

KOMATSU LTD
Form 20-F
June 29, 2012
Table of Contents

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

☒ **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

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(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 Tetsuo 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)

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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 ☒ 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 ☒

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 ☒ 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 ☒ 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 ☒ 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 ☒ International Financial Reporting Standards as issued ☐ Other ☐

by the International Accounting Standards Board ☐

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.

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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 ☒

Table of Contents

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.

Table of Contents

Table of Contents

PART I

| | |
|----------------------------------------------------------------------|----|
| <u>Item 1. Identity of Directors, Senior Management and Advisers</u> | 1 |
| <u>Item 2. Offer Statistics and Expected Timetable</u> | 1 |
| <u>Item 3. Key Information</u> | 1 |
| <u>A. Selected Financial Data</u> | 1 |
| <u>B. Capitalization and Indebtedness</u> | 3 |
| <u>C. Reasons for the Offer and Use of Proceeds</u> | 3 |
| <u>D. Risk Factors</u> | 3 |
| <u>Item 4. Information on the Company</u> | 7 |
| <u>A. History and Development of the Company</u> | 7 |
| <u>B. Business Overview</u> | 10 |
| <u>C. Organizational Structure</u> | 27 |
| <u>D. Property, Plants and Equipment</u> | 28 |
| <u>Item 4A. Unresolved Staff Comments</u> | 31 |
| <u>Item 5. Operating and Financial Review and Prospects</u> | 32 |
| <u>A. Operating Results</u> | 32 |
| <u>B. Liquidity and Capital Resources</u> | 65 |
| <u>C. Research and Development, Patents and Licenses, etc.</u> | 71 |
| <u>D. Trend Information</u> | 73 |
| <u>E. Off-Balance Sheet Arrangements</u> | 75 |
| <u>F. Tabular Disclosure of Contractual Obligations</u> | 76 |
| <u>G. Safe Harbor</u> | 77 |
| <u>Item 6. Directors, Senior Management and Employees</u> | 77 |
| <u>A. Directors and Senior Management</u> | 77 |
| <u>B. Compensation</u> | 88 |
| <u>C. Board Practices</u> | 92 |
| <u>D. Employees</u> | 93 |
| <u>E. Share ownership</u> | 94 |
| <u>Item 7. Major Shareholders and Related Party Transactions</u> | 95 |
| <u>A. Major Shareholders</u> | 95 |
| <u>B. Related Party Transactions</u> | 96 |
| <u>C. Interests of Experts and Counsel</u> | 97 |
| <u>Item 8. Financial Information</u> | 97 |
| <u>A. Consolidated Statements and Other Financial Information</u> | 97 |

| | |
|--------------------------------------|----|
| <u>B. Significant Changes</u> | 98 |
| <u>Item 9. The Offer and Listing</u> | 98 |
| <u>A. Offer and Listing Details</u> | 98 |

Table of Contents

| | |
|----------------------------------------------------------------------------------------------|-----|
| <u>B. Plan of Distribution</u> | 99 |
| <u>C. Markets</u> | 99 |
| <u>D. Selling Shareholders</u> | 99 |
| <u>E. Dilution</u> | 100 |
| <u>F. Expenses of the Issue</u> | 100 |
| <u>Item 10. Additional Information</u> | 100 |
| <u>A. Share Capital</u> | 100 |
| <u>B. Memorandum and Articles of Association</u> | 100 |
| <u>C. Material Contracts</u> | 111 |
| <u>D. Exchange Controls</u> | 111 |
| <u>E. Taxation</u> | 114 |
| <u>F. Dividends and Paying Agents</u> | 121 |
| <u>G. Statement by Experts</u> | 121 |
| <u>H. Documents on Display</u> | 121 |
| <u>I. Subsidiary Information</u> | 121 |
| <u>Item 11. Quantitative and Qualitative Disclosures About Market Risk</u> | 121 |
| <u>Item 12. Description of Securities Other than Equity Securities</u> | 126 |
| <u>A. Debt Securities</u> | 126 |
| <u>B. Warrants and Rights</u> | 126 |
| <u>C. Other Securities</u> | 126 |
| <u>D. American Depositary Shares</u> | 126 |
| <u>PART II</u> | |
| <u>Item 13. Defaults, Dividend Arrearages and Delinquencies</u> | 127 |
| <u>Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds</u> | 127 |
| <u>Item 15. Controls and Procedures</u> | 127 |
| <u>Item 16. [Reserved]</u> | 129 |
| <u>A. Audit Committee Financial Experts</u> | 129 |
| <u>B. Code of Ethics</u> | 129 |
| <u>C. Principal Accountant Fees and Services</u> | 130 |
| <u>D. Exemptions from the Listing Standards for Audit Committees</u> | 131 |
| <u>E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers</u> | 131 |
| <u>F. Change in Registrant's Certifying Accountant</u> | 131 |
| <u>G. Corporate Governance</u> | 131 |
| <u>PART III</u> | |
| <u>Item 17. Financial Statements</u> | 132 |
| <u>Item 18. Financial Statements</u> | 132 |
| <u>Item 19. Exhibits</u> | 132 |

Exhibit 1.1
Exhibit 1.2
Exhibit 2
Exhibit 11
Exhibit 12 a
Exhibit 12 b
Exhibit 13 a
Exhibit 13 b

Table of Contents**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)

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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.

Table of Contents

- 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 |

Table of Contents

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.

Table of Contents

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.

Table of Contents

(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.

Table of Contents

(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.

Table of Contents

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).

Table of Contents

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.

Table of Contents

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.

Table of Contents

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 Construction, Mining and Utility Equipment | Main facilities 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.

Table of Contents**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 |

Table of Contents

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 |

Table of Contents**(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% |

Table of Contents

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.

Table of Contents

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.

Table of Contents

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.

Table of Contents

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 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.

Table of Contents

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 (CO₂). 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 CO₂ 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.

Table of Contents

(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 products 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 have 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.

Table of Contents

(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 MLIT 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.

Table of Contents

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.

Table of Contents

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.

Table of Contents

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.

Table of Contents

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.

Table of Contents

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

To help customers reduce CO₂ 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.

Table of Contents

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 |

Table of Contents**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 |

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Komatsu Financial Leasing China Ltd.
Notes:

China

100.0

- 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.

Table of Contents

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.

Table of Contents

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

Table of Contents

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

Table of Contents

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 | Principal investment | |
|--------------------------------------------|-----------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------|--------------------------------------|
| | March 31, 2013 (Millions of Yen) | 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.

Table of Contents

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.

Table of Contents

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.

Table of Contents

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 CO₂ 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.

Table of Contents

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.

Table of Contents*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, | | Percentage Change |
|---------------------------------------------|-----------------------------------------|---------------------|-------------------|
| | 2012 | 2011 | 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

Table of Contents*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.

Table of Contents

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.

Table of Contents

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.

Table of Contents

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.

Table of Contents

(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.

Table of Contents

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.

Table of Contents

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.

Table of Contents**Consolidated Statements of Income Information**

| | Millions of Yen | | | | Percentage change | Millions of |
|---------------------------------------------------------------------------|------------------------------|--------|-------------|------------|-------------------|--------------|
| | Fiscal Years Ended March 31, | | | | change | U.S. dollars |
| | 2012 | | 2011 | | 2012 vs. 2011 | 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 |

Table of Contents*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.

Table of Contents

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.

Table of Contents

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.

Table of Contents

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.

Table of Contents

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.

Table of Contents**Performance by Operating Segments**

| | Millions of Yen Fiscal Years Ended March 31, | | Percentage Change | Millions of U.S. dollars |
|--------------------------------------------|----------------------------------------------------|-------------|----------------------|-----------------------------|
| | 2012 | 2011 | 2012 vs. 2011 | 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.

Table of Contents*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.

Table of Contents

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.

Table of Contents

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).

Table of Contents

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 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.

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.

Table of Contents**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 2011 vs. 2010 |
|---------------------------------------------------------------------------|------------------------------|--------|-------------|--------|---------------------------------------|
| | Fiscal Years Ended March 31, | | | | |
| | 2011 | | 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 | | |

Table of Contents

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 CO₂ emissions volume. These excavators were well received and contributed to the increase in net sales.

Table of Contents

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.

Table of Contents

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.

Table of Contents

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.

Table of Contents

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.

Table of Contents*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 vs. 2010 |
|--------------------------------------------|----------------------------------------------------|-------------|---------------------------------------|
| | 2011 | 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.

Table of Contents

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.

Table of Contents

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.

Table of Contents

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, 2011 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).

Table of Contents*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 | | | Millions of |
|-------------------------------------------------------------|------------------------------|-----------|-----------|--------------|
| | Fiscal Years Ended March 31, | | | 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 |

Table of Contents

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.

Table of Contents

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.

Table of Contents

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.

Table of Contents

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.

Table of Contents

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)

Table of Contents**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.

| R&D expenses | Millions of yen | | | Millions of |
|--------------------------------------------|-------------------------------------|-------------|-------------|---------------------|
| | Fiscal Years Ended March 31, | | | U.S. dollars |
| | 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).

Table of Contents

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 CO₂ 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 CO₂. 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.).

Table of Contents

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.

Table of Contents

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.

Table of Contents

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.

Table of Contents

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.

| | Total | Millions of yen Cash payments due by period | | | |
|-------------------------------------------------------------------------|-----------|------------------------------------------------|-----------|-----------|----------------------|
| | | 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.

Table of Contents

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.

Table of Contents**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

Table of Contents

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

Table of Contents**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

Table of Contents**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

Table of Contents**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

Table of Contents**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

Table of Contents**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.

Table of Contents

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.

Table of Contents

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.

Table of Contents

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.

Table of Contents

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.

Table of Contents

| | 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)

| Remuneration | Number of Persons Paid | Monetary Remuneration | | | Non-Monetary Remuneration, Etc. Stock Acquisition Rights | Total Amount of Remuneration Paid |
|-------------------------------------------------------------------|---------------------------|-----------------------|------------|-------|----------------------------------------------------------------|--------------------------------------|
| | | Salary | Cash Bonus | Total | | |
| 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:

- 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).
- 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).
- 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.

Table of Contents

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 | | | Non-Monetary Remuneration, Etc. Stock Acquisition Rights | Total Amount of Remuneration Paid |
|------------------------------------------------------------------------------|-----------------------|------------|-------|----------------------------------------------------------------|--------------------------------------|
| | Salary | Cash Bonus | Total | | |
| 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.

Table of Contents

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.

Table of Contents

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.

Table of Contents

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.

Table of Contents

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.

Table of Contents

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.

Table of Contents

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.

Table of Contents

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.

Table of Contents

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.

Table of Contents

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.

| Period | TSE (Japanese Yen) | | ADS (U.S. dollars) | |
|--------------------------------------|-----------------------|-------|-----------------------|-------|
| | 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 | | | | |
| 1 st quarter | 2,023 | 1,580 | 21.53 | 17.47 |
| 2 nd quarter | 1,963 | 1,571 | 23.50 | 17.98 |
| 3 rd quarter | 2,515 | 1,880 | 30.50 | 22.74 |
| 4 th quarter | 2,858 | 2,060 | 35.00 | 28.61 |
| The fiscal year ended March 31, 2012 | | | | |
| 1 st quarter | 2,926 | 2,235 | 36.18 | 28.00 |
| 2 nd quarter | 2,595 | 1,631 | 32.27 | 21.28 |
| 3 rd quarter | 2,063 | 1,449 | 26.69 | 19.05 |
| 4 th 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 | 2,298 | 1,850 | 28.30 | 23.22 |

Note: During the fiscal year ended March 31, 2010, the Company changed the ratio of common stock represented by 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. The high and low sales prices set forth in the above table prior to March 2010 have been revised by dividing the actual sales price that were reported using the ratio of one ADS to four common stock (the ratio that was in effect prior to March 2010) by four.

B. Plan of Distribution

Not applicable.

C. Markets

See Item 9.A. Offer and listing details.

D. Selling Shareholders

Not applicable.

Table of Contents

E. Dilution

Not applicable.

F. Expenses of the Issue

Not applicable.

Item 10. Additional Information

A. Share Capital

Not applicable.

B. Memorandum and Articles of Association

I. Organization and Registration

The Company is a joint stock corporation (*kabushiki kaisha*) incorporated in Japan under the Corporation Act of Japan. It is registered in the Commercial Register (*Shogyo Tokibo*) maintained by the Minato Branch Office of Tokyo Legal Affairs Bureau, which has the jurisdiction over the district in which the Company's head office is currently located.

II. Objectives and Purposes

The objectives and purposes of the Company, provided in Art 2 of the Company's Articles of Incorporation, is to engage in the following businesses:

1. Manufacture, repair, sale and purchase of construction machinery, agricultural machinery, industrial machinery, automobiles, internal combustion engines and various types of other machinery and equipment and parts thereof.
2. Manufacture, sale and purchase of various iron and steel goods.
3. Smelting, processing, sale and purchase of various types of iron and steel, pig-iron, ferroalloys and other special metals.
4. Manufacture, sale and purchase of various types of electric materials and equipment.
5. Manufacture, sale and purchase of various synthetic resin products.
6. Manufacture, repair, sale and purchase of various armaments and parts thereof.
7. Mining industry, and sale and purchase of minerals.

Table of Contents

8. Designing, executing, supervising and contracting various types of civil engineering and construction work for plants, dwelling house, and other structures.
 9. Sale and purchase of lumber, processed lumber products and various types of civil engineering and construction materials, machinery and equipment.
 10. Sale, purchase and lease of real property.
 11. Manufacture, sale and repair of industrial waste and general waste treatment devices.
 12. Collection, transportation, treatment and recycling of industrial waste and general waste, sale of such recycled products, and consulting on these matters.
 13. Development, creation, sales and consulting on computer software and computer systems.
 14. Electronic commerce using networks such as the internet.
 15. Information processing and information providing service.
 16. Financing services.
 17. All business incidental to each and every one of the preceding items.
 18. Investing in other companies or promoting the organization of other companies.
- The objectives and purposes of other companies in which the Company may invest may not necessarily be restricted by the objectives and purposes of the Company.

III. Directors

The Corporation Act of Japan provides that the Directors must disclose the material facts on the relevant transactions to the Board of Directors and obtain approval of the Directors at such meeting on engaging in any business competing with the Company (Art. 356, Paragraph 1, Item 1) or effecting any transactions involving a conflict of interests (Art. 356, Paragraph 1, Items 2 and 3). It also provides that any Director who has a material interest in the subject matter of a resolution to be taken by the Board of Directors cannot vote in such resolution (Art. 369, Paragraph 2). Neither the Articles of Incorporation nor the Regulations of the Board of Directors of the Company have any additional provisions regarding a Director's power to vote on a proposal, arrangement or contract in which the Director is materially interested. The Corporation Act of Japan does not have an explicit provision concerning a director's obligation not to use the corporation's opportunity for his or her personal benefit or for the benefit of a third party, although such a conduct may be restricted by the duty of faithfulness (Art. 355).

With respect to directors' compensation, the Corporation Act of Japan requires that, unless otherwise specified in the articles of incorporation (which specification does not exist in the case of the Company), the amount (if such payable amount is fixed), the calculation method (if the amount is unfixed) or the substance (in the case of non-cash benefits) of directors' compensation shall be fixed by a resolution of a general meeting of shareholders (Art. 361, Paragraph 1). The Board of Directors of the Company may determine the other details of their compensation in accordance with what are resolved at a general meeting of shareholders as above.

Table of Contents

The Corporation Act of Japan provides that the incurrence by a corporation of a significant amount of borrowings from a third party needs approval of the corporation's board of directors (Art. 362, Paragraph 4, Item 2). The Company's Regulations of the Board of Directors contain corresponding provisions (The Articles of Incorporation of the Company have no specific provisions as to a borrowing power exercisable by the Directors.) There is no mandatory retirement age for Directors under the Corporation Act of Japan, the Articles of Incorporation or the Regulations of the Board of Directors of the Company. There is no requirement concerning the number of shares an individual must hold in order to qualify as a Director of the Company under the Corporation Act of Japan, the Articles of Incorporation or the Regulations of the Board of Directors of the Company.

IV. Common Stock

Set forth below is information relating to the Company's shares of common stock, including brief summaries of the relevant provisions of its Articles of Incorporation and Share Handling Regulations of the Company, as currently in effect, and of the Corporation Act of Japan and related legislation.

General

The Company's authorized share capital is 3,955,000,000 shares, of which 983,130,260 shares were issued as of May 31, 2012. Under the Corporation Act of Japan and the Law Concerning Book-Entry Transfer of Corporate Bonds, Stocks and Other Securities of Japan (including regulations promulgated thereunder; the Book-Entry Law), the listed companies issue no share certificates and any share certificates of such companies are invalid after January 5, 2009. Shares of such companies must be registered, and are transferable by an agreement between the transferor and the transferee but such transfer may not be asserted against a third party without its registration. In order to assert shareholders rights against the Company, a shareholder must have its name and address, etc. registered on the shareholder register under the Corporation Act of Japan and the Book-Entry Law, in accordance with the Company's Share Handling Regulations.

A holder of shares must register its shares in the transfer account of the Japan Securities Depository Center, Inc. (hereinafter referred to as JASDEC) or the account management institutions of the securities companies, etc. at which shareholders have established transfer accounts (hereinafter referred to as the Securities Companies). Modification of entries in the shareholders' register shall be generally made through notifications from JASDEC, including notifications and the like for all shareholder information (excluding such notices as set forth in Art. 154, Paragraph 3 of the Book-Entry Law). A shareholder shall place his/her name and address, etc. on file through Securities Companies and JASDEC, as prescribed by JASDEC. If a shareholder resides in a foreign country, he/she or his/her statutory agent shall appoint a standing proxy in Japan or specify a place in Japan to receive notices, and shall place the name or title and address of the standing proxy and the place to receive notice on file through Securities Companies and JASDEC, as prescribed by JASDEC.

Table of Contents

When a shareholder makes any request or exercises any other shareholders' right, he/she shall attach or provide items attesting that he/she made the request by himself/herself. Provided, however, that this shall not apply when it can be verified by the Company that the request was made by the shareholder himself/herself.

The registered holder of deposited shares underlying the ADSs is the depositary for the ADSs. Accordingly, holders of ADSs will not be able to directly assert shareholders' rights.

Rights of Shareholders

Dividends from Surplus

Under the Corporation Act of Japan, a joint stock corporation can make distribution of dividends from surplus to its shareholders (or pledgees) by the resolution of its shareholders' meeting anytime. Under the Company's Articles of Incorporation, it is only stipulated that the record date of year-end dividends shall be March 31 of each year, but it does not prevent the Company from making distribution of dividends from surplus based on other record dates. In addition, under the Corporation Act of Japan, a joint stock corporation can stipulate in its articles of incorporation, that it may distribute interim dividends to its shareholders (or pledgees) once per business year by resolution of its board of directors. Under the Company's Articles of Incorporation, the Company may, by resolution of the Board of Directors, distribute interim dividends, on the record date of which is September 30 in each year. Furthermore, under the Corporation Act of Japan, the Company is able to stipulate in its Articles of Incorporation that it can basically (i.e., other than the cases where its non-consolidated annual financial statements and certain documents relating to the latest fiscal year do not present fairly its assets and profits or losses, as required by ordinances of the Ministry of Justice) make distribution of dividends from surplus to its shareholders (or pledgees) by the resolution of its Board of Directors as long as the term of office of its directors expires no later than the close of an ordinary general meeting of shareholders with respect to the latest fiscal year ending within one year from the assumption of office and it has the Board of Corporate Auditors and an Accounting Auditor, but the Company has not stipulated such clauses in its Articles of Incorporation.

Table of Contents

Dividends from surplus will usually be distributed in cash, but it can be distributed in kind under the Corporation Act of Japan. If a distribution of dividends from surplus is to be made in kind, the Company may, pursuant to a resolution of a general meeting of shareholders which determines to make the distribution, grant rights to its shareholders to require the Company to make such distribution in cash instead of in kind to shareholders. If no such rights are granted to shareholders, the relevant dividends from surplus must be approved by a special resolution of a general meeting of shareholders.

The Corporation Act of Japan requires that, until the aggregate amount of the Company's legal reserve and additional paid-in capital is at least one-quarter of its stated capital, it set aside in its legal reserve and/or additional paid-in capital an amount equal to at least one-tenth of the amount of the dividends of surplus distributed.

The distributable amount of surplus is calculated by making some adjustments to the amount of surplus.

Under the Corporation Act of Japan, the amount of surplus is calculated by the following formula:

(1) base amount + (2) additional amount - (3) subtractive amount, where

- (1) the total amount of other capital surplus and other retained earnings as of the end of the last business year.
- (2)
 - (a) the amount of the consideration for treasury stock disposed of after the end of the last business year less the book value thereof;
 - (b) the amount of reduction of stated capital made after the end of the last business year less the portion thereof that has been transferred to additional paid-in capital or legal reserve (if any);
 - (c) the amount of reduction of additional paid-in capital or legal reserve made after the end of the last business year less the portion thereof that has been transferred to stated capital (if any).
- (3)
 - (a) the book value of treasury stock retired after the end of the last business year;
 - (b) the total book value of surplus reduced by the distribution of dividends from surplus made after the end of the last business year;
 - (c) other amounts set forth in ordinances of the Ministry of Justice.

Table of Contents

The distributable amount of surplus is calculated by the following formula:

(A) the amount of surplus + (B) additional amounts - (C) subtractive amounts, where

(A) the amount of surplus

(B) (a) the amount of profit in the extraordinary financial statements

(b) the amount of consideration for any of its treasury stock disposed of recorded in the extraordinary financial statements

(C) (a) the book value of its treasury stock

(b) the amount of consideration for any of its treasury stock disposed of after the end of the last business year

(c) the amount of loss in the extraordinary financial statements

(d) other amounts set forth in ordinances of the Ministry of Justice

Under the Corporation Act of Japan, a joint stock corporation can make extraordinary financial statements anytime during business years. If such extraordinary financial statements have been prepared and have been approved by the board of directors or (if so required by the Corporation Act of Japan) by a general meeting of shareholders, then the distributable amount of surplus must be adjusted as stated above.

Stock Splits

The Corporation Act of Japan permits the Company, by resolution of its Board of Directors, to make stock splits, regardless of the value of net assets (as appearing in its latest non-consolidated balance sheet) per share.

Under the Corporation Act of Japan, by resolution of the Company's Board of Directors, the Company may increase the authorized shares up to the number reflecting the rate of stock splits and amend its Articles of Incorporation by resolution of its Board of Directors to this effect without the approval of a shareholders' meeting. Before a stock split, the Company must give public notice of such stock split specifying the record date not less than two weeks prior to such record date.

Table of Contents

Japanese Unit Share System

Since August 1, 2006, 100 shares of common stock of the Company constitute one trading unit. The Corporation Act of Japan permits the Company, by resolution of its Board of Directors, to reduce the number of shares which constitutes one unit or abolish the unit share system, and amend its Articles of Incorporation to this effect without the approval of a shareholders' meeting.

Transferability of Shares Representing Less than One Unit.

After January 5, 2009, shares representing less than one unit are automatically registered in the transfer account, and upon such registration shares representing less than one unit may be transferable through the book entry system, although such shares may not be sold in the market under the rules of the relevant stock exchange. A holder of shares representing less than one unit may collect such shares so that they constitute one unit and then sell them as one unit of shares in the market.

As the transfers of ADRs do not require a change in the ownership of the underlying shares, holders of ADRs evidencing ADSs, that constitute less than one unit of shares are not affected by these restrictions in their ability to transfer the ADRs. However, because transfers of less than one unit of the underlying shares are not normally permitted in the market in Japan, the deposit agreement provides that the right of ADR holders to surrender their ADRs and withdraw the underlying shares for sale in Japan may only be exercised as to whole units.

Right of a Holder of Shares Representing Less than One Unit to Require the Company to Purchase Its Shares.

A holder of shares representing less than one unit may, at any time, require the Company to purchase their shares through Securities Companies and JASDEC. These shares will be purchased at (a) the closing price of the shares of the Company reported by the Tokyo Stock Exchange on the day on which the application for the purchase request reached the handling office of the transfer agent, multiplied by the number of shares or (b) in case that no trading is effected at the Tokyo Stock Exchange on that day, the price of the first trade effected thereafter, multiplied by the number of shares. As a practical matter, however, because holders of ADRs representing less than one unit are not able to withdraw the underlying shares from deposit, these holders will not be able to exercise this right.

Table of Contents

Right of a Holder of Shares Representing Less than One Unit to Purchase from the Company its Shares up to a Whole Unit.

The Articles of Incorporation of the Company provide that a holder of shares representing less than one unit may request that the Company sell a certain number of shares less than one unit so that the shares owned by such shareholder combined with such additional shares may constitute one unit through Securities Companies and JASDEC. These shares will be sold at (a) the closing price of the share of the Company reported at a market operated by the Tokyo Stock Exchange on the day on which the application for additional purchase become effective, multiplied by the number of shares applied for additional purchase or (b) in the case that no trading is effected on such day or if the Tokyo Stock Exchange is closed on such day, the price at which the share of the Company is first traded thereafter, multiplied by the number of shares applied for additional purchase.

Voting Rights of a Holder of Shares Representing Less than One Unit.

A holder of shares representing less than one unit cannot exercise any voting rights of those shares. In calculating the quorum for various voting purposes, the aggregate number of shares representing less than one unit will be excluded from the number of outstanding shares. A holder of shares representing one or more whole units will have one vote for each whole unit represented.

A holder of shares representing less than one unit does not have any rights relating to voting, such as the right to participate in a demand for the resignation of a director, the right to participate in a demand for the convocation of a general meeting of shareholders and the right to join with other shareholders to propose an agenda item to be addressed at a general meeting of shareholders.

In addition, under the Corporation Act of Japan, a joint stock corporation can further restrict the rights of a holder of shares constituting less than one unit. Under the Company's Articles of Incorporation, a holder of shares constituting less than one unit does not have rights, other than the following:

to receive annual and interim dividends,

to receive shares and/or cash by way of consolidation of stocks, stock splits, gratis issue of shares to shareholders, stock-for-stock exchange (*kabushiki-kokan*) or stock-for-stock transfer (*kabushiki-iten*), corporate split or merger,

to receive shares, cash and/or other assets in exchange for shares in which a shareholder of the Company has the option to acquire or which the Company has the option to acquire,

to participate in any distribution of surplus assets upon liquidation,

to request the Company to purchase shares constituting less than one unit, and

Table of Contents

any other rights which are prohibited from being restricted by Art. 189, Paragraph 2 of the Corporation Act of Japan and ordinances of the Ministry of Justice.

Ordinary and Extraordinary General Meeting of Shareholders

The Company usually holds its ordinary general meeting of shareholders in June of each year in Minato-ku, Tokyo or in a neighboring district. In addition, the Company may hold an extraordinary general meeting of shareholders whenever necessary by giving at least two weeks' prior notice. Under the Corporation Act of Japan and the Company's Articles of Incorporation and Share Handling Regulations, notice of any shareholders' meeting must be given to each shareholder having voting rights or, in the case of a non-resident shareholder, to his or her resident proxy or mailing address in Japan, at least two weeks prior to the date of the meeting.

Voting Rights

A shareholder is generally entitled to one vote per one unit of shares as described in this paragraph and under "Rights of Shareholders - *Japanese Unit Share System*" above. In general, under the Corporation Act of Japan, a resolution can be adopted at a general meeting of shareholders by a majority of the shares having voting rights represented at the meeting. The Corporation Act of Japan and the Company's Articles of Incorporation require a quorum for the election of directors and corporate auditors of not less than one-third of the total number of outstanding shares having voting rights. The Company's shareholders are not entitled to cumulative voting in the election of directors under the Company's Articles of Incorporation. A corporate shareholder whose operation can be substantially controlled by the Company based on the reasons such as that the Company directly or indirectly owns not less than one-quarter of the total voting rights of such shareholder does not have voting rights. Shareholders may exercise their voting rights through proxies in accordance with the Company's Articles of Incorporation, provided that those proxies are also shareholders who have voting rights.

Pursuant to the Corporation Act of Japan and the Company's Articles of Incorporation, a quorum of not less than one-third of the outstanding shares with voting rights must be present at a shareholders' meeting to approve any material corporate actions such as:

a reduction of stated capital;

amendment of the articles of incorporation (except amendments which the board of directors are authorized to make under the Corporation Act of Japan as described in "Rights of Shareholders - *Stock Splits*" and "Rights of Shareholders - *Japanese Unit Share System*" above);

Table of Contents

establishment of a 100% parent-subsidary relationship by way of stock-for-stock exchange (*kabushiki kokan*) or stock-for-stock transfer (*kabushiki iten*);

a dissolution, merger or consolidation;

a corporate split;

the transfer of the whole or an important part of the Company's business;

taking over of the whole of the business of any other corporation; or,

any issuance of new shares at a specially favorable price, bonds or debentures with share acquisition rights to subscribe for new shares with specially favorable conditions or share acquisition rights with specially favorable conditions (otherwise than an allotment of the same to shareholders in proportion to shareholding, and the like.

At least two-thirds of the outstanding shares having voting rights present at the meeting must approve these actions.

The voting rights of holders of ADSs are exercised by the depositary based on instructions from those holders.

Share Acquisition Rights

A Share Acquisition Right shall mean the right under which, upon the exercise thereof against the Company by a person who has such right (hereinafter referred to as a Share Acquisition Rights Holder), the Company shall be obliged to issue new shares, or in lieu of such issuance, to transfer the shares that it owns, to such Share Acquisition Rights Holder.

The Company may basically issue Share Acquisition Rights as Share Acquisition Rights on their own or attached to bonds or debentures to any persons by the resolution of its Board of Directors. Holders of shares do not have the right to receive, upon the exercise thereof against the Company, an allotment of Share Acquisition Rights to be issued by the Company (hereinafter referred to as a Right to Subscribe for Share Acquisition Rights) under the Company's Articles of Incorporation when it issues Share Acquisition Rights. Under the Corporation Act of Japan, the board of directors may, however, determine that shareholders be given Right to Subscribe for Share Acquisition Rights in connection with a particular issue of Share Acquisition Rights. In the case of an issue of Share Acquisition Rights, public or individual notice (public notice is basically made via internet on the Company's website) must be given to each of the shareholders at least two weeks prior to the allotment date unless the terms of such issuance are already disclosed in a securities registration statement or other disclosure document.

Table of Contents

Share Acquisition Rights may be made transferable or nontransferable by the resolution of the board of directors under the Corporation Act of Japan.

Liquidation Rights

In the event of liquidation, the assets remaining after payment of all debts, liquidation expenses and taxes will be distributed among the shareholders in proportion to the number of shares they own.

Liability to Further Calls or Assessments

All of the Company's currently outstanding shares, including shares represented by the ADSs, are fully paid and nonassessable.

Transfer Agent

Mitsubishi UFJ Trust and Banking Corporation (Mitsubishi UFJ Trust) is the transfer agent for the Company's shares. Mitsubishi UFJ Trust's office is located at 4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo, Japan. Mitsubishi UFJ Trust maintains the Company's register of shareholders and records transfers of record ownership.

Record Date

March 31 of each year is the record date for the Company's year-end dividends, if payable. September 30 of each year is the record date for its interim dividends, if payable. A holder of shares constituting one or more whole units who is registered as a holder on the Company's register of shareholders at the close of business as of March 31 is also entitled to exercise shareholders' voting rights at the ordinary general meeting of shareholders with respect to the fiscal year ending on March 31. In addition, the Company may set a record date for determining the shareholders entitled to the rights by giving at least two weeks' public notice which is basically made via internet on the Company's website.

The shares generally trade ex-dividends or ex-rights in the Japanese stock exchanges on the second business day before a record date (or if the record date is not a business day, the third business day prior thereto), for the purpose of dividends or rights offerings.

Table of Contents

Acquisition of Own Shares

Under the Corporation Act of Japan, the Company may acquire its own shares for any purposes subject to the authorization of shareholders at a general meeting of shareholders. In addition, the Company is authorized to purchase its own shares pursuant to a resolution of the Board of Directors pursuant to its Articles of Incorporation. The acquisition is generally subject to the condition that the aggregate amount of the purchase price must not exceed the distributable amount of surplus mentioned in *Rights of Shareholders Dividends from Surplus* above.

In the case of shares listed on a Japanese stock exchange or traded in the over-the-counter market, acquisition shall be made through the market or by way of tender offer by the close of the following ordinary general meeting, subject to certain exceptions such as where acquisition of the shares from a specified person is authorized by the approval of two-thirds of outstanding shares having voting rights present at the shareholders meeting at which a quorum of at least one-third of the outstanding shares having voting rights must be present.

In addition, the Company may acquire its shares by means of repurchase of any number of shares constituting less than one unit upon the request of the holder of those shares, as described under *Rights of Shareholders Japanese Unit Share System* above.

Holding of Shares by Foreign Investors

Other than the Japanese unit share system that is described under *Rights of Shareholders Japanese Unit Share System* above, there are no limitations on the rights of non-residents or foreign shareholders to hold or exercise voting rights on the Company's shares imposed by the laws of Japan or the Company's Articles of Incorporation or other constituent documents.

C. Material Contracts

All contracts entered into by the Company or any member of Komatsu during the two years immediately preceding this report were entered into in the ordinary course of business.

D. Exchange Controls

THE FOREIGN EXCHANGE AND FOREIGN TRADE LAW OF JAPAN

The Foreign Exchange and Foreign Trade Law of Japan, as amended, and the cabinet orders and ministerial ordinances thereunder (collectively, the *Foreign Exchange Law*), regulate certain transactions involving a non-resident of Japan (as defined below) or a foreign investor (as defined below), including issuance of securities by a resident of Japan outside of Japan, transfer of securities between a resident of Japan and a non-resident of Japan, inward direct investment by a foreign investor, and a payment from Japan to a foreign country or by a resident of Japan to a non-resident of Japan.

Table of Contents

Non-residents of Japan include individuals who are not resident in Japan and corporations whose principal offices are located outside of Japan. Generally, branches and other offices of Japanese corporations located outside of Japan are regarded as non-residents of Japan, but branches and other offices of non-resident corporations located within Japan are regarded as residents of Japan. Foreign investors are defined to be: (1) individuals not resident in Japan, (2) corporations which are organized under the laws of foreign countries or whose principal offices are located outside of Japan, (3) corporations of which not less than 50% of the voting rights are held directly or indirectly by (1) or (2) above, and (4) corporations in which: (a) a majority of the officers are non-resident individuals or (b) a majority of the officers having the power to represent the corporation are non-resident individuals.

The following is a summary of the pertinent provisions under the Foreign Exchange Law insofar as they affect debt securities of the Company, shares of the Company's common stock or depositary receipts representing such shares.

Debt Securities

The Foreign Exchange Law requires that a resident of Japan whose debt securities are being issued or offered outside of Japan file a post facto report of capital transaction with the Minister of Finance. Under the Foreign Exchange Law, payment of the principal of and interest on these debt securities (including any additional amounts payable pursuant to the terms of the securities) may in general be made by the issuer without any restrictions. The Foreign Exchange Law gives the Minister of Finance the power in certain limited and exceptional circumstances to require prior approval for any such capital transaction (or for such payment).

Acquisition of Shares

The Foreign Exchange Law requires that a resident of Japan whose shares are being issued or offered outside of Japan file a post facto report of capital transaction with the Minister of Finance.

In general, the acquisition of shares in a Japanese corporation listed on any stock exchange in Japan or traded on the over-the-counter market in Japan (the listed shares) from a resident of Japan by a non-resident of Japan requires the resident of Japan to file a post facto report with the Minister of Finance of the transaction. The Foreign Exchange Law gives the Minister of Finance the power in certain limited and exceptional circumstances to require prior approval for any such acquisition.

Table of Contents

If a foreign investor intends to acquire the listed shares and as a result of such acquisition the aggregate of the shares in the relevant corporation already held by that foreign investor and certain related parties (as specified under the Foreign Exchange Law) and the number of such shares proposed to be acquired by that foreign investor would be 10% or more of the total issued shares, such foreign investor will generally be subject to a requirement to provide a post facto report to the Minister of Finance and any other competent Minister having jurisdiction over the business of the issuer by the 15th day of the month following the month in which it acquired such shares. In certain exceptional cases, prior notification may be required. In case the prior notification requirement is applicable, the Minister of Finance and the competent Minister will ultimately have the power to order the alternation or suspension of the acquisition in certain special circumstances.

While prior approval, as described above, is not required, in the case where a resident of Japan transfers shares of a Japanese company for consideration exceeding 100 million yen to a non-resident, the resident of Japan who transfers the shares is required to report the transfer to the Minister of Finance within 20 days from the date of the transfer, unless the transfer was made through a bank, securities company or financial futures trader licensed under Japanese law.

Dividends and Proceeds of Sale

Under the Foreign Exchange Law, dividends paid on the shares of a Japanese corporation (including those in the form of depositary receipts) held by non-residents of Japan and the proceeds of any sale of such shares within Japan may in general be converted into any foreign currency and repatriated abroad. The acquisition of shares by non-resident shareholders by way of stock splits is not subject to any of the prior notification and/or post facto reporting requirements.

Exercise or Transfer of Share Acquisition Rights

The acquisition by a foreign investor of shares in a Japanese corporation upon the exercise of acquisition rights in respect of share acquisition rights or bonds with share acquisition rights issued inside or outside of Japan is subject to the formalities and restrictions described in the second paragraph under **Acquisitions of Shares** above. However, if a foreign investor wishes to dispose of, rather than exercise, any acquisition rights, such foreign investor may sell the rights inside or outside of Japan without material foreign exchange restriction; provided that the resident of Japan who acquired such rights is in general subject to post facto reporting requirements.

Depository Receipts

When shares are deposited with a depository located outside of Japan and depository receipts are issued in exchange therefor, the depository is treated like any other foreign investor acquiring shares.

Table of Contents

THE FINANCIAL INSTRUMENTS AND EXCHANGE LAW

The Financial Instruments and Exchange Law of Japan requires any person who has become, beneficially and solely or jointly, a holder of more than 5% of the total outstanding voting shares of capital stock of a company listed on any Japanese stock exchange to file with the relevant Local Finance Bureau of the Minister of Finance within five business days a report concerning such share ownership. A similar report must also be made in respect of any subsequent change of 1% or more in any such holding. Copies of any such report must also be furnished to the issuer of such shares and all Japanese stock exchanges on which the shares are listed. For this purpose, shares issuable exercise of rights for subscription of shares held by such holder are taken into account in determining both the size of a holding and a company's total outstanding share capital.

E. Taxation

JAPANESE TAXATION

The discussion of Japanese taxation set forth below is intended only as a summary and does not purport to be a complete analysis or discussion of all the potential Japanese tax consequences that may be relevant to the ownership of the Company's shares or ADSs by a person who is not a resident of Japan.

A non-resident of Japan or a non-Japanese corporation is generally subject to a Japanese withholding tax on cash dividends. Stock splits and allotment of shares without consideration, in general, are not subject to Japanese withholding tax since they are characterized merely as an increase in the number of shares (as opposed to an increase in the value of the shares) from a Japanese tax perspective. Due to the 2001 Japanese tax legislation effective April 1, 2001, a conversion of retained earnings or legal earned reserve into stated capital is not deemed a dividend payment to shareholders for Japanese tax purposes and therefore such a conversion does not trigger Japanese withholding taxation.

In the absence of any applicable treaty or agreement reducing the maximum rate of withholding tax, the standard rate of Japanese withholding tax applicable to dividends paid by Japanese corporations to non-residents of Japan or non-Japanese corporations is generally 20%. However, with respect to dividends paid on listed shares issued by a Japanese corporation (such as the shares of common stock of the Company) to any corporate or individual shareholders (including those shareholders who are non-Japanese corporations or Japanese non-resident individuals), except for any individual shareholder who holds 5% or more of the total shares issued by the relevant Japanese corporation, the aforementioned standard 20% withholding tax rate is reduced to (i) 7% for dividends due and payable on or before December 31, 2013 and (ii) 15% for dividends due and payable on or after January 1, 2014.

Table of Contents

Pursuant to the Convention Between the Government of the United States of America and the Government of Japan for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income (the "Treaty"), (i) the withholding tax rate on dividends is generally 10% for portfolio investors who are qualified U.S. residents eligible to enjoy treaty benefits and (ii) the dividends are exempt from Japanese taxation by way of withholding or otherwise for pension funds which are qualified U.S. residents eligible to enjoy treaty benefits, unless the dividends are derived from the carrying on of a business, directly or indirectly, by such pension funds. For Japanese tax purposes, a treaty rate generally supersedes the tax rate under Japanese tax law. However, due to the so-called "preservation doctrine" under the Treaty, and/or due to the Special Measurement Law for the Income Tax Law, Corporation Tax Law and Local Taxes Law with respect to the Implementation of Tax Treaties, if the tax rate under Japanese tax law is lower than the treaty rate (which is currently the case with respect to the treaty), the Japanese tax rate applies (which, as discussed above, is currently 7% with respect to dividends paid on the Company's shares).

The amount of withholding tax imposed on dividends payable to the holders of the Company's shares or ADSs who reside in a country other than the United States is dependent upon the provisions of such treaties or agreements as may exist between such country and Japan.

Gains derived from the sale outside Japan of shares of common stock or ADSs by a non-resident of Japan or a non-Japanese corporation, or from the sale of the shares within Japan by a non-resident of Japan as an occasional transaction or by a non-Japanese corporation not having a permanent establishment in Japan, are in general not subject to Japanese income or corporation taxes. Japanese inheritance and gift taxes at progressive rates may be payable by an individual who has acquired shares of common stock or ADSs as a distributee, legatee or donee.

U.S. FEDERAL INCOME TAX CONSIDERATIONS

General

The following is a summary of U.S. federal income tax consequences of the acquisition, ownership, and disposition of shares of common stock and ADSs of the Company to U.S. holders (as defined below). This summary does not purport to be a comprehensive description of all of the tax consequences of the acquisition, ownership and disposition of shares of common stock or ADSs. This summary applies only to shares of common stock and ADSs acquired by U.S. holders and held as capital assets, within the meaning of section 1221(a) of the Internal Revenue Code of 1986, as amended (the "Code"), and does not apply to persons in special tax situations, including, but not limited to, a person with a functional currency other than the U.S. dollar, a person that actually or constructively owns 10% or more of the Company's voting stock, a tax-exempt organization, a bank, a financial institution, a real estate investment trust, a regulated investment company, a partnership or other flow-through entity, a dealer in securities or currencies, an insurance company, a securities trader electing to account for its investment in shares of common stock or ADSs on a mark-to-market basis, a person that owns shares of common stock or ADSs through a partnership or other entity treated as a partnership for U.S. federal income tax purposes or through a flow-through entity, a person who acquired shares of common stock or ADSs pursuant to the exercise of any employee stock option or otherwise as compensation, or a person holding shares of common stock or ADSs in a hedging transaction or as part of a straddle or conversion transaction or other integrated financial transaction. In addition, this summary does not address the application, or the potential application, of the alternative minimum tax.

Table of Contents

This discussion is based on current provisions of the Code, final, temporary and proposed U.S. Treasury regulations, judicial opinions, published positions of the Internal Revenue Service (the "IRS") and other applicable authorities, all as in effect on the date hereof and all of which are subject to differing interpretations or change, possibly with retroactive effect. The Company has not sought, and will not seek, any ruling from the IRS or any opinion of counsel with respect to the tax consequences discussed herein, and there can be no assurance that the IRS will not take a contrary position or that any position taken by the IRS would not be sustained.

As used in this summary, the term "U.S. holder" means a beneficial owner of shares of common stock or ADSs of the Company that is for U.S. federal income tax purposes (i) a citizen or resident of the United States, (ii) a corporation (including an entity treated as a corporation for U.S. federal income tax purposes) that is created or organized in or under the laws of the United States, any State thereof or the District of Columbia, (iii) an estate the income of which is subject to U.S. federal income tax regardless of its source, or (iv) a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust. Certain trusts not described in clause (iv) above in existence on August 20, 1996, that elect to be treated as United States persons will also be U.S. holders for purposes of the following discussion.

If a partnership is a beneficial owner of shares of common stock or ADSs, the treatment of a partner in the partnership generally will depend upon the status of the partner and the activities of the partnership. A beneficial owner of shares of common stock or ADSs that is a partnership and partners in such a partnership should consult their tax advisors regarding the U.S. federal income tax consequences of acquiring, owning, and disposing of shares of common stock or ADSs.

This discussion is only a summary of certain U.S. federal income tax consequences of the acquisition, ownership and disposition of shares of common stock or ADSs. Investors should consult their own tax advisors with respect to the particular tax consequences of the acquisition, ownership and disposition of shares of common stock or ADSs, including the effect of any state, local, foreign or other tax laws. In addition, this summary assumes that the Company has not been, is not currently, and will not be treated as a passive foreign investment company (a "PFIC") for U.S. federal income tax purposes. See the discussion below under "Passive Foreign Investment Company Rules."

Table of Contents

Treatment of ADSs

In general, a U.S. holder of ADSs evidencing shares of common stock will be treated as the beneficial owner of the underlying shares of common stock represented and evidenced by those ADSs for U.S. federal income tax purposes. Deposits or withdrawals of shares of common stock by U.S. holders in exchange for ADSs generally will not result in the recognition of gain or loss for U.S. federal income tax purposes.

The United States Department of the Treasury (the "U.S. Treasury") has expressed concerns that U.S. holders of foreign securities may be claiming foreign tax credits in situations where an intermediary in the chain of ownership between the holder of a foreign security or an ADS and the issuer of the security has taken actions inconsistent with the ownership of the underlying security by the person claiming the credit, such as a disposition of such security. Such actions could also be inconsistent with the claiming of the reduced rate of tax applicable to dividends received by certain non-corporate U.S. holders. Accordingly, the analysis of the creditability of Japanese taxes and the availability of the reduced tax rate for dividends received by certain non-corporate U.S. holders, each as described below, could be affected by actions taken by the depositary or others or by future actions taken by the U.S. Treasury.

Taxation of Distributions on Shares of Common Stock or ADSs

Subject to the discussion below under "Passive Foreign Investment Company Rules," the gross amount of distributions paid on shares of common stock or ADSs, other than certain pro rata distributions of shares of common stock, will generally be taxable as dividends to the extent paid out of the Company's current or accumulated earnings and profits (as determined under U.S. federal income tax principles). Because the Company does not maintain calculations of its earnings and profits under U.S. federal income tax principles, it is expected that distributions generally will be reported (where required) to U.S. holders as dividends. Such dividends will include any amounts withheld in respect of Japanese taxes and will not be eligible for the dividends-received deduction generally allowed to U.S. corporations.

Subject to applicable limitations that may vary depending upon a U.S. holder's individual circumstances (including with respect to certain short-term and hedged positions) and the discussion below under "Passive Foreign Investment Company Rules," dividends received by certain non-corporate U.S. holders in taxable years beginning before January 1, 2013 that constitute qualified dividend income will be taxable at a maximum rate of 15% provided that certain conditions are met. Non-corporate U.S. holders should consult their own tax advisors regarding the availability of the reduced rate and to determine whether they are subject to any special rules that limit their ability to be taxed at this reduced rate.

Table of Contents

Dividends paid in a foreign currency, such as Japanese yen, will be included in a U.S. holder's income in a U.S. dollar amount calculated by reference to the exchange rate in effect on the date the dividend is actually or constructively received by the U.S. holder, in the case of shares of common stock, or by the depositary, in the case of ADSs, regardless of whether the payment is in fact converted into U.S. dollars on such date. A U.S. holder will have a tax basis in such foreign currency equal to the U.S. dollar value of the foreign currency calculated by reference to the exchange rate in effect on the date of such receipt. Gain or loss, if any, realized by a U.S. holder on a subsequent sale or other disposition of the foreign currency will be ordinary income or loss, and will be income or loss from sources within the United States for U.S. foreign tax credit purposes. Prospective investors should consult their own tax advisors concerning the calculation and U.S. federal income tax treatment of foreign currency gain or loss.

For foreign tax credit purposes, dividends included in gross income by a U.S. holder in respect of shares of common stock or ADSs will generally constitute income from sources outside the United States. Japanese income taxes withheld from dividends on shares of common stock or ADSs may be claimed by a U.S. holder as a credit against U.S. federal income tax liability or, in the alternative, as a deduction in the computation of such U.S. holder's taxable income, subject, in each case, to certain conditions and limitations. For U.S. foreign tax credit limitation purposes, dividends will generally be treated as passive category income or, in certain cases, general category income. The U.S. federal income tax rules relating to foreign tax credits are extremely complex. U.S. holders should consult their own tax advisors concerning the availability of foreign tax credits based upon their particular situations.

Sales and Other Dispositions of Shares of Common Stock or ADSs

Subject to the discussion below under **Passive Foreign Investment Company Rules**, for U.S. federal income tax purposes, upon a sale or other taxable disposition of a share of common stock or an ADS, a U.S. holder will recognize gain or loss in an amount equal to the difference between the amount realized (determined in U.S. dollars) on the disposition and such U.S. holder's adjusted tax basis (determined in U.S. dollars) in the share of common stock or ADS (as the case may be). Any such gain or loss generally will constitute capital gain or loss, and will be long-term capital gain or loss if such U.S. holder held the share of common stock or the ADS (as the case may be) for more than one year as of the date of the disposition. The deduction of capital losses is subject to limitations under the Code. In addition, such gain or loss generally will be gain or loss from sources within the United States for foreign tax credit purposes.

Table of Contents

Passive Foreign Investment Company Rules

The Company believes that it should not be a PFIC for U.S. federal income tax purposes for its taxable year ended March 31, 2012. In general, the Company will be a PFIC for any taxable year in which (i) at least 75% of its gross income is passive income, or (ii) the average percentage of its assets, as determined under applicable provisions of U.S. federal income tax laws, during the taxable year which produce passive income or which are held for the production of passive income is at least 50%. Passive income for this purpose generally includes dividends, interest, royalties, rents, annuities, gains from commodities and securities transactions and certain other types of income. The PFIC determination is made annually and generally will depend upon the composition of the Company's income and assets. There can be no assurance that the Company has not been, is not or will not be considered a PFIC for any taxable year. If the Company were treated as a PFIC for any taxable year during which a U.S. holder held shares of common stock or ADSs, certain adverse tax consequences could apply to such U.S. holder. If the Company were treated as a PFIC for any taxable year during which you held shares of common stock or ADSs, the Company generally will continue to be treated as a PFIC for all succeeding years during which you hold such shares of common stock or ADSs.

If the Company were treated as a PFIC for any taxable year during which a U.S. holder held shares of common stock or ADSs, any gain recognized by the U.S. holder on the disposition of such shares of common stock or ADSs as well as any "excess distribution" received by the U.S. holder (i.e., generally, any distribution in respect of shares of common stock or ADSs in excess of 125% of the average of the annual distributions on such securities received by a U.S. holder during the preceding three taxable years or such U.S. holder's holding period, whichever is shorter) would be allocated ratably to each day in the U.S. holder's holding period for such securities. The amount of any such gain or excess distribution allocable to the year of the disposition or distribution or to any year before the Company became a PFIC will be taxed as ordinary income. The amount of any such gain or distribution allocable to taxable years in which the Company was a PFIC and thereafter, other than the year of the disposition or distribution, would be subject to tax at the highest rate in effect in each such taxable year for individuals or corporations, as appropriate, and an interest charge would be imposed on the tax liability attributable to such allocated amounts.

Certain elections (including a mark-to-market election) may be available to a U.S. holder that may mitigate the adverse tax consequences resulting from PFIC status. However, if the Company were to be treated as a PFIC, U.S. holders may not be able to mitigate the adverse tax consequences resulting from PFIC status by electing to treat the Company as a "qualified electing fund" because the Company may not provide the information that a U.S. holder requires to make such an election.

Table of Contents

In addition, if the Company were treated as a PFIC in a taxable year in which it pays a dividend or the prior taxable year, the 15% tax rate with respect to qualified dividend income, discussed above under "Taxation of Distributions on Shares of Common Stock or ADSs," would not apply.

U.S. holders should consult their own tax advisors regarding the potential application of the PFIC rules to shares of common stock or ADSs.

Information Reporting and Backup Withholding

In general, information reporting requirements will apply to distributions on shares of common stock and ADSs, and to the proceeds received on the disposition of shares of common stock and ADSs paid within the United States (and in certain cases, outside the United States), unless an exemption is established. A backup withholding tax at the applicable statutory rate may apply to such amounts if a U.S. holder (i) fails to establish properly that such U.S. holder is entitled to an exemption, (ii) fails to furnish or certify a correct taxpayer identification number to the payor in the manner required, (iii) is notified by the IRS that such U.S. holder has failed to report payments of interest or dividends properly, or (iv) under certain circumstances, fails to certify that such U.S. holder has not been notified by the IRS that backup withholding applies due to the failure to report interest or dividend payments. The amount of any backup withholding will be allowed as a credit against or refund of the U.S. holder's U.S. federal income tax liability provided that the required information is furnished to the IRS in a timely manner.

In addition, certain U.S. holders are required to report information with respect to their investments in the shares of common stock or ADSs not held through an account with a U.S. financial institution to the IRS. If such a U.S. holder fails to report information required, such U.S. holder could become subject to substantial penalties. U.S. holders are encouraged to consult with their own tax advisors regarding the possible implications of this legislation on their investment in the shares of common stock or ADSs.

Table of Contents

The preceding summary of certain U.S. federal income tax considerations is for general information only and is not intended to be construed as tax advice. Accordingly, prospective investors should consult their own tax advisors as to the particular tax consequences to them of the acquisition, ownership and disposition of shares of common stock and ADSs, including the applicability and effect of any U.S. federal, state, local or foreign tax laws, and of any proposed changes in applicable law.

F. Dividends and Paying Agents

Not applicable.

G. Statements by Experts

Not applicable.

H. Documents on Display

The Company is subject to the informational requirements of the Securities Exchange Act of 1934, as amended. In accordance with these requirements, the Company files annual reports on Form 20-F and other reports on Form 6-K with the U.S. Securities and Exchange Commission (the "SEC"). These materials, including this annual report and exhibits thereto, may be inspected and copied at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC in the U.S. at 1-800-SEC-0330. The materials filed via the Electronic Data Gathering, Analysis, and Retrieval system are also available for inspection on the SEC's website (<http://www.sec.gov>).

I. Subsidiary Information

Not applicable.

Item 11. Quantitative and Qualitative Disclosures About Market Risk

Market Risk Exposure

Komatsu is exposed to market risk primarily from changes in foreign currency exchange rates and interest rates with respect to its international operations and foreign currency denominated receivables and debts. In order to manage these risks that arise in the normal course of its business, Komatsu has entered into various derivative financial transactions pursuant to its policies and procedures. Komatsu does not enter into derivative financial transactions for trading or speculative purposes. Komatsu is exposed to credit-related losses in the event of nonperformance by counterparties to the derivative financial instruments. However, because of the counterparties' credit ratings, Komatsu does not expect that any of its existing counterparties will default on their obligations.

Table of Contents

Foreign Exchange Risk

To reduce foreign exchange risks against foreign currency denominated assets, liabilities and certain forecasted transactions, Komatsu executes forward exchange contracts and option contracts in a range of 50% to 100% based on its projected cash flow in foreign currencies. The following table provides information concerning derivative financial instruments of Komatsu in relation to foreign currency exchange transactions that existed as of March 31, 2012, which are translated into Japanese yen at the rate used on that date, together with the related weighted average contractual exchange rates as of March 31, 2012. The notional amount of option contracts was ¥247 million (U.S.\$3 million).

Forward Exchange Contracts

| Forwards to sell foreign currencies: | Millions of yen (except average contractual rates) | | | | | | Total |
|-----------------------------------------|----------------------------------------------------|----------------|---------------|--------------|----------|--|-----------|
| | US\$/Yen | CLP/US\$ | EUR/Yen | US\$/EUR | Others | | |
| Contract amounts | ¥ 93,927 | ¥ 10,184 | ¥ 9,618 | ¥ 3,485 | ¥ 12,068 | | ¥ 129,282 |
| Average contractual rates | 78.32Yen/US\$ | 0.0021US\$/CLP | 106.84Yen/EUR | 0.76EUR/US\$ | | | |
| Fair value | ¥ (4,232) | ¥ 23 | ¥ (235) | ¥ 43 | ¥ (76) | | ¥ (4,477) |

| Forwards to buy foreign currencies: | Millions of yen (except average contractual rates) | | | | | | Total |
|----------------------------------------|----------------------------------------------------|--------------|---------------|-------------|--------------|----------|-----------|
| | US\$/ZAR | Yen/AUD | Yen/Yuan | GBP/EUR | US\$/RUB | Others | |
| Contract amounts | ¥ 15,865 | ¥ 7,603 | ¥ 7,144 | ¥ 7,120 | ¥ 7,078 | ¥ 34,049 | ¥ 78,859 |
| Average contractual rates | 0.12US\$/ZAR | 81.95Yen/USD | 12.53Yen/Yuan | 0.84GBP/EUR | 0.03US\$/RUB | | |
| Fair value | ¥ (800) | ¥ (260) | ¥ (260) | ¥ (17) | ¥ (88) | ¥ (425) | ¥ (1,816) |

Almost all of the above forward exchange contracts are expected to mature during the fiscal year ending March 31, 2013.

Table of ContentsCurrency Option

| Purchase to sell foreign currencies: | Millions of yen (except average contractual rates) | | |
|--------------------------------------|----------------------------------------------------|--------|-------|
| | US\$/EUR | Others | Total |
| Contract amounts | ¥ 247 | | ¥ 247 |
| Average contractual rates | 1.323US\$/EUR | | |
| Fair value | 5 | | 5 |

All of the above currency options are expected to mature during the fiscal year ending March 31, 2013.

For the convenience of the reader, the below tables provide the U.S. dollar equivalent of the Japanese yen contract amounts for each transaction set forth in the above tables, calculated at the rate of U.S.\$1.00 to ¥82.

Forward Exchange Contracts

| Forwards to sell foreign currencies: | Thousands of U.S. dollars | | | | | |
|--------------------------------------|---------------------------|------------|------------|-----------|------------|--------------|
| | US\$/Yen | CLP/US\$ | EUR/Yen | US\$/EUR | Others | Total |
| Contract amounts | \$ 1,145,451 | \$ 124,195 | \$ 117,293 | \$ 42,500 | \$ 147,171 | \$ 1,576,610 |
| Fair value | \$ (51,610) | \$ 280 | \$ (2,866) | \$ 524 | \$ (926) | \$ (54,598) |

| | Thousands of U.S. dollars | | | | | | |
|-------------------------------------|---------------------------|-----------|------------|-----------|------------|------------|-------------|
| Forwards to buy foreign currencies: | US\$/ZAR | Yen/AUD | Yen/Yuan | GBP/EUR | US\$/RUB | Others | Total |
| Contract amounts | \$ 193,476 | \$ 92,720 | \$ 87,122 | \$ 86,829 | \$ 86,317 | \$ 415,231 | \$ 961,695 |
| Fair value | \$ (9,756) | \$ 3,171 | \$ (3,171) | \$ 207 | \$ (1,073) | \$ (5,182) | \$ (22,146) |

Currency Option

| Purchase to sell foreign currencies: | Thousands of U.S. dollars | | |
|--------------------------------------|---------------------------|--------|----------|
| | US\$/EUR | Others | Total |
| Contract amounts | \$ 3,012 | | \$ 3,012 |
| Fair value | 61 | | 61 |

Interest Rate Risk

To reduce interest rate risk, Komatsu has engaged in certain interest rate swaps, cross-currency swaps and interest cap option transactions for interest payments and interest receipts. Certain interest rate swap contracts are not qualified as hedges for financial reporting purposes and are recorded at the fair value with the gains and losses thereof recognized as income and expense. For the fiscal year ended March 31, 2012, Komatsu did not enter into any interest cap option transactions.

The following tables provide information concerning long-term debt excluding capital lease obligations (including those obligations that are due within one year), interest rate swaps and cross-currency swaps. For debt obligations, the tables present the weighted average interest rate, fair value and principal cash flows by expected maturity dates. For interest rate swaps and cross-currency swaps, the following tables present the weighted average receive and pay interest rates, fair value and notional amounts.

Table of Contents**Long-term debt excluding capital lease obligations (including due within one year)**

| | Average interest rate | Fair value | Total | 2013 | 2014 | Millions of yen Expected maturity date | | | | |
|--------------------------------------------------------------------|--------------------------|------------|-----------|-----------|-----------|-------------------------------------------|----------|----------|------------|--|
| | | | | | | 2015 | 2016 | 2017 | Thereafter | |
| Japanese yen bonds | 1.17% | ¥ 118,611 | ¥ 120,000 | ¥ 30,000 | ¥ 30,000 | ¥ 30,000 | ¥ | ¥ 30,000 | ¥ | |
| Euro medium-term notes (relating to variable interest rate) | 1.66% | 56,098 | 54,308 | 9,389 | 3,371 | 17,507 | 12,452 | 11,589 | | |
| Loans, principally from banks (relating to variable interest rate) | 5.49% | 115,729 | 115,729 | 35,646 | 45,598 | 34,356 | 33 | 24 | 72 | |
| Loans, principally from banks (relating to fixed interest rate) | 2.58% | 126,383 | 127,613 | 38,044 | 21,769 | 34,800 | 31,125 | 1,495 | 380 | |
| Total | | ¥ 416,821 | ¥ 417,650 | ¥ 113,079 | ¥ 100,738 | ¥ 116,663 | ¥ 43,610 | ¥ 43,108 | ¥ 452 | |

Interest rate swaps and cross-currency swaps

| | Average interest rate | | Fair value | Total | Millions of yen | | | | | |
|--------------------------------|-----------------------|-------|------------|----------|------------------------|----------|----------|---------|---------|------------|
| | Receive | Pay | | | Expected maturity date | | | | | Thereafter |
| | | | | | 2013 | 2014 | 2015 | 2016 | 2017 | |
| U.S. dollar interest rate swap | 0.98% | 2.18% | ¥ (73) | ¥ 8,972 | ¥ 6,318 | ¥ 1,319 | ¥ 389 | ¥ 661 | ¥ 0 | ¥ 285 |
| Yen/US\$ cross-currency swap | 0.69% | 1.22% | 1,076 | 7,600 | 7,600 | | | | | |
| Yen/EUR cross-currency swap | 1.32% | 1.93% | 467 | 2,000 | | 2,000 | | | | |
| Euro interest rate swap | 1.60% | 3.06% | (251) | 18,636 | 5,025 | 5,928 | 4,119 | 2,779 | 771 | 14 |
| AUD interest rate swap | 4.48% | 5.21% | (714) | 41,639 | 13,194 | 11,979 | 6,284 | 4,466 | 5,716 | |
| Others | | | (93) | 4,167 | 276 | 1,030 | 1,946 | 258 | 657 | |
| Total | | | ¥ 413 | ¥ 83,014 | ¥ 32,413 | ¥ 22,256 | ¥ 12,738 | ¥ 8,164 | ¥ 7,144 | ¥ 299 |

For the convenience of the reader, the below tables provide the U.S. dollar equivalent of the Japanese yen contract amounts for each transaction set forth in the above tables, calculated at the rate of U.S.\$1.00 to ¥82.

Table of Contents**Long-term debt excluding capital lease obligations (including due within one year)**

| | Average interest rate | Fair value | Total | 2013 | 2014 | Thousands of U.S. dollars Expected maturity date | | | | 2017 | Thereafter |
|--------------------------------------------------------------------|--------------------------|--------------|--------------|--------------|--------------|-----------------------------------------------------|------------|--|--|------------|------------|
| | | | | | | 2015 | 2016 | | | | |
| Japanese yen bonds | 1.17% | \$ 1,446,476 | \$ 1,463,415 | \$ 365,854 | \$ 365,854 | \$ 365,854 | \$ | | | \$ 365,853 | \$ |
| Euro medium-term notes (relating to variable interest rate) | 1.66% | 684,122 | 662,293 | 114,500 | 41,110 | 213,500 | 151,854 | | | 141,329 | |
| Loans, principally from banks (relating to variable interest rate) | 5.49% | 1,411,329 | 1,411,329 | 434,707 | 556,073 | 418,976 | 402 | | | 293 | 878 |
| Loans, principally from banks (relating to fixed interest rate) | 2.58% | 1,541,256 | 1,556,256 | 463,951 | 265,476 | 424,390 | 379,573 | | | 18,232 | 4,634 |
| Total | | \$ 5,083,183 | \$ 5,093,293 | \$ 1,379,012 | \$ 1,228,513 | \$ 1,422,720 | \$ 531,829 | | | \$ 525,707 | \$ 5,512 |

Interest rate swaps and cross-currency swaps

| | Average interest rate | | Fair value | Total | 2013 | 2014 | Thousands of U.S. dollars Expected maturity date | | | | 2017 | Thereafter |
|--------------------------------|--------------------------|-------|------------|--------------|------------|------------|-----------------------------------------------------|-----------|----|-----------|------|------------|
| | Receive | Pay | | | | | 2015 | 2016 | | | | |
| U.S. dollar interest rate swap | 0.98% | 2.18% | \$ (890) | \$ 109,415 | \$ 77,049 | \$ 16,085 | \$ 4,744 | \$ 8,061 | \$ | | \$ | \$ 3,476 |
| Yen/US\$ cross-currency swap | 0.69% | 1.22% | 13,122 | 92,683 | 92,683 | | | | | | | |
| Yen/EUR cross-currency swap | 1.32% | 1.93% | 5,695 | 24,390 | | 24,390 | | | | | | |
| EUR interest rate swap | 1.60% | 3.06% | (3,061) | 227,268 | 61,280 | 72,293 | 50,232 | 33,890 | | 9,402 | | 171 |
| AUD interest rate swap | 4.48% | 5.21% | (8,707) | 507,791 | 160,902 | 146,085 | 76,634 | 54,463 | | 69,707 | | |
| Others | | | (1,122) | 50,819 | 3,366 | 12,562 | 23,731 | 3,147 | | 8,013 | | |
| Total | | | \$ 5,037 | \$ 1,012,366 | \$ 395,280 | \$ 271,415 | \$ 155,341 | \$ 99,561 | | \$ 87,122 | | \$ 3,647 |

For additional information about derivative financial instruments, see Note 19 to the Consolidated Financial Statements included elsewhere in this report.

Table of Contents**Item 12. Description of Securities Other than Equity Securities****A. Debt Securities**

Not applicable.

B. Warrants and Rights

Not applicable.

C. Other Securities

Not applicable.

D. American Depositary Shares*Fees and Charges for Holders of American Depositary Receipts*

The Bank of New York Mellon, as depositary for the Company's ADSs (the "Depositary"), collects its fees for delivery and surrender of ADSs directly from investors depositing shares or surrendering ADSs for the purpose of withdrawal, or from intermediaries acting for them. The Depositary collects fees for making distributions to investors by deducting those fees from the amounts distributed or by selling a portion of distributable property to pay the fees. The Depositary may collect its annual fee for depositary services by deducting such fee from cash distributions, by directly billing investors or by charging the book-entry system accounts of participants acting for them. The Depositary may generally refuse to provide services until its fees for those services are paid.

The below table sets forth the fees that an investor depositing or withdrawing shares must pay to the Depositary for certain services:

| Investor depositing or withdrawing shares must pay: | For: |
|----------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| \$ 5.00 (or less) per 100 ADSs (or portion of 100 ADSs) | Issuance of ADSs, including issuances resulting from a distribution, sale or exercise of shares or rights or other property |
| | Cancellation of ADSs for the purpose of withdrawal including if the depositary agreement is terminated |
| \$ 0.02 (or less) per ADS | Any cash distribution to ADS registered holders |
| A fee equivalent to the fee that would be payable if securities distributed had been shares and the shares had been deposited for issuance of ADSs | Distribution of securities distributed to holders of deposited securities which are distributed by the Depositary to ADS registered holders |
| Registration fees | Registration of transfer of shares on Komatsu's share register to the name of the depositary or its nominee or the custodian or its nominee when shares are deposited or withdrawn |
| Expenses of the Depositary | Cable, telex, and facsimile transmissions (when expressly provided in the depositary agreement) |
| | Converting foreign currency to US dollars |
| Taxes and other governmental charges the Depositary or custodian must pay on any ADSs or shares underlying ADSs | As necessary |

For the fiscal year ended March 31, 2012, the Depositary paid the Company \$30,000 for standard out-of-pocket maintenance costs for the ADRs (consisting of the expenses for postage and envelopes for mailing annual and interim financial reports, printing and distributing dividend checks, electronic filings of U.S. Federal tax information, mailing required tax forms, stationary, postage, facsimile and telephone calls) and expenses relating to Komatsu's annual general shareholders' meeting that are incurred with respect to Komatsu's ADR holders.

Table of Contents

Fees to be Paid in the Future

The Depositary has agreed to reimburse the Company for expenses incurred by the Company that relate to the establishment and maintenance of the ADR program. The Depositary has also agreed to pay the standard out-of-pocket maintenance costs for the ADRs, which consist of the expenses for postage and envelopes for mailing annual and interim financial reports, printing and distributing dividend checks, electronic filings of U.S. Federal tax information, mailing required tax forms, stationary, postage, facsimile and telephone calls. The Depositary has also agreed to reimburse the Company annually for certain investor relations programs or special investor relations promotional activities. While there are limits on the amount of expenses for which the Depositary will reimburse the Company for these investor relations activities, the amount of reimbursement available to the Company is not necessarily tied to the amount of fees the Depositary collects from investors.

PART II

Item 13. Defaults, Dividend Arrearages and Delinquencies

None.

Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds

None.

Item 15. Controls and Procedures

Evaluation of disclosure controls and procedures

Komatsu's management performed an evaluation of the effectiveness of the design and operation of its disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) under the supervision and with the participation of its Chief Executive Officer and Chief Financial Officer. Based on Komatsu's evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that as of March 31, 2012, the end of the period covered by this report, the disclosure controls and procedures were adequate and effective.

Table of Contents

Management's annual report on internal control over financial reporting

The management of Komatsu is responsible for establishing and maintaining adequate internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended). Komatsu's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of its financial reporting and the preparation of financial statements for external purposes in accordance with U.S. GAAP. Komatsu's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of Komatsu, (2) provide reasonable assurance that transactions are recorded as necessary for the financial statements to be prepared in accordance with U.S. GAAP, and that receipts and expenditures of Komatsu are being made only in accordance with authorizations of management and directors of Komatsu and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of Komatsu's assets that could have a material effect on its financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Management assessed the effectiveness of Komatsu's internal control over financial reporting as of March 31, 2012. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control – Integrated Framework.

Based on its assessment, management concluded that, as of March 31, 2012, Komatsu's internal control over financial reporting was effective.

Komatsu's independent registered public accountant firm, KPMG AZSA LLC, has issued an audit report on the effectiveness of Komatsu's internal control over financial reporting as of March 31, 2012.

Changes in internal control over financial reporting

There has been no change in Komatsu's internal control over financial reporting that occurred during the period covered by this annual report that has materially affected, or is reasonably likely to materially affect, its internal control over financial reporting.

Table of Contents

Item 16. [Reserved]

Item 16A. Audit Committee Financial Expert

The Board of Corporate Auditors of the Company has determined that Mr. Kyoji Torii and Mr. Makoto Morimoto each qualify as an audit committee financial expert as such term is defined under the rules of the SEC. Mr. Torii and Mr. Morimoto meet the independence requirements imposed on corporate auditors under the Corporation Act of Japan. Mr. Torii and Mr. Morimoto have long engaged in accounting-related duties at the Company, and have extensive experience and expertise regarding financial affairs and accounting matters. Since joining the Company in 1974, Mr. Torii has worked in the fields of accounting and finance. Mr. Torii served as the chief project manager of the Tax & Corporate Controlling Dept. from 1998 to 1999, the general manager of the Affiliated Companies Dept. from 1999 to 2002 and the general manager of the Planning & Administration Dept., Defense Systems Division from 2007 to 2009. Mr. Morimoto began his career at Komatsu in 1977, and since that time has worked in the field of finance and accounting for more than thirty years. Mr. Morimoto served as the General Manager of the Corporate Accounting Dept. from 2004 to 2006, the General Manager of the Corporate Controlling Dept. from 2006 to 2008 and the General Manager of the Internal Audit Dept. from 2008 to 2012.

Mr. Torii was elected as one of the corporate auditors of the Company at the ordinary general meeting of shareholders held in June 2009. Mr. Morimoto was elected as one of the corporate auditors of the Company at the ordinary general meeting of shareholders held in June 2012. See Item 6.A. for additional information regarding Mr. Torii and Mr. Morimoto.

Item 16B. Code of Ethics

In order to ensure that Komatsu's business is conducted honestly, ethically and in compliance with applicable laws, rules and regulations by its senior officers (including directors, executive officers, presidents of divisions, general managers of administrative departments at the Company as well as managers of the Finance & Treasury and Corporate Accounting departments at the Company), Komatsu has adopted the Code of Ethics for Senior Officers that stipulates the ethical duties and rules of conduct that its senior officers are required to comply with. This Code of Ethics for Senior Officers has been filed as Exhibit 11 hereto.

Table of Contents

In addition, beginning in 1998, Komatsu has published a booklet entitled "Komatsu's Code of Worldwide Business Conduct." Komatsu distributes this booklet to all of its worldwide employees and management officers in order to ensure that they understand how important it is to observe the rules of the business community. The content of the latest edition of this booklet published in April 2011 is available on the Company's website at <http://www.komatsu.com/CompanyInfo/profile/conduct/>.

No amendments have been made to the "Code of Ethics for Senior Officers" during or after the fiscal year ended March 31, 2012.

Item 16C. Principal Accountant Fees and Services**Audit and Non-Audit Fees**

KPMG AZSA LLC and the various member firms of KPMG International served as Komatsu's principal independent registered public accounting firm for the fiscal years ended March 31, 2012 and 2011. Set forth below are the fees for services rendered by KPMG AZSA LLC and the various member firms of KPMG International for the fiscal years ended March 31, 2012 and 2011.

| | (Millions of Yen) | |
|--------------------|------------------------------------|----------------|
| | Fiscal Year ended March 31, | |
| | 2012 | 2011 |
| Audit fees | ¥ 1,616 | ¥ 1,689 |
| Audit-related fees | 11 | 6 |
| Tax fees | 34 | 28 |
| All other fees | 29 | 11 |
| Total | ¥ 1,690 | ¥ 1,734 |

Audit fees include fees billed for services rendered in connection with the audit of Komatsu's annual and semiannual consolidated financial statements, the review of consolidated quarterly financial statements and the review of associated documents filed with regulatory organizations.

Audit-related fees include fees billed for due diligence services related to mergers and acquisitions, agreed-upon or expanded audit procedures and the review of Komatsu's internal control procedures.

Tax fees include fees billed for tax compliance, the review of tax return documents, documentation relating to transfer pricing, and international and domestic indirect tax.

All other fees consist of fees for all other services not included in any of the above categories, such as advisory services relating to the accounting manual.

Table of Contents

Pre-Approval Policies and Procedures of the Board of Corporate Auditors

In accordance with the SEC rules regarding auditor independence, the Board of Corporate Auditors of the Company has established pre-approval policies and procedures for audit and non-audit services that are provided by its principal independent registered public accounting firm. These policies and procedures apply when the Company and/or its consolidated subsidiaries wish to engage an accounting firm for audit services and when the Company and/or its consolidated subsidiaries wish to engage the principal independent registered public accounting firm for permissible non-audit services.

When engaging an accounting firm for audit services, pre-approval is required prior to the commencement of such services. Similarly, when engaging the principal independent registered public accounting firm for permissible non-audit services (i.e., audit-related services, tax services and all other services), pre-approval must be obtained prior to the commencement of the services.

For the fiscal year ended March 31, 2012, no services were provided for which pre-approval was waived pursuant to paragraph (c)(7)(i)(C) of Rule 2-01 of Regulation S-X.

Item 16D. Exemptions from the Listing Standards for Audit Committees

Not applicable.

Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers

Not applicable.

Item 16F. Change in Registrant's Certifying Accountant

Not applicable.

Item 16G. Corporate Governance

Not applicable.

Table of Contents

PART III

Item 17. Financial Statements

Not applicable.

Item 18. Financial Statements

See Consolidated Financial Statements attached hereto.

Item 19. Exhibits

- 1.1 Articles of Incorporation of Komatsu Ltd., as amended (Translation)
- 1.2 Regulations of The Board of Directors (Translation)
- 2 Share Handling Regulations, as amended (Translation)
- 8 Significant subsidiaries of Komatsu Ltd., including additional subsidiaries that management has deemed to be significant, as of March 31, 2012 (See Item 4. Information on the Company Organizational Structure)
- 11 Code of Ethics for Senior Officers (Translation)
- 12 a. Certification of the CEO of the Company required pursuant to Rule 15d-14(a).
- 12 b. Certification of the CFO of the Company required pursuant to Rule 15d-14(a).
- 13 a. Certification of the CEO of the Company required pursuant to Rule 15d-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code
- 13 b. Certification of the CFO of the Company required pursuant to Rule 15d-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code
- 101 Instance Document
- 101 Schema Document
- 101 Calculation Linkbase Document
- 101 Definition Linkbase Document
- 101 Labels Linkbase Document
- 101 Presentation Linkbase Document

Table of Contents

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

KOMATSU LTD.

Date: June 29, 2012

By: /s/ Mikio Fujitsuka

Name: MIKIO FUJITSUKA

Position: Director and Senior Executive Officer,
Chief Financial Officer

Table of Contents

KOMATSU LTD. AND CONSOLIDATED SUBSIDIARIES

INDEX TO

CONSOLIDATED FINANCIAL STATEMENTS

| | |
|----------------------------------------------------------------------------------------------------|-------------|
| <u>Reports of Independent Registered Public Accounting Firm</u> | F-2 and F-3 |
| <u>Consolidated Balance Sheets as of March 31, 2012 and 2011</u> | F-4 |
| <u>Consolidated Statements of Income for the Years Ended March 31, 2012, 2011 and 2010</u> | F-5 |
| <u>Consolidated Statements of Equity for the Years Ended March 31, 2012, 2011 and 2010</u> | F-6 |
| <u>Consolidated Statements of Cash Flows for the Years Ended March 31, 2012, 2011 and 2010</u> | F-7 |
| <u>Notes to Consolidated Financial Statements</u> | F-8 to F-69 |

F-1

Table of Contents

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders

Komatsu Ltd.:

We have audited the accompanying consolidated balance sheets of Komatsu Ltd. and subsidiaries as of March 31, 2012 and 2011, and the related consolidated statements of income, equity and cash flows for each of the years in the three-year period ended March 31, 2012. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Komatsu Ltd. and subsidiaries as of March 31, 2012 and 2011, and the results of their operations and their cash flows for each of the years in the three-year period ended March 31, 2012, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Komatsu Ltd.'s internal control over financial reporting as of March 31, 2012, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated June 29, 2012 expressed an unqualified opinion on the effectiveness of Komatsu Ltd.'s internal control over financial reporting.

The accompanying consolidated financial statements as of and for the year ended March 31, 2012 have been translated into United States dollars solely for convenience of the reader. We have audited the translation and, in our opinion, the consolidated financial statements expressed in yen have been translated into dollars on the basis set forth in Note 1 to the consolidated financial statements.

/s/ KPMG AZSA LLC

Tokyo, Japan

June 29, 2012

Table of Contents

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders

Komatsu Ltd.:

We have audited the internal control over financial reporting of Komatsu Ltd. as of March 31, 2012, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting, which appears in Item 15. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Komatsu Ltd. maintained, in all material respects, effective internal control over financial reporting as of March 31, 2012, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Komatsu Ltd. and subsidiaries as of March 31, 2012 and 2011, and the related consolidated statements of income, equity and cash flows for each of the years in the three-year period ended March 31, 2012, expressed in Japanese yen, and our report dated June 29, 2012 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG AZSA LLC

Tokyo, Japan

June 29, 2012

Table of Contents**Consolidated Balance Sheets**

Komatsu Ltd. and Consolidated Subsidiaries

March 31, 2012 and 2011

| | Millions of yen | | Thousands of U.S. dollars |
|------------------------------------------------------------------------------------------------------|--------------------|--------------------|------------------------------|
| | 2012 | 2011 | 2012 |
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents (Note 9) | ¥ 83,079 | ¥ 84,224 | \$ 1,013,159 |
| Time deposits | 907 | 734 | 11,060 |
| Trade notes and accounts receivable (Note 4) | 559,749 | 532,757 | 6,826,207 |
| Inventories (Note 5) | 612,359 | 473,876 | 7,467,792 |
| Deferred income taxes and other current assets (Notes 9, 15, 19, 20, 21 and 23) | 144,278 | 152,781 | 1,759,488 |
| Total current assets | 1,400,372 | 1,244,372 | 17,077,706 |
| Long-term trade receivables (Note 4) | 184,294 | 183,270 | 2,247,488 |
| Investments | | | |
| Investments in and advances to affiliated companies (Note 7) | 20,565 | 25,115 | 250,793 |
| Investment securities (Notes 6, 20 and 21) | 54,192 | 60,855 | 660,878 |
| Other | 2,582 | 3,124 | 31,488 |
| Total investments | 77,339 | 89,094 | 943,159 |
| Property, plant and equipment less accumulated depreciation and amortization (Notes 8 and 16) | 529,656 | 508,387 | 6,459,220 |
| Goodwill (Note 10) | 31,229 | 29,321 | 380,841 |
| Other intangible assets less accumulated amortization (Note 10) | 57,953 | 53,971 | 706,744 |
| Deferred income taxes and other assets (Notes 15, 19, 20 and 21) | 39,686 | 40,722 | 483,976 |
| | ¥ 2,320,529 | ¥ 2,149,137 | \$ 28,299,134 |

| | Millions of yen | | Thousands of U.S. dollars |
|-----------------------------------------------------------------------------------|-----------------|----------------|------------------------------|
| | 2012 | 2011 | 2012 |
| Liabilities and Equity | | | |
| Current liabilities | | | |
| Short-term debt (Note 11) | ¥ 215,824 | ¥ 130,308 | \$ 2,632,000 |
| Current maturities of long-term debt (Notes 9, 11, 16 and 20) | 119,457 | 122,608 | 1,456,793 |
| Trade notes, bills and accounts payable | 273,460 | 308,975 | 3,334,878 |
| Income taxes payable (Note 15) | 23,195 | 38,829 | 282,866 |
| Deferred income taxes and other current liabilities (Notes 15, 19, 20, 21 and 23) | 231,774 | 199,268 | 2,826,512 |
| Total current liabilities | 863,710 | 799,988 | 10,533,049 |

Long-term liabilities

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| | | | |
|-----------------------------------------------------------------------|--------------------|-------------|----------------------|
| Long-term debt (Notes 9, 11, 16 and 20) | 312,519 | 291,152 | 3,811,207 |
| Liability for pension and retirement benefits (Note 12) | 50,685 | 48,027 | 618,110 |
| Deferred income taxes and other liabilities (Notes 15, 19, 20 and 21) | 36,158 | 37,290 | 440,951 |
| Total long-term liabilities | 399,362 | 376,469 | 4,870,268 |
| Total liabilities | 1,263,072 | 1,176,457 | 15,403,317 |
| Commitments and contingent liabilities (Note 18) | | | |
| Equity | | | |
| Komatsu Ltd. shareholders' equity (Note 13) | | | |
| Common stock: | | | |
| Authorized 3,955,000,000 shares | | | |
| Issued 983,130,260 shares in 2012 and 998,744,060 shares in 2011 | | | |
| Outstanding 952,261,022 shares in 2012 and 967,902,641 shares in 2011 | 67,870 | 67,870 | 827,683 |
| Capital surplus | 138,384 | 140,523 | 1,687,610 |
| Retained earnings: | | | |
| Appropriated for legal reserve | 37,954 | 34,494 | 462,854 |
| Unappropriated | 951,395 | 847,153 | 11,602,377 |
| Accumulated other comprehensive loss (Notes 6, 12, 14, 19 and 21) | (142,389) | (131,059) | (1,736,451) |
| Treasury stock at cost, | | | |
| 30,869,238 shares in 2012 and 30,841,419 shares in 2011 (Note 13) | (43,518) | (35,138) | (530,707) |
| Total Komatsu Ltd. shareholders' equity | 1,009,696 | 923,843 | 12,313,366 |
| Noncontrolling interests | 47,761 | 48,837 | 582,451 |
| Total equity | 1,057,457 | 972,680 | 12,895,817 |
| | ¥ 2,320,529 | ¥ 2,149,137 | \$ 28,299,134 |

The accompanying Notes are an integral part of these Consolidated Financial Statements.

Table of Contents**Consolidated Statements of Income**

Komatsu Ltd. and Consolidated Subsidiaries

Years ended March 31, 2012, 2011 and 2010

| | 2012 | Millions of yen 2011 | 2010 | Thousands of U.S. dollars 2012 |
|----------------------------------------------------------------------------------|------------------|-------------------------|-----------------|--------------------------------------|
| Net sales (Note 7) | ¥ 1,981,763 | ¥ 1,843,127 | ¥ 1,431,564 | \$ 24,167,841 |
| Cost of sales (Notes 16,19 and 24) | 1,440,765 | 1,343,464 | 1,101,559 | 17,570,304 |
| Selling, general and administrative expenses (Notes 3,16 and 24) | 282,335 | 264,691 | 249,286 | 3,443,110 |
| Impairment loss on long-lived assets (Notes 8,10,21 and 24) | 3,106 | 5,142 | 3,332 | 37,878 |
| Other operating income (expenses), net (Note 24) | 786 | (6,901) | (10,352) | 9,585 |
| Operating income | 256,343 | 222,929 | 67,035 | 3,126,134 |
| Other expenses, net (Note 24) | (6,734) | (3,120) | (2,056) | (82,122) |
| Interest and dividend income | 3,776 | 4,493 | 6,158 | 46,049 |
| Interest expense | (7,784) | (6,475) | (8,502) | (94,927) |
| Other, net (Notes 3,16,19 and 21) | (2,726) | (1,138) | 288 | (33,244) |
| Income before income taxes and equity in earnings of affiliated companies | 249,609 | 219,809 | 64,979 | 3,044,012 |
| Income taxes (Note 15) | | | | |
| Current | 66,420 | 57,923 | 32,722 | 810,000 |
| Deferred | 8,050 | 6,783 | (7,358) | 98,171 |
| Total | 74,470 | 64,706 | 25,364 | 908,171 |
| Income before equity in earnings of affiliated companies | 175,139 | 155,103 | 39,615 | 2,135,841 |
| Equity in earnings of affiliated companies | 1,609 | 2,724 | 1,588 | 19,622 |
| Net income | 176,748 | 157,827 | 41,203 | 2,155,463 |
| Less net income attributable to noncontrolling interests | (9,707) | (7,075) | (7,644) | (118,378) |
| Net income attributable to Komatsu Ltd. | ¥ 167,041 | ¥ 150,752 | ¥ 33,559 | \$ 2,037,085 |
| | | | | |
| | | Yen | | U.S. cents |
| Per share data (Note 17): | | | | |
| Net income attributable to Komatsu Ltd.: | | | | |
| Basic | 173.47 | 155.77 | 34.67 | ¢ 211.55 |
| Diluted | 173.32 | 155.66 | 34.65 | 211.36 |
| Cash dividends per share | 41.00 | 26.00 | 26.00 | ¢ 50.00 |

The accompanying Notes are an integral part of these Consolidated Financial Statements.

Table of Contents**Consolidated Statements of Equity**

Komatsu Ltd. and Consolidated Subsidiaries

Years ended March 31, 2012, 2011 and 2010

| | Millions of yen | | | | | | | | |
|-------------------------------------------------------------------------|-------------------|-----------|--------------|----------------|---------------|-----------|--------------|-------------|-----------|
| | Retained earnings | | | | | | Total | | |
| | Common | Capital | Appropriated | Unappropriated | Accumulated | Treasury | Komatsu | Non- | Total |
| | stock | surplus | for legal | reserved | other | stock | shareholders | controlling | equity |
| | | | reserve | | comprehensive | | equity | interests | |
| | | | | | loss | | | | |
| Balance at March 31, 2009 | ¥ 67,870 | ¥ 140,092 | ¥ 28,472 | ¥ 719,222 | ¥(105,744) | ¥(34,971) | ¥814,941 | ¥ 33,393 | ¥ 848,334 |
| Cash dividends | | | | (25,180) | | | (25,180) | (3,368) | (28,548) |
| Transfer to retained earnings appropriated for legal reserve | | | 3,511 | (3,511) | | | | | |
| Other changes | | | | | | | | 2,531 | 2,531 |
| Comprehensive income (loss) | | | | | | | | | |
| Net income | | | | 33,559 | | | 33,559 | 7,644 | 41,203 |
| Other comprehensive income (loss), for the period, net of tax (Note 14) | | | | | | | | | |
| Foreign currency translation adjustments | | | | | (904) | | (904) | 1,897 | 993 |
| Net unrealized holding gains on securities available for sale | | | | | 5,480 | | 5,480 | | 5,480 |
| Pension liability adjustments | | | | | 4,920 | | 4,920 | 2 | 4,922 |
| Net unrealized holding gains on derivative instruments | | | | | 614 | | 614 | 725 | 1,339 |
| Comprehensive income | | | | | | | 43,669 | 10,268 | 53,937 |
| Issuance and exercise of stock acquisition rights (Note 13) | | 413 | | | | | 413 | | 413 |
| Purchase of treasury stock | | | | | | (40) | (40) | | (40) |
| Sales of treasury stock | | (84) | | | | 256 | 172 | | 172 |
| Balance at March 31, 2010 | ¥ 67,870 | ¥ 140,421 | ¥ 31,983 | ¥ 724,090 | ¥(95,634) | ¥(34,755) | ¥833,975 | ¥ 42,824 | ¥ 876,799 |
| Cash dividends | | | | (25,178) | | | (25,178) | (994) | (26,172) |
| Transfer to retained earnings appropriated for legal reserve | | | 2,511 | (2,511) | | | | | |
| Other changes | | (51) | | | 7 | | (44) | 2,168 | 2,124 |
| Comprehensive income (loss) | | | | | | | | | |
| Net income | | | | 150,752 | | | 150,752 | 7,075 | 157,827 |
| Other comprehensive income (loss), for the period, net of tax (Note 14) | | | | | | | | | |
| Foreign currency translation adjustments | | | | | (37,237) | | (37,237) | (2,292) | (39,529) |
| Net unrealized holding gains on securities available for sale | | | | | 1,978 | | 1,978 | | 1,978 |
| Pension liability adjustments | | | | | (91) | | (91) | | (91) |
| Net unrealized holding gains (losses) on derivative instruments | | | | | (82) | | (82) | 56 | (26) |
| Comprehensive income | | | | | | | 115,320 | 4,839 | 120,159 |
| | | 109 | | | | | 109 | | 109 |

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Issuance and exercise of stock

acquisition rights (Note 13)

| | | | | |
|----------------------------|----|-------|-------|-------|
| Purchase of treasury stock | | (583) | (583) | (583) |
| Sales of treasury stock | 44 | 200 | 244 | 244 |

| | | | | | | | | | |
|----------------------------------|-----------------|------------------|-----------------|------------------|-------------------|------------------|-----------------|-----------------|------------------|
| Balance at March 31, 2011 | ¥ 67,870 | ¥ 140,523 | ¥ 34,494 | ¥ 847,153 | ¥(131,059) | ¥(35,138) | ¥923,843 | ¥ 48,837 | ¥ 972,680 |
|----------------------------------|-----------------|------------------|-----------------|------------------|-------------------|------------------|-----------------|-----------------|------------------|

| | | | | | | | | | |
|--------------------------|--|--|--|----------|--|--|----------|---------|----------|
| Cash dividends (Note 13) | | | | (39,701) | | | (39,701) | (6,447) | (46,148) |
|--------------------------|--|--|--|----------|--|--|----------|---------|----------|

| | | | | | | | | | |
|--------------------------------------------------------------|--|--|-------|---------|--|--|--|--|--|
| Transfer to retained earnings appropriated for legal reserve | | | 3,460 | (3,460) | | | | | |
|--------------------------------------------------------------|--|--|-------|---------|--|--|--|--|--|

| | | | | | | | | | |
|---------------|--|-------|--|--|----|--|-------|---------|---------|
| Other changes | | (245) | | | 34 | | (211) | (4,024) | (4,235) |
|---------------|--|-------|--|--|----|--|-------|---------|---------|

| | | | | | | | | | |
|-----------------------------|--|--|--|--|--|--|--|--|--|
| Comprehensive income (loss) | | | | | | | | | |
|-----------------------------|--|--|--|--|--|--|--|--|--|

| | | | | | | | | | |
|------------|--|--|--|---------|--|--|---------|-------|---------|
| Net income | | | | 167,041 | | | 167,041 | 9,707 | 176,748 |
|------------|--|--|--|---------|--|--|---------|-------|---------|

| | | | | | | | | | |
|-------------------------------------------------------------------------|--|--|--|--|--|--|--|--|--|
| Other comprehensive income (loss), for the period, net of tax (Note 14) | | | | | | | | | |
|-------------------------------------------------------------------------|--|--|--|--|--|--|--|--|--|

| | | | | | | | | | |
|------------------------------------------|--|--|--|--|---------|--|---------|-------|---------|
| Foreign currency translation adjustments | | | | | (8,759) | | (8,759) | (193) | (8,952) |
|------------------------------------------|--|--|--|--|---------|--|---------|-------|---------|

| | | | | | | | | | |
|---------------------------------------------------------------|--|--|--|--|-----|--|-----|--|-----|
| Net unrealized holding gains on securities available for sale | | | | | 725 | | 725 | | 725 |
|---------------------------------------------------------------|--|--|--|--|-----|--|-----|--|-----|

| | | | | | | | | | |
|-------------------------------|--|--|--|--|---------|--|---------|------|---------|
| Pension liability adjustments | | | | | (1,930) | | (1,930) | (13) | (1,943) |
|-------------------------------|--|--|--|--|---------|--|---------|------|---------|

| | | | | | | | | | |
|---------------------------------------------------------|--|--|--|--|---------|--|---------|-------|---------|
| Net unrealized holding losses on derivative instruments | | | | | (1,400) | | (1,400) | (106) | (1,506) |
|---------------------------------------------------------|--|--|--|--|---------|--|---------|-------|---------|

| | | | | | | | | | |
|----------------------|--|--|--|--|--|--|---------|-------|---------|
| Comprehensive income | | | | | | | 155,677 | 9,395 | 165,072 |
|----------------------|--|--|--|--|--|--|---------|-------|---------|

| | | | | | | | | | |
|-------------------------------------------------------------|--|-----|--|--|--|--|-----|--|-----|
| Issuance and exercise of stock acquisition rights (Note 13) | | 699 | | | | | 699 | | 699 |
|-------------------------------------------------------------|--|-----|--|--|--|--|-----|--|-----|

| | | | | | | | | | |
|--------------------------------------|--|--|--|--|--|----------|----------|--|----------|
| Purchase of treasury stock (Note 13) | | | | | | (31,118) | (31,118) | | (31,118) |
|--------------------------------------|--|--|--|--|--|----------|----------|--|----------|

| | | | | | | | | | |
|-------------------------|--|------|--|--|--|-----|-----|--|-----|
| Sales of treasury stock | | (13) | | | | 520 | 507 | | 507 |
|-------------------------|--|------|--|--|--|-----|-----|--|-----|

| | | | | | | | | | |
|----------------------------------------|--|---------|--|----------|--|--------|--|--|--|
| Retirement of treasury stock (Note 13) | | (2,580) | | (19,638) | | 22,218 | | | |
|----------------------------------------|--|---------|--|----------|--|--------|--|--|--|

| | | | | | | | | | |
|----------------------------------|-----------------|------------------|-----------------|------------------|-------------------|------------------|-------------------|-----------------|--------------------|
| Balance at March 31, 2012 | ¥ 67,870 | ¥ 138,384 | ¥ 37,954 | ¥ 951,395 | ¥(142,389) | ¥(43,518) | ¥1,009,696 | ¥ 47,761 | ¥ 1,057,457 |
|----------------------------------|-----------------|------------------|-----------------|------------------|-------------------|------------------|-------------------|-----------------|--------------------|

| | Thousands of U.S. dollars | | | | | | | | |
|----------------------------------|---------------------------|---------------------|-----------------------------------------------------|----------------------|--------------------------------------|---------------------|----------------------------------------------|---------------------------|----------------------|
| | Common stock | Capital surplus | Retained earnings Appropriated for legal reserve | Unappropriated | Accumulated other comprehensive loss | Treasury stock | Total Komatsu Ltd. shareholders equity | Non-controlling interests | Total equity |
| Balance at March 31, 2011 | \$ 827,683 | \$ 1,713,695 | \$ 420,659 | \$ 10,331,134 | \$ (1,598,280) | \$ (428,512) | \$ 11,266,379 | \$ 595,573 | \$ 11,861,952 |

| | | | | | | | | | |
|--------------------------|--|--|--|-----------|--|--|-----------|----------|-----------|
| Cash dividends (Note 13) | | | | (484,159) | | | (484,159) | (78,622) | (562,781) |
|--------------------------|--|--|--|-----------|--|--|-----------|----------|-----------|

| | | | | | | | | | |
|--------------------------------------------------------------|--|--|--------|----------|--|--|--|--|--|
| Transfer to retained earnings appropriated for legal reserve | | | 42,195 | (42,195) | | | | | |
|--------------------------------------------------------------|--|--|--------|----------|--|--|--|--|--|

| | | | | | | | | | |
|---------------|--|---------|--|--|-----|--|---------|----------|----------|
| Other changes | | (2,987) | | | 415 | | (2,572) | (49,073) | (51,645) |
|---------------|--|---------|--|--|-----|--|---------|----------|----------|

| | | | | | | | | | |
|-----------------------------|--|--|--|--|--|--|--|--|--|
| Comprehensive income (loss) | | | | | | | | | |
|-----------------------------|--|--|--|--|--|--|--|--|--|

| | | | | | | | | | |
|------------|--|--|--|-----------|--|--|-----------|---------|-----------|
| Net income | | | | 2,037,085 | | | 2,037,085 | 118,378 | 2,155,463 |
|------------|--|--|--|-----------|--|--|-----------|---------|-----------|

| | | | | | | | | | |
|-------------------------------------------------------------------------|--|--|--|--|--|--|--|--|--|
| Other comprehensive income (loss), for the period, net of tax (Note 14) | | | | | | | | | |
|-------------------------------------------------------------------------|--|--|--|--|--|--|--|--|--|

| | | | | | | | | | |
|------------------------------------------|--|--|--|--|-----------|--|-----------|---------|-----------|
| Foreign currency translation adjustments | | | | | (106,817) | | (106,817) | (2,354) | (109,171) |
|------------------------------------------|--|--|--|--|-----------|--|-----------|---------|-----------|

| | | | | | | | | | |
|---------------------------------------------------------------|--|--|--|--|-------|--|-------|--|-------|
| Net unrealized holding gains on securities available for sale | | | | | 8,841 | | 8,841 | | 8,841 |
|---------------------------------------------------------------|--|--|--|--|-------|--|-------|--|-------|

| | | | | | | | | | |
|-------------------------------|--|--|--|--|----------|--|----------|-------|----------|
| Pension liability adjustments | | | | | (23,537) | | (23,537) | (158) | (23,695) |
|-------------------------------|--|--|--|--|----------|--|----------|-------|----------|

| | | | | | | | | | |
|---------------------------------------------------------|--|--|--|--|----------|--|----------|---------|----------|
| Net unrealized holding losses on derivative instruments | | | | | (17,073) | | (17,073) | (1,293) | (18,366) |
|---------------------------------------------------------|--|--|--|--|----------|--|----------|---------|----------|

| | | | | | | | | | |
|----------------------|--|--|--|--|--|--|-----------|---------|-----------|
| Comprehensive income | | | | | | | 1,898,499 | 114,573 | 2,013,072 |
|----------------------|--|--|--|--|--|--|-----------|---------|-----------|

| | | | | | | | | | |
|-------------------------------------------------------------|--|-------|--|--|--|--|-------|--|-------|
| Issuance and exercise of stock acquisition rights (Note 13) | | 8,524 | | | | | 8,524 | | 8,524 |
|-------------------------------------------------------------|--|-------|--|--|--|--|-------|--|-------|

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| | | | | | | | | | |
|-------------------------------------------|-------------------|---------------------|-------------------|----------------------|-----------------------|---------------------|----------------------|-------------------|----------------------|
| Purchase of treasury stock (Note 13) | | | | | | (379,488) | (379,488) | | (379,488) |
| Sales of treasury stock | (159) | | | | | 6,342 | 6,183 | | 6,183 |
| Retirement of treasury stock (Note 13) | (31,463) | | | (239,488) | | 270,951 | | | |
| Balance at March 31, 2012 | \$ 827,683 | \$ 1,687,610 | \$ 462,854 | \$ 11,602,377 | \$ (1,736,451) | \$ (530,707) | \$ 12,313,366 | \$ 582,451 | \$ 12,895,817 |

The accompanying Notes are an integral part of these Consolidated Financial Statements.

F-6

Table of Contents**Consolidated Statements of Cash Flows**

Komatsu Ltd. and Consolidated Subsidiaries

Years ended March 31, 2012, 2011 and 2010

| | 2012 | Millions of yen 2011 | 2010 | Thousands of U.S. dollars 2012 |
|-----------------------------------------------------------------------------------|-----------|-------------------------|-----------|--------------------------------------|
| Operating activities | | | | |
| Net income | ¥ 176,748 | ¥ 157,827 | ¥ 41,203 | \$ 2,155,463 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | |
| Depreciation and amortization | 90,106 | 89,467 | 91,319 | 1,098,854 |
| Deferred income taxes | 8,050 | 6,783 | (7,358) | 98,171 |
| Net loss (gain) from sale of investment securities and subsidiaries | 2,516 | 54 | (679) | 30,683 |
| Net gain on sale of property | (915) | (2,807) | (373) | (11,159) |
| Loss on disposal of fixed assets | 2,108 | 1,928 | 2,244 | 25,707 |
| Impairment loss on long-lived assets | 3,106 | 5,142 | 3,332 | 37,878 |
| Pension and retirement benefits, net | 1,536 | (3,795) | (55) | 18,732 |
| Changes in assets and liabilities: | | | | |
| Decrease (increase) in trade receivables | (21,862) | (147,477) | (71,459) | (266,610) |
| Decrease (increase) in inventories | (137,354) | (97,790) | 117,707 | (1,675,049) |
| Increase (decrease) in trade payables | (38,207) | 101,595 | (8,354) | (465,939) |
| Increase (decrease) in income taxes payable | (15,185) | 17,876 | 11,311 | (185,183) |
| Other, net | 34,961 | 21,599 | 3,323 | 426,354 |
| Net cash provided by operating activities | 105,608 | 150,402 | 182,161 | 1,287,902 |
| Investing activities | | | | |
| Capital expenditures | (126,090) | (100,820) | (92,401) | (1,537,683) |
| Proceeds from sale of property | 8,364 | 9,605 | 11,212 | 102,000 |
| Proceeds from sale of available for sale investment securities | 1,757 | 2,132 | 1,005 | 21,427 |
| Purchases of available for sale investment securities | (1,457) | (1,379) | (4,826) | (17,768) |
| Proceeds from sale of subsidiaries, net of cash disposed | | | 661 | |
| Acquisition of subsidiaries and equity investees, net of cash acquired | (8,649) | 976 | 1,107 | (105,476) |
| Collection of loan receivables | 2,101 | 1,926 | 11,559 | 25,622 |
| Disbursement of loan receivables | (440) | (1,236) | (667) | (5,366) |
| Decrease (increase) in time deposits, net | (125) | 287 | (617) | (1,524) |
| Net cash used in investing activities | (124,539) | (88,509) | (72,967) | (1,518,768) |
| Financing activities | | | | |
| Proceeds from long-term debt | 149,844 | 72,681 | 155,641 | 1,827,366 |
| Repayments on long-term debt | (89,332) | (89,941) | (73,052) | (1,089,415) |
| Increase (decrease) in short-term debt, net | 86,412 | 11,592 | (139,067) | 1,053,805 |
| Repayments of capital lease obligations | (45,271) | (28,637) | (31,240) | (552,085) |
| Sale (purchase) of treasury stock, net | (30,680) | 175 | 132 | (374,146) |
| Dividends paid | (39,701) | (25,178) | (25,180) | (484,159) |
| Other, net | (12,491) | 2,943 | (3,597) | (152,329) |
| Net cash provided by (used in) financing activities | 18,781 | (56,365) | (116,363) | 229,037 |
| Effect of exchange rate change on cash and cash equivalents | (995) | (3,733) | (965) | (12,134) |

| | | | | |
|-------------------------------------------------------------|-----------------|-----------------|-----------------|---------------------|
| Net increase (decrease) in cash and cash equivalents | (1,145) | 1,795 | (8,134) | (13,963) |
| Cash and cash equivalents, beginning of year | 84,224 | 82,429 | 90,563 | 1,027,122 |
| Cash and cash equivalents, end of year | ¥ 83,079 | ¥ 84,224 | ¥ 82,429 | \$ 1,013,159 |

The accompanying Notes are an integral part of these Consolidated Financial Statements.

F-7

Table of Contents

Komatsu Ltd. and Consolidated Subsidiaries

Years ended March 31, 2012, 2011 and 2010

Notes to Consolidated Statements

1. Description of Business, Basis of Financial Statement Presentation and Summary of Significant Accounting Policies

Description of Business

Komatsu Ltd. (Company) and subsidiaries (together Komatsu) primarily manufacture and market various types of construction, mining and utility equipment throughout the world. Komatsu is also engaged in the manufacture and sale of industrial machinery and others.

The consolidated net sales of Komatsu for the year ended March 31, 2012, consisted of the following: Construction, Mining and Utility Equipment 87.8%, Industrial Machinery and Others 12.2%.

Sales are made principally under the Komatsu brand name, and are almost entirely executed through sales subsidiaries and sales distributors. These subsidiaries and distributors are responsible for marketing and distribution and primarily sell to retail dealers in their geographical area. Of consolidated net sales for the year ended March 31, 2012, 79.7% were generated outside Japan, with 23.3% in the Americas, 10.5% in Europe and CIS, 13.6% in China, 25.9% in Asia (excluding Japan and China) and Oceania, and 6.4% in the Middle East and Africa.

The manufacturing operations of Komatsu are conducted primarily at plants in Japan, United States, Germany, United Kingdom, Sweden, Indonesia, Brazil, Italy, and China.

Basis of Financial Statement Presentation

The accompanying consolidated financial statements are prepared and presented in accordance with generally accepted accounting principals in the United States of America.

The accompanying consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and principally operates. The translation of Japanese yen amounts into United States dollar amounts as of and for the year ended March 31, 2012, is included solely for the convenience of readers and has been made at the rate of ¥82 to \$1, the approximate rate of exchange prevailing at the Federal Reserve Bank of New York on March 31, 2012. Such translation should not be construed as a representation that Japanese yen amounts could be converted into United States dollars at the above or any other rate.

Summary of Significant Accounting Policies

(1) Consolidation and Investments in Affiliated Companies

The consolidated financial statements include the accounts of the Company and all of its majority-owned domestic and foreign subsidiaries, except for certain immaterial subsidiaries.

Variable interest entities are consolidated in which the Company is the primary beneficiary in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 810, Consolidation . The consolidated balance sheets as of March 31, 2012 and 2011, include assets of ¥26,609 million (\$324,500 thousand) and ¥26,020 million, respectively, of consolidated variable interest entities, which engage in equipment leasing in Europe. The majority of these assets are trade notes and accounts receivable, and long-term trade receivables.

Investments in affiliated companies whereby Komatsu has the ability to exercise significant influence over the operational and financial policies of a company, but does not have a controlling financial interest, are accounted for by the equity method.

(2) Foreign Currency Translation and Transactions

Assets and liabilities of foreign operations are translated at the exchange rates in effect at each fiscal year-end, and income and expenses of foreign operations are translated at the average rates of exchange prevailing during each fiscal year in consolidating the financial statements of

overseas subsidiaries. The resulting translation adjustments are included as a separate component of accumulated other comprehensive income (loss) in the accompanying consolidated financial statements. All foreign currency transaction gains and losses are included in other income (expenses) in the period incurred.

(3) Allowance for Doubtful Trade Receivables

Komatsu records allowance for doubtful receivables as the best estimate of the amount of probable credit losses in Komatsu's existing receivables including financing receivables. The amount is determined based on historical experience, credit information of individual customers, and assessment of overdue receivables. An additional allowance for individual receivables is recorded when Komatsu becomes aware of a customer's inability to meet its financial obligations, such as in the case of bankruptcy filings or deterioration of the customer's business performance. The amount of estimated credit losses is further adjusted to reflect changes in customer circumstances.

Table of Contents**(4) Inventories**

Inventories are stated at the lower of cost or market. Komatsu determines cost of work in process and finished products using the specific identification method based on actual costs accumulated under a job-order cost system. The cost of finished parts is determined principally using the first-in first-out method. Cost of materials and supplies is stated at average cost.

(5) Investment Securities

Komatsu's investments in debt and marketable equity securities are categorized as available-for-sale securities which are stated at fair value. Changes in fair values are included as a separate component of accumulated other comprehensive income (loss) in the accompanying consolidated financial statements.

Unrealized losses on marketable securities are charged against net earnings when a decline in market value below initial cost is determined to be other than temporary based primarily on the financial condition and near term prospects of the issuer and the extent and length of the time of the decline.

In assessing other-than-temporary impairment of investment securities which are stated at cost, Komatsu considers the financial condition and prospects of each investee company and other relevant factors. Impairment to be recognized is measured based on the amount by which the carrying amount of the investment securities exceeds its estimated fair value which is determined using discounted cash flows or other valuation techniques considered appropriate.

(6) Property, Plant and Equipment, and Related Depreciation and Amortization

Property, plant and equipment are stated at cost, less accumulated depreciation. Depreciation is calculated principally by the declining-balance method at rates based on the estimated useful lives of the assets. The estimated useful lives used in computing depreciation of property, plant and equipment are as follows:

| Asset | Life |
|-------------------------|---------------|
| Buildings | 3 to 50 years |
| Machinery and equipment | 2 to 20 years |

Certain leased machinery and equipment are accounted for as capital leases. The aggregate cost included in property, plant and equipment and related accumulated amortization as of March 31, 2012 and 2011 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|--------------------------|-----------------|----------|------------------------------|
| | 2012 | 2011 | 2012 |
| Aggregate cost | ¥ 27,409 | ¥ 83,436 | \$ 334,256 |
| Accumulated amortization | 16,527 | 36,331 | 201,549 |

Accumulated amortization related to capital leases is included in accumulated depreciation.

Ordinary maintenance and repairs are charged to expense as incurred. Major replacements and improvements are capitalized. When properties are retired or otherwise disposed of, the costs of those properties and the related accumulated depreciation are relieved from the consolidated balance sheets and the differences between the costs of those properties and the related accumulated depreciation are recognized in other operating income (expenses) of the consolidated statements of income.

(7) Goodwill and Other Intangible Assets

Komatsu uses the acquisition method of accounting for business combinations. Goodwill is tested for impairment at least annually. Any recognized intangible assets determined to have an indefinite useful life are not to be amortized, but instead tested for impairment at least annually until its life is determined to no longer be indefinite. Intangible assets with finite useful lives are amortized over their respective estimated useful lives and reviewed for impairment whenever there is an indicator of possible impairment. An impairment loss would be

recognized when the carrying amount of an asset or an asset group exceeds the estimated undiscounted cash flows expected to be generated by the asset or an asset group. The amount of the impairment loss to be recorded is determined by the difference between the fair value of the asset or an asset group using a discounted cash flow valuation model and carrying value.

Table of Contents

(8) Revenue Recognition

Komatsu recognizes revenue when (1) persuasive evidence of an arrangement exists, (2) delivery has occurred or services have been rendered for customers or dealers, (3) sales price is fixed or determinable, and (4) collectability is reasonably assured.

Revenue from sales of products including construction, mining and utility equipment and industrial machinery is recognized when title and risk of ownership is transferred to independently owned and operated customers or dealers, which occur upon the attainment of customer acceptance or when installation is completed. The conditions of acceptance are governed by the terms of the contract or arrangement. For arrangements with multiple elements, which may include any combination of products, installation and maintenance, Komatsu allocates revenue to each element based on its relative fair value if such elements meet the criteria for treatment as a separate unit of accounting. When Komatsu enters into a separate contract to render transportation or technical advice, principally related to a sale of mining equipment and large-sized industrial machinery such as large presses, these service revenues are accounted for separately from the product sale and recognized at the completion of the service delivery specified in the contract.

Service revenues from repair and maintenance and from transportation are recognized at the completion of service-delivery. Revenues from long-term fixed price maintenance contracts are recognized ratably over the contract period.

Certain consolidated subsidiaries rent construction equipment to customers. Rent revenue is recognized on a straight-line basis over the rental period.

Revenues are recorded net of discounts. In addition, taxes collected from customers and remitted to governmental-authorities on revenue-producing transactions are accounted for on a net basis and therefore are excluded from revenues in the consolidated statements of income.

(9) Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences and carryforwards are expected to be realized or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

If a tax position meets the more-likely-than-not recognition threshold based on the technical merits of the position, Komatsu recognizes the benefit of such position in the financial statements. The benefit of the tax position is measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon settlement with appropriate taxing authority.

(10) Product Warranties

Komatsu establishes a liability for estimated product warranty cost at the time of sale. Estimates for accrued product warranty cost are primarily based on historical experience and are classified as other current liabilities and other liabilities.

(11) Pension and Retirement Benefits

Komatsu recognizes the overfunded or underfunded status of the defined benefit plans as an asset or liability in the consolidated balance sheet, with a corresponding adjustment to accumulated other comprehensive income, net of tax.

Amortization of actuarial net gain or loss is included as a component of Komatsu's net periodic pension cost for defined benefit plans for a year if, as of the beginning of the year, that unrecognized net gain or loss exceeds 10 percent of the greater of (1) the projected benefit obligation or (2) the fair value of that plan's assets.

In such case, the amount of amortization recognized is the resulting excess divided by average remaining service period of active employees expected to receive benefits under the plan. The expected return on plan assets is determined based on the historical long-term rate of return on plan assets. The discount rate is determined based on the rates of return of high-quality fixed income investments currently available and expected to be available during the period to maturity of the pension benefits.

Table of Contents

(12) Share-Based Compensation

Komatsu recognizes share-based compensation expense using the fair value method. Compensation expense is measured at grant-date fair value of the share-based award and charged to expense over the vesting period.

(13) Per Share Data

Basic net income attributable to Komatsu Ltd. per share has been computed by dividing net income attributable to Komatsu Ltd. by the weighted-average number of common shares outstanding during each fiscal year, after deducting treasury shares. Diluted net income attributable to Komatsu Ltd. per share reflects the potential dilution computed on the basis that all stock options were exercised (less the number of treasury shares assumed to be purchased from proceeds using the average market price of the Company's common shares) to the extent that each is not antidilutive.

Dividends per share shown in the accompanying consolidated statements of income are based on dividends approved and paid in each fiscal year.

(14) Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with an original maturity of three months or less at the date of purchase.

Our foreign subsidiaries participate in a global cash pooling arrangement with a single financial institution, which is used to fund short-term liquidity needs. This arrangement contains specific provisions for the right to offset positive and negative cash balances on a global basis. The facility allows for cash withdrawals from this financial institution based upon our aggregate cash deposits within the same financial institution. Komatsu's consolidated Balance Sheets as of March 31, 2012 and 2011 reflect cash net of withdrawals of ¥28,823 million (\$351,500 thousand) and ¥39,729 million respectively.

(15) Derivative Financial Instruments

Komatsu uses various derivative financial instruments to manage its interest rate and foreign exchange exposure.

All derivatives, including derivatives embedded in other financial instruments, are measured at fair value and recognized as either assets or liabilities on the consolidated balance sheet. Changes in the fair values of derivative instruments not designated or not qualifying as hedges and any ineffective portion of qualified hedges are recognized in earnings in the current period. Changes in the fair values of derivative instruments which qualify as fair value hedges are recognized in earnings, along with changes in the fair value of the hedged item. Changes in the fair value of the effective portions of cash flow hedges are reported in accumulated other comprehensive income (loss), and recognized in earnings when the hedged item is recognized in earnings.

(16) Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed of

Long-lived assets and certain identifiable intangibles to be held and used by Komatsu are reviewed for impairment based on a cash flow analysis of the asset or an asset group whenever events or changes in circumstances indicate that the carrying amount of an asset or an asset group may not be recoverable. The assets to be held for use are considered to be impaired when estimated undiscounted cash flows expected to result from the use of the assets and their eventual disposition is less than their carrying amounts. The impairment losses are measured as the amount by which the carrying amount of the asset or an asset group exceeds the fair value. Long-lived assets and identifiable intangibles to be disposed of are reported at the lower of carrying amount or fair value less cost to sell.

(17) Use of Estimates

Komatsu has made a number of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses presented in consolidated financial statements prepared in conformity with U.S. GAAP. Actual results could differ from the estimates and assumptions.

Komatsu has identified several areas where it believes estimates and assumptions are particularly critical to the financial statements. These are the determination of the useful lives of Property, Plant and Equipment, the allowance for doubtful receivables, impairment of long-lived assets and goodwill, pension liabilities and expenses, product warranty liabilities, fair value of financial instruments, realization of deferred tax assets, income tax uncertainties and other contingencies. The current economic environment has increased the degree of uncertainty inherent in those

estimates.

F-11

Table of Contents

(18) Recently Adopted Accounting Standards

In the fiscal year ended March 31, 2012, Komatsu adopted Accounting Standards Update (ASU) 2009-13, Multiple-Deliverable Revenue Arrangements . ASU 2009-13 establishes a selling price hierarchy for determining the selling price of a deliverable. The selling price used for each deliverable will be based on vendor-specific objective evidence if available, third-party evidence if vendor-specific objective is not available, or estimated selling price if neither vendor-specific objective evidence nor third-party evidence is available. The adoption of ASU 2009-13 did not have a material impact on Komatsu s consolidated results of operations and financial condition.

In the fiscal year ended March 31, 2012, Komatsu also adopted ASU 2009-14, Certain Revenue Arrangements That Include Software Elements . ASU 2009-14 changes the accounting model for revenue arrangements that include both tangible products and software elements. The Update requires that hardware components of a tangible product containing component products always be excluded from the software revenue guidance. The adoption of ASU 2009-14 did not have any impact on Komatsu s consolidated results of operations and financial condition.

Table of Contents**2. Supplemental Cash Flow Information**

Additional cash flow information and noncash investing and financing activities for the years ended March 31, 2012, 2011 and 2010, are as follows:

| | 2012 | Millions of yen 2011 | 2010 | Thousands of U.S. dollars 2012 |
|----------------------------------------------------|----------|-------------------------|----------|-----------------------------------------|
| Additional cash flow information: | | | | |
| Interest paid | ¥ 7,309 | ¥ 6,367 | ¥ 8,533 | \$ 89,134 |
| Income taxes paid | ¥ 87,134 | ¥ 46,227 | ¥ 9,797 | \$ 1,062,610 |
| Noncash investing and financing activities: | | | | |
| Capital lease obligations incurred | ¥ 2,300 | ¥ 2,244 | ¥ 14,285 | \$ 28,049 |

Amounts reported in the other, net of net cash provided by operating activities in the accompanying consolidated statements of cash flows for the fiscal years ended March 31, 2012, 2011 and 2010 included an increase in advances received of ¥18,352 million (\$223,805 thousand), an increase of ¥12,297 million and a decrease of ¥9,714 million respectively.

Table of Contents**3. Business Combinations****(1) Gigaphoton Inc.**

On May 18, 2011, the Company acquired additional 50,000 shares of Gigaphoton Inc. (hereinafter "Gigaphoton") for cash consideration of ¥7,500 million (\$91,463 thousand).

Prior to the additional acquisition, the Company held a 50.0% equity interest in Gigaphoton and accounted for the investment by the equity method. As a result of the additional investment, the Company's ownership increased to 100.0% and Gigaphoton became a consolidated subsidiary of the Company.

Gigaphoton was established by Ushio Inc. (hereinafter "Ushio") and the Company as a 50-50 joint-venture company to develop, manufacture, sell and service excimer laser light sources for lithography tools in August 2000.

To develop an extreme ultraviolet light source, Ushio and Gigaphoton have been working on different methods. Because Gigaphoton and Ushio will be competing on the same market, Ushio and the Company have decided to terminate the joint-venture agreement. As a wholly owned subsidiary of the Company, Gigaphoton is expected further expand its conventional excimer laser business and also accelerate the pace of research and development by teaming up with the Company to create an extreme ultraviolet light source as the basis for next-generation lithography tools.

Following is a summary of the assets acquired and liabilities assumed adjusted to reflect purchase price allocation as of the date of acquisition:

| | Millions of yen | Thousands of U.S. dollars |
|--------------------------------------------------------------------------------------------|-----------------|------------------------------|
| Consideration | | |
| Cash and cash equivalents | ¥ 7,500 | \$ 91,463 |
| Fair value of total consideration transferred | 7,500 | 91,463 |
| Fair value of Komatsu's equity interest in Gigaphoton held before the business combination | 7,500 | 91,463 |
| | ¥ 15,000 | \$ 182,926 |
| Acquisition-related cost (included in selling, general and administrative expenses) | ¥ 36 | \$ 439 |
| Recognized amounts of identifiable assets and liabilities assumed | | |
| Current assets | ¥ 14,859 | \$ 181,206 |
| Property, plant and equipment | 2,376 | 28,976 |
| Intangible assets | 7,425 | 90,549 |
| Other assets | 15 | 183 |
| Total assets acquired | 24,675 | 300,914 |
| Current liabilities | (7,860) | (95,854) |
| Long-term liabilities | (2,896) | (35,317) |
| Total liabilities assumed | (10,756) | (131,171) |
| Net assets acquired | 13,919 | 169,743 |
| Goodwill | 1,081 | 13,183 |

¥ 15,000 \$ 182,926

F-14

Table of Contents

The goodwill of ¥1,081 million (\$13,183 thousand) was assigned to the Industrial Machinery and Others operating segment. The goodwill is not deductible for tax purposes.

As a result of remeasuring to fair value its 50% equity interest in Gigaphoton held before the business combination, a gain of ¥2,592 million (\$31,610 thousand) was recorded in other expenses, net in the accompanying consolidated statement of income for the fiscal years ended March 31, 2012.

The amounts of Gigaphoton's sales and net income included in Komatsu's consolidated income statement since the date of acquisition of the additional 50.0% equity interest for the year ended March 31, 2012 were immaterial. Net sales and net income attributable to Komatsu Ltd. of the combined entity had the acquisition date been April 1, 2010 or April 1, 2009 would not differ materially from the amounts reported in the consolidated financial statements for the fiscal years ended March 31, 2011 and 2010.

(2) Komatsu Australia Corporate Finance Pty. Ltd.

In May, 2009, Komatsu acquired the additional shares of Komatsu Australia Corporate Finance Pty. Ltd. (hereinafter "KACF") effected by a capital investment in KACF of ¥1,684 million, 3,144,898 shares out of 3,489,796 shares.

Prior to the additional acquisition, Komatsu held a 50.0% equity interest in KACF and accounted for the investment by the equity method. As a result of the additional investment, Komatsu's ownership increased to 60.0% and KACF became a consolidated subsidiary of Komatsu.

Komatsu expects the acquisition will expand its business in relation to construction and mining equipment in the entire value chain including retail finance in Oceania strengthening its control and governance to KACF.

Following is a summary of the assets acquired and liabilities assumed adjusted to reflect purchase price allocation as of the date of acquisition as well as the fair value at the acquisition date of the noncontrolling interest:

| | Millions of yen |
|--------------------------------------------------------------------------------------|-----------------|
| Consideration | |
| Cash and cash equivalents | ¥ 1,684 |
| Fair value of total consideration transferred | 1,684 |
| Fair value of Komatsu's equity interest in KACF held before the business combination | 696 |
| | ¥ 2,380 |
| Recognized amounts of identifiable assets and liabilities assumed | |
| Current assets | ¥ 34,478 |
| Property, plant and equipment | 15,692 |
| Intangible assets | 2 |
| Other assets | 232 |
| Total assets acquired | 50,404 |
| Current liabilities | (33,174) |
| Long-term liabilities | (13,999) |
| Total liabilities assumed | (47,173) |
| Net assets acquired | 3,231 |
| Noncontrolling interest | (1,587) |

| | |
|----------|---------|
| Goodwill | 736 |
| | ¥ 2,380 |

F-15

Table of Contents

The goodwill of ¥736 million was assigned to the construction, mining and utility equipment segment. Goodwill is not deductible for tax purposes.

Remeasurement to fair value its 50% equity interest in KACF held before the business combination did not have a material impact on the consolidated income statement for the year ended March 31, 2010.

The amounts of KACF's sales and net income included in Komatsu's consolidated income statement since the date of acquisition of the additional 10.0% equity interest for the year ended March 31, 2010 were immaterial. Net sales and net income attributable to Komatsu Ltd. of the combined entity had the acquisition date been April 1, 2009 would not also differ materially from the amounts reported in the consolidated financial statements for the fiscal years ended March 31, 2010.

Table of Contents**4. Trade Notes and Accounts Receivable**

Receivables at March 31, 2012 and 2011 are summarized as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|--------------------------------|------------------|------------------|------------------------------|
| | 2012 | 2011 | 2012 |
| Trade notes | ¥ 108,390 | ¥ 84,372 | \$ 1,321,829 |
| Accounts receivable | 464,884 | 461,132 | 5,669,317 |
| Total | 573,274 | 545,504 | 6,991,146 |
| Long-term trade receivables | 186,012 | 186,316 | 2,268,439 |
| Total trade receivables | 759,286 | 731,820 | 9,259,585 |
| Less: total allowance | (15,243) | (15,793) | (185,890) |
| Net trade receivables | ¥ 744,043 | ¥ 716,027 | \$ 9,073,695 |

Installment and lease receivables (less unearned interest) are included in trade notes and accounts receivable and long-term trade receivables.

The roll-forward schedule of the allowance for credit losses of the financing receivables for the year ended March 31, 2012 and 2011 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|-------------------------------|-----------------|----------------|------------------------------|
| | 2012 | 2011 | 2012 |
| Balance at beginning of year | ¥ 7,474 | ¥ 7,550 | \$ 91,146 |
| Provision | 1,256 | 2,277 | 15,317 |
| Charge-offs | (1,004) | (1,855) | (12,244) |
| Other | 24 | (498) | 293 |
| Balance at end of year | ¥ 7,750 | ¥ 7,474 | \$ 94,512 |

Past due financing receivables at March 31, 2012 and 2011 were not material.

Equipment sales revenue from sales-type leases is recognized at the inception of the lease. At March 31, 2012 and 2011, lease receivables comprised the following:

| | Millions of yen | | Thousands of U.S. dollars |
|-----------------------------------|------------------|------------------|------------------------------|
| | 2012 | 2011 | 2012 |
| Minimum lease payments receivable | ¥ 232,798 | ¥ 209,723 | \$ 2,839,000 |
| Unearned income | (21,839) | (20,035) | (266,329) |
| Net lease receivables | ¥ 210,959 | ¥ 189,688 | \$ 2,572,671 |

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The residual values of leased assets at March 31, 2012 and 2011 were not material.

Cash flows received from the sale of trade notes and accounts receivable for the years ended March 31, 2011 and 2010 were ¥406 million and ¥13,072 million. Komatsu did not have any cash flows from securitization activities from the sale of trade notes and account receivables for the fiscal year ended March 31, 2012.

F-17

Table of Contents

5. Inventories

At March 31, 2012 and 2011, inventories comprised the following:

| | Millions of yen | | Thousands of U.S. dollars |
|-----------------------------------------------------------|------------------|-----------|---------------------------------|
| | 2012 | 2011 | 2012 |
| Finished products, including finished parts held for sale | ¥ 422,001 | ¥ 294,807 | \$ 5,146,353 |
| Work in process | 141,302 | 135,167 | 1,723,195 |
| Materials and supplies | 49,056 | 43,902 | 598,244 |
| Total | ¥ 612,359 | ¥ 473,876 | \$ 7,467,792 |

F-18

Table of Contents**6. Investment Securities**

Investment securities at March 31, 2012 and 2011, primarily consisted of securities available for sale. Komatsu does not have intentions to sell these securities within a year as of the balance sheet date.

Unrealized holding gains and losses are included as a component of accumulated other comprehensive income (loss) until realized.

The cost, gross unrealized holding gains and losses, and fair value for such investment securities by major security types at March 31, 2012 and 2011, are as follows:

| | Cost | Millions of yen Gross unrealized holding | | Fair value |
|-------------------------------------------------|----------|---------------------------------------------|--------|------------|
| | | Gains | Losses | |
| At March 31, 2012 | | | | |
| Investment securities: | | | | |
| Marketable equity securities available for sale | ¥ 19,890 | ¥ 26,072 | ¥ 29 | ¥ 45,933 |
| Other investment securities at cost | 8,259 | | | |
| | ¥ 28,149 | | | |

| | | | | |
|-------------------------------------------------|----------|----------|-------|----------|
| At March 31, 2011 | | | | |
| Investment securities: | | | | |
| Marketable equity securities available for sale | ¥ 23,887 | ¥ 25,599 | ¥ 114 | ¥ 49,372 |
| Other investment securities at cost | 11,483 | | | |
| | ¥ 35,370 | | | |

| | Cost | Thousands of U.S. dollars Gross unrealized holding | | Fair value |
|-------------------------------------------------|------------|-------------------------------------------------------|--------|------------|
| | | Gains | Losses | |
| At March 31, 2012 | | | | |
| Investment securities: | | | | |
| Marketable equity securities available for sale | \$ 242,561 | \$ 317,951 | \$ 353 | \$ 560,159 |
| Other investment securities at cost | 100,719 | | | |
| | \$ 343,280 | | | |

Other investment securities primarily include non-marketable equity securities. The fair value of other investment securities was not estimated as it was not practicable to estimate the fair value of investments and no significant events or changes that might have effected the fair value of those investments were observed.

Proceeds from the sale of investment securities available for sale were ¥1,757 million (\$21,427 thousand), ¥2,132 million and ¥1,005 million for the years ended March 31, 2012, 2011 and 2010, respectively.

Impairment losses and net realized gains or losses from sale of investment securities available for sale during the years ended March 31, 2012, 2011 and 2010, amounted to losses of ¥2,516 million (\$30,683 thousand) and ¥54 million, gains of ¥679 million, respectively. Such gains and losses were included in other expenses, net in the accompanying consolidated statements of income.

The cost of the investment securities sold was computed based on the average cost method.

F-19

Table of Contents

Gross unrealized holding losses and the fair value of available-for-sale securities, aggregated by length of time that individual securities have been in a continuous unrealized loss position at March 31, 2012 and 2011, are as follows:

| | Less than 12 months | | Millions of yen 12 months or longer | | Total | |
|-------------------------------------------------|---------------------|------|----------------------------------------|---|------------|------|
| | Gross | | Gross | | Gross | |
| | unrealized | | unrealized | | unrealized | |
| | holding | | holding | | holding | |
| | losses | | losses | | losses | |
| | Fair value | | Fair value | | Fair value | |
| At March 31, 2012 | | | | | | |
| Investment securities: | | | | | | |
| Marketable equity securities available for sale | ¥ 272 | ¥ 29 | ¥ | ¥ | ¥ 272 | ¥ 29 |

At March 31, 2011

| | | | | | | |
|-------------------------------------------------|-------|-------|---|---|-------|-------|
| Investment securities: | | | | | | |
| Marketable equity securities available for sale | ¥ 479 | ¥ 114 | ¥ | ¥ | ¥ 479 | ¥ 114 |

| | Less than 12 months | | Thousands of U.S. dollars 12 months or longer | | Total | |
|-------------------------------------------------|---------------------|--------|--------------------------------------------------|----|------------|--------|
| | Gross | | Gross | | Gross | |
| | unrealized | | unrealized | | unrealized | |
| | holding | | holding | | holding | |
| | losses | | losses | | losses | |
| | Fair value | | Fair value | | Fair value | |
| At March 31, 2012 | | | | | | |
| Investment securities: | | | | | | |
| Marketable equity securities available for sale | \$ 3,317 | \$ 353 | \$ | \$ | \$ 3,317 | \$ 353 |

Komatsu judged the decline in fair value of investment securities at yearend to be temporary, with considering such factors as financial and operating conditions of issuer, the industry in which the issuer operates and other relevant factors.

Table of Contents**7. Investments in and Advances to Affiliated Companies**

At March 31, 2012 and 2011, investments in and advances to affiliated companies comprised the following:

| | Millions of yen | | Thousands of U.S. dollars |
|------------------------------|-----------------|----------|------------------------------|
| | 2012 | 2011 | 2012 |
| Investments in capital stock | ¥ 19,737 | ¥ 23,206 | \$ 240,695 |
| Advances | 828 | 1,909 | 10,098 |
| Total | ¥ 20,565 | ¥ 25,115 | \$ 250,793 |

The investments in and advances to affiliated companies relate to 20% to 50% owned companies whereby Komatsu has the ability to exercise significant influence over the operational and financial policies.

Dividends received from affiliated companies were ¥566 million (\$6,902 thousand), ¥469 million and ¥329 million during the years ended March 31, 2012, 2011 and 2010, respectively.

Trade notes and accounts receivable from affiliated companies at March 31, 2012 and 2011, were ¥23,439 million (\$285,841 thousand) and ¥17,271 million, respectively.

Short-term loans receivable from affiliated companies at March 31, 2012 and 2011, were ¥664 million (\$8,098 thousand) and ¥723 million, respectively.

Trade notes and accounts payable to affiliated companies at March 31, 2012 and 2011, were ¥8,396 million (\$102,390 thousand) and ¥10,359 million, respectively.

Net sales to affiliated companies for the years ended March 31, 2012, 2011 and 2010, were ¥51,848 million (\$632,293 thousand), ¥42,673 million and ¥37,058 million, respectively.

Intercompany profits (losses) have been eliminated in the consolidated financial statements.

As of March 31, 2012 and 2011, consolidated unappropriated retained earnings included Komatsu's share of undistributed earnings of affiliated companies accounted for by the equity method in the amount of ¥9,721 million (\$118,549 thousand) and ¥11,380 million, respectively.

Table of Contents

The difference between the carrying value of the investments in affiliated companies and Komatsu's equity in the underlying net assets of such affiliated companies is insignificant as of March 31, 2012 and 2011.

Summarized financial information for affiliated companies at March 31, 2012 and 2011, and for the years ended March 31, 2012, 2011 and 2010, is as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|----------------------------------------------------------------------------------|------------------|-----------|---------------------------------|
| | 2012 | 2011 | 2012 |
| Current assets | ¥ 108,919 | ¥ 118,206 | \$ 1,328,280 |
| Net property, plant and equipment less accumulated depreciation and amortization | 38,415 | 40,068 | 468,476 |
| Investments and other assets | 33,291 | 27,672 | 405,988 |
| Total assets | ¥ 180,625 | ¥ 185,946 | \$ 2,202,744 |
| Current liabilities | ¥ 85,235 | ¥ 87,471 | \$ 1,039,451 |
| Noncurrent liabilities | 43,238 | 38,923 | 527,293 |
| Equity | 52,152 | 59,552 | 636,000 |
| Total liabilities and equity | ¥ 180,625 | ¥ 185,946 | \$ 2,202,744 |

| | Millions of yen | | | Thousands of U.S. dollars |
|------------|------------------|-----------|-----------|---------------------------------|
| | 2012 | 2011 | 2010 | 2012 |
| Net sales | ¥ 196,328 | ¥ 208,959 | ¥ 168,418 | \$ 2,394,244 |
| Net income | ¥ 3,351 | ¥ 5,602 | ¥ 3,229 | \$ 40,866 |

Table of Contents**8. Property, Plant and Equipment**

The major classes of property, plant and equipment at March 31, 2012 and 2011, are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|-------------------------------------------------|------------------|------------------|------------------------------|
| | 2012 | 2011 | 2012 |
| Land | ¥ 97,943 | ¥ 95,409 | \$ 1,194,427 |
| Buildings | 353,486 | 337,619 | 4,310,805 |
| Machinery and equipment | 712,578 | 694,507 | 8,689,975 |
| Construction in progress | 21,897 | 20,220 | 267,037 |
| Total | 1,185,904 | 1,147,755 | 14,462,244 |
| Less: accumulated depreciation and amortization | (656,248) | (639,368) | (8,003,024) |
| Net property, plant and equipment | ¥ 529,656 | ¥ 508,387 | \$ 6,459,220 |

For the fiscal year ended March 31, 2011, Komatsu recognized a damaged loss of ¥1,217 million related to property, plant and equipment within the construction, mining and equipment segment as the result of the Great East Japan Earthquake.

Table of Contents

9. Pledged Assets

At March 31, 2012, assets pledged as collateral for guarantees for debt are as follows:

| | Millions of yen | Thousands of U.S. dollars |
|---------------------------|-----------------|------------------------------|
| Cash and cash equivalents | ¥ 2 | \$ 24 |
| Other current assets | 2,279 | 27,793 |
| Total | ¥ 2,281 | \$ 27,817 |

The above assets were pledged against the following liabilities:

| | Millions of yen | Thousands of U.S. dollars |
|---------------------|-----------------|------------------------------|
| Guarantees for debt | ¥ 2,281 | \$ 27,817 |
| Total | ¥ 2,281 | \$ 27,817 |

Table of Contents**10. Goodwill and Other Intangible Assets**

Intangible assets other than goodwill at March 31, 2012 and 2011 are as follows:

| | Millions of yen | | | | | | Thousands of U.S. dollars | | |
|-----------------------------------------------------|-----------------------|--------------------------|---------------------|-----------------------|--------------------------|---------------------|---------------------------|--------------------------|---------------------|
| | 2012 | | | 2011 | | | 2012 | | |
| | Gross carrying amount | Accumulated amortization | Net carrying amount | Gross carrying amount | Accumulated amortization | Net carrying amount | Gross carrying amount | Accumulated amortization | Net carrying amount |
| Other intangible assets subject to amortization: | | | | | | | | | |
| Software | ¥ 34,221 | ¥ (19,759) | ¥ 14,462 | ¥ 33,367 | ¥ (17,531) | ¥ 15,836 | \$ 417,329 | \$ (240,963) | \$ 176,366 |
| Leasehold | 8,834 | (1,818) | 7,016 | 8,926 | (1,585) | 7,341 | 107,732 | (22,171) | 85,561 |
| Other | 34,898 | (11,525) | 23,373 | 30,199 | (12,392) | 17,807 | 425,585 | (140,549) | 285,036 |
| Total | 77,953 | (33,102) | 44,851 | 72,492 | (31,508) | 40,984 | 950,646 | (403,683) | 546,963 |
| Other intangible assets not subject to amortization | | | 13,102 | | | 12,987 | | | 159,781 |
| Total other intangible assets | | | ¥ 57,953 | | | ¥ 53,971 | | | \$ 706,744 |

Net carrying amounts of other in intangible assets subject to amortization mainly consist of customer relationships of ¥1,121 million (\$13,671 thousand) and technology assets of ¥5,335 million (\$65,061 thousand) resulting from the acquisition of additional shares of Gigaphoton for the fiscal year ended March 31, 2012 and customer relationships of ¥10,958 million (\$133,634 thousand) and technology assets of ¥3,500 million (\$42,683 thousand) resulting from the acquisition of additional shares of Komatsu NTC Ltd. for the fiscal year ended March 31, 2008.

For the fiscal year ended March 31, 2011, Komatsu recognized an impairment loss of ¥2,744 million related to the software to be disposed of in the construction, mining and utility equipment segment. This impairment loss was recognized based on the difference by which the carrying value of the software exceeds the fair value less cost to dispose of.

The aggregate amortization expense of other intangible assets subject to amortization for the year ended March 31, 2012, 2011 and 2010 were ¥8,499 million (\$103,646 thousand), ¥8,149 million and ¥8,633 million, respectively. The future estimated amortization expenses for each of five years relating to intangible assets currently recorded in the consolidated balance sheet are as follows:

| Year ending March 31 | Millions of yen |
|----------------------|-----------------|
| 2013 | ¥ 8,112 |
| 2014 | 6,108 |
| 2015 | 4,844 |
| 2016 | 3,434 |
| 2017 | 2,618 |

Table of Contents

The changes in carrying amounts of goodwill for the year ended March 31, 2012 and 2011 were as follow:

| | Millions of yen | | |
|-----------------------------------|-------------------------------------------------------------|-----------------------------------------------|-----------------|
| | Construction, Mining and Utility Equipment segment | Industrial Machinery and Others segment | Total |
| Balance at March 31, 2010 | | | |
| Goodwill | ¥ 24,346 | ¥ 13,943 | ¥ 38,289 |
| Accumulated impairment losses | (8,179) | (540) | (8,719) |
| | ¥ 16,167 | ¥ 13,403 | ¥ 29,570 |
| Goodwill acquired during the year | 578 | | 578 |
| Foreign exchange impact | (826) | (1) | (827) |
| Balance at March 31, 2011 | | | |
| Goodwill | 24,098 | 13,942 | 38,040 |
| Accumulated impairment losses | (8,179) | (540) | (8,719) |
| | ¥ 15,919 | ¥ 13,402 | ¥ 29,321 |
| Goodwill acquired during the year | 1,278 | 1,081 | 2,359 |
| Foreign exchange impact | (445) | | (445) |
| Other | | (6) | (6) |
| Balance at March 31, 2012 | | | |
| Goodwill | 24,931 | 15,017 | 39,948 |
| Accumulated impairment losses | (8,179) | (540) | (8,719) |
| | ¥ 16,752 | ¥ 14,477 | ¥ 31,229 |

| | Thousands of U.S. dollars | | |
|-----------------------------------|-------------------------------------------------------------|-----------------------------------------------|-------------------|
| | Construction, Mining and Utility Equipment segment | Industrial Machinery and Others segment | Total |
| Balance at March 31, 2011 | | | |
| Goodwill | \$ 293,878 | \$ 170,024 | \$ 463,902 |
| Accumulated impairment losses | (99,744) | (6,585) | (106,329) |
| | \$ 194,134 | \$ 163,439 | \$ 357,573 |
| Goodwill acquired during the year | 15,585 | 13,183 | 28,768 |
| Foreign exchange impact | (5,427) | | (5,427) |
| Other | | (73) | (73) |
| Balance at March 31, 2012 | | | |
| Goodwill | 304,036 | 183,134 | 487,170 |
| Accumulated impairment losses | (99,744) | (6,585) | (106,329) |
| | \$ 204,292 | \$ 176,549 | \$ 380,841 |

Table of Contents**11. Short-Term and Long-Term Debt**

Short-term debt at March 31, 2012 and 2011, consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|-------------------------------------------------------------|-----------------|-----------|---------------------------|
| | 2012 | 2011 | 2012 |
| Banks, insurance companies and other financial institutions | ¥ 170,824 | ¥ 130,308 | \$ 2,083,220 |
| Commercial paper | 45,000 | | 548,780 |
| Short-term debt | ¥ 215,824 | ¥ 130,308 | \$ 2,632,000 |

The weighted-average annual interest rates applicable to short-term debt outstanding at March 31, 2012 and 2011, were 3.0% and 3.7%, respectively. Certain consolidated subsidiaries have entered into contracts for committed credit lines totaling ¥58,395 million (\$712,134 thousand) and have unused committed lines of credit amounting to ¥12,544 million (\$152,976 thousand) with certain financial institutions at March 31, 2012, which are available for full and immediate borrowings. The Company is party to a committed ¥120,000 million (\$1,463,415 thousand) commercial paper program and unused committed commercial paper program amounting to ¥75,000 million (\$914,634 thousand) at March 31, 2012, is available upon the satisfaction of certain customary procedural requirements. Long-term debt at March 31, 2012 and 2011, consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---------------------------------------------------------------------------------------------|-----------------|-----------|---------------------------|
| | 2012 | 2011 | 2012 |
| Long-term debt without collateral: | | | |
| Banks, insurance companies and other financial institutions, maturing serially through 2012 | | | |
| 2017, weighted-average rate 3.9% | ¥ 240,629 | ¥ 217,554 | \$ 2,934,500 |
| Euro Medium-Term Notes maturing serially through 2012 | 56,098 | 55,167 | 684,122 |
| 2016, weighted-average rate 1.7% | | | |
| 1.66% Unsecured Bonds due 2012 | 20,000 | 20,000 | 243,902 |
| 0.85% Unsecured Bonds due 2012 | 10,000 | 10,000 | 121,951 |
| 1.53% Unsecured Bonds due 2013 | 30,000 | 30,000 | 365,854 |
| 1.19% Unsecured Bonds due 2014 | 30,000 | 30,000 | 365,854 |
| 0.58% Unsecured Bonds due 2016 | 30,000 | | 365,854 |
| Capital lease obligations (Note 16) | 12,536 | 48,526 | 152,878 |
| Other | 2,713 | 2,513 | 33,085 |
| Total | 431,976 | 413,760 | 5,268,000 |
| Less: current maturities | (119,457) | (122,608) | (1,456,793) |
| Long-term debt | ¥ 312,519 | ¥ 291,152 | \$ 3,811,207 |

Table of Contents

In 1996, the Company, Komatsu Finance America Inc. and Komatsu Finance (Netherlands) B.V. registered the US\$1.0 billion Euro Medium-Term Note Program (the Program) on the London Stock Exchange. On April 1, 1999, the registered amount of the Program was increased to US\$1.2 billion. On October 14, 2003, Komatsu Europe Coordination Center N.V. and on September 25, 2008, Komatsu Capital Europe S.V. were added as an issuer under the Program, respectively. At March 31, 2012, the issuers under the Program were the Company, Komatsu Finance America Inc. and Komatsu Capital Europe S.A. Under the Program, each of the issuers may from time to time issue notes denominated in any currency as may be agreed between the relevant issuers and dealers. The issuers under the Program issued ¥29,095 million (\$354,817 thousand) during the fiscal year ended March 31, 2012, and ¥14,427 million during the fiscal year ended March 31, 2011 of Euro Medium-Term Notes with various interest rates and maturity dates.

The Company has established a program to issue up to ¥100,000 million (\$1,219,512 thousand) of variable term bonds.

As is customary in Japan, substantially all bank loans are made under agreements which provide that the banks may require, under certain conditions, the borrower to provide collateral, additional collateral or guarantors for its loans.

Lending banks have a right to offset cash deposited with them against any debt or obligation that becomes due and, in the case of default and certain other specified events, against all other debt payable to the banks.

Under certain loan agreements, the lender may require the borrower to submit proposals for the payment of dividends and other appropriations of earnings for the lender's review and approval before presentation to the shareholders. Komatsu has never received such a request.

Annual maturities of long-term debt subsequent to March 31, 2012, excluding market value adjustments of ¥1,790 million (\$21,829 thousand) are as follows:

| Year ending March 31 | Millions of yen |
|----------------------|------------------|
| 2013 | ¥ 118,418 |
| 2014 | 104,284 |
| 2015 | 118,876 |
| 2016 | 44,498 |
| 2017 | 43,281 |
| 2018 and thereafter | 829 |
| Total | ¥ 430,186 |

Table of Contents**12. Liability for Pension and Other Retirement Benefits**

The Company's employees, with certain minor exceptions, are covered by a severance payment and a defined benefit cash balance pension plan. The plan provides that approximately 60% of the employee benefits are payable as a pension payment, commencing upon retirement at age 60 (mandatory retirement age) and that the remaining benefits are payable as a lump-sum severance payment based on remuneration, years of service and certain other factors at the time of retirement. The plan also provides for lump-sum severance payments, payable upon earlier termination of employment.

Under the cash balance pension plan, each employee has an account which is credited yearly based on the current rate of pay and market-related interest rate.

Certain subsidiaries have various funded pension plans and/or unfunded severance payment plans for their employees, which are based on years of service and certain other factors. The Company and certain subsidiaries' funding policies are to contribute the amounts to provide not only for benefits attributed to service to date but also for those expected to be earned in the future.

The reconciliation of beginning and ending balances of the benefit obligations and the fair value of the plan assets of the defined benefit plans are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|----------------------------------------------|-----------------|----------------|---------------------------------|
| | 2012 | 2011 | 2012 |
| Change in benefit obligations: | | | |
| Benefit obligations, beginning of year | ¥ 134,360 | ¥ 137,452 | \$ 1,638,536 |
| Service cost | 7,493 | 6,630 | 91,378 |
| Interest cost | 3,475 | 3,585 | 42,378 |
| Actuarial loss | 2,520 | 1,854 | 30,732 |
| Plan participants' contributions | 87 | 55 | 1,061 |
| Acquisition | 140 | 125 | 1,707 |
| Benefits paid | (12,646) | (13,505) | (154,219) |
| Foreign currency exchange rate change | (857) | (1,836) | (10,451) |
| Benefit obligations, end of year | ¥ 134,572 | ¥ 134,360 | \$ 1,641,122 |
| Change in plan assets: | | | |
| Fair value of plan assets, beginning of year | ¥ 92,291 | ¥ 94,403 | \$ 1,125,500 |
| Actual return on plan assets | 1,010 | 251 | 12,317 |
| Employers' contributions | 5,447 | 7,318 | 66,427 |
| Plan participants' contributions | 48 | 55 | 585 |
| Acquisition | 6 | 55 | 73 |
| Benefits paid | (9,106) | (8,381) | (111,049) |
| Foreign currency exchange rate change | (635) | (1,410) | (7,743) |
| Fair value of plan assets, end of year | ¥ 89,061 | ¥ 92,291 | \$ 1,086,110 |
| Funded status, end of year | ¥ (45,511) | ¥ (42,069) | \$ (555,012) |
| Prepaid benefit cost | ¥ 1,799 | ¥ 2,000 | \$ 21,939 |
| Other current liabilities | (100) | (49) | (1,220) |
| Accrued benefit liability | (47,210) | (44,020) | (575,731) |
| | ¥ (45,511) | ¥ (42,069) | \$ (555,012) |

Amounts recognized in accumulated other comprehensive income (loss):

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| | | | |
|--------------------|----------|----------|------------|
| Actuarial loss | ¥ 37,701 | ¥ 36,922 | \$ 459,768 |
| Prior service cost | 2,142 | 1,491 | 26,122 |
| | ¥ 39,843 | ¥ 38,413 | \$ 485,890 |

F-29

Table of Contents

The accumulated benefit obligations for all defined benefit plans were ¥125,327 million (\$1,528,378 thousand) and ¥125,743 million, respectively, at March 31, 2012 and 2011.

Information for pension plans with accumulated benefit obligations in excess of plan assets and pension plans with projected benefit obligations in excess of plan assets is as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|----------------------------------------------------------------------|-----------------|-----------|------------------------------|
| | 2012 | 2011 | 2012 |
| Plans with accumulated benefit obligations in excess of plan assets: | | | |
| Accumulated benefit obligations | ¥ 108,512 | ¥ 109,556 | \$ 1,323,317 |
| Plan assets | 68,793 | 73,171 | 838,939 |
| Plans with projected benefit obligations in excess of plan assets: | | | |
| Projected benefit obligations | ¥ 116,386 | ¥ 126,307 | \$ 1,419,341 |
| Plan assets | 69,360 | 82,238 | 845,854 |

Components of net periodic pension cost

Net periodic cost of the companies' defined benefit plans for the years ended March 31, 2012, 2011 and 2010, consisted of the following components:

| | Millions of yen | | | Thousands of U.S. dollars |
|------------------------------------------------|-----------------|---------|----------|------------------------------|
| | 2012 | 2011 | 2010 | 2012 |
| Service cost | ¥ 7,493 | ¥ 6,630 | ¥ 7,224 | \$ 91,378 |
| Interest cost on projected benefit obligations | 3,475 | 3,585 | 3,745 | 42,378 |
| Expected return on plan assets | (2,727) | (2,961) | (2,452) | (33,256) |
| Amortization of actuarial loss | 2,571 | 2,285 | 2,478 | 31,354 |
| Amortization of prior service cost | 236 | 227 | 179 | 2,878 |
| Curtailment and settlement gain | | (12) | (28) | |
| Net periodic cost | ¥ 11,048 | ¥ 9,754 | ¥ 11,146 | \$ 134,732 |

Other changes in plan assets and benefit obligations recognized in other comprehensive income (loss) for the years ended March 31, 2012 and 2011 are summarized as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|------------------------------------|-----------------|---------|------------------------------|
| | 2012 | 2011 | 2012 |
| Current year actuarial loss | ¥ 3,350 | ¥ 4,216 | \$ 40,854 |
| Amortization of actuarial loss | (2,571) | (2,273) | (31,354) |
| Current year prior service cost | 887 | 348 | 10,817 |
| Amortization of prior service cost | (236) | (227) | (2,878) |
| | ¥ 1,430 | ¥ 2,064 | \$ 17,439 |

The estimated actuarial loss and prior service cost for the defined benefit plans that will be amortized from accumulated other comprehensive income (loss) into net periodic cost over the next fiscal year are summarized as follows.

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| | Millions of yen | Thousands of U.S. dollars |
|------------------------------------|-----------------|------------------------------|
| Amortization of actuarial loss | ¥ 2,727 | \$ 33,256 |
| Amortization of prior service cost | 279 | 3,402 |

F-30

Table of Contents

Information with respect to the defined benefit plans is as follows:

Assumptions

Weighted-average assumptions used to determine benefit obligations at March 31:

| | Domestic plans | | Foreign plans | |
|-------------------------------------------------------------------------------------|----------------|------|---------------|------|
| | 2012 | 2011 | 2012 | 2011 |
| Discount rate | 2.0% | 2.0% | 5.5% | 6.0% |
| Assumed rate of increase in future compensation levels (Point-based benefit system) | 3.8% | 3.9% | | |
| Assumed rate of increase in future compensation levels | 2.3% | 2.6% | 4.6% | 4.6% |

Weighted-average assumptions used to determine net periodic benefit cost for the years ended March 31:

| | Domestic plans | | | Foreign plans | | |
|-------------------------------------------------------------------------------------|----------------|------|------|---------------|------|------|
| | 2012 | 2011 | 2010 | 2012 | 2011 | 2010 |
| Discount rate | 2.0% | 2.0% | 2.0% | 6.0% | 6.0% | 6.9% |
| Assumed rate of increase in future compensation levels (Point-based benefit system) | 3.9% | 3.8% | 3.9% | | | |
| Assumed rate of increase in future compensation levels | 2.6% | 2.6% | 2.4% | 4.6% | 4.4% | 4.1% |
| Expected long-term rate of return on plan assets | 1.9% | 1.9% | 1.9% | 6.5% | 7.2% | 7.6% |

The Company and certain domestic subsidiaries have defined benefit cash balance pension plans. These companies adopt the assumed rate of increase in future compensation levels under the point-based benefit system.

The Company and certain subsidiaries determine the expected long-term rate of return on plan assets based on the consideration of the current expectations for future returns and actual historical returns of each plan asset category.

Plan assets

In order to secure long-term comprehensive earnings, the Company and certain subsidiaries' investment policies are designed to ensure adequate plan assets to provide future payments of pension benefits to eligible participants. Taking into account the expected long-term rate of return on plan assets, the Company and certain subsidiaries formulate a basic portfolio comprised of the judged optimum combination of equity and debt securities. Plan assets are principally invested in equity securities, debt securities and life insurance company general accounts in accordance with the guidelines of the basic portfolio in order to produce a total return that will match the expected return on a mid-term to long-term basis. The Company and certain subsidiaries evaluate the gap between expected return and actual return of invested plan assets on an annual basis to determine if such differences necessitate a revision in the formulation of the basic portfolio. The Company and certain subsidiaries revise the basic portfolio when and to the extent considered necessary to achieve the expected long-term rate of return on plan assets.

The Pension and Retirement Benefit Committee is organized in the Company in order to periodically monitor the employment of such plan assets.

Komatsu's basic portfolio for plan assets consists of three major components: approximately 35% is invested in equity securities, approximately 30 % is invested in debt securities, and approximately 35% is invested in other investment assets, primarily consisting of investments in life insurance company general accounts.

Table of Contents

The equity securities are selected primarily from stocks that are listed on the securities exchanges. Prior to investing, Komatsu has investigated the business condition of the investee companies, and appropriately diversified investments by type of industry and other relevant factors. The debt securities are selected primarily from government bonds and municipal bonds, and corporate bonds. Prior investing, Komatsu has investigated the quality of the issue, including rating, interest rate and repayment dates, and has appropriately diversified the investments. Pooled funds are selected using strategies consistent with the equity described above. As for investments in life insurance company general accounts, the contracts with the insurance companies include a guaranteed interest rate and return of capital. With respect to investments in foreign investment assets, Komatsu has investigated the stability of the underlying governments and economies, the market characteristics such as settlement systems and the taxation systems. For each such investment, Komatsu has selected the appropriate investment country and currency. There is no significant concentration of risk within the portfolio of investments.

The three levels of input used to measure fair value are more full described in Note 21.

The fair values of benefit plan assets at March 31, 2012 and 2011 are as follows:, by asset class are as follows:

| At March 31, 2012 | Millions of yen | | | Total |
|-----------------------------------------|-----------------|----------|---------|----------|
| | Level 1 | Level 2 | Level 3 | |
| Plan assets | | | | |
| Cash | ¥ 3,985 | ¥ | ¥ | ¥ 3,985 |
| Equity securities | | | | |
| Japanese equities | 7,152 | 459 | | 7,611 |
| Foreign equities | 14,257 | 4,449 | | 18,706 |
| Pooled funds | 4,485 | 619 | | 5,104 |
| Debt securities | | | | |
| Government bonds and municipal bonds | 14,868 | 4,650 | | 19,518 |
| Corporate bonds | | 4,382 | | 4,382 |
| Other assets | | | | |
| Life insurance company general accounts | | 29,087 | | 29,087 |
| Other | 42 | 170 | 456 | 668 |
| Total | ¥ 44,789 | ¥ 43,816 | ¥ 456 | ¥ 89,061 |

| At March 31, 2011 | Millions of yen | | | Total |
|-----------------------------------------|-----------------|----------|---------|----------|
| | Level 1 | Level 2 | Level 3 | |
| Plan assets | | | | |
| Cash | ¥ 4,822 | ¥ | ¥ | ¥ 4,822 |
| Equity securities | | | | |
| Japanese equities | 7,569 | 386 | | 7,955 |
| Foreign equities | 15,223 | 4,375 | | 19,598 |
| Pooled funds | 4,252 | 571 | | 4,823 |
| Debt securities | | | | |
| Government bonds and municipal bonds | 16,293 | 3,706 | | 19,999 |
| Corporate bonds | | 5,025 | | 5,025 |
| Other assets | | | | |
| Life insurance company general accounts | | 28,932 | | 28,932 |
| Other | 38 | 653 | 446 | 1,137 |
| Total | ¥ 48,197 | ¥ 43,648 | ¥ 446 | ¥ 92,291 |

Table of Contents

| At March 31, 2012 | Level 1 | Thousands of U.S dollars | | Total |
|-----------------------------------------|-------------------|--------------------------|-----------------|---------------------|
| | | Level 2 | Level 3 | |
| Plan assets | | | | |
| Cash | \$ 48,598 | \$ | \$ | \$ 48,598 |
| Equity securities | | | | |
| Japanese equities | 87,220 | 5,598 | | 92,818 |
| Foreign equities | 173,866 | 54,256 | | 228,122 |
| Pooled funds | 54,695 | 7,549 | | 62,244 |
| Debt securities | | | | |
| Government bonds and municipal bonds | 181,317 | 56,706 | | 238,023 |
| Corporate bonds | | 53,439 | | 53,439 |
| Other assets | | | | |
| Life insurance company general accounts | | 354,720 | | 354,720 |
| Other | 512 | 2,073 | 5,561 | 8,146 |
| Total | \$ 546,208 | \$ 534,341 | \$ 5,561 | \$ 1,086,110 |

(1) The plan's equity securities include common stock of the Company in the amount of ¥45 million (\$549 thousand) (0.08% of the Company's total plan assets) and ¥41 million (0.07% of the Company's total plan assets) at March 31, 2012 and 2011, respectively.

(2) The plan's pooled funds which are primarily held by the U.S. subsidiaries include listed foreign equity securities primarily consisting U.S. equity.

(3) The plan's government bonds and municipal bonds include approximately 50% Japanese bonds and 50% foreign bonds.

Each level into which assets are categorized is based on inputs used to measure the fair value of the assets, and does not indicate the risks of the assets.

Level 1 assets are comprised principally of equity securities and debt securities, which are valued using quoted prices in active markets. Level 2 assets are comprised of equity securities, debt securities and investments in life insurance company general accounts. Equity securities and debt securities are valued using inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly or indirectly. Investments in life insurance company general accounts are valued at conversion value.

The fair value of level 3 assets, consisting of the investment trusts held by foreign subsidiaries, was ¥456 million (\$5,561 thousand) and ¥446 million at March 31, 2012 and 2011, respectively. Amounts of actual returns on, and purchases and sales of, these assets during the year ended March 31, 2012 and March 31, 2011 are not material to Komatsu's consolidated financial position or results of operations.

Table of Contents**Cash flows****(1) Contributions**

The Company and certain subsidiaries expect to contribute ¥4,989 million to their benefit plans in the year ending March 31, 2013.

(2) Estimated future benefit payments

The benefits expected to be paid in each of the next five years, and in the aggregate for the five years thereafter which reflect estimated future employee service are as follows:

| Year ending March 31 | Millions of yen |
|----------------------|-----------------|
| 2013 | ¥ 11,021 |
| 2014 | 7,210 |
| 2015 | 8,012 |
| 2016 | 8,852 |
| 2017 | 8,762 |
| Through 2018-2022 | ¥ 40,179 |

Other postretirement benefit plans

Some U.S. subsidiaries provide certain postretirement health care and life insurance benefits for substantially all of their employees. The plans are contributory, with contributions indexed to salary levels. Employee contributions are adjusted to provide for any costs of the plans in excess of those paid for by the subsidiaries. The policy is to fund the cost of these benefits as claims and premiums are paid. In the fiscal year ended March 31, 2008 certain U.S. subsidiaries established a Voluntary Employees Beneficiary Association (VEBA) trust to hold assets and pay substantially all of these subsidiaries self-funded post employment benefit plan obligations. The VEBA trust arrangement provides for segregation and legal restriction of the plan assets to satisfy plan obligations, and tax deductibility for contributions to the trust, subject to certain tax code limitations.

Table of Contents

The reconciliation of beginning and ending balances of the accumulated postretirement benefit obligations and the fair value of the plan assets of the U.S. subsidiaries' plans are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---------------------------------------------------------------------------------|-----------------|---------------|------------------------------|
| | 2012 | 2011 | 2012 |
| Change in accumulated postretirement benefit obligations: | | | |
| Accumulated postretirement benefit obligations, beginning of year | ¥ 8,309 | ¥ 9,416 | \$ 101,329 |
| Service cost | 218 | 227 | 2,659 |
| Interest cost | 436 | 452 | 5,317 |
| Actuarial loss (gain) | 795 | (134) | 9,695 |
| Plan participants' contributions | 2 | 2 | 24 |
| Medicare Part D | 57 | 55 | 695 |
| Benefits paid | (652) | (728) | (7,951) |
| Foreign currency exchange rate change | (74) | (981) | (902) |
| Accumulated postretirement benefit obligations, end of year | ¥ 9,091 | ¥ 8,309 | \$ 110,866 |
| Change in plan assets: | | | |
| Fair value of plan assets, beginning of year | ¥ 5,351 | ¥ 6,152 | \$ 65,256 |
| Actual return on plan assets | 298 | 424 | 3,634 |
| Employer's contributions | 1,881 | 726 | 22,939 |
| Plan participants' contributions | 2 | 2 | 24 |
| Benefits paid | (1,205) | (1,303) | (14,695) |
| Foreign currency exchange rate change | (22) | (650) | (268) |
| Fair value of plan assets, end of year | ¥ 6,305 | ¥ 5,351 | \$ 76,890 |
| Funded status, end of year | ¥ (2,786) | ¥ (2,958) | \$ (33,976) |
| Prepaid benefit cost | ¥ 704 | ¥ 719 | \$ 8,585 |
| Other current liabilities | (37) | (38) | (451) |
| Accrued benefit liability | (3,453) | (3,639) | (42,110) |
| | ¥ (2,786) | ¥ (2,958) | \$ (33,976) |
| Amounts recognized in accumulated other comprehensive income (loss): | | | |
| Actuarial loss | ¥ 3,657 | ¥ 3,050 | \$ 44,598 |
| Prior service cost | 543 | 551 | 6,622 |
| | ¥ 4,200 | ¥ 3,601 | \$ 51,220 |

Accumulated postretirement benefit obligations exceed plan assets for each of the U.S. subsidiaries' plans.

Components of net periodic postretirement benefit cost

Net periodic postretirement benefit cost of the U.S. subsidiaries' plans for the years ended March 31, 2012, 2011 and 2010, included the following components:

Millions of yen
Thousands of
U.S. dollars

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| | 2012 | 2011 | 2010 | 2012 |
|------------------------------------------------|-------|-------|-------|----------|
| Service cost | ¥ 218 | ¥ 227 | ¥ 231 | \$ 2,659 |
| Benefits earned during the year | | | | |
| Interest cost on projected benefit obligations | 436 | 452 | 528 | 5,317 |
| Expected return on plan assets | (320) | (302) | (324) | (3,902) |
| Amortization of actuarial loss | 154 | 196 | 250 | 1,878 |
| Amortization of prior service cost | 64 | 65 | 70 | 780 |
| Curtailment and settlement gain | | | (116) | |
| Net periodic cost | ¥ 552 | ¥ 638 | ¥ 639 | \$ 6,732 |

F-35

Table of Contents

Other changes in plan assets and accumulated postretirement benefit obligations recognized in other comprehensive income (loss) for the years ended March 31, 2012 and 2011 are summarized as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|------------------------------------|-----------------|---------|------------------------------|
| | 2012 | 2011 | 2012 |
| Current year actuarial loss (gain) | ¥ 761 | ¥ (256) | \$ 9,280 |
| Amortization of actuarial loss | (154) | (196) | (1,878) |
| Current year prior service cost | 56 | | 683 |
| Amortization of prior service cost | (64) | (65) | (780) |
| | ¥ 599 | ¥ (517) | \$ 7,305 |

The estimated actuarial loss and prior service cost for the postretirement benefit plans that will be amortized from accumulated other comprehensive income (loss) into net periodic postretirement benefit cost over the next fiscal year are summarized as follows.

| | Millions of yen | Thousands of U.S. dollars |
|------------------------------------|-----------------|------------------------------|
| Amortization of actuarial loss | ¥ 217 | \$ 2,646 |
| Amortization of prior service cost | 64 | 780 |

Information with respect to the plans is as follows:

Assumptions

Weighted-average assumptions used to determine accumulated postretirement benefit obligations at March 31:

| | 2012 | 2011 |
|--------------------------------------------------------|------|------|
| Discount rate | 4.7% | 5.6% |
| Assumed rate of increase in future compensation levels | 4.0% | 4.0% |
| Current healthcare cost trend rate | 7.9% | 7.9% |
| Ultimate healthcare cost trend rate | 4.8% | 4.8% |
| Number of years to ultimate healthcare cost trend rate | 4 | 5 |

Weighted-average assumptions used to determine net periodic postretirement benefit cost for the years ended March 31:

| | 2012 | 2011 | 2010 |
|--------------------------------------------------------|------|------|------|
| Discount rate | 5.6% | 5.4% | 6.4% |
| Assumed rate of increase in future compensation levels | 4.0% | 4.0% | 4.0% |
| Expected long term rate of return on plan assets | 5.3% | 5.6% | 5.5% |
| Current healthcare cost trend rate | 7.9% | 7.8% | 7.8% |
| Ultimate healthcare cost trend rate | 4.8% | 4.8% | 4.8% |
| Number of years to ultimate healthcare cost trend rate | 5 | 7 | 7 |

At March 31, 2012 and 2011, the impact of one percentage point change in the assumed health care cost trend rates would not be material to Komatsu's consolidated financial position or results of operations.

Table of Contents**Plan assets**

The U.S. subsidiaries' investment policies are to provide returns that will maximize principal growth while accepting only moderate risk.

The U.S. subsidiaries' asset portfolio will be invested in a manner that emphasizes safety of capital while achieving total returns consistent with prudent levels of risk. The basic portfolio for the plan assets are comprised approximately of 35% equity securities and 65% debt securities.

The equity securities are selected primarily from stocks that are listed on the securities exchanges. Prior to investing, Komatsu has investigated the business condition of the invested companies, and appropriately diversified investments by type of industry and other relevant factors. The debt securities are selected primarily from government bonds and municipal bonds, and corporate bonds. Prior investing, Komatsu has investigated the quality of the issue, including rating, interest rate and repayment dates, and has appropriately diversified the investments. Pooled funds are selected using strategies consistent with the equity described above. There is no significant concentration of risk within the portfolio of investments.

The three levels of input used to measure fair value are more fully described in Note 21.

The fair values of postretirement benefit plan assets at March 31, 2012 and 2011, by asset class are as follows:

| At March 31, 2012 | Millions of yen | | | Total |
|--------------------------------------|-----------------|----------------|----------|----------------|
| | Level 1 | Level 2 | Level 3 | |
| Plan assets | | | | |
| Cash | ¥ 281 | ¥ | ¥ | ¥ 281 |
| Equity securities | | | | |
| Foreign equities | 816 | | | 816 |
| Pooled funds | 1,427 | | | 1,427 |
| Debt securities | | | | |
| Government bonds and municipal bonds | | 2,775 | | 2,775 |
| Corporate bonds | | 1,006 | | 1,006 |
| Total | ¥ 2,524 | ¥ 3,781 | ¥ | ¥ 6,305 |

| At March 31, 2011 | Millions of yen | | | Total |
|--------------------------------------|-----------------|----------------|----------|----------------|
| | Level 1 | Level 2 | Level 3 | |
| Plan assets | | | | |
| Cash | ¥ 283 | ¥ | ¥ | ¥ 283 |
| Equity securities | | | | |
| Foreign equities | 650 | | | 650 |
| Pooled funds | 1,101 | | | 1,101 |
| Debt securities | | | | |
| Government bonds and municipal bonds | | 2,276 | | 2,276 |
| Corporate bonds | | 1,041 | | 1,041 |
| Total | ¥ 2,034 | ¥ 3,317 | ¥ | ¥ 5,351 |

Table of Contents

| At March 31, 2012 | Thousands of U.S. dollars | | | |
|--------------------------------------|---------------------------|------------------|-----------|------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Plan assets | | | | |
| Cash | \$ 3,427 | \$ | \$ | \$ 3,427 |
| Equity securities | | | | |
| Foreign equities | 9,951 | | | 9,951 |
| Pooled funds | 17,402 | | | 17,402 |
| Debt securities | | | | |
| Government bonds and municipal bonds | | 33,842 | | 33,842 |
| Corporate bonds | | 12,268 | | 12,268 |
| Total | \$ 30,780 | \$ 46,110 | \$ | \$ 76,890 |

Each level into which assets are categorized is based on inputs used to measure the fair value of the assets, and does not indicate the risks of the assets.

Level 1 assets are comprised principally of equity securities, which are valued using quoted prices in active markets. Level 2 assets are comprised of debt securities, which are valued using inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly or indirectly.

Cash flows**(1) Contributions**

The U.S. subsidiaries expect to contribute ¥35 million to their post retirement benefit plans in the year ending March 31, 2013.

(2) Estimated future benefit payments

The benefits expected to be paid in each of the next five years, and in the aggregate for the five years thereafter which reflect estimated future employee service are as follows:

| Year ending March 31 | Millions of yen |
|----------------------|-----------------|
| 2013 | ¥ 629 |
| 2014 | 656 |
| 2015 | 676 |
| 2016 | 692 |
| 2017 | 713 |
| Through 2018-2022 | ¥ 3,882 |

Directors of domestic subsidiaries are primarily covered by unfunded retirement allowance plans. At March 31, 2012, 2011 and 2010, the amounts required if all directors covered by the plans had terminated their service have been fully accrued. Such amounts are not material to Komatsu's consolidated financial position or results of operations for any of the periods presented.

Certain subsidiaries maintain various defined contribution plans covering certain employees. The amount of cost recognized for all periods presented is not material to Komatsu's consolidated financial position or results of operations.

Table of Contents

13. Komatsu Ltd. Shareholders' Equity

(1) Common Stock and Capital Surplus

The Commercial Code of Japan (the Code) permitted, upon approval of the Board of Directors, transfer of amounts from capital surplus to common stock. Prior to October 2001, the Company from time to time made free share distributions that were accounted for by a transfer from capital surplus to common stock of the aggregate par value of shares issued. Effective on October 2001, the Code requires no accounting recognition for such free share distribution. Publicly owned corporations in the United States issuing shares in similar transactions would be required to account for them as stock dividends as of the shareholders' record date by reducing retained earnings and increasing appropriate capital accounts by an amount equal to the fair value of the shares issued.

If such United States practice had been applied to the cumulative free distributions made by the Company, capital surplus at March 31, 2012, would have been increased by ¥103,189 million (\$1,258,403 thousand) with a corresponding decrease in unappropriated retained earnings. At March 31, 2012 and 2011, affiliated companies owned 1,092,000 and 1,104,600 shares which represent 0.11% and 0.11% of the Company's common stock outstanding, respectively.

The Companies Act, which has been in force since May 1, 2006 (the Act), requires a company to obtain the approval of shareholders for transferring an amount between common stock and capital surplus. Common stock and capital surplus also are available for being transferred to other capital surplus or being used to reduce a deficit mainly upon an approval of shareholders.

(2) Retained Earnings Appropriated for Legal Reserve

The Act provides that an amount equal to 10% of retained earnings distributed each fiscal period shall be appropriated as a capital surplus or a legal reserve until the total amount of capital surplus and legal reserve becomes equal to 25% of the amount of common stock.

Legal reserve is available for being transferred to other retained earnings or being used to reduce a deficit mainly upon an approval of shareholders.

(3) Retained Earnings and Dividends

The amount of retained earnings available for dividends under the Act is based on the amount recorded in the Company's general books of account maintained in accordance with accounting principles generally accepted in Japan. In addition to the Act provision requiring an appropriation for capital surplus or legal reserve as discussed above, the Act imposes certain limitations on the amount of retained earnings available for dividends. Accordingly, total shareholders' equity of ¥317,023 million (\$3,866,134 thousand), included in the Company's general books of account as of March 31, 2012 is available for dividends under the Act.

The Board of Directors recommended to and approved by the shareholders, at the general meeting held on June 20, 2012, payment of a cash dividend totaling ¥20,009 million (\$244,012 thousand) to shareholders of record on March 31, 2012. The dividend approved in the shareholders meeting on June 20, 2012 has not been reflected in the consolidated financial statements as of March 31, 2012. Dividends are reported in the consolidated financial statements when approved and paid.

Table of Contents

The Act provides that a company can make dividends of earnings anytime with resolution of the shareholders. It also provides that a company can declare an interim dividend once a fiscal year according to its charter of corporation.

(4) Repurchase and Retirement of the Company's Outstanding Shares

The Company repurchased its own shares based on the resolutions made by the Board of Directors in its meeting held on October 27, 2011 and in accordance with Article 156 of the Act as modified by Article 165, Paragraph 3 of the Act. The Company retired repurchased shares pursuant to Article 178 of the Act. By March 31, 2012, the Company had purchased and retired 15,613,800 shares. The purchasing and retiring amounts are ¥29,997 million and ¥22,218 million respectively. The difference of the amounts is due to the difference between the purchasing price and moving average book value of the shares.

(5) Share-Based Compensation

The Company has two types of stock option plans as share-based compensation for directors and certain employees and certain directors of subsidiaries.

The stock option plans resolved by the Board of Directors' meetings held in and before June 2010.

The right to purchase treasury shares is granted at a predetermined price to directors and certain employees and certain directors of subsidiaries. The purchase price is the amount calculated by taking the average of the closing prices applicable to ordinary transactions of shares of the Company on the Tokyo Stock Exchange on all days for a month immediately preceding the month in which the date of grant of the right falls and multiplying by 1.05, provided that the exercise price shall not be less than the closing price of the shares of the Company on the Tokyo Stock Exchange on the date of the grant.

Based on the resolutions of the shareholders' meeting on June 22, 2007 and the Board of Directors on July 14, 2009, the Company issued 239 rights of its share acquisition rights to directors during the year ended March 31, 2010. The number of shares subject to one share acquisition rights is 1,000 shares. The Company also issued 403 rights of its share acquisition rights to certain employees and certain directors of subsidiaries during the year ended March 31, 2010 based on the resolutions of the shareholders' meeting on June 24, 2009 and the Board of Directors on July 14, 2009. The options vest 100% on each of the grant dates and are exercisable from September 1, 2010.

The stock option plans resolved by the Board of Directors' meetings held in and after July 2010.

The right to purchase treasury shares is granted at an exercise price of ¥1 per share to directors and certain employees and certain directors of subsidiaries.

Based on the resolutions of the shareholders' meeting on June 23, 2010 and the Board of Directors on July 13, 2010, the Company issued 210 rights of its share acquisition rights to directors and 558 rights of its share acquisition rights to certain employees and certain directors of subsidiaries during the year ended March 31, 2011. The number of shares subject to one share acquisition rights is 100 shares. The options vest 100% on each of the grant dates and are exercisable from August 2, 2013.

Table of Contents

In addition, based on the resolutions of the shareholders meeting on June 23, 2010 and the Board of Directors on July 13, 2011, the Company issued 872 rights of its share acquisition rights to directors. Based on the resolutions of the shareholders meeting on June 22, 2011 and the Board of Directors on July 13, 2011, the Company also issued 2,529 rights of its share acquisition rights to certain employees and certain directors of subsidiaries during the year ending March 31, 2012. The options vest 100% on each of the grant dates and are exercisable from August 1, 2014.

Komatsu recognizes compensation expense using the fair value method. Compensation expenses during the years ended March 31, 2012, 2011 and 2010 were ¥771 million (\$9,402 thousand), ¥137 million and ¥413 million, respectively, and were recorded in selling, general and administrative expenses.

The following table summarizes information about stock option activity for the years ended March 31, 2012, 2011 and 2010:

| | Number of shares | 2012 Weighted average exercise price | | Number of shares | 2011 Weighted average exercise price | | Number of shares | 2010 Weighted average exercise price | |
|----------------------------------|------------------|-----------------------------------------|--------------|------------------|-----------------------------------------|--------------|------------------|-----------------------------------------|--------------|
| | | Yen | U.S. dollars | | Yen | U.S. dollars | | Yen | U.S. dollars |
| Outstanding at beginning of year | 3,235,800 | ¥ 2,047 | \$ 24.96 | 3,333,000 | ¥ 2,051 | \$ 24.96 | 2,891,000 | ¥ 2,022 | \$ 24.96 |
| Granted | 340,100 | 1 | 0.01 | 76,800 | 1 | 0.01 | 642,000 | 1,729 | 0.01 |
| Exercised | (393,000) | 1,082 | 13.20 | (174,000) | 1238 | 13.20 | (200,000) | 595 | 13.20 |
| Outstanding at end of year | 3,182,900 | 1,947 | 23.74 | 3,235,800 | 2,047 | 23.74 | 3,333,000 | 2,051 | 23.74 |
| Exercisable at end of year | 2,766,000 | 2,240 | 27.32 | 3,159,000 | 2,096 | 27.32 | 2,691,000 | 2,128 | 27.32 |

The intrinsic values of options exercised were ¥519 million (\$6,329 thousand), ¥199 million and ¥153 million for the years ended March 31, 2012, 2011 and 2010.

The information for options outstanding and options exercisable at March 31, 2012 are as follows.

| Outstanding | | | | | | | | Options Exercisable | | | | | | Weighted average remaining contractual |
|-----------------|---------------------|------------------------------------|--------------|--------------------|-----------------|---------------------------------------------------------|---------------------|---------------------|------------------------------------|--------------------|-----------------|---------------------|---------------------------------------------------------|-------------------------------------------------|
| | | Weighted average exercise price | | Intrinsic value | | Weighted average remaining contractual life | | | Weighted average exercise price | | Intrinsic value | | Weighted average remaining contractual life | |
| | | | | Thousands of | | | | | | | Thousands of | | | |
| | | Yen | U.S. dollars | Millions of yen | U.S. dollars | | Number of shares | Yen | U.S. dollars | Millions of yen | U.S. dollars | Number of shares | | |
| Exercise Prices | Number of shares | | | | | years | | | | | | | years | |
| ¥1 650 | 416,900 | ¥ | \$ | 0.01 | ¥ 983 | \$ 11,988 | 7.2 | | ¥ | \$ | ¥ | \$ | | |
| ¥651 900 | 70,000 | 673 | 8.21 | 118 | 1,439 | 0.3 | 70,000 | 673 | 8.21 | 118 | 1,439 | 0.3 | | |
| ¥901 1,350 | 515,000 | 1,126 | 13.73 | 635 | 7,744 | 1.3 | 515,000 | 1,126 | 13.73 | 635 | 7,744 | 1.3 | | |
| ¥1,351 2,325 | 1,169,000 | 2,043 | 24.91 | 370 | 4,512 | 3.8 | 1,169,000 | 2,043 | 24.91 | 370 | 4,513 | 3.8 | | |
| ¥2,326 3,700 | 1,012,000 | 3,144 | 38.34 | 0 | 0 | 3.9 | 1,012,000 | 3,144 | 38.34 | 0 | 0 | 3.9 | | |
| ¥1 3,700 | 3,182,900 | 1,947 | 23.74 | 2,106 | 25,683 | 3.8 | 2,766,000 | 2,240 | 27.32 | 1,123 | 13,695 | 3.3 | | |

The fair value of each share option award is estimated on the date of grant using a discrete-time model (a binomial model) based on the assumptions noted in the following table. Because a discrete-time model incorporates ranges of assumptions for inputs, those ranges are disclosed. Expected volatilities are based on implied volatilities from historical volatility of the Company's shares.

Table of Contents

The Company uses historical data to estimate share option exercise and employee departure behavior used in the discrete-time model. The expected term of share options granted represents the period of time that share options granted are expected to be outstanding. The risk-free rate for periods within the contractual term of the share option is based on the Japanese government bond yield curve in effect at the time of grant.

| | 2012 | 2011 | 2010 |
|-------------------------|-------------------------|-------------|-------------|
| Grant-date fair value | ¥2,268 (\$27.66) | ¥1,785 | ¥643 |
| Expected term | 5 years | 5 years | 7 years |
| Risk-free rate | 0.12% 1.12% | 0.13% 1.11% | 0.17% 1.35% |
| Expected volatility | 48.00% | 54.00% | 44.00% |
| Expected dividend yield | 1.83% | 0.96% | 2.07% |

* Interest rate corresponding to discount periods is applied to risk-free rate, that is as follows:

| | 1 year | 2 years | 3 years | 4 years | 5 years | 6 years | 7 years | 8 years | 9 years | 10 years |
|------|--------|---------|---------|---------|---------|---------|---------|---------|---------|----------|
| 2010 | 0.17% | 0.24% | 0.32% | 0.48% | 0.63% | 0.74% | 0.88% | 1.03% | 1.19% | 1.35% |
| 2011 | 0.13% | 0.14% | 0.18% | 0.25% | 0.36% | 0.47% | 0.59% | 0.76% | 0.94% | 1.11% |
| 2012 | 0.12% | 0.16% | 0.21% | 0.29% | 0.38% | 0.49% | 0.63% | 0.78% | 0.96% | 1.12% |

Table of Contents**14. Other Comprehensive Income (Loss)**

Each component of accumulated other comprehensive income (loss) at March 31, 2012, 2011 and 2010, is as follows:

| | 2012 | Millions of yen 2011 | 2010 | Thousands of U.S. dollars 2012 |
|------------------------------------------------------------------|-------------|-------------------------|-------------|--------------------------------------|
| Foreign currency translation adjustments: | | | | |
| Balance, beginning of year | ¥ (122,286) | ¥ (85,056) | ¥ (84,152) | \$ (1,491,293) |
| Adjustment for the year | (8,723) | (37,230) | (904) | (106,378) |
| Balance, end of year | ¥ (131,009) | ¥ (122,286) | ¥ (85,056) | \$ (1,597,671) |
| Net unrealized holding gains on securities available for sale: | | | | |
| Balance, beginning of year | ¥ 16,104 | ¥ 14,126 | ¥ 8,646 | \$ 196,391 |
| Net increase (decrease) | 725 | 1,978 | 5,480 | 8,841 |
| Balance, end of year | ¥ 16,829 | ¥ 16,104 | ¥ 14,126 | \$ 205,232 |
| Pension liability adjustments: | | | | |
| Balance, beginning of year | ¥ (24,406) | ¥ (24,315) | ¥ (29,235) | \$ (297,634) |
| Adjustment for the year | (1,932) | (91) | 4,920 | (23,561) |
| Balance, end of year | ¥ (26,338) | ¥ (24,406) | ¥ (24,315) | \$ (321,195) |
| Net unrealized holding gains (losses) on derivative instruments: | | | | |
| Balance, beginning of year | ¥ (471) | ¥ (389) | ¥ (1,003) | \$ (5,744) |
| Net increase (decrease) | (1,400) | (82) | 614 | (17,073) |
| Balance, end of year | ¥ (1,871) | ¥ (471) | ¥ (389) | \$ (22,817) |
| Total accumulated other comprehensive loss; | | | | |
| Balance, beginning of year | ¥ (131,059) | ¥ (95,634) | ¥ (105,744) | \$ (1,598,280) |
| Other comprehensive income (loss) for the year, net of tax | (11,330) | (35,425) | 10,110 | (138,171) |
| Balance, end of year | ¥ (142,389) | ¥ (131,059) | ¥ (95,634) | \$ (1,736,451) |

For the fiscal year ended March 31, 2012, Adjustment for the year of Foreign currency translation adjustments included ¥36 million (\$439 thousand) of gains and of Pension Liability adjustments ¥2 million (\$24 thousand) of losses which transferred to non-controlling interests and is not recognized as other comprehensive income (loss).

For the fiscal year ended March 31, 2011, Adjustment for the year of Foreign currency translation adjustments included ¥7 million of gains which transferred to non-controlling interests and is not recognized as other comprehensive income (loss).

Table of Contents

The component of other comprehensive income (loss) and adjustments for the years ended March 31, 2012, 2011 and 2010, are as follows:

| | Pretax amount | Millions of yen Tax (expense) or benefit | Net of tax amount |
|--------------------------------------------------------------------------------------------------|------------------|------------------------------------------------|----------------------|
| 2012: | | | |
| Foreign currency translation adjustments | ¥ (9,350) | ¥ 591 | ¥ (8,759) |
| Net unrealized holding gains on securities available for sale: | | | |
| Unrealized holding gains arising during the year | 3,331 | (1,021) | 2,310 |
| Less: reclassification adjustment for gains included in net income attributable to Komatsu Ltd. | (2,676) | 1,091 | (1,585) |
| Net unrealized gains | 655 | 70 | 725 |
| Pension liability adjustments | | | |
| Unrealized holding losses arising during the year | (5,054) | 1,289 | (3,765) |
| Less: reclassification adjustment for losses included in net income attributable to Komatsu Ltd. | 3,025 | (1,190) | 1,835 |
| Net unrealized losses | (2,029) | 99 | (1,930) |
| Net unrealized holding losses on derivative instruments: | | | |
| Changes in fair value of derivatives | 665 | (410) | 255 |
| Net gains reclassified into earnings | (2,872) | 1,217 | (1,655) |
| Net unrealized losses | (2,207) | 807 | (1,400) |
| Other comprehensive loss | ¥ (12,931) | ¥ 1,567 | ¥ (11,364) |
| 2011: | | | |
| Foreign currency translation adjustments | ¥ (37,730) | ¥ 493 | ¥ (37,237) |
| Net unrealized holding gains on securities available for sale: | | | |
| Unrealized holding gains arising during the year | 4,172 | (1,678) | 2,494 |
| Less: reclassification adjustment for gains included in net income attributable to Komatsu Ltd. | (871) | 355 | (516) |
| Net unrealized gains | 3,301 | (1,323) | 1,978 |
| Pension liability adjustments | | | |
| Unrealized holding losses arising during the year | (4,308) | 2,706 | (1,602) |
| Less: reclassification adjustment for losses included in net income attributable to Komatsu Ltd. | 2,761 | (1,250) | 1,511 |
| Net unrealized losses | (1,547) | 1,456 | (91) |
| Net unrealized holding losses on derivative instruments: | | | |
| Changes in fair value of derivatives | 7,315 | (2,971) | 4,344 |
| Net gains reclassified into earnings | (7,475) | 3,049 | (4,426) |
| Net unrealized losses | (160) | 78 | (82) |
| Other comprehensive loss | ¥ (36,136) | ¥ 704 | ¥ (35,432) |
| 2010: | | | |
| Foreign currency translation adjustments | ¥ (1,196) | ¥ 292 | ¥ (904) |
| Net unrealized holding gains on securities available for sale: | | | |
| Unrealized holding gains arising during the year | 9,124 | (3,843) | 5,281 |
| Less: reclassification adjustment for losses included in net income attributable to Komatsu Ltd. | 336 | (137) | 199 |
| Net unrealized gains | 9,460 | (3,980) | 5,480 |
| Pension liability adjustments | | | |

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| | | | |
|--------------------------------------------------------------------------------------------------|----------|-----------|----------|
| Unrealized holding gains arising during the year | 3,930 | (1,224) | 2,706 |
| Less: reclassification adjustment for losses included in net income attributable to Komatsu Ltd. | 2,833 | (619) | 2,214 |
| Net unrealized gains | 6,763 | (1,843) | 4,920 |
| Net unrealized holding gains on derivative instruments: | | | |
| Changes in fair value of derivatives | 2,121 | (1,138) | 983 |
| Net gains reclassified into earnings | (621) | 252 | (369) |
| Net unrealized gains | 1,500 | (886) | 614 |
| Other comprehensive income | ¥ 16,527 | ¥ (6,417) | ¥ 10,110 |

F-44

Table of Contents

| | Thousands of U.S. dollars | | |
|--------------------------------------------------------------------------------------------------|---------------------------|-----------------------------|----------------------|
| | Pretax amount | Tax (expense) or benefit | Net of tax amount |
| 2012: | | | |
| Foreign currency translation adjustments | \$ (114,024) | \$ 7,207 | \$ (106,817) |
| Net unrealized holding gains on securities available for sale: | | | |
| Unrealized holding gains arising during the year | 40,621 | (12,451) | 28,170 |
| Less: reclassification adjustment for gains included in net income attributable to Komatsu Ltd. | (32,634) | 13,305 | (19,329) |
| Net unrealized gains | 7,987 | 854 | 8,841 |
| Pension liability adjustments | | | |
| Unrealized holding losses arising during the year | (61,634) | 15,719 | (45,915) |
| Less: reclassification adjustment for losses included in net income attributable to Komatsu Ltd. | 36,890 | (14,512) | 22,378 |
| Net unrealized losses | (24,744) | 1,207 | (23,537) |
| Net unrealized holding losses on derivative instruments: | | | |
| Changes in fair value of derivatives | 8,110 | (5,000) | 3,110 |
| Net gains reclassified into earnings | (35,024) | 14,841 | (20,183) |
| Net unrealized losses | (26,914) | 9,841 | (17,073) |
| Other comprehensive loss | \$ (157,695) | \$ 19,109 | \$ (138,586) |

F-45

Table of Contents**15. Income Taxes**

The sources of income (loss) before income taxes and equity in earnings of affiliated companies and the sources of income taxes for the years ended March 31, 2012, 2011 and 2010, were as follows:

| | 2012 | Millions of yen 2011 | 2010 | Thousands of U.S. dollars 2012 |
|-----------------------------------------------------------------------------------|-----------|-------------------------|------------|--------------------------------------|
| Income (loss) before income taxes and equity in earnings of affiliated companies: | | | | |
| Domestic | ¥ 79,712 | ¥ 68,682 | ¥ (35,965) | \$ 972,098 |
| Foreign | 169,897 | 151,127 | 100,944 | 2,071,914 |
| | ¥ 249,609 | ¥ 219,809 | ¥ 64,979 | \$ 3,044,012 |
| Income taxes: | | | | |
| Current | | | | |
| Domestic | ¥ 16,618 | ¥ 15,391 | ¥ 5,254 | \$ 202,659 |
| Foreign | 49,802 | 42,532 | 27,468 | 607,341 |
| | 66,420 | 57,923 | 32,722 | 810,000 |
| Deferred | | | | |
| Domestic | 8,911 | 4,885 | (6,272) | 108,671 |
| Foreign | (861) | 1,898 | (1,086) | (10,500) |
| | 8,050 | 6,783 | (7,358) | 98,171 |
| Total | ¥ 74,470 | ¥ 64,706 | ¥ 25,364 | \$ 908,171 |

Total income taxes recognized for the years ended March 31, 2012, 2011 and 2010 were applicable to the following:

| | 2012 | Millions of yen 2011 | 2010 | Thousands of U.S. dollars 2012 |
|---------------------------------------------------------------------------|----------|-------------------------|----------|--------------------------------------|
| Income before income taxes and equity in earnings of affiliated companies | ¥ 74,470 | ¥ 64,706 | ¥ 25,364 | \$ 908,171 |
| Other comprehensive income (loss): | | | | |
| Foreign currency translation adjustments | (591) | (493) | (292) | (7,207) |
| Net unrealized holding gains (losses) on securities available for sale | (70) | 1,323 | 3,980 | (854) |
| Pension liability adjustments | (99) | (1,456) | 1,843 | (1,207) |
| Net unrealized holding gains (losses) on derivative instruments | (807) | (78) | 886 | (9,842) |
| Total income taxes | ¥ 72,903 | ¥ 64,002 | ¥ 31,781 | \$ 889,061 |

Table of Contents

Temporary differences and tax loss carryforwards which gave rise to deferred tax assets and liabilities at March 31, 2012 and 2011, are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|------------------------------------------------------------------------------------------------------------|-----------------|----------|------------------------------|
| | 2012 | 2011 | 2012 |
| Deferred tax assets: | | | |
| Allowances provided, not yet recognized for tax | ¥ 5,151 | ¥ 3,944 | \$ 62,817 |
| Accrued expenses | 33,801 | 30,752 | 412,208 |
| Pension and retirement benefits | 13,619 | 17,985 | 166,085 |
| Property, plant and equipment | 11,066 | 13,402 | 134,951 |
| Inventories | 9,460 | 7,517 | 115,366 |
| Net operating loss carryforwards | 14,265 | 37,095 | 173,963 |
| Research and development expenses | 1,255 | 557 | 15,305 |
| Other | 13,861 | 24,044 | 169,037 |
| Total gross deferred tax assets | 102,478 | 135,296 | 1,249,732 |
| Less valuation allowance | (20,730) | (36,690) | (252,805) |
| Total deferred tax assets | ¥ 81,748 | ¥ 98,606 | \$ 996,927 |
| Deferred tax liabilities: | | | |
| Unrealized holding gains on securities available for sale | ¥ 8,776 | ¥ 9,972 | \$ 107,024 |
| Deferral of profit from installment sales | | 27 | |
| Property, plant and equipment | 11,267 | 12,917 | 137,402 |
| Intangible assets | 10,584 | 17,503 | 129,074 |
| Undistributed earnings of foreign subsidiaries and affiliated companies accounted for by the equity method | 4,724 | 5,092 | 57,610 |
| Total deferred tax liabilities | ¥ 35,351 | ¥ 45,511 | \$ 431,110 |
| Total deferred tax assets | ¥ 46,397 | ¥ 53,095 | \$ 565,817 |

Net deferred tax assets and liabilities as of March 31, 2012 and 2011 are reflected on the consolidated balance sheets under the following captions:

| | Millions of yen | | Thousand of U.S. dollars |
|-----------------------------------------------------|-----------------|----------|-----------------------------|
| | 2012 | 2011 | 2012 |
| Deferred income taxes and other current assets | ¥ 44,825 | ¥ 55,953 | \$ 546,646 |
| Deferred income taxes and other assets | 18,835 | 15,117 | 229,695 |
| Deferred income taxes and other current liabilities | (687) | (380) | (8,378) |
| Deferred income taxes and other liabilities | (16,576) | (17,595) | (202,146) |
| | ¥ 46,397 | ¥ 53,095 | \$ 565,817 |

The valuation allowances were ¥49,081 million and ¥31,420 million as of March 31, 2010 and 2009, respectively. The net changes in the total valuation allowance for the years ended March 31, 2012, 2011 and 2010 were a decrease of ¥15,960 million (\$194,634 thousand), a decrease of ¥12,391 million and an increase of ¥17,661 million, respectively. The decreases for the year ended March 31, 2012 and 2011 were 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 valuation allowance had been recorded as the subsidiaries had not yet demonstrated consistent and/or sustainable profitability to support the recognition of net deferred tax assets. The decrease of the valuation allowance for the year ended March 31, 2012 mainly consists of ¥12,686 million by a change in assessment about the likelihood of recovery of a deferred tax asset related to the decision of

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the merger between Komatsu Rental Ltd. and the Company for the year ended March 31, 2012. The decrease of the valuation allowance for the year ended March 31, 2011 mainly consists of ¥13,579 million by a change in assessment about the likelihood of recovery of a deferred tax asset related to the decision of the merger between Komatsu Utility Co., Ltd. and the Company for the year ended March 31, 2011.

F-47

Table of Contents

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible and net operating losses available is to be utilized. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets, net of the existing valuation allowances at March 31, 2012 and 2011, are deductible, management believes it is more likely than not that the companies will realize the benefits of these deductible differences and net operating loss carryforwards. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced.

The Company and its domestic subsidiaries are subject to a National Corporate tax rate of 30%, an inhabitant tax of approximately 6% and a deductible Enterprise tax of approximately 8%, which in the aggregate resulted in a Japanese statutory income tax rate of approximately 40.8%. The inhabitant tax rate and Enterprise tax rate vary by local jurisdiction.

The differences between the Japanese statutory tax rates and the effective tax rates for the years ended March 31, 2012, 2011 and 2010, are summarized as follows:

| | 2012 | 2011 | 2010 |
|-------------------------------------------------------------------------|--------------|-------|--------|
| Japanese statutory tax rate | 40.8% | 40.8% | 40.8% |
| Increase (decrease) in tax rates resulting from: | | | |
| Change in valuation allowance | (5.4) | (4.9) | 24.4 |
| Expenses not deductible for tax purposes | 0.1 | 1.5 | 6.8 |
| Income of foreign subsidiaries taxed at lower than Japanese normal rate | (6.7) | (8.3) | (22.6) |
| Tax credit for research and development expenses | (0.0) | (1.3) | |
| Realization of loss for investment in a subsidiary | | | (10.2) |
| Other, net | 1.0 | 1.6 | (0.2) |
| Effective tax rate | 29.8% | 29.4% | 39.0% |

On November 30, 2011, the National Diet of Japan approved the laws for amendments to previous income tax laws. Upon the change in the laws, the statutory income tax rate in Japan will be changed to approximately 38.1% for fiscal years beginning on or after April 1, 2012, and to approximately 35.7% for fiscal years beginning on or after April 1, 2015. Thus, the Company and its Japanese subsidiaries measured deferred tax assets and liabilities based on the tax rates to be applied in the fiscal years in which temporary differences are expected to be recovered or settled. The effect of tax rate changes in Japan did not have a material impact on Komatsu's consolidated financial statements.

Table of Contents

Foreign subsidiaries are subject to income taxes of the countries in which they operate. At March 31, 2012 and 2011, undistributed earnings of foreign subsidiaries aggregated ¥538,322 million (\$6,564,902 thousand) and ¥520,980 million, respectively. Komatsu has a policy to distribute a certain portion of undistributed earnings of foreign subsidiaries. As of March 31, 2012 and 2011, Komatsu recognized deferred tax liabilities of ¥1,211 million (\$14,768 thousand) and ¥677 million, respectively, associated with those earnings. As of March 31, 2012 and 2011, Komatsu has not recognized deferred tax liabilities of ¥20,138 million (\$245,585 thousand) and ¥18,620 million, respectively, for such portion of undistributed earnings of foreign subsidiaries that the Company intends to reinvest indefinitely. At March 31, 2012, certain subsidiaries had net operating loss carryforwards aggregating approximately ¥39,065 million (\$476,402 thousand), which may be used as a deduction in determining taxable income in future periods. The period available to offset future taxable income varies in each tax jurisdiction as follows:

| Year ending March 31, 2012 | Millions of yen |
|----------------------------|-----------------|
| Within 5 years | ¥ 9,980 |
| 6 to 20 years | 16,248 |
| Indefinite periods | 12,837 |
| Total | ¥ 39,065 |

Although Komatsu believes its estimates of unrecognized tax benefits are reasonable, uncertainties regarding the final determination of income tax audit settlements and any related litigation could affect the total amount of unrecognized tax benefits in the future periods. For the years ended March 31, 2012, 2011 and 2010, Komatsu did not have material unrecognized tax benefits and thus, no significant interest and penalties related to unrecognized tax benefits were recognized. Based on the information available as of March 31, 2012, Komatsu does not expect significant changes to the unrecognized tax benefits within the next twelve months.

Komatsu files income tax returns in Japan and various foreign tax jurisdictions. In Japan, the Company is no longer subject to regular income tax examinations by the tax authority before and in the fiscal year ended March 31, 2009. In other foreign tax jurisdictions, major subsidiaries are no longer subject to income tax examinations by tax authorities before and in the fiscal year ended March 31, 2005 with few exceptions.

Table of Contents**16. Rent Expenses**

Komatsu leases office space and equipment and employee housing under cancelable and non-cancelable lease agreements. Rent expenses under cancelable and non-cancelable operating leases amounted to ¥15,491 million (\$188,915 thousand), ¥14,480 million and ¥13,823 million, respectively, for the years ended March 31, 2012, 2011 and 2010. At March 31, 2012, the future minimum lease payments under non-cancelable operating leases and capital leases are as follows:

| Year ending March 31 | Capital leases | Millions of yen Operating lease commitments | Total |
|-----------------------------------------------------|-------------------|---------------------------------------------------|----------|
| 2013 | ¥ 5,638 | ¥ 3,398 | ¥ 9,036 |
| 2014 | 3,711 | 2,378 | 6,089 |
| 2015 | 2,298 | 1,660 | 3,958 |
| 2016 | 925 | 1,068 | 1,993 |
| 2017 | 194 | 578 | 772 |
| Thereafter | 446 | 1,409 | 1,855 |
| Total minimum lease payments | ¥ 13,212 | ¥ 10,491 | ¥ 23,703 |
| Less: amounts representing interest | (676) | | |
| Present value of net minimum capital lease payments | ¥ 12,536 | | |

Table of Contents**17. Net Income Attributable to Komatsu Ltd. per Share**

A reconciliation of the numerators and denominators of the basic and diluted net income attributable to Komatsu Ltd. per share computations is as follows:

| | 2012 | Millions of yen 2011 | 2010 | Thousands of U.S. dollars 2012 |
|-----------------------------------------------------------------|-------------|--------------------------|-------------|--------------------------------------|
| Net income attributable to Komatsu Ltd. | ¥ 167,041 | ¥ 150,752 | ¥ 33,559 | \$ 2,037,085 |
| | 2012 | Number of shares 2011 | 2010 | |
| Weighted average common shares outstanding, less treasury stock | 962,919,074 | 967,803,446 | 968,013,328 | |
| Dilutive effect of: | | | | |
| Stock options | 857,871 | 671,477 | 449,531 | |
| Weighted average diluted common shares outstanding | 963,776,945 | 968,474,923 | 968,462,859 | |
| | 2012 | Yen 2011 | 2010 | U.S. cents 2012 |
| Net income attributable to Komatsu Ltd. per share: | | | | |
| Basic | ¥ 173.47 | ¥ 155.77 | ¥ 34.67 | ¢ 211.55 |
| Diluted | 173.32 | 155.66 | 34.65 | 211.36 |

F-51

Table of Contents**18. Commitments and Contingent Liabilities**

At March 31, 2012, Komatsu was contingently liable for discounted and transferred receivables on a recourse basis with the financial institutions of ¥1,875 million (\$22,866 thousand).

Komatsu provides guarantees to third parties of loans of the employees, affiliated companies, customers and other companies. The guarantees relating to the employees are mainly made for their housing loans. The guarantees of loans relating to the affiliated companies, customers and other companies are made to enhance the credit of those companies.

For each guarantee provided, Komatsu would have to perform under a guarantee, if the borrower defaults on a payment within the contract terms. The contract terms are from 10 years to 30 years in the case of employees with housing loans, and from 1 year to 11 years in the case of loans relating to the affiliated companies, customers and other companies. The maximum amount of undiscounted payments Komatsu would have had to make in the event of default is ¥92,955 million (\$1,133,598 thousand) at March 31, 2012. The fair value of the liabilities recognized for Komatsu's obligations as guarantors under those guarantees at March 31, 2012 were insignificant. Certain of those guarantees were secured by collateral and insurance issued to the Company.

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

Commitments for capital investment outstanding at March 31, 2012, aggregated approximately ¥12,500 million (\$152,439 thousand).

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

Komatsu has business activities with customers, dealers and associates around the world. The trade receivables from such parties and the guarantees for them are well diversified to minimize concentrations of credit risks. Management does not anticipate incurring losses on its trade receivables in excess of established allowances.

Komatsu also issues contractual product warranties under which it generally guarantee the performance of products delivered and services rendered for a certain period or term. Change in accrued product warranty cost for the years ended March 31, 2012 and 2011 is summarized as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|------------------------------|-----------------|----------|------------------------------|
| | 2012 | 2011 | 2012 |
| Balance at beginning of year | ¥ 28,531 | ¥ 23,758 | \$ 347,939 |
| Addition | 28,234 | 27,091 | 344,317 |
| Utilization | (26,211) | (21,352) | (319,646) |
| Other | (20) | (966) | (244) |
| Balance at end of year | ¥ 30,534 | ¥ 28,531 | \$ 372,366 |

Table of Contents**19. Derivative Financial Instruments****Risk Management Policy**

Komatsu is exposed to market risk primarily from changes in foreign currency exchange and interest rates with respect to debt obligations, international operations and foreign currency denominated credits and debts. In order to manage these risks that arise in the normal course of business, Komatsu enters into various derivative transactions for hedging pursuant to its policies and procedures (Notes 20 and 21). Komatsu does not enter into derivative financial transactions for trading or speculative purposes.

Komatsu has entered into interest rate swap and cap agreements, partly concurrent with currency swap agreements for the purpose of managing the risk resulting from changes in cash flow or fair value that arise in their interest rate and foreign currency exposure with respect to certain short-term and long-term debts.

Komatsu operates internationally which expose Komatsu to the foreign exchange risk against existing assets and liabilities and transactions denominated in foreign currencies (principally the U.S. dollar and the Euro). In order to reduce these risks, Komatsu executes forward exchange contracts and option contracts based on its projected cash flow in foreign currencies.

Komatsu is exposed to credit-related losses in the event of nonperformance by counterparties to derivative financial instruments, but Komatsu does not expect any counterparties to fail to meet their obligations because of the high credit rating of the counterparties. Komatsu has not held any derivative instruments which consisted credit-risk-related contingent features.

Fair Value Hedges

Komatsu uses derivative financial instruments designated as fair value hedges to manage primarily interest rate and foreign exchange risks associated with debt obligations. Principally interest rate swaps and cross-currency swaps are used to hedge such risk for debt obligations. Changes in fair value of the hedged debt obligations and derivative instruments designated as fair value hedge are offset and recognized in other income (expenses), net. For the years ended March 31, 2012, 2011 and 2010, the amount of hedge ineffectiveness and the net gain or loss excluded from the assessment of hedge effectiveness were not material to Komatsu's result of operations.

Cash Flow Hedges

Komatsu uses derivative financial instruments designated as cash flow hedges to manage Komatsu's foreign exchange risks associated with forecasted transactions and Komatsu's interest risks associated with debt obligations. For transactions denominated in foreign currencies, Komatsu typically hedges forecasted and firm commitment exposures to the variability in cash flow basically up to one year. For the variable rate debt obligations, Komatsu enters into interest rate swap contracts to manage the changes in cash flows. Komatsu records the changes in fair value of derivative instruments designated as cash flow hedges in other comprehensive income (loss). These amounts are reclassified into earnings through other income (expenses), net when the hedged items impact earnings. Approximately ¥1,583 million (\$19,305 thousand) of existing income included in accumulated other comprehensive income (loss) at March 31, 2012 are expected to be reclassified into earnings within twelve months from that date. No cash flow hedges were discontinued during the years ended March 31, 2012 as a result of anticipated transactions that are no longer probable of occurring.

Table of Contents**Undesignated Derivative Instruments**

Komatsu has entered into interest rate swap and cross-currency swap contracts not designated as hedging instruments under ASC 815,

Derivatives and Hedging as a means of managing Komatsu's interest rate exposures for short-term and long-term debts. Forward contracts and option contracts not designated as hedging instruments under ASC 815 are also used to hedge certain foreign currency exposures. The changes in fair value of such instruments are recognized currently in earnings.

Notional Principal Amounts of Derivative Financial Instruments

Notional principal amounts of derivative financial instruments outstanding at March 31, 2012 and 2011 are as follows.

| | Millions of yen | | Thousands of U.S. dollars |
|----------------------------------------------------------------------------|-----------------|----------|---------------------------|
| | 2012 | 2011 | 2012 |
| Forwards and options: | | | |
| Sale of foreign currencies | ¥ 129,282 | ¥ 94,504 | \$ 1,576,610 |
| Purchase of foreign currencies | 78,859 | 87,605 | 961,695 |
| Option contracts (purchased) | 247 | 490 | 3,012 |
| Interest rate swaps, cross-currency swaps and interest rate cap agreements | 83,014 | 123,424 | 1,012,366 |

Fair value of derivative instruments at March 31, 2012 and 2011 on the consolidated balance sheets are as follows:

| Derivative instruments designated as hedging instruments | Derivative Assets | | Derivative Liabilities | |
|----------------------------------------------------------------------------|------------------------------------------------|----------------------|-----------------------------------------------------|----------------------|
| | Location on the consolidated | | Location on the consolidated | |
| | Balance Sheets | Estimated fair value | Balance Sheets | Estimated fair value |
| Forwards contracts | Deferred income taxes and other current assets | ¥ 1,681 | Deferred income taxes and other current liabilities | ¥ 5,578 |
| | Deferred income taxes and other assets | | Deferred income taxes and other liabilities | 105 |
| Interest rate swaps, cross-currency swaps and interest rate cap agreements | Deferred income taxes and other current assets | 21 | Deferred income taxes and other current liabilities | 750 |
| | Deferred income taxes and other assets | | Deferred income taxes and other liabilities | |
| Total | | ¥ 1,702 | | ¥ 6,433 |

| Undesignated derivative instruments | Derivative Assets | | Derivative Liabilities | |
|----------------------------------------------------------------------------|------------------------------------------------|----------------------|-----------------------------------------------------|----------------------|
| | Location on the consolidated | | Location on the consolidated | |
| | Balance Sheets | Estimated fair value | Balance Sheets | Estimated fair value |
| Forwards contracts | Deferred income taxes and other current assets | ¥ 569 | Deferred income taxes and other current liabilities | ¥ 2,805 |
| | Deferred income taxes and other assets | | Deferred income taxes and other liabilities | 55 |
| Option contracts | Deferred income taxes and other current assets | 5 | Deferred income taxes and other current liabilities | |
| Interest rate swaps, cross-currency swaps and interest rate cap agreements | Deferred income taxes and other current assets | 1,102 | Deferred income taxes and other current liabilities | 418 |
| | | 467 | | 9 |

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| | Deferred income taxes and other assets | Deferred income taxes and other liabilities |
|------------------------------|-------------------------------------------|------------------------------------------------|
| Total | ¥ 2,143 | ¥ 3,287 |
| Total Derivative Instruments | ¥ 3,845 | ¥ 9,720 |

F-54

Table of Contents

| Derivative instruments designated as hedging instruments | Location on the consolidated Balance Sheets | Millions of yen 2011 | | Estimated fair value | Location on the consolidated Balance Sheets | Estimated fair value |
|----------------------------------------------------------------------------|------------------------------------------------|-------------------------|-----------------------------------------------------|----------------------|---------------------------------------------|----------------------|
| | | Derivative Assets | Derivative Liabilities | | | |
| Forwards contracts | Deferred income taxes and other current assets | | Deferred income taxes and other current liabilities | ¥ 11 | | ¥ 817 |
| | Deferred income taxes and other assets | | Deferred income taxes and other liabilities | 2 | | |
| Interest rate swaps, cross-currency swaps and interest rate cap agreements | Deferred income taxes and other current assets | 126 | Deferred income taxes and other current liabilities | | | 471 |
| | Deferred income taxes and other assets | | Deferred income taxes and other liabilities | | | |
| Total | | ¥ 139 | | | | ¥ 1,288 |

| Undesignated derivative instruments | Location on the consolidated Balance Sheets | Estimated fair value | | Estimated fair value | Location on the consolidated Balance Sheets | Estimated fair value |
|----------------------------------------------------------------------------|------------------------------------------------|----------------------|-----------------------------------------------------|----------------------|---------------------------------------------|----------------------|
| | | Derivative Assets | Derivative Liabilities | | | |
| Forwards contracts | Deferred income taxes and other current assets | ¥ 403 | Deferred income taxes and other current liabilities | ¥ 2,025 | | |
| | Deferred income taxes and other assets | | Deferred income taxes and other liabilities | | | 126 |
| Option contracts | Deferred income taxes and other current assets | 7 | Deferred income taxes and other current liabilities | | | |
| Interest rate swaps, cross-currency swaps and interest rate cap agreements | Deferred income taxes and other current assets | 6,967 | Deferred income taxes and other current liabilities | | | 382 |
| | Deferred income taxes and other assets | 3,515 | Deferred income taxes and other liabilities | | | 155 |
| Total | | ¥ 10,892 | | | | ¥ 2,688 |
| Total Derivative Instruments | | ¥ 11,031 | | | | ¥ 3,976 |

| Derivative instruments designated as hedging instruments | Location on the consolidated Balance Sheets | Thousands of U.S. dollars 2012 | | Estimated fair value | Location on the consolidated Balance Sheets | Estimated fair value |
|----------------------------------------------------------------------------|------------------------------------------------|-----------------------------------|-----------------------------------------------------|----------------------|---------------------------------------------|----------------------|
| | | Derivative Assets | Derivative Liabilities | | | |
| Forwards contracts | Deferred income taxes and other current assets | \$ 20,500 | Deferred income taxes and other current liabilities | \$ 68,024 | | |
| | Deferred income taxes and other assets | | Deferred income taxes and other liabilities | | | 1,281 |
| Interest rate swaps, cross-currency swaps and interest rate cap agreements | Deferred income taxes and other current assets | 256 | Deferred income taxes and other current liabilities | | | 9,146 |
| | Deferred income taxes and other assets | | Deferred income taxes and other liabilities | | | |
| Total | | \$ 20,756 | | | | \$ 78,451 |

| Undesignated derivative instruments | Location on the consolidated Balance Sheets | Estimated fair value | | Estimated fair value | Location on the consolidated Balance Sheets | Estimated fair value |
|-------------------------------------|---------------------------------------------|----------------------|------------------------|----------------------|---------------------------------------------|----------------------|
| | | Derivative Assets | Derivative Liabilities | | | |
| Forwards contracts | | \$ 6,939 | | \$ 34,207 | | |

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| | | | | |
|----------------------------------------------------------------------------|------------------------------------------------|------------------|-----------------------------------------------------|-------------------|
| | Deferred income taxes and other current assets | | Deferred income taxes and other current liabilities | |
| | Deferred income taxes and other assets | | Deferred income taxes and other liabilities | 671 |
| Option contracts | Deferred income taxes and other current assets | 61 | Deferred income taxes and other current liabilities | |
| Interest rate swaps, cross-currency swaps and interest rate cap agreements | Deferred income taxes and other current assets | 13,439 | Deferred income taxes and other current liabilities | 5,097 |
| | Deferred income taxes and other assets | 5,695 | Deferred income taxes and other liabilities | 110 |
| Total | | \$ 26,134 | | \$ 40,085 |
| Total Derivative Instruments | | \$ 46,890 | | \$ 118,536 |

F-55

Table of Contents

The effects of derivative instruments on the consolidated statements of income for the year ended March 31, 2012, 2011 and 2010 are as follows:

Derivative instruments designated as fair value hedging relationships

| Millions of yen 2012 | | | | |
|----------------------------------------------------------------------------|----------------------------------------------------------------|--------------------------------------------------------------|-----------------------------------------------------------------|---------------------------------------------------------------|
| | Location of gains (losses) recognized in income on derivatives | Amount of gains (losses) recognized in income on derivatives | Location of gains (losses) recognized in income on hedged items | Amount of gains (losses) recognized in income on hedged items |
| Interest rate swaps, cross-currency swaps and interest rate cap agreements | Other income (expenses), net: | | Other income (expenses), net: | |
| | Other, net | ¥ | Other, net | ¥ |
| Total | | ¥ | | ¥ |

| Millions of yen 2011 | | | | |
|----------------------------------------------------------------------------|----------------------------------------------------------------|--------------------------------------------------------------|-----------------------------------------------------------------|---------------------------------------------------------------|
| | Location of gains (losses) recognized in income on derivatives | Amount of gains (losses) recognized in income on derivatives | Location of gains (losses) recognized in income on hedged items | Amount of gains (losses) recognized in income on hedged items |
| Interest rate swaps, cross-currency swaps and interest rate cap agreements | Other income (expenses), net: | | Other income (expenses), net: | |
| | Other, net | ¥ | Other, net | ¥ |
| Total | | ¥ | | ¥ |

| Millions of yen 2010 | | | | |
|----------------------------------------------------------------------------|----------------------------------------------------------------|--------------------------------------------------------------|-----------------------------------------------------------------|---------------------------------------------------------------|
| | Location of gains (losses) recognized in income on derivatives | Amount of gains (losses) recognized in income on derivatives | Location of gains (losses) recognized in income on hedged items | Amount of gains (losses) recognized in income on hedged items |
| Interest rate swaps, cross-currency swaps and interest rate cap agreements | Other income (expenses), net: | | Other income (expenses), net: | |
| | Other, net | ¥ (270) | Other, net | ¥ 355 |
| Total | | ¥ (270) | | ¥ 355 |

Thousands of U.S. dollars
2012

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| | Location of gains (losses) recognized in income on derivatives | Amount of gains (losses) recognized in income on derivatives | Location of gains (losses) recognized in income on hedged items | Amount of gains (losses) recognized in income on hedged items |
|----------------------------------------------------------------------------------|-------------------------------------------------------------------------|--------------------------------------------------------------------------|--------------------------------------------------------------------------|------------------------------------------------------------------------------|
| Interest rate swaps, cross-currency swaps and interest rate cap agreements | Other income (expenses), net: | | Other income (expenses), net: | |
| | Other, net | \$ | Other, net | \$ |
| Total | | \$ | | \$ |

F-56

Table of Contents**Derivative instruments designated as cash flow hedging relationships**

| | Millions of yen 2012 | | | | |
|----------------------------------------------------------------------------------|-----------------------------------------------------------------------|-----------------------------------------------------------------------------------|---------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------|
| | Effective portion | | Ineffective portion and amount excluded from effectiveness testing | | |
| | Amount of gains (losses) recognized in OCI on derivatives | Location of gains (losses) reclassified from accumulated OCI into income | Amount of gains (losses) reclassified from accumulated OCI into income | Location of gains (losses) recognized in income on derivatives | Amount of gains (losses) recognized in income on derivatives |
| | | | | | |
| | | | | | |
| Forwards contracts | ¥ 665 | Other income (expenses), net: | | | |
| | | Other, net | ¥ 2,645 | | ¥ |
| Interest rate swaps, cross-currency swaps and interest rate cap agreements | | Other income (expenses), net: | | | |
| | | Other, net | 227 | | |
| Total | ¥ 665 | | ¥ 2,872 | | ¥ |

| | Millions of yen 2011 | | | | |
|----------------------------------------------------------------------------------|--------------------------------------------------------------------------------|-----------------------------------------------------------------------------------|---------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------|
| | Effective portion | | Ineffective portion and amount excluded from effectiveness testing | | |
| | Amount of gains (losses) recognized in OCI on derivatives | Location of gains (losses) reclassified from accumulated OCI into income | Amount of gains (losses) reclassified from accumulated OCI into income | Location of gains (losses) recognized in income on derivatives | Amount of gains (losses) recognized in income on derivatives |
| | | | | | |
| | | | | | |
| Forwards contracts | ¥ 7,195 | Other income (expenses), net: | | | |
| | | Other, net | ¥ 7,475 | | ¥ |
| Interest rate swaps, cross-currency swaps and interest rate cap agreements | 120 | Other income (expenses), net: | | | |
| | | Other, net | | | |
| Total | ¥ 7,315 | | ¥ 7,475 | | ¥ |

| | Millions of yen 2010 | | |
|--|-------------------------|-----------------------------------|--|
| | Effective portion | Ineffective portion and amount | |

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| | Amount of gains (losses) recognized in OCI on derivatives | Location of gains (losses) reclassified from accumulated OCI into income | Amount of gains (losses) reclassified from accumulated OCI into income | Location of gains (losses) recognized in income on derivatives | excluded from effectiveness testing Amount of gains (losses) recognized in income on derivatives |
|----------------------------------------------------------------------------------|--------------------------------------------------------------------------------|-----------------------------------------------------------------------------------|---------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------|
| Forwards contracts | ¥ 363 | Other income (expenses), net: | | | |
| | | Other, net | ¥ 532 | | ¥ |
| Interest rate swaps, cross-currency swaps and interest rate cap agreements | 1,758 | Other income (expenses), net: | | | |
| | | Other, net | 89 | | |
| Total | ¥ 2,121 | | ¥ 621 | | ¥ |

Thousands of U.S. dollars
2012

| | Amount of gains (losses) recognized in OCI on derivatives | Effective portion Location of gains (losses) reclassified from accumulated OCI into income | Amount of gains (losses) reclassified from accumulated OCI into income | Ineffective portion and amount excluded from effectiveness testing Location of gains (losses) recognized in income on derivatives | Amount of gains (losses) recognized in income on derivatives |
|----------------------------------------------------------------------------------|--------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------|
| Forwards contracts | \$ 8,110 | Other income (expenses), net: | | | |
| | | Other, net | \$ 32,256 | | \$ |
| Interest rate swaps, cross-currency swaps and interest rate cap agreements | | Other income (expenses), net: | | | |
| | | Other, net | 2,768 | | |
| Total | \$ 8,110 | | \$ 35,024 | | \$ |

* OCI stands for other comprehensive income (loss).

Table of Contents**Derivative instruments not designated as hedging instruments relationships**

| | | Millions of yen 2012 | |
|-------------------------------------------------------------------------------|-------------------------------------------------------------------|-------------------------|-----------------------------------------------------------------|
| | Location of gains (losses) recognized in income on derivatives | | Amount of gains (losses) recognized in income on derivatives |
| Forwards contracts | Other income (expenses), net: Other, net | ¥ | 329 |
| Option contracts | Other income (expenses), net: Other, net | | (0) |
| Interest rate swaps, cross-currency swaps and interest rate cap agreements | Cost of sales | | (200) |
| | Other income (expenses), net: Other, net | | (5,995) |
| Total | | ¥ | (5,866) |

| | | Millions of yen 2011 | |
|-------------------------------------------------------------------------------|-------------------------------------------------------------------|-------------------------|--------------------------------------------------------------------|
| | Location of gains (losses) recognized in income on derivatives | | Amount of gains (losses) recognized in income on derivatives |
| Forwards contracts | Other income (expenses), net: Other, net | ¥ | (1,411) |
| Option contracts | Other income (expenses), net: Other, net | | (9) |
| Interest rate swaps, cross-currency swaps and interest rate cap agreements | Cost of sales | | (455) |
| | Other income (expenses), net: Other, net | | 2,816 |
| Total | | ¥ | 941 |

| | | Millions of yen 2010 | |
|-------------------------------------------------------------------------------|-------------------------------------------------------------------|-------------------------|--------------------------------------------------------------------|
| | Location of gains (losses) recognized in income on derivatives | | Amount of gains (losses) recognized in income on derivatives |
| Forwards contracts | Other income (expenses), net: Other, net | ¥ | (972) |
| Option contracts | Other income (expenses), net: Other, net | | 3 |
| Interest rate swaps, cross-currency swaps and interest rate cap agreements | Cost of sales | | (580) |
| | Other income (expenses), net: Other, net | | 1,900 |
| Total | | ¥ | 351 |

| | | Thousands of U.S. dollars 2012 | |
|-------------------------------------------------------------------------------|-------------------------------------------------------------------|-----------------------------------|--------------------------------------------------------------------|
| | Location of gains (losses) recognized in income on derivatives | | Amount of gains (losses) recognized in income on derivatives |
| Forwards contracts | Other income (expenses), net: Other, net | \$ | 4,012 |
| Option contracts | Other income (expenses), net: Other, net | | (5) |
| Interest rate swaps, cross-currency swaps and interest rate cap agreements | Cost of sales | | (2,439) |
| | Other income (expenses), net: Other, net | | (73,110) |
| Total | | \$ | (71,542) |

Table of Contents**20. Fair Values of Financial Instruments****(1) Cash and Cash Equivalents, Time Deposits, Trade Notes and Accounts Receivable, Other Current Assets, Short-Term Debt, Trade Notes, Bills and Accounts Payables, and Other Current Liabilities**

The carrying amount approximates fair value because of the short maturity of these instruments.

(2) Investment Securities, Marketable Equity Securities

The fair values of investment securities available for sale for which it is practicable to estimate fair value are based on quoted market prices and are recognized on the accompanying consolidated balance sheets.

(3) Long-Term Trade Receivables, Including Current Portion (Note 4)

The fair values of long-term trade receivables are based on the present value of future cash flows through maturity, discounted using estimated current interest rates. The fair values computed on such a basis approximate the carrying amounts.

(4) Long-Term Debt, Including Current Portion (Note 21)

The fair values of each of the long-term debt are based on the quoted price in the most active market or the present value of future cash flows associated with each instrument discounted using the current borrowing rate for similar debt of comparable maturity and is classified in Level 2 in the fair value hierarchy.

(5) Derivatives (Notes 19 and 21)

The fair values of derivative financial instruments, consisting principally of foreign exchange contracts and interest swap agreements, are estimated by obtaining quotes from brokers and are recognized on the accompanying consolidated balance sheets.

The carrying amounts and the estimated fair values of the financial instruments, including financial instruments not qualifying as hedge, as of March 31, 2012 and 2011, are summarized as follows:

| | Millions of yen | | | | Thousands of U.S. dollars | |
|----------------------------------------------------------------------------|-----------------|----------------------|-----------------|----------------------|---------------------------|----------------------|
| | 2012 | | 2011 | | 2012 | |
| | Carrying amount | Estimated fair value | Carrying amount | Estimated fair value | Carrying amount | Estimated fair value |
| Investment securities, marketable equity securities | ¥ 45,933 | ¥ 45,933 | ¥ 49,372 | ¥ 49,372 | \$ 560,159 | \$ 560,159 |
| Long-term debt, including current portion | 431,976 | 429,357 | 413,760 | 412,375 | 5,268,000 | 5,236,061 |
| Derivatives: | | | | | | |
| Forward and options | | | | | | |
| Assets | 2,255 | 2,255 | 423 | 423 | 27,500 | 27,500 |
| Liabilities | 8,543 | 8,543 | 2,968 | 2,968 | 104,183 | 104,183 |
| Interest rate swaps, cross-currency swaps and interest rate cap agreements | | | | | | |
| Assets | 1,590 | 1,590 | 10,608 | 10,608 | 19,390 | 19,390 |
| Liabilities | 1,177 | 1,177 | 1,008 | 1,008 | 14,353 | 14,353 |

Limitations

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could affect the estimates.

Table of Contents**21. Fair value measurements**

ASC 820, Fair Value Measurements and Disclosures defines that fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. The three levels of inputs used to measure fair value are as follows:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly or indirectly
- Level 3** Unobservable inputs for the assets or liabilities

Assets and liabilities that are measured at fair value on a recurring basis

The fair value hierarchy levels of assets and liabilities that are measured at fair value on a recurring basis at March 31, 2012 and 2011 are as follows:

| At March 31, 2012 | Millions of yen | | | |
|----------------------------------------------------------------------------|-----------------|----------|---------|----------|
| | Level 1 | Level 2 | Level 3 | Total |
| Assets | | | | |
| Investment securities available for sale | | | | |
| Manufacturing industry | ¥ 27,172 | ¥ | ¥ | ¥ 27,172 |
| Financial service industry | 16,166 | | | 16,166 |
| Other | 2,595 | | | 2,595 |
| Derivatives | | | | |
| Forward contracts | | 2,250 | | 2,250 |
| Option contracts | | 5 | | 5 |
| Interest rate swaps, cross currency swaps and interest rate cap agreements | | 1,590 | | 1,590 |
| Total Assets | ¥ 45,933 | ¥ 3,845 | ¥ | ¥ 49,778 |
| Liabilities | | | | |
| Derivatives | | | | |
| Forward contracts | ¥ | ¥ 8,543 | ¥ | ¥ 8,543 |
| Interest rate swaps, cross currency swaps and interest rate cap agreements | | 1,177 | | 1,177 |
| Other | | 53,103 | 752 | 53,855 |
| Total Liabilities | ¥ | ¥ 62,823 | ¥ 752 | ¥ 63,575 |

Table of Contents

| At March 31, 2011 | Millions of yen | | | |
|----------------------------------------------------------------------------|---------------------------|-------------------|-----------------|-------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Assets | | | | |
| Investment securities available for sale | | | | |
| Manufacturing industry | ¥ 30,219 | ¥ | ¥ | ¥ 30,219 |
| Financial service industry | 16,439 | | | 16,439 |
| Other | 2,714 | | | 2,714 |
| Derivatives | | | | |
| Forward contracts | | 416 | | 416 |
| Option contracts | | 7 | | 7 |
| Interest rate swaps, cross currency swaps and interest rate cap agreements | | 10,608 | | 10,608 |
| Total Assets | ¥ 49,372 | ¥ 11,031 | ¥ | ¥ 60,403 |
| Liabilities | | | | |
| Derivatives | | | | |
| Forward contracts | ¥ | ¥ 2,968 | ¥ | ¥ 2,968 |
| Interest rate swaps, cross currency swaps and interest rate cap agreements | | 1,008 | | 1,008 |
| Other | | 26,665 | 859 | 27,524 |
| Total Liabilities | ¥ | ¥ 30,641 | ¥ 859 | ¥ 31,500 |
| At March 31, 2012 | | | | |
| | Thousands of U.S. dollars | | | |
| | Level 1 | Level 2 | Level 3 | Total |
| Assets | | | | |
| Investment securities available for sale | | | | |
| Manufacturing industry | \$ 331,366 | \$ | \$ | \$ 331,366 |
| Financial service industry | 197,147 | | | 197,147 |
| Other | 31,646 | | | 31,646 |
| Derivatives | | | | |
| Forward contracts | | 27,439 | | 27,439 |
| Option contracts | | 61 | | 61 |
| Interest rate swaps, cross currency swaps and interest rate cap agreements | | 19,390 | | 19,390 |
| Total Assets | \$ 560,159 | \$ 46,890 | \$ | \$ 607,049 |
| Liabilities | | | | |
| Derivatives | | | | |
| Forward contracts | \$ | \$ 104,183 | \$ | \$ 104,183 |
| Interest rate swaps, cross currency swaps and interest rate cap agreements | | 14,353 | | 14,353 |
| Other | | 647,597 | 9,171 | 656,768 |
| Total Liabilities | \$ | \$ 766,133 | \$ 9,171 | \$ 775,304 |

Investment securities available for sale

Marketable equity securities are classified in Level 1 in the fair value hierarchy. Marketable equity securities are measured using a market approach based on the quoted market prices in active markets.

Derivatives (Notes 19 and 20)

Derivatives primarily represent foreign exchange contracts and interest rate swap agreements. The fair value of foreign exchange contracts is based on a valuation model that discounts cash flows resulting from the differential between contract rate and the market-based forward rate and is classified in Level 2 in the fair value hierarchy. The fair value of interest rate swap agreements is based on a valuation model that discounts cash flows based on the terms of the contract and the swap curves and is classified in Level 2 in the fair value hierarchy.

F-61

Table of Contents**Other**

Other primarily represents loans which are measured at fair value under the Fair Value Option of FASB ASC 825, Financial Instruments. The fair value of loans is based on a valuation model based on market yield curve data and credit spread data and is classified in Level 2 in the fair value hierarchy. The credit spread data was obtained through use of credit default swaps for each counterparty.

The following table summarizes information about changes of Level 3 for the year ended March 31, 2012, 2011 and 2010:

| | 2012 | Millions of yen 2011 | 2010 | Thousands of U.S. dollars 2012 |
|-----------------------------------------------|---------|-------------------------|-----------|--------------------------------------|
| Balance at beginning of year | ¥ (859) | ¥ (2,280) | ¥ 919 | \$ (10,476) |
| Total gains or losses (realized/unrealized) | 107 | 219 | 1,543 | 1,305 |
| Included in earnings | 93 | 6 | 1,605 | 1,134 |
| Included in other comprehensive income (loss) | 14 | 213 | (62) | 171 |
| Total purchases, issuance and settlements | | 1,202 | (4,742) | |
| Purchases | | | | |
| Issuance | | | | |
| Settlements | | 1,202 | (4,742) | |
| Balance at end of year | ¥ (752) | ¥ (859) | ¥ (2,280) | \$ (9,171) |

The amount of unrealized gains on classified in Level 3 assets and liabilities recognized in earnings for the year ended March 31, 2012, 2011 and 2010 related to liabilities still held at March 31, 2012, 2011 and 2010 were gains of ¥93 million (\$1,134 thousand), ¥6 million and ¥1,605 million, respectively. These gains were reported in other income (expense), net of the consolidated statements of income.

Assets and liabilities that are measured at fair value on a non-recurring basis

Komatsu measured certain long-lived assets at fair value, which are classified as Level 2 in the fair value hierarchy, as of March 31, 2012 and 2011.

At March 31, 2012, long-lived assets were written down from their book value of ¥5,449 million (\$66,451 thousand) to their fair value of ¥2,343 million (\$28,573 thousand) and Komatsu recognized impairment losses of ¥3,106 million (\$37,878 thousand) for the years ended March 31, 2012, which are reported in impairment loss on long-lived assets of the consolidated statements of income.

At March 31, 2011, long-lived assets were written down from their book value of ¥5,833 million to their fair value of ¥691 million and Komatsu recognized impairment losses of ¥5,142 million for the years ended March 31, 2011, which are reported in impairment loss on long-lived assets of the consolidated statements of income.

Table of Contents**22. Business Segment and Geographic Information**

Komatsu has two operating segments: 1) Construction, Mining and Utility Equipment 2) Industrial Machinery and Others.

The accounting policies used by the segments are the same as those used in the preparation of the consolidated financial statements. Segment profit is determined by subtracting the cost of sales and selling, general and administrative expenses from net sales attributed to the operating segment. Segment profit excludes certain general corporate administration and finance expenses, such as costs of executive management, corporate development, corporate finance, human resources, internal audit, investor relations, legal and public relations. Segment profit also excludes certain charges which may otherwise relate to operating segments, including impairments of long lived assets and goodwill.

The following table presents financial information regarding Komatsu's operating segments and geographic information at March 31, 2012, 2011 and 2010, and for the years then ended:

Operating segments:

| | 2012 | Millions of yen 2011 | 2010 | Thousands of U.S. dollars 2012 |
|----------------------------------------------------------------------------------------|-------------|-------------------------|-------------|--------------------------------------|
| Net sales: | | | | |
| Construction, Mining and Utility Equipment | | | | |
| External customers | ¥ 1,739,348 | ¥ 1,615,689 | ¥ 1,268,575 | \$ 21,211,561 |
| Intersegment | 4,925 | 2,392 | 2,690 | 60,061 |
| Total | 1,744,273 | 1,618,081 | 1,271,265 | 21,271,622 |
| Industrial Machinery and Others | | | | |
| External customers | 242,415 | 227,438 | 162,989 | 2,956,281 |
| Intersegment | 8,724 | 10,916 | 15,619 | 106,390 |
| Total | 251,139 | 238,354 | 178,608 | 3,062,671 |
| Elimination | (13,649) | (13,308) | (18,309) | (166,452) |
| Consolidated | ¥ 1,981,763 | ¥ 1,843,127 | ¥ 1,431,564 | \$ 24,167,841 |
| Segment profit: | | | | |
| Construction, Mining and Utility Equipment | ¥ 246,291 | ¥ 220,830 | ¥ 83,061 | \$ 3,003,549 |
| Industrial Machinery and Others | 16,779 | 20,965 | 2,998 | 204,622 |
| Total segment profit | 263,070 | 241,795 | 86,059 | 3,208,171 |
| Corporate expenses and elimination | (4,407) | (6,823) | (5,340) | (53,744) |
| Total | 258,663 | 234,972 | 80,719 | 3,154,427 |
| Impairment loss on long-lived assets | 3,106 | 5,142 | 3,332 | 37,878 |
| Other operating income (expenses), net | 786 | (6,901) | (10,352) | 9,585 |
| Operating income | 256,343 | 222,929 | 67,035 | 3,126,134 |
| Interest and dividend income | 3,776 | 4,493 | 6,158 | 46,049 |
| Interest expense | (7,784) | (6,475) | (8,502) | (94,927) |
| Other, net | (2,726) | (1,138) | 288 | (33,244) |
| Consolidated income before income taxes and equity in earnings of affiliated companies | ¥ 249,609 | ¥ 219,809 | ¥ 64,979 | \$ 3,044,012 |
| Segment assets: | | | | |
| Construction, Mining and Utility Equipment | ¥ 1,965,406 | ¥ 1,859,004 | ¥ 1,682,542 | \$ 23,968,366 |

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| | | | | |
|----------------------------------|-------------|-------------|-------------|---------------|
| Industrial Machinery and Others | 278,232 | 270,736 | 207,551 | 3,393,073 |
| Corporate assets and elimination | 76,891 | 19,397 | 68,962 | 937,695 |
| Consolidated | ¥ 2,320,529 | ¥ 2,149,137 | ¥ 1,959,055 | \$ 28,299,134 |

Depreciation and amortization:

| | | | | |
|--------------------------------------------|----------|----------|----------|--------------|
| Construction, Mining and Utility Equipment | ¥ 80,521 | ¥ 80,780 | ¥ 82,508 | \$ 981,964 |
| Industrial Machinery and Others | 8,494 | 7,662 | 7,707 | 103,585 |
| Consolidated | ¥ 89,015 | ¥ 88,442 | ¥ 90,215 | \$ 1,085,549 |

Capital investment:

| | | | | |
|--------------------------------------------|-----------|----------|----------|--------------|
| Construction, Mining and Utility Equipment | ¥ 115,518 | ¥ 92,049 | ¥ 92,979 | \$ 1,408,756 |
| Industrial Machinery and Others | 6,520 | 5,689 | 3,212 | 79,512 |
| Consolidated | ¥ 122,038 | ¥ 97,738 | ¥ 96,191 | \$ 1,488,268 |

F-63

Table of Contents

Business categories and principal products and services included in each operating segment are as follows:

a) Construction, Mining and Utility Equipment:

Excavating equipment, loading equipment, grading and roadbed preparation equipment, hauling equipment, forestry equipment, tunneling machines, recycling equipment, industrial vehicles, other equipment, engines and components, casting products and logistics

b) Industrial Machinery and Others:

Metal forging and stamping presses, sheet-metal machines, machine tools, defense systems, temperature-control equipment and others

Transfers between segments are made at estimated arm's length prices.

Segment assets are those assets used in the operations of each segment. Unallocated corporate assets consist primarily of cash and cash equivalents and marketable investment securities maintained for general corporate purposes.

Amortization for the years ended March 31, 2012, 2011 and 2010, does not include amortization of long-term prepaid expenses of ¥1,091 million (\$13,305 thousand), ¥1,025 million and ¥1,104 million. The term "Capital investment" should be distinguished from the term "Capital expenditures" as used in the consolidated statements of cash flows. The term "Capital investment" is defined to refer to the acquisition of property, plant and equipment including properties under capital leases on an accrual basis which reflects the effects of timing differences between acquisition dates and payment dates.

Impairment loss on long-lived assets and goodwill recorded in each segment asset for the years ended March 31, 2012, 2011 and 2010, are as follows:

| | 2012 | Millions of yen 2011 | 2010 | Thousands of U.S. dollars 2012 |
|--------------------------------------------|---------|-------------------------|---------|--------------------------------------|
| Impairment loss on long-lived assets | | | | |
| Construction, Mining and Utility Equipment | ¥ 2,330 | ¥ 4,969 | ¥ 3,063 | \$ 28,415 |
| Industrial Machinery and Others | 776 | 173 | 269 | 9,463 |
| Total | ¥ 3,106 | ¥ 5,142 | ¥ 3,332 | \$ 37,878 |

Table of Contents**Geographic information:**

Net sales determined by customer location for the years ended March 31, 2012, 2011 and 2010, are as follows:

| | 2012 | Millions of yen 2011 | 2010 | Thousands of U.S. dollars 2012 |
|----------------------------------------------|-------------|-------------------------|-------------|--------------------------------------|
| Japan | ¥ 402,505 | ¥ 349,184 | ¥ 323,813 | \$ 4,908,598 |
| The Americas | 460,814 | 397,427 | 323,984 | 5,619,683 |
| Europe and CIS | 207,848 | 165,418 | 127,377 | 2,534,732 |
| China | 270,017 | 428,208 | 270,870 | 3,292,890 |
| Asia (excluding Japan and China) and Oceania | 513,575 | 398,366 | 299,864 | 6,263,109 |
| Middle East and Africa | 127,004 | 104,524 | 85,656 | 1,548,829 |
| Consolidated net sales | ¥ 1,981,763 | ¥ 1,843,127 | ¥ 1,431,564 | \$ 24,167,841 |

Net sales determined by geographic origin for the years ended March 31, 2012, 2011 and 2010, and property, plant and equipment determined based on physical location at March 31, 2012, 2011 and 2010, are as follows:

| | 2012 | Millions of yen 2011 | 2010 | Thousands of U.S. dollars 2012 |
|--------------------------------|-------------|-------------------------|-------------|--------------------------------------|
| Net sales: | | | | |
| Japan | ¥ 723,568 | ¥ 641,502 | ¥ 498,568 | \$ 8,823,999 |
| U.S.A. | 436,300 | 391,380 | 311,170 | 5,320,732 |
| Europe and CIS | 217,085 | 175,217 | 141,510 | 2,647,378 |
| China | 196,537 | 332,581 | 238,102 | 2,396,793 |
| Others | 408,273 | 302,447 | 242,214 | 4,978,939 |
| Total | ¥ 1,981,763 | ¥ 1,843,127 | ¥ 1,431,564 | \$ 24,167,841 |
| Property, plant and equipment: | | | | |
| Japan | ¥ 356,424 | ¥ 354,797 | ¥ 380,592 | \$ 4,346,635 |
| U.S.A. | 67,350 | 63,972 | 62,637 | 821,341 |
| Europe and CIS | 29,483 | 29,868 | 35,811 | 359,549 |
| Others | 76,399 | 59,750 | 46,060 | 931,695 |
| Total | ¥ 529,656 | ¥ 508,387 | ¥ 525,100 | \$ 6,459,220 |

No individual country within Europe and CIS or Others had a material impact on net sales.

There were no sales to a single major external customer for the years ended March 31, 2012, 2011 and 2010.

Table of Contents**23. Supplementary Information to Balance Sheets**

At March 31, 2012 and 2011, deferred income taxes and other current assets were comprised of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|------------------------------|------------------|------------------|---------------------------------|
| | 2012 | 2011 | 2012 |
| Prepaid expenses | ¥ 8,601 | ¥ 4,318 | \$ 104,890 |
| Short-term loans receivable: | | | |
| Affiliated companies | 664 | 723 | 8,098 |
| Other | 1,144 | 1,427 | 13,951 |
| Total | ¥ 1,808 | ¥ 2,150 | \$ 22,049 |
| Deferred income taxes | 44,825 | 55,953 | 546,646 |
| Other | 89,044 | 90,360 | 1,085,903 |
| Total | ¥ 144,278 | ¥ 152,781 | \$ 1,759,488 |

At March 31, 2012 and 2011, deferred income taxes and other current liabilities were comprised of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|-----------------------|------------------|------------------|---------------------------------|
| | 2012 | 2011 | 2012 |
| Accrued expenses | ¥ 84,264 | ¥ 80,195 | \$ 1,027,610 |
| Advances received | 49,180 | 30,828 | 599,756 |
| Deferred income taxes | 687 | 380 | 8,378 |
| Other | 97,643 | 87,865 | 1,190,768 |
| Total | ¥ 231,774 | ¥ 199,268 | \$ 2,826,512 |

Table of Contents**24. Supplementary Information to Statements of Income**

The following information shows research and development expenses and advertising costs, for the years ended March 31, 2012, 2011 and 2010. Research and development expenses and advertising costs are charged to expense as incurred and are included in cost of sales and selling, general and administrative expenses in consolidated statements of income.

| | 2012 | Millions of yen 2011 | 2010 | Thousands of U.S. dollars 2012 |
|-----------------------------------|-----------------|-------------------------|----------|--------------------------------------|
| Research and development expenses | ¥ 54,843 | ¥ 49,005 | ¥ 46,449 | \$ 668,817 |
| Advertising costs | 2,357 | 2,627 | 2,417 | 28,744 |

Shipping and handling costs included in selling, general and administrative expenses for the years ended March 31, 2012, 2011 and 2010, were as follows:

| | 2012 | Millions of yen 2011 | 2010 | Thousands of U.S. dollars 2012 |
|-----------------------------|-----------------|-------------------------|----------|--------------------------------------|
| Shipping and handling costs | ¥ 45,231 | ¥ 37,706 | ¥ 25,697 | \$ 551,598 |

For the fiscal year ended March 31, 2012, 2011 and 2010, Komatsu recognized an impairment loss of ¥3,106 million (\$37,878 thousand) and ¥5,142 million and ¥3,332 million related to property, plant and equipment and intangible assets subject to amortization at the Company and certain subsidiaries, as profitability of the assets of each subsidiary was expected to be low in the future and Komatsu estimated the carrying amounts would not be recovered by the future cash flows.

Other operating income (expenses), net for the years ended March 31, 2012, 2011 and 2010, were comprised of the following:

| | 2012 | Millions of yen 2011 | 2010 | Thousands of U.S. dollars 2012 |
|-------------------------------------------|----------------|-------------------------|------------|--------------------------------------|
| Gain on sale of property | ¥ 1,294 | ¥ 2,432 | ¥ 1,036 | \$ 15,781 |
| Loss on disposal or sale of fixed assets* | (2,487) | (1,553) | (2,907) | (30,329) |
| Other* | 1,979 | (7,780) | (8,481) | 24,133 |
| Total | ¥ 786 | ¥ (6,901) | ¥ (10,352) | \$ 9,585 |

* For the fiscal year ended March 31, 2011, Loss on disposal or sale of fixed assets and Other included losses of ¥73 million and ¥2,787 million respectively resulted from the Great East Japan Earthquake.

For the fiscal year ended March 31, 2011 and 2010, the Company and certain subsidiaries recognized expenses associated with structural reforms of production and sales operations. Out of the expenses, reorganization costs of ¥3,771 million and ¥8,883 million respectively, such as wind down and relocation costs related to the integration of facilities were included in other, except the expenses included in impairment loss on long-lived assets of the consolidated statements of income.

Table of Contents

Other income (expenses), net for the years ended March 31, 2012, 2011 and 2010, were comprised of the following:

| | 2012 | Millions of yen 2011 | 2010 | Thousands of U.S. dollars 2012 |
|----------------------------------------------------|-----------|-------------------------|-----------|--------------------------------------|
| Interest income | | | | |
| Installment receivables | ¥ 289 | ¥ 503 | ¥ 1,206 | \$ 3,524 |
| Other | 2,632 | 2,670 | 3,785 | 32,098 |
| Dividends | 855 | 1,320 | 1,167 | 10,427 |
| Interest expense | (7,784) | (6,475) | (8,502) | (94,927) |
| Net gain (loss) from sale of investment securities | (2,516) | (54) | 679 | (30,683) |
| Exchange gain (loss), net | 3,864 | (4,193) | 1,066 | 47,122 |
| Other | (4,074) | 3,109 | (1,457) | (49,683) |
| Total | ¥ (6,734) | ¥ (3,120) | ¥ (2,056) | \$ (82,122) |

F-68

Table of Contents**25. Valuation and Qualifying Accounts**

Valuation and qualifying accounts deducted from assets to which they apply:

| | 2012 | Millions of yen 2011 | 2010 | Thousands of U.S. dollars 2012 |
|---------------------------------------|-----------------|-------------------------|----------|--------------------------------------|
| Allowance for doubtful receivables | | | | |
| Balance at beginning of fiscal period | ¥ 15,793 | ¥ 14,941 | ¥ 15,330 | \$ 192,597 |
| Additions | | | | |
| Charged to costs and expenses | 2,105 | 5,307 | 7,457 | 25,671 |
| Charged to other accounts | 255 | 1,068 | 957 | 3,110 |
| Deductions | 2,910 | 5,523 | 8,803 | 35,488 |
| Balance at end of fiscal period | ¥ 15,243 | ¥ 15,793 | ¥ 14,941 | \$ 185,890 |

Deductions were principally collectible or uncollectible accounts and notes charged to the allowance.

| | 2012 | Millions of yen 2011 | 2010 | Thousands of U.S. dollars 2012 |
|---------------------------------------------|-----------------|-------------------------|----------|--------------------------------------|
| Valuation allowance for deferred tax assets | | | | |
| Balance at beginning of fiscal period | ¥ 36,690 | ¥ 49,081 | ¥ 31,420 | \$ 447,439 |
| Additions | | | | |
| Charged to costs and expenses | 1,961 | 7,596 | 21,784 | 23,915 |
| Charged to other accounts | 276 | | 8 | 3,366 |
| Deductions | 18,197 | 19,987 | 4,131 | 221,915 |
| Balance at end of fiscal period | ¥ 20,730 | ¥ 36,690 | ¥ 49,081 | \$ 252,805 |

Deductions were principally realization or expiration of net operating loss carryforwards.

Table of Contents**EXHIBIT INDEX**

| Exhibit number | Title | Subsequently Numbered Page |
|-----------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------|
| Exhibit (1.1) | Articles of Incorporation of Komatsu Ltd., as amended (Translation) | 1 |
| Exhibit (1.2) | Regulations of The Board of Directors (Translation) | 7 |
| Exhibit (2) | Share Handling Regulations, as amended (Translation) | 9 |
| Exhibit (8) | Significant subsidiaries of Komatsu Ltd. including additional subsidiaries that management has deemed to be significant, as of March 31, 2012 (See Item 4. Information on the Company C. Organizational Structure) | |
| Exhibit (11) | Code of Ethics for Senior Officers (Translation) | 15 |
| Exhibit (12) a. | Certification of the CEO of the Company required pursuant to Rule 15d-14(a) | 19 |
| Exhibit (12) b. | Certification of the CFO of the Company required pursuant to Rule 15d-14(a) | 20 |
| Exhibit (13) a. | Certification of the CEO of the Company required pursuant to Rule 15d-14(b) and Section 1350 of Chapter 63 of Title 18 of The United States Code | 21 |
| Exhibit (13) b. | Certification of the CFO of the Company required pursuant to Rule 15d-14(b) and Section 1350 of Chapter 63 of Title 18 of The United States Code | 22 |
| Exhibit 101 | Instance Document | |
| Exhibit 101 | Schema Document | |
| Exhibit 101 | Calculation Linkbase Document | |
| Exhibit 101 | Definition Linkbase Document | |
| Exhibit 101 | Labels Linkbase Document | |
| Exhibit 101 | Presentation Linkbase Document | |