KOMATSU LTD
Form 20-F
June 28, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 20-F

(Mark One)

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

or

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended March 31, 2013

or

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

or

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

For the transition period from __________ to __________

COMMISSION FILE NUMBER: 1-7239

KABUSHIKI KAISHA KOMATSU SEISAKUSHO

(Exact name of Registrant as specified in its charter)

KOMATSU LTD.

(Translation of Registrant s name into English)

JAPAN

(Jurisdiction of incorporation or organization)

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

(Address of principal executive offices)

Masahiko Kanagawa or Tomonori Koga

Telephone: +81-3-5561-2604

Facsimile: +81-3-3586-0374

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

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

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

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

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

None

(Title of Class)

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

Common Stock*

(Title of Class)

* 23,145,522 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.

952,778,859 shares (excluding 30,351,401 shares of Treasury Stock)

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

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

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

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

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

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

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

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

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

Item 17 ¨ Item 18 ¨

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

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

Cautionary Statement with respect to forward-looking statements:

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

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

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PART I

Item 1. Identity of Directors, Senior Management and Advisers

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

A. Selected Financial Data

The following selected financial data for each of the fiscal years ended March 31, 2009 through March 31, 2013 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, 2012 and 2013, the related consolidated statements of income and consolidated statements of comprehensive income, shareholders equity and cash flows for the three fiscal years ended March 31, 2013 and the notes thereto that appear elsewhere in this annual report.

Selected Financial Data

	Millions of yen, except per share amounts				
	2013	**2012**	**2011**	**2010**	**2009**
Income Statement Data:					
Net sales	1,884,991	1,981,763	1,843,127	1,431,564	2,021,743
Operating income	211,602	256,343	222,929	67,035	151,948
Income before income taxes and equity in earnings of affiliated companies	204,603	249,609	219,809	64,979	128,782
Income taxes	69,089	74,470	64,706	25,364	42,293
Net income attributable to Komatsu Ltd.	126,321	167,041	150,752	33,559	78,797
Per Share Data:					
Net income attributable to Komatsu Ltd.					
- Basic	132.64	173.47	155.77	34.67	79.95
- Diluted	132.51	173.32	155.66	34.65	79.89
Cash dividends					
Yen	45.00	41.00	26.00	26.00	44.00
U.S. dollar 1)	0.48	0.50	0.31	0.28	0.44
Depreciation and amortization	89,322	90,106	89,467	91,319	98,354
Capital Investment 2)	136,962	122,038	97,738	96,191	162,512
Research and development expenses	60,788	54,843	49,005	46,449	53,736

	Millions of yen				
Balance Sheet Data:					
Total assets	2,517,857	2,320,529	2,149,137	1,959,055	1,969,059
Komatsu Ltd. shareholders equity	1,193,194	1,009,696	923,843	833,975	814,941
Capital stock	67,870	67,870	67,870	67,870	67,870
Number of shares issued at year-end	983,130,260	983,130,260	998,744,060	998,744,060	998,744,060
Number of shares outstanding at year-end	952,778,859	952,261,022	967,902,641	968,039,976	967,822,292

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Notes:

1) The conversion rate between the Japanese yen to the U.S. dollar is ¥94.34 to U.S.$1.00, the buying rate of Japanese yen as of noon on June 14, 2013 in The City of New York as reported by the Federal Reserve Board.

2) 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 14, 2013, the noon buying rate in The City of New York as reported by the Federal Reserve Board for Japanese yen was ¥94.34 = U.S.$1.00.

Yen Exchange Rates per U.S. dollar:

(Yen)

	Average	High	Low	Period-End
Year ended March 31				
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
2013	83.26	77.41	96.16	94.16

	High	Low	Period-End
2012			
December	81.86	86.64	86.64
2013			
January	86.92	91.28	91.28
February	91.38	93.64	92.36
March	93.32	96.16	94.16
April	92.96	99.61	97.52
May	97.28	103.52	100.83

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 developed countries 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 countries in which Komatsu operates, Komatsu constantly pays 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 developed regions and thus, changes in these factors could adversely affect Komatsu s business results.

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 locating its production bases globally and engaging in production locally. 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.

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(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 ¥680 billion as of March 31, 2013. 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.

(4) Laws and regulations of different countries

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

(5) Environmental laws and regulations

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

(6) Product and quality liability

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

(7) Alliances and collaborative relationships

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

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(8) Procurement, production and other matters

Komatsu s procurement of parts and materials for its products is exposed to fluctuations in commodity and energy prices. Price increases in commodities, such as steel materials, as well as energies, such as crude oil and electricity, may increase 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. With respect to an increase in the cost of production as mainly affected by an increase in the cost of materials, Komatsu mainly strives to reduce other costs and make price adjustments of its products. Komatsu also 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 and energy 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 forestall unauthorized access by means of cyber-attacks, tampering, destruction, leakage and losses, Komatsu employs appropriate safety measures, including implementing technological safety measures and strengthening its information management capabilities. However, when its network and information systems crash and/or problems, such as a leak of confidential information concerning customers and individuals, 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, radioactive contamination, wars, terrorist acts, riots, accidents (such as fires and explosions), unforeseeable criticism or interference by third parties or computer virus infections were to occur in the regions in which Komatsu operates, Komatsu may incur extensive damage to one or more of its facilities that then could not become fully operational within a short period of time. Even if Komatsu s operations were not directly harmed by such events, confusion in logistic and supply networks, shortages in the supply of electric power, gas and other utilities, telecommunication problems and/or problems of supplier s production may continue for a long period of time. Accordingly, if delays or disruption in the procurement of materials and parts, or the production and sales of Komatsu s products and services, or deterioration of the capital-raising environment or other adverse developments were to take place as a result of such events, Komatsu s business results may be adversely affected.

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Item 4. Information on the Company

A. History and Development of the Company

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

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

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

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

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

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.

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.

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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, 2013, 2012 and 2011 were ¥136,962 million, ¥122,038 million and ¥97,738 million, respectively. Capital investment for the fiscal year ended March 31, 2013 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, 2013	**Fiscal Year ended March 31, 2012**
Construction, Mining and Utility Equipment	¥ 127,706	10.6%
Industrial Machinery and Others	9,256	42.0%
Total	¥ 136,962	12.2%

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.

In the fiscal year ended March 31, 2013, Komatsu made capital investments in the construction, mining and utility equipment business to expand its production capacity in light of an expected increase in future 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 (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 renovate its facilities.

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, 2013.

Main facilities completed in the fiscal year ended March 31, 2013

Operating segment	Main facilities
Construction, Mining and Utility Equipment	Komatsu (Shandong) Construction Machinery Corp.: Expansion of plant

Products: Hydraulic excavator, hydraulic equipment, cast steel material, final drive, etc.

Location: Jining, Shandong, China

Komatsu s capital investments for the fiscal year ended March 31, 2013 were primarily financed by funds on hand and bank borrowings.

For information on Komatsu s expected principal capital investments for the fiscal year ending March 31, 2014, see Item 4.D. Property, Plants and Equipment.

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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.

PRODUCTS AND SERVICES

The following table sets forth Komatsu s net sales by operating segments for the fiscal years ended March 31, 2013, 2012 and 2011, which is derived from the Company s audited consolidated financial statements.

Net Sales by Operating Segments

	(Millions of Yen)					
	Fiscal Year Ended March 31, 2013		Fiscal Year Ended March 31, 2012		Fiscal Year Ended March 31, 2011	
Construction, Mining and Utility Equipment	¥ 1,677,049	89.0%	¥ 1,739,348	87.8%	¥ 1,615,689	87.7%
Industrial Machinery and Others	207,942	11.0%	242,415	12.2%	227,438	12.3%
Total	¥ 1,884,991	100.0%	¥ 1,981,763	100.0%	¥ 1,843,127	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 89.0% of Komatsu s total net sales for the fiscal year ended March 31, 2013.

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	Packing, warehousing and transport

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

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

The principal products developed and introduced to the market in the Construction, Mining and Utility Equipment operating segment during the fiscal year ended March 31, 2013 are listed below:

Company	Product	Model
Komatsu Ltd.	Hydraulic Excavators	PC128US-10, PC138US-10, PC200-10, PC200-8M0, PC220-8M0, PC300-8M0, HB205-1M0, PC4000-6
	Wheeled Hydraulic Excavators	PW160-8, PW180-10
	Bulldozers	D37-22, D39-22, D61EX/PX-23, D61EXi/PXi-23
	Wheel Loaders	WA270-7, WA320-7, WA470-7
	Dump Trucks	HM400-3M0/3R
	Motor Graders	GD755-5R
	Forklifts Trucks	FH40-1, FH45-1, FH50-1

(2) Industrial Machinery and Others

Net sales from the Industrial Machinery and Others operating segment accounted for 11.0% of Komatsu s total net sales for the fiscal year ended March 31, 2013. 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 presses, servo presses, small- and medium-sized presses and forging presses
Sheet-Metal Machines	Laser cutting machines, fine-plasma cutting machines, press brakes and shears
Machine Tools	Transfer machines, machining centers, crankshaft millers, grinding machines and wire saws
Defense Systems	Ammunition and armored personnel carriers
Temperature-control equipment	Thermoelectric modules and temperature-control equipment for semiconductor manufacturing
Others	Commercial-use prefabricated structures and excimer laser for lithography tools in semiconductor manufacturing

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The principal products developed and introduced to the market in the Industrial Machinery and Others operating segment during the fiscal year ended March 31, 2013 are listed below:

Company	Product	Model
Komatsu Industries Corporation	Small- and medium-sized presses	H2F1200, H2F600, H1F110-2
	Press brakes	PVS8525
Komatsu NTC Ltd.	Machining centers	NTG-4SP
	Wire saws	PV500HD

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, 2013, 2012 and 2011. 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, 2013		Fiscal Year Ended March 31, 2012		Fiscal Year Ended March 31, 2011	
Japan	¥ 380,024	20.2%	¥ 402,505	20.3%	¥ 349,184	18.9%
The Americas	561,962	29.8%	460,814	23.3%	397,427	21.6%
Europe and CIS	203,878	10.8%	207,848	10.5%	165,418	9.0%
China	156,030	8.3%	270,017	13.6%	428,208	23.2%
Asia (excluding Japan and China) and Oceania	454,394	24.1%	513,575	25.9%	398,366	21.6%
Middle East and Africa	128,703	6.8%	127,004	6.4%	104,524	5.7%
Total	¥ 1,884,991	100.0%	¥ 1,981,763	100.0%	¥ 1,843,127	100.0%

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.

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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 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, Komatsu provides its customers with financing for their purchases of construction, mining and utility equipment thorough its retail finance subsidiaries and an affiliated company in its major markets of Japan, the United States, Chile, Europe, Thailand, Indonesia, Australia and China. Komatsu s retail finance companies in each major market are providing various types of financing menus, such as installment sales and leases, in response to customer s needs.

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.

SOURCES OF SUPPLY

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

SEASONALITY

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

PATENTS AND LICENSES

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

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

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COMPETITIVE ENVIRONMENT

Construction, Mining and Utility Equipment

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

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

Komatsu s competitors in the construction and mining equipment business consist of global competitors, regional competitors and locally specialized competitors. Major global competitors include Caterpillar Inc. (Caterpillar), Hitachi Construction Machinery Co., Ltd. (Hitachi Construction), Volvo Construction Equipment N.V. (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.

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

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

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

DANTOTSU products

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

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KOMTRAX (Komatsu Machine Tracking System)

KOMTRAX is a system that Komatsu pioneered the development of and introduced to the market in 2001. Using KOMTRAX, customers can manage the operation of their construction equipment by utilizing information technology applications, such as a global positioning system (GPS) and mobile telecommunication technologies. Using the information collected through KOMTRAX, such as location and operation time, customers who operate equipment equipped with KOMTRAX are able to operate the equipment more efficiently and cost effectively because they are able to decrease fuel use and maintenance expenses. In addition, this system has enabled distributors to improve their parts and service operations, thereby improving the time required to respond to customers service requests.

More recently, Komatsu has expanded the application of KOMTRAX and introduced KOMTRAX PLUS, which 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 such that effective preventative maintenance can be undertaken in advance, thereby reducing the customer s repair cost 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. Komatsu is the only company that provides this type of system in the mining equipment industry.

Hybrid

In June 2008, Komatsu launched the world s first hybrid hydraulic excavator that consumes less fuel and emits less carbon dioxide (CO_2). Komatsu believes that it has a competitive advantage in the market with respect to this type of equipment not only because it was one of the first to develop and market this type of equipment but also because the equipment is equipped with advanced technologies that reduce CO_2 emissions and fuel consumption, which are features that customers have been focused on in recent years. As of March 31, 2013, 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.

(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. In 2012, as the world economy showed signs of improvement, capital investment by automotive manufacturers started to come back especially in the Asian markets, such as China and Thailand. As a result, demand for stamping presses has increased.

With respect to large-sized presses, which are mainly sold to automobile manufacturers, Komatsu considers IHI Corporation, 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. In light of such market conditions, Komatsu has standardized the models for large-sized AC servo presses in order to improve its production efficiency and increased the number of its service staff and offices to strengthen its global service force. Furthermore, local production of large-sized AC servo presses started in China, and sales promotion efforts were increased in emerging countries such as China and Brazil.

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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. Komatsu s small-sized AC servo presses were fully redesigned in March 2013 and enhancements were made to their specification menu. Local production of small-sized AC servo presses started in China, and sales promotion efforts were strengthened in China.

(2) Sheet Metal Machines

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

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

In addition, Komatsu s 3D laser cutting machines that can be used to cut three dimensional objects are highly valued in the sheet metal machine market. In May 2013, Komatsu began the sales of the fiber laser cutting machine, which is the next generation of Komatsu s sheet metal machines.

(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.

Komatsu s wire saws are highly evaluated by customers because of their original wire technology. Komatsu maintains its competitive position in the wire saw market through the launch of its diamond-wire saws. In addition, Komatsu is developing wire saws to be used for the manufacturing of machines other than solar cells, which will be a new machining field for Komatsu.

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.

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Regulations regarding engine emissions

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

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

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

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

Regulations regarding noise and vibration

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

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

Regulations regarding hazardous substances

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

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

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. In addition, Structural Standard on Vehicle Type Construction Machine were implemented under the Industrial Safety and Health Act of Japan. 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.

Basic Management Policy

The cornerstone of Komatsu s management is commitment to Quality and Reliability for maximization of its corporate value. This commitment is not limited to delivering safe and innovative products and services which incorporate the viewpoints of customers. Komatsu is continuing its efforts to enhance the Quality and Reliability of all organizations, businesses, employees and management of the entire Komatsu Group. It is the top management task of Komatsu to continue improving the Quality and Reliability of all these, year after year.

Mid- to Long-Range Management Plan and Issues Ahead

Komatsu has worked to improve the added values of its products, further strengthen its operation in growth markets and enhance its continuous group-wide Kaizen (improvement) capability in particular under the Global Teamwork for Tomorrow mid-range management plan designed for a three-year period from April 1, 2010 to March 31, 2013. In this period, Komatsu business environment changed dramatically, as represented by a sharp hike of the yen against other major currencies, the Great East Japan Earthquake, dramatic changes in demand for wire saws, as well as construction and mining equipment in China and Indonesia. Under such an environment, Komatsu worked to maintain high profitability regardless of market conditions by improving selling prices and production costs and strengthening its corporate fundamentals to flexibly meet dynamic changes in foreign exchange rates and market demand.

Demand for construction and mining equipment plunged drastically under economic slowdowns worldwide as triggered by the financial crisis in the United States in September 2008, and then recovered sharply, driven by Chinese and Indonesian demand. Today, Komatsu expects that demand will remain at a standstill for the time being, mainly against the backdrop of demand in these two countries entering an adjustment phase. However, Komatsu projects that demand will steadily increase in the mid to long-range perspective, supported by global population growth and increasing rates of urbanization worldwide.

The company has developed the new three-year (FY2013-2015) mid-range management plan Together We Innovate GEMBA Worldwide to be completed in the fiscal year ending March 31, 2016.

The plan expresses that Komatsu Group employees worldwide will team up with distributors, suppliers and other partners, innovate customers GEMBA (workplace) together with them, and provide innovation designed to create new values, thereby working for sustainable growth of our core businesses of construction and mining equipment as well as industrial machinery.

With the proactive involvement of each and every employee in the tasks spelled out through in this management plan, we are working to further improve business performance and enhance our corporate value.

1. Management Goals

We at Komatsu define our corporate value as the total sum of trust given to us by society and all stakeholders. To increase this corporate value, we will consistently work on management tasks by upholding the following management goals and by achieving the following targets.

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(1) We work to attain the industry s top-level profitability and financial position.

(We will lift the target profitability line by strengthening our earning fundamentals.)

(2) We will increase the level of profit redistribution to shareholders.

(3) We will improve net debt-to-equity ratio and ROE, as we invest in our future growth.

2. Focused Efforts

In the new mid-range management plan Together We Innovate GEMBA Worldwide , we are going to work on the following focused activities based on the two paired wheels of the Growth Strategies designed to capitalize on our strengths and the Structural Reforms designed to strengthen our corporate fundamentals. At the same time, we are also making all-out efforts to improve the level of profit redistribution to our shareholders.

To effectively tackle the high hurdles of focused activities, it is indispensable that the teamwork of Komatsu Group s employees with GEMBA capabilities engage in continuous improvement activities by identifying workplace tasks and solving them. All Komatsu Group employees worldwide will continue to promote continuous improvement activities based on The KOMATSU Way. In particular, we will further strengthen brand management activities through which we strive to thoroughly understand customers workplaces and become indispensable for them. In this way, we will develop human resources that are needed for business expansion on a global scale.

(1) Growth strategies based on innovation

We will continue to refine our strengths, such as accumulated ICT (Information and Communication Technology) expertise, development and production technologies for key components, global sales and service networks, and flexible procurement and production operations. We will also proactively collaborate on a global scope with companies having cutting-edge technologies in promising fields, regardless of the Komatsu Group, in order to develop technologies which enable us to evolve DANTOTSU products, DANTOTSU service and DANTOTSU solutions. In this manner, we will innovate customers GEMBA jointly with them to speedily create new values in both domains of construction and mining equipment and industrial machinery.

We will expand investment in the development of next-generation products and develop and launch construction equipment of the future, which will enable further automation and unmanned operation by means of leading-edge ICT utilization. Specifically, we will continue to upgrade the Autonomous Haulage System (AHS) for driverless dump trucks in operation at large-scale mines in Chile and Australia, the fleet management system for forest machinery which is being introduced in Brazil, and intelligent Machine Control construction equipment designed to streamline construction and facilitate management of the entire construction process. We will also increase the number of successful follow-up models. In FY2013, as the leading models of our intelligent Machine Control construction equipment, we are going to launch medium-sized D61EXi/PXi bulldozers and medium-sized PC210LCi hydraulic excavators initially in the United States and Europe, respectively.

In the industrial machinery business, we are going to facilitate in-house development and production of key components in order to launch innovative products. In FY2013, we will be introducing a new fiber laser cutting machine which features high productivity and impressive reduction in running costs.

(2) Growth strategies of existing businesses

Starting in 2014, new emission control standards (e.g., Tier4 Final in the United States) will be introduced in the United States, Europe and Japan, which require further reduction of NOx (nitrogen oxides) and PM (particulate matter) emissions. We will integrate our in-house development and production strengths for engines, hydraulic units, control systems and so forth with leading-edge technologies, as we continue to develop new products designed to meet the new standards in FY2013, while working for a smooth market introduction. To expand earnings, we will strive to advance sales of strategic parts, such as buckets, teeth and track shoes in Strategic Markets with growth potential into the future as well as for mining equipment. We will also continue to reform our ordering system and logistics for spare parts. In FY2013, we are going to embark on worldwide sales of the Xcentric™ Ripper, an innovative attachment for hydraulic excavators for use in breaking rocks and demolition, initially in the United States and China.

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With respect to existing businesses with potential demand, which we have failed to capture, we will step up our involvement even by considering strategic alliances as one of our choices.

We will make a variety of information visible by continuing to advance the functions and utilization methods of the KOMTRAX which is in operation in over 300,000 units around the world as of March 31, 2013, coupled with the KOMTRAX Plus and the KOMTRAX Parts which we will introduce in FY2013. KOMTRAX Parts will enable us to learn about the conditions of parts and their replacement record. Additionally, we will work to enhance customer satisfaction by engaging in speedy parts delivery and service based on maximum utilization of the evolving KOMTRAX and by expanding the rental and used equipment, retail finance and other businesses in the value chain.

(3) Structural reforms designed to reinforce the business foundation

While we have about doubled sales of the Komatsu Group for the last 10 years, we have controlled fixed costs at about constant level. By separating costs from growth as our policy, we will continue to maintain an appropriate level of fixed costs. With respect to production, we are working to cut down electric power consumption to half at Japanese plants by reforming production and consolidating or renewing factory buildings. In FY2013, initially at the Awazu Plant in Ishikawa Prefecture, Japan, we are going to start building a new factory with leading-edge energy-saving facilities, which will also enable us to achieve innovative production efficiency.

We will also enhance the level of sales, production and inventory management by taking full advantage of the Global HANSEI Operation Center, and expanding the range of the Inventory Zero program for distributors to promote an appropriate level of their inventories of products and parts. In addition, to secure personnel and other resources needed for investment in future growth, we will engage in personnel and organizational relocation and other activities designed to facilitate the establishment of the direct linkage of GEMBA between the Komatsu Group and customers.

Below are the financial targets that management has established for the Together We Innovate GEMBA Worldwide *mid-range management plan.*

Numerical Targets of Together We Innovate GEMBA Worldwide .

Items	Targets for Fiscal Year ending March 31, 2016	Results for Fiscal Year ended March 31, 2013
Operating income ratio	**18 - 20%**	11.2%
ROE: Return on equity	**18 - 20%**	11.5%
Net debt-to-equity ratio	**0.3 or below**	0.49
Consolidated payout ratio	**30 - 50% (stably)**	36.2%

ROE = Net income for the year/[(shareholders equity at the beginning + shareholders equity at the end of the fiscal year)/2]

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

[Premises]

Items		Targets for Fiscal Year ending March 31, 2016	Results for Fiscal Year ended March 31, 2013
Guideline on sales		¥2,300 bil ±200 bil	¥1,884.9 bil
	JPY/USD	¥90 - 95	¥83
Guideline on exchange rate	JPY/EUR	¥120 - 125	¥107
	JPY/RMB	¥15.0 - 15.3	¥13.2

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C. Organizational Structure

As of March 31, 2013, the Komatsu group included the Company, 146 consolidated subsidiaries and 35 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, 2013.

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 Utility Europe S.p.A.	Italy	100.0
Komatsu Forest AB	Sweden	100.0
Komatsu CIS LLC	Russia	100.0
Komatsu Financial Europe N.V.	Belgium	100.0
Komatsu Southern Africa (Pty) Ltd.	South Africa	80.0
PT Komatsu Indonesia	Indonesia	94.9
PT Komatsu Marketing & Support Indonesia	Indonesia	94.9 (100.0)
Bangkok Komatsu Co., Ltd.	Thailand	74.8
Komatsu Marketing Support Australia Pty Ltd	Australia	60.0
Komatsu Australia Pty Ltd	Australia	60.0 (100.0)
Komatsu Australia Corporate Finance Pty. Ltd.	Australia	60.0
Komatsu (China) Ltd.	China	100.0
Komatsu (Changzhou) Construction Machinery Corp.	China	85.0
Komatsu Shantui Construction Machinery Co., Ltd.	China	60.0
Komatsu Financial Leasing China Ltd.	China	100.0

Notes:

1) Percentage of ownership interest includes indirect ownership.

2) The Company has one significant subsidiary (as such term is defined in Rule 1-02(w) of Regulation S-X), which is Komatsu America Corp.

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D. Property, Plants and Equipment

Komatsu s manufacturing operations for the Construction, Mining and Utility Equipment operating segment are conducted in 42 plants, 12 of which are located in Japan. As of March 31, 2013, 28 principal plants (out of 42 plants) had an aggregate manufacturing floor space of 1,982 thousand square meters (21,334 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, 2013, the net book value of the properties owned by Komatsu was ¥585,220 million, none of which were subject to encumbrances.

The name and location of Komatsu s principal plants, their approximate aggregate floor space, and the principal products manufactured therein as of March 31, 2013 are as follows:

	Floor Space		
Name and Location	Thousand sq. meter	Thousand sq. ft	**Principal products**
Japan			
Awazu Plant Komatsu, Ishikawa	271	2,917	Small- and medium-sized hydraulic excavators, small- and medium-sized wheel loaders, small- and medium-sized bulldozers, motor graders
Kanazawa Plant Kanazawa, Ishikawa	30	323	Super-large hydraulic excavators, presses
Osaka Plant Hirakata, Osaka	166	1,787	Medium- and large-sized hydraulic excavators, large-sized bulldozers, recycling equipment
Oyama Plant 1) Oyama, Tochigi	225	2,422	Diesel engines, hydraulic equipment, axle
Ibaraki Plant Hitachinaka, Ibaraki	66	710	Dump trucks, articulated dump trucks, large wheel loaders, large wheel dozers
Koriyama Plant Koriyama, Fukushima	42	452	Hydraulic equipment
Shonan Plant Shonan, Kanagawa	9	97	Controllers, monitors, KOMTRAX terminals, hybrid components
Tochigi Plant Oyama, Tochigi	77	829	Forklift trucks, mini excavators, mini wheel loaders
Komatsu Castex Ltd. Himi, Toyama	101	1,087	Steel castings, iron castings, patterns for casting
Komatsu NTC Ltd. Nanto, Toyama	68	732	Transfer machines, machining centers, laser cutting machines, wire saw
The Americas			
Komatsu America Corp. Tennessee, U.S.A.	31	334	Medium-sized hydraulic excavators, articulated dump trucks, forest machine (crawler type)

Illinois, U.S.A.	66	710	Large-sized dump trucks
Hensley Industries, Inc. Texas, U.S.A.	19	205	Buckets, teeth, edges, adapters
Komatsu do Brasil Ltda. São Paulo, Brazil	67	721	Medium-sized hydraulic excavators, small- and medium-sized wheel loaders, medium-sized bulldozers, motor graders

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Name and Location	Floor Space Thousand sq. meter	Thousand sq. ft	Principal products
Europe and CIS			
Komatsu UK Ltd. Birtley, UK	60	646	Medium- and large-sized hydraulic excavators
Komatsu Hanomag GmbH Hannover, Germany	77	829	Wheeled hydraulic excavators, small- and medium-sized wheel loaders, mini wheel loaders
Komatsu Forest AB Umea, Sweden	16	172	Forest machine (wheel type)
Komatsu Mining Germany GmbH Dusseldorf, Germany	27	291	Super-large hydraulic excavators
Komatsu Utility Europe S.p.A. Este, Italy	43	463	Mini excavators, backhoe loaders, skid steer loaders
Komatsu Manufacturing Rus, LLC Yaroslavl, Russia	39	420	Medium-sized hydraulic excavators, dump trucks
Asia (excluding Japan) and Oceania			
PT Komatsu Indonesia Jakarta, Indonesia	139	1,496	Medium- and large-sized hydraulic excavators, small- and medium-sized bulldozers, dump trucks and hydraulic equipment
PT Komatsu Undercarriage Indonesia Bekasi, Indonesia	30	323	Undercarriage components and spare parts
Komatsu (Changzhou) Construction Machinery Corp. Jiangsu, China	78	840	Medium-sized hydraulic excavators, medium-sized wheel loaders, dump trucks
Komatsu Shantui Construction Machinery Co., Ltd. Shandong, China	65	700	Small- and medium-sized hydraulic excavators
Komatsu Undercarriage China Corp. Shandong, China	47	506	Crawler components
Komatsu (Shandong) Construction Machinery Corp. Shandong, China	92	990	Small- and medium-sized excavators, hydraulic equipment, steel castings, final drive, etc
Bangkok Komatsu Co., Ltd. Chonburi, Thailand	23	248	Medium-sized hydraulic excavators
Komatsu India Pvt. Ltd Kanchpuram, India	8	86	Dump trucks

Note:

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

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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.

Plans for Capital Investments

As of the filing date of this annual report, Komatsu plans to make capital investments of ¥137,000 million in the fiscal year ending March 31, 2014. Of such amount, Komatsu has committed to make capital investments totaling approximately ¥13,100 million as of March 31, 2013.

The amount of capital investment expected to be made in the fiscal year ending March 31, 2014, the principal investment objectives and the sources of funding by operating segment are set forth in the below table.

Operating Segment	Approximate expected capital investment amount in the fiscal year ending March 31, 2014 (Millions of Yen)	Principal investment objectives	Sources of funding
Construction, Mining and Utility Equipment	131,000	To enhance production efficiency and flexibility, decrease electric power use, renew obsolete equipment and streamline production.	Funds on hand, bank borrowings, etc.
Industrial Machinery and Others	6,000	To renew obsolete equipment.	Funds on hand, bank borrowings, etc.
Total	137,000		

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 enhance production efficiency and flexibility, decrease electric power use, renew obsolete equipment and streamline production.

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

Item 4A. Unresolved Staff Comments

None.

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Item 5. Operating and Financial Review and Prospects

A. Operating Results

Overview

The following discussion and analysis provides information that Komatsu s management believes to be relevant in understanding Komatsu s consolidated financial condition and results of operations.

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.

Consolidated net sales for the fiscal year ended March 31, 2013 decreased by 4.9% from the fiscal year ended March 31, 2012 to ¥1,884,991 million due to decreased sales in both the Construction, Mining and Utility Equipment operating segment and the Industrial Machinery and Others operating segment. For the fiscal year ended March 31, 2013, the Construction, Mining and Utility Equipment operating segment and the Industrial Machinery and Others operating segment accounted for approximately 89.0% and 11.0% of consolidated net sales, respectively. Of the consolidated net sales for the fiscal year ended March 31, 2013, 20.2% of net sales were derived from sales to external customers located in Japan and 79.8% 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 ¥82.51 for the fiscal year ended March 31, 2013 and ¥78.86 for the fiscal year ended March 31, 2012. 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, 2013 and 2012 and Comparison of Fiscal Years ended March 31, 2012 and 2011 in Item 5.A. Operating Results.

General Overview

For the fiscal year ended March 31, 2013, consolidated sales of the Construction, Mining and Utility Equipment operating segment declined from the previous fiscal year, reflecting a decline in demand for construction equipment in China as a result of a slowdown in China s economic growth and a drop in demand for mining equipment mainly in Indonesia in light of the decrease in coal prices. In the Industrial Machinery and Others operating segment, while sales of large presses to the automobile manufacturing industry and machine tools for use in automotive engine production increased from the previous fiscal year due to increased capital investment by automobile manufacturers, sales of wire saws for use in slicing silicon ingots for the solar cell market decreased in part due to a slowdown in China s economic growth, a decrease in the price of solar cells and reduced subsidies related to solar energy use in Europe. In addition, the demand for temporary housing units leveled off as the restoration and reconstruction of the Great East Japan Earthquake progressed.

During the fiscal year ended March 31, 2013, Komatsu made efforts to reinforce its aftermarket business by improving (1) its strategic parts operation (such as buckets and teeth), the demand for which is strong especially in the Strategic Markets and the mining industry, and (2) its Reman (Remanufacturing) and rebuild operations. Following North America and Europe, Komatsu launched new emission standards-compliant equipment models in Japan in July 2012. Komatsu also began offering in Japan and certain other countries KOMATSU CARE, a new service program designed to reduce the total lifecycle costs of its machines and to prolong machine life. In the forklift truck business, Komatsu launched its FH Series hydrostatic-driven forklift trucks in Japan in July 2012, which incorporates technological expertise in hydraulic control that Komatsu has accumulated and refined for construction equipment over the years. With steady order of its FH Series received since its introduction in Japan, Komatsu introduced its FH Series to the overseas markets in February 2013. Komatsu continues to make steady and sound progress with Rio Tinto to successfully complete the large-scale delivery of driverless dump trucks to iron ore mines in Australia pursuant to the Memorandum of Understanding between it and Rio Tinto signed in November 2011.

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Summary of Operating Results

Consolidated net sales for the fiscal year ended March 31, 2013 decreased by 4.9% from the fiscal year ended March 31, 2012 to ¥1,884,991 million due to decreased sales in both the Construction, Mining and Utility Equipment operating segment and the Industrial Machinery and Others operating segment.

Demand for construction equipment increased in North America and Japan as compared to the previous fiscal year as the housing sector and the rental and energy development industries in the U.S. recovered, and demand for construction equipment in the earthquake and tsunami-destroyed regions in Japan increased. Demand for construction equipment in China for hydraulic excavators, however, decreased as the pace of growth of the Chinese economy slowed down. While demand for mining equipment declined, especially in Indonesia as coal prices fell during the fiscal year, demand for mining equipment increased steadily especially in Latin America and Oceania in light of steady demand for copper and other natural resource. In addition, demand for both parts and services increased during the fiscal year ended March 31, 2013.

In the Traditional Markets, the economic uncertainty in Europe continued to prevail against the backdrop of sovereign-debt problems. Demand for construction equipment remained sluggish, even in the major markets of Germany, France and the United Kingdom. On the other hand, in Japan, as the number for excess used equipment that is exported from Japan bottomed out, which had outnumbered demand for new equipment since around 2000, demand for new construction equipment increased. The increase in demand for new construction equipment in Japan was due in part to increased purchases of such equipment by rental companies who experienced greater demand for such equipment in light of the fact that the restoration and reconstruction projects after the Great East Japan Earthquake continued. In addition, demand for construction equipment in North America grew from the previous fiscal year, supported by increased demand in the housing sector as well as demand in the rental and energy development industries. In the Strategic Markets, while sales in China and Asia (including Indonesia) decreased as mentioned above, sales in Latin America and Oceania remained steady. In Latin America, demand for mining equipment remained strong, centering on copper mines in Chile and Peru, while demand for construction equipment was sluggish in Brazil. Demand for both mining and construction equipment remained steady in Oceania centering on iron mining and in light of demand for other natural resources. Komatsu developed and introduced to the market various types of construction and mining equipment during the fiscal year ended March 31, 2013. For information regarding such equipment, see Item 4.B. With respect to its retail finance business, total financial assets increased from the fiscal year ended March 31, 2012. This increase was due primarily to an increase of new financing contracts in North America and Oceania as well as the depreciation of the Japanese yen relative to other major currencies.

While sales of large presses to the automobile manufacturing industry and machine tools for use in automotive engine production increased from the previous fiscal year due to increased capital investment by automobile manufacturers, sales of wire saws used in the solar cell market decreased from the previous fiscal year in part due to a slowdown in China s economic growth, a decrease in the price of solar cells and reduced subsidies related to solar energy use in Europe. Extraordinary demand for temporary housing units that Komatsu experienced after the Great East Japan Earthquake came to an end during the fiscal year ended March 31, 2013 as the housing conditions of those affected by the Great East Japan Earthquake settled down. Komatsu made concerted efforts to develop new products that improved productivity and safety and had qualities that enhanced their environmental friendliness. In March 2013, Komatsu introduced the H1F-2 AC servo press and the PVS8525 servo press brake to the market, which followed the launch of the NTG-4SP grinding machine in November 2012.

Operating income for the fiscal year ended March 31, 2013 was ¥211,602 million, which decreased by 17.5% from the fiscal year ended March 31, 2012. This decrease in operating income was due primarily to the decrease in sales in China of construction equipment and in Indonesia of mining equipment.

Income before income taxes and equity in earnings of affiliated companies for the fiscal year ended March 31, 2013 decreased by 18.0% from the fiscal year ended March 31, 2012 to ¥204,603 million.

Net income attributable to Komatsu Ltd. for the fiscal year ended March 31, 2013 decreased by 24.4% to ¥126,321 million from the fiscal year ended March 31, 2012.

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Key Management Indices

Management uses the following six financial indicators to assess Komatsu s consolidated financial condition and consolidated results of operations: (1) net sales, (2) segment profit, (3) operating income, (4) operating margin, (5) return on equity ratio (ROE) and (6) net debt-to-equity ratio (Net DER). Set forth below is a summary of these key indicators for the fiscal years ended March 31, 2013 and 2012.

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	
	2013	**2012**
Consolidated Segment Profit	¥ 214,012	¥ 258,663
Impairment loss on long-lived assets	(1,907)	(3,106)
Other operating income (expenses), Net	(503)	786
Consolidated Operating Income	¥ 211,602	¥ 256,343

	Results for Fiscal Year Ended March 31,		Percentage Change
Management Indices	**2013**	**2012**	**2013 vs. 2012**
Consolidated Net Sales	¥ 1,884,991 million	¥ 1,981,763 million	-4.9%
Consolidated Segment Profit	¥ 214,012 million	¥ 258,663 million	-17.3%
Consolidated Operating Income	¥ 211,602 million	¥ 256,343 million	-17.5%
Consolidated Operating Margin [1)]	11.2%	12.9%	-1.7 points
ROE [2)]	11.5%	17.3%	-5.8 points
Net DER [3)]	0.49	0.56	-0.07

Notes:

1) Operating Margin = Operating Income/Net Sales

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

3) Net Debt-to-Equity Ratio = (Interest-bearing Debt - Cash and Cash Equivalents - Time Deposits)/Komatsu Ltd. Shareholders Equity

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Consolidated Net Sales

Consolidated net sales for the fiscal year ended March 31, 2013 decreased by 4.9%, or ¥96,772 million, to ¥1,884,991 million from ¥1,981,763 million for the fiscal year ended March 31, 2012. This decrease was due primarily to decreased sales in the Construction, Mining and Utility Equipment operating segment as well as the Industrial Machinery and Others operating segment. The demand decrease in the Construction, Mining and Utility Equipment operating segment was due mainly to a decrease in demand for construction equipment in China as a result of a slowdown in China s economic growth and a drop in demand for mining equipment mainly in Indonesia in light of the decrease in coal prices. In the Industrial Machinery and Others operating segment, while sales of large presses to the automobile manufacturing industry and machine tools for use in automotive engine production increased from the previous fiscal year due to increased capital investment by automobile manufacturers, sales of wire saws for use in slicing silicon ingots for the solar cell market decreased in part due to a slowdown in China s economic growth, a decrease in the price of solar cells and reduced subsidies related to solar energy use in Europe. In addition, the demand for temporary housing units leveled off as the restoration and reconstruction of the Great East Japan Earthquake progressed. As a result, consolidated sales in both operating segments declined from the previous fiscal year.

Consolidated Segment Profit

Consolidated segment profit for the fiscal year ended March 31, 2013 decreased by 17.3% to ¥214,012 million as compared to the fiscal year ended March 31, 2012.

This decrease in segment profit was due primarily to negative factors such as decreased sales in the Construction, Mining and Utility Equipment operating segment as well as the Industrial Machinery and Others operating segment, which outweighed (1) various efforts undertaken by Komatsu, such as efforts to realize product sales at higher prices and reduce production costs, and (2) positive factors such as favorable changes in foreign exchange rates, such as the depreciation of the Japanese yen against the U.S. dollar, Euro and Renminbi.

Consolidated Operating Income, Consolidated Operating Margin

Consolidated operating income for the fiscal year ended March 31, 2013 was ¥211,602 million, down by 17.5% or ¥44,741 million from ¥256,343 million for the fiscal year ended March 31, 2012.

This decrease in operating income was due primarily to negative factors such as decreased sales in the Construction, Mining and Utility Equipment operating segment as well as the Industrial Machinery and Others operating segment, which outweighed (1) various efforts undertaken by Komatsu, such as efforts to realize product sales at higher prices and reduce production costs, and (2) positive factors such as favorable changes in foreign exchange rates, such as the depreciation of the Japanese yen against the U.S. dollar, Euro and Renminbi.

Consolidated operating margin for the fiscal year ended March 31, 2013 decreased by 1.7 percentage points to 11.2% from 12.9% for the fiscal year ended March 31, 2012.

ROE

Net income attributable to Komatsu Ltd. in the fiscal year ended March 31, 2013 decreased by 24.4% to ¥126,321 million as compared with the fiscal year ended March 31, 2012 due primarily to the decrease in operating income. As a result, ROE for the fiscal year ended March 31, 2013 decreased by 5.8 percentage points to 11.5% from 17.3% in the fiscal year ended March 31, 2012.

Net DER

Komatsu s aggregate interest-bearing debt as of March 31, 2013 was ¥679,763 million, which increased by ¥31,963 million as compared to March 31, 2012. This increase was due primarily to changes in foreign exchange rates, such as the depreciation of the Japanese yen against the U.S. dollar, Euro and Renminbi.

Net interest-bearing debt after deducting cash and deposits also increased by ¥22,112 million to ¥585,926 million in the fiscal year ended March 31, 2013. As a result, Net DER for the fiscal year ended March 31, 2013 decreased to 0.49 to 1 from 0.56 to 1 for the fiscal year ended March 31, 2012.

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Critical Accounting Policies

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

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

(1) Allowance for Doubtful Receivables

Komatsu estimates the collectability of its trade receivables taking into consideration numerous factors, including the current financial position of each customer. Komatsu establishes an allowance for expected losses based on individual credit information, historical experience and assessment of overdue receivables. Komatsu continually analyzes data obtained from internal and external sources in order to become familiar with customers credit situations. Since Komatsu s historical loss experiences have fallen within their original estimates and established provisions, Komatsu s management believes its allowance for doubtful receivables to be adequate. The total bad debt expenses for the fiscal years ended March 31, 2013, 2012 and 2011 were ¥3,050 million, ¥2,105 million and ¥5,307 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.

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.

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For the fiscal year ended March 31, 2012, management changed its assessment of the ability to realize a deferred tax asset of one of its wholly owned subsidiaries (Komatsu Rental Ltd.) and reduced its valuation allowances. The merger of such subsidiary into the Company was deemed prudent during the fiscal year ended March 31, 2012, and the Company decided to execute such merger due to changes in the operations of such subsidiary and its business outlook. 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 such merger, which decreased valuation allowance by ¥12,686 million.

(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, 2013, 2012 and 2011 were ¥1,907 million, ¥3,106 million and ¥5,142 million, respectively.

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

Komatsu completed its annual impairment assessment of goodwill for the fiscal year ended March 31, 2013. Management concluded that no goodwill impairment had occurred as of March 31, 2013. The fair value of each of Komatsu s reporting units significantly 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.

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(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, 2013, 2012 and 2011 were ¥4,192 million, ¥2,613 million and ¥156 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.

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, 2013.

	Pension obligations	Net periodic pension costs
Change in assumption	(Billions of Yen)	(Billions of Yen)
0.5% increase/ decrease in Discount rate	-12.2 /+13.2	-1.1 /+1.2
0.5% increase/ decrease in expected long-term rate of return		-0.4 / +0.4

(6) Recent Accounting Standards Not Yet Adopted

In February 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income . ASU 2013-02 requires an entity to report the effect of reclassifications out of accumulated other comprehensive income. This ASU will be applied prospectively and will be adopted by Komatsu beginning April 1, 2013.

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Comparison of the Fiscal Years Ended March 31, 2013 and 2012

The following tables set forth our 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 Fiscal Years Ended March 31, 2013		2012		Percentage Change 2013 vs. 2012
Net sales	**¥ 1,884,991**	100.0%	¥ 1,981,763	100.0%	-4.9%
Cost of sales	**1,377,459**	73.1%	1,440,765	72.7%	-4.4%
Selling, general and administrative expenses	**293,520**	15.6%	282,335	14.2%	4.0%
Impairment losses on long-lived assets	**1,907**	0.1%	3,106	0.2%	-38.6%
Other operating income (expenses), net	**(503)**	-0.0%	786	0.0%	
Operating income	**211,602**	11.2%	256,343	12.9%	-17.5%
Other expenses, net					
Interest and dividend income	**4,277**		3,776		13.3%
Interest expense	**(8,236)**		(7,784)		5.8%
Other, net	**(3,040)**		(2,726)		11.5%
Total	**(6,999)**		(6,734)		3.9%
Income before income taxes and equity in earnings of affiliated companies	**204,603**	10.9%	249,609	12.6%	-18.0%
Income taxes					
Current	**74,628**		66,420		
Deferred	**(5,539)**		8,050		
Total	**69,089**	3.7%	74,470	3.8%	-7.2%
Income before equity in earnings of affiliated companies	**135,514**	7.2%	175,139	8.8%	-22.6%
Equity in earnings of affiliated companies	**1,621**	0.1%	1,609	0.1%	0.7%
Net income	**137,135**	7.3%	176,748	8.9%	-22.4%
Less: Net income attributable to noncontrolling interests	**10,814**	0.6%	9,707	0.5%	11.4%
Net income attributable to Komatsu Ltd.	**¥ 126,321**	6.7%	¥ 167,041	8.4%	-24.4%

	Yen	
Per share data		
Net income attributable to Komatsu Ltd.:		
Basic	**132.64**	173.47
Diluted	**132.51**	173.32
Cash dividends per share 1)	**¥ 45.00**	¥ 41.00

Note:

(1) Cash dividends per share provided above are based on dividends paid each fiscal year.

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Net Sales

Consolidated net sales for the fiscal year ended March 31, 2013 decreased by 4.9%, or ¥96,772 million, to ¥1,884,991 million from ¥1,981,763 million for the fiscal year ended March 31, 2012. This decrease was due primarily to decreased 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, 2013, net sales to external customers for the Construction, Mining and Utility Equipment operating segment decreased by 3.6%, or ¥62,299 million, to ¥1,677,049 million as compared to the fiscal year ended March 31, 2012. This demand decrease was due mainly to a decrease in demand for construction equipment in China as a result of a slowdown in China s economic growth and a drop in demand for mining equipment mainly in Indonesia in light of the decrease in coal prices.

For the fiscal year ended March 31, 2013, net sales to external customers in the Industrial Machinery and Others operating segment decreased by 14.2%, or ¥34,473 million, to ¥207,942 million as compared to the fiscal year ended March 31, 2012. While sales of large presses to the automobile manufacturing industry and machine tools for use in automotive engine production increased from the previous fiscal year due to increased capital investment by automobile manufacturers, sale of wire saws for use in slicing silicon ingots for the solar cell market decreased in part due to a slowdown in China s economic growth, a decrease in the price of solar cells and reduced subsidies related to solar energy use in Europe. In addition, the demand for temporary housing units leveled off as the restoration and reconstruction of the Great East Japan Earthquake progressed. As a result, consolidated sales in this business segment decreased from the previous fiscal year.

Cost of Sales

Cost of sales on a consolidated basis decreased by 4.4%, or ¥63,306 million, to ¥1,377,459 million for the fiscal year ended March 31, 2013 from ¥1,440,765 million for the fiscal year ended March 31, 2012 primarily due to decreased net sales. On the other hand, the ratio of cost of sales to net sales for the fiscal year ended March 31, 2013 increased to 73.1% from 72.7% for the fiscal year ended March 31, 2012. This increase was due primarily to certain fixed costs not being absorbed fully as a result of decreased sales volume.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased by 4.0% for the fiscal year ended March 31, 2013 to ¥293,520 million from ¥282,335 million for the fiscal year ended March 31, 2012, due primarily to (1) increased R&D expenses, such as expenses for the development of next generation engines that comply with newly adopted emissions regulations and new hybrid products, which accounted for approximately ¥6,000 million, and (2) changes in foreign exchange rates, such as the depreciation of the Japanese yen against the U.S. dollar, Euro and Renminbi. The ratio of selling, general and administrative expenses to net sales also increased by 1.4 percentage points to 15.6% as compared to 14.2% for the fiscal year ended March 31, 2012.

Impairment Losses on Long-Lived Assets

Consolidated impairment losses on long-lived assets for the fiscal year ended March 31, 2013 decreased by 38.6%, or ¥1,199 million, to ¥1,907 million as compared to ¥3,106 million for the fiscal year ended March 31, 2012. The losses for the fiscal year ended March 31, 2013 reflected impairment losses realized mainly with respect to property, plant and equipment.

Other Operating Income (Expenses), net

For the fiscal year ended March 31, 2013, Komatsu recognized consolidated other operating expense, net of ¥503 million as compared to consolidated other operating income, net of ¥786 million for the fiscal year ended March 31, 2012. This was due primarily to a decrease in gain resulting from the sale of property, plant and equipment as compared to the fiscal year ended March 31, 2012.

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Operating Income

Consolidated operating income for the fiscal year ended March 31, 2013 decreased by 17.5%, or ¥44,741 million, to ¥211,602 million as compared to ¥256,343 million for the fiscal year ended March 31, 2012. This decrease in operating income was due primarily to negative factors such as decreased sales in the Construction, Mining and Utility Equipment operating segment, which accounted for approximately ¥63.7 billion, and an increase in fixed costs, which accounted for approximately ¥7.1 billion. Such negative factors were partially offset by (1) various efforts undertaken by Komatsu, such as efforts to realize product sales at higher prices (which accounted for approximately ¥26.8 billion), and (2) positive factors such as favorable changes in foreign exchange rates, such as the depreciation of the Japanese yen against the U.S. dollar, Euro and Renminbi (which in the aggregate accounted for approximately ¥6.7 billion).

As a result, operating margin for the fiscal year ended March 31, 2013 decreased by 1.7 percentage points to 11.2% from 12.9% for the fiscal year ended March 31, 2012.

Other Expenses, net

Consolidated other expenses, net for the fiscal year ended March 31, 2013 increased by 3.9%, or ¥265 million, to ¥6,999 million as compared to ¥6,734 million for the fiscal year ended March 31, 2012. This increase was due primarily to increased interest expense. For the fiscal year ended March 31, 2013, interest expense increased by 5.8%, or ¥452 million, to ¥8,236 million as compared to ¥7,784 million for the fiscal year ended March 31, 2012. This increase in interest expense, which contributed to the increase in other expenses, was due primarily to the increase in borrowings from external sources during the fiscal year ended March 31, 2013. Interest and dividend income increased by 13.3%, or ¥501 million, to ¥4,277 million for the fiscal year ended March 31, 2013 as compared to ¥3,776 million for the fiscal year ended March 31, 2012.

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, 2013 decreased by 18.0%, or ¥45,006 million, to ¥204,603 million as compared to ¥249,609 million for the fiscal year ended March 31, 2012.

Income Taxes

Consolidated income tax expense for the fiscal year ended March 31, 2013 decreased by ¥5,381 million to ¥69,089 million from ¥74,470 million for the fiscal year ended March 31, 2012. The actual effective tax rate for the fiscal year ended March 31, 2013 increased to 33.8% from 29.8% for the fiscal year ended March 31, 2012. The difference of effective tax rates between the fiscal year ended March 31, 2013 and 2012 is mainly due to the merger between Komatsu Rental Ltd. and the Company for the year ended March 31, 2012, which resulted in a change in assessment about the likelihood of recovery of a deferred tax asset.

The difference between the Japanese statutory tax rate of 38.1% and the actual effective tax rate of 33.8% was caused by income of certain foreign 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.

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, 2013 decreased by ¥39,625 million to ¥135,514 million as compared to ¥175,139 million for the fiscal year ended March 31, 2012.

Equity in Earnings of Affiliated Companies

Consolidated equity in earnings of affiliated companies for the fiscal year ended March 31, 2013 increased by ¥12 million to ¥1,621 million as compared to ¥1,609 million for the fiscal year ended March 31, 2012.

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Net income

As a result of the above factors, consolidated net income for the fiscal year ended March 31, 2013 decreased by 22.4%, or ¥39,613 million, to ¥137,135 million as compared to ¥176,748 million for the fiscal year ended March 31, 2012.

Net Income Attributable to Noncontrolling Interests

Net income attributable to noncontrolling interests for the fiscal year ended March 31, 2013 increased by ¥1,107 million to ¥10,814 million as compared to ¥9,707 million for the fiscal year ended March 31, 2012. 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, such as 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, 2013 decreased by 24.4%, or ¥40,720 million, to ¥126,321 million as compared to ¥167,041 million for the fiscal year ended March 31, 2012. Accordingly, basic net income attributable to Komatsu Ltd. per share decreased to ¥132.64 for the fiscal year ended March 31, 2013 from ¥173.47 for the fiscal year ended March 31, 2012. Diluted net income attributable to Komatsu Ltd. per share decreased to ¥132.51 for the fiscal year ended March 31, 2013 from ¥173.32 for the fiscal year ended March 31, 2012.

Performance by Operating Segments

The following table presents our segment net sales and segment profit for the fiscal years ended March 31, 2013 and 2012. 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.

Performance by Operating Segments

	Millions of Yen Fiscal Years Ended March 31,		Percentage Change
	2013	**2012**	**2013 vs. 2012**
Net sales:			
Construction, Mining and Utility Equipment			
External Customers	**¥ 1,677,049**	¥ 1,739,348	-3.6%
Japan	**292,732**	286,342	2.2%
The Americas	**535,750**	443,044	20.9%
Europe and CIS	**189,833**	200,404	-5.3%
China	**119,940**	201,312	-40.4%
Asia (excluding Japan, China) and Oceania	**411,059**	481,277	-14.6%
Middle East and Africa	**127,735**	126,969	0.6%
Intersegment	**2,530**	4,925	-48.6%
Total	**1,679,579**	1,744,273	-3.7%
Industrial Machinery and Others			
External Customers	**207,942**	242,415	-14.2%
Intersegment	**8,349**	8,724	-4.3%
Total	**216,291**	251,139	-13.9%

Elimination	**(10,879)**	(13,649)	-20.3%
Consolidated Net Sales	**¥ 1,884,991**	¥ 1,981,763	-4.9%
Segment Profit:			
Construction, Mining and Utility Equipment	**¥ 208,951**	¥ 246,291	-15.2%
Industrial Machinery and Others	**6,222**	16,779	-62.9%
Total	**215,173**	263,070	-18.2%

Note:

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

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Construction, Mining and Utility Equipment

Net sales

Total net sales to external customers in the Construction, Mining and Utility Equipment operating segment for the fiscal year ended March 31, 2013 decreased by 3.6%, or ¥62,299 million, to ¥1,677,049 million as compared to ¥1,739,348 million for the fiscal year ended March 31, 2012. This decrease in sales was due primarily to (1) a decrease in demand in China for hydraulic excavators as the pace of growth of the Chinese economy slowed down and (2) a decrease in demand for mining equipment mainly in Indonesia in light of decreased coal prices.

Net sales to external customers in Japan for the fiscal year ended March 31, 2013 increased by 2.2%, or ¥6,390 million, to ¥292,732 million as compared to ¥286,342 million for the fiscal year ended March 31, 2012. As the sales of surplus used equipment exported from Japan bottomed out, which had outnumbered demand for new equipment since around 2000, demand for new construction equipment increased. The increase in demand for new construction equipment was due in part to increased purchases of such equipment by rental companies who experienced greater demand for such equipment in light of the fact that the restoration and reconstruction projects after the Great East Japan Earthquake continued. As a result, demand for construction equipment steadily increased and sales increased as compared to the previous fiscal year.

Net sales to external customers in the Americas for the fiscal year ended March 31, 2013 increased by 20.9%, or ¥92,706 million, to ¥535,750 million as compared to ¥443,044 million for the fiscal year ended March 31, 2012. In North America, demand for construction equipment started to increase during the fiscal year ended March 31, 2012 and continued throughout the fiscal year ended March 31, 2013. This increase in demand was driven by the increased demand in the housing sector as well as strong demand in the rental equipment business and the energy development industry. During the fiscal year ended March 31, 2013, Komatsu worked aggressively to introduce new emission standards-compliant models with its new KOMATSU CARE program in North America. In addition, in response to increased demand for rental equipment. Komatsu worked to reinforce its distributors rental equipment business in North America. In Latin America, demand for mining equipment remained strong, centering on copper mines in Chile and Peru, while demand for construction equipment was sluggish in Brazil. As a result, overall demand in the Americas for equipment was firm, and sales improved from the previous fiscal year.

Net sales to external customers in Europe and CIS for the fiscal year ended March 31, 2013 decreased by 5.3%, or ¥10,571 million, to ¥189,833 million as compared to ¥200,404 million for the fiscal year ended March 31, 2012. As economic uncertainty prevailed against the backdrop of sovereign-debt problems in Europe, demand remained sluggish, even in the major markets of Germany, France and the United Kingdom. As a result, sales of construction, mining and utility equipment in Europe decreased from the fiscal year ended March 31, 2012. While continuing to introduce new emission standards-compliant models to the European market during the fiscal year ended March 31, 2013, Komatsu also made concerted efforts to prepare for the launch during the fiscal year ending March 31, 2014 of construction equipment with its intelligent Machine Control, a technology designed to automate construction. In CIS, demand for mining equipment remained firm, especially in gold mines, and sales increased from the fiscal year ended March 31, 2012. The increase in sales in CIS, however, was not sufficient to offset the decreased sales in Europe.

Net sales to external customers in China for the fiscal year ended March 31, 2013 decreased by 40.4%, or ¥81,372 million, to ¥119,940 million as compared to ¥201,312 million for the fiscal year ended March 31, 2012. While the Chinese government introduced credit-easing measures during the fiscal year ended March 31, 2013, there were no clear signs that new infrastructure developments were going to commence. As a result, demand for construction equipment, and particularly demand for hydraulic excavators, decreased considerably compared to the fiscal year ended March 31, 2012, which adversely affected sales.

Net sales to external customers in Asia (excluding Japan and China) and Oceania for the fiscal year ended March 31, 2013 decreased by 14.6%, or ¥70,218 million, to ¥411,059 million as compared to ¥481,277 million for the fiscal year ended March 31, 2012. In Asia, while demand increased in Thailand where such equipment has been in use for the reconstruction of areas damaged by the flood in 2011, demand for large- and medium-sized equipment used in mines particularly in Indonesia, the largest market by sales in Southeast Asia, decreased as the price of thermal coal decreased. As a result, sales in Asia decreased as compared to the fiscal year ended March 31, 2012. In Oceania, demand for mining equipment for use in iron ore mines and demand for construction equipment remained steady, and sales increased from the previous fiscal year. Komatsu continued to make steady and sound progress with Rio Tinto to successfully complete the large-scale delivery of driverless dump trucks to iron ore mines in Australia pursuant to the Memorandum of Understanding between it and Rio Tinto signed in November 2011.

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Net sales to external customers in the Middle East and Africa for the fiscal year ended March 31, 2013 increased by 0.6%, or ¥766 million, to ¥127,735 million as compared to ¥126,969 million for the fiscal year ended March 31, 2012. In the Middle East, sales declined from the previous fiscal year, particularly because demand was sluggish in Turkey, one of its major markets in the region. In addition, because the Saudi Arabian market showed signs of promising growth in demand in the future, Komatsu signed a new distribution contract with a leading local company in December 2012. In Africa, sales increased as compared to the fiscal year ended March 31, 2012, supported particularly by firm demand for equipment used in gold mines. Komatsu also continued to strengthen its sales and product support operations by implementing measures to improve its spare delivery parts operation, which included opening new parts depots jointly with distributors in southern Africa.

Segment Profit

Segment profit for the Construction, Mining and Utility Equipment operating segment for the fiscal year ended March 31, 2013 decreased by 15.2%, or ¥37,340 million, to ¥208,951 million from ¥246,291 million for the fiscal year ended March 31, 2012. Although there were positive factors including (1) the realization of sales at higher prices (which increased segment profit by approximately ¥26.8 billion) and (2) favorable changes in foreign exchange rates as the Japanese yen depreciated against the U.S. dollar and Renminbi (which increased segment profit by approximately ¥6.7 billion), such positive factors were fully offset by the decrease in sales (which decreased segment profit by approximately ¥63.7 billion).

Production Scale

Production scale for the Construction, Mining and Utility Equipment operating segment decreased by 15.1% from the previous fiscal year to approximately ¥1,570.9 billion (based on sales price).

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, 2013 decreased by 14.2%, or ¥34,473 million, to ¥207,942 million as compared to ¥242,415 million for the fiscal year ended March 31, 2012. While sales of large presses to the automobile manufacturing industry and machine tools for use in automotive engine production increased from the previous fiscal year due to increased capital investment by automobile manufacturers, sales of wire saws for use in slicing silicon ingots for the solar cell market decreased in part due to a slowdown in China s economic growth, a decrease in the price of solar cells and reduced subsidies related to solar energy use in Europe. In addition, the demand for temporary housing units leveled off as the restoration and reconstruction of the Great East Japan Earthquake progressed.

Segment Profit

Segment profit for the Industrial Machinery and Others operating segment for the fiscal year ended March 31, 2013 decreased by 62.9%, or ¥10,557 million, to ¥6,222 million from ¥16,779 million for the fiscal year ended March 31, 2012. This decrease was due primarily to the decrease in demand for higher-margin wire saws.

Production Scale

Production scale for the Industrial Machinery and Others operating segment decreased by 22.2% from the previous fiscal year to approximately ¥202.4 billion (based on sales price).

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

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

	Yen 2012	Yen 2011
Per share data		
Net income attributable to Komatsu Ltd.:		
Basic	**173.47**	155.77
Diluted	**173.32**	155.66
Cash dividends per share [1)]	**¥ 41.00**	¥ 26.00

Note:

(1) Cash dividends per share provided above are based on dividends paid each fiscal year.

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 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 million, to ¥1,739,348 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 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.

Cost of Sales

Cost of sales on a consolidated basis increased by 7.2%, or ¥97,301 million, to ¥1,440,765 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.

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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 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.

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 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 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 Expenses, net

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

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Income Before Income Taxes and Equity in Earnings of Affiliated Companies

As a result of the above factors, consolidated income before income taxes and equity in earnings of affiliated companies for the fiscal year ended March 31, 2012 increased by 13.6%, or ¥29,800 million, to ¥249,609 million 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 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 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 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 as compared to ¥157,827 million for the fiscal year ended March 31, 2011.

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 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 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.

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Performance by Operating Segments

The following table presents our segment net sales and segment profit 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.

Performance by Operating Segments

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

Notes:

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