New York Mellon replaced Citibank, N.A. as depositary on September 29, 2008. During the fiscal year ended March 31, 2010, the Company changed the ratio of its ADSs. Prior to February 16, 2010, each ADS represented four shares of the Company s common stock. On and after February 16, 2010, each ADS represents one share of the Company s common stock.

As of March 31, 2012, 952,261,022 shares were outstanding out of a total of 983,130,260 shares of common stock issued. This incorporates 24,177,913 ADSs (equivalent to 24,177,913 shares of common stock when using the current ratio of one ADS representing one common stock, or approximately 2.5% of the total number of shares of common stock outstanding) held by 32 registered ADR holders.

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The following table sets forth the reported high and low sales prices of the Company s stock on the TSE and the reported high and low sales prices of ADSs for the periods indicated.

	TSE (Japanese Yen)		ADS (U.S. dollars)	
Period	**High**	**Low**	**High**	**Low**
Annual highs and lows				
The fiscal year ended March 31, 2008	4,090	2,175	34.68	20.68
The fiscal year ended March 31, 2009	3,440	702	32.62	8.18
The fiscal year ended March 31, 2010	2,099	1,090	22.93	11.25
The fiscal year ended March 31, 2011	2,858	1,571	35.00	17.47
The fiscal year ended March 31, 2012	2,926	1,449	36.18	19.05
Quarterly highs and lows				
The fiscal year ended March 31, 2011				
1st quarter	2,023	1,580	21.53	17.47
2nd quarter	1,963	1,571	23.50	17.98
3rd quarter	2,515	1,880	30.50	22.74
4th quarter	2,858	2,060	35.00	28.61
The fiscal year ended March 31, 2012				
1st quarter	2,926	2,235	36.18	28.00
2nd quarter	2,595	1,631	32.27	21.28
3rd quarter	2,063	1,449	26.69	19.05
4th quarter	2,512	1,804	30.83	23.52
Monthly highs and lows				
December 2011	2,063	1,746	26.46	22.54
January 2012	2,165	1,804	28.95	23.52
February 2012	2,470	2,112	30.83	27.08
March 2012	2,512	2,196	30.11	27.53
April 2012	2,437	2,265	29.78	27.82
May 2012				