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Revision of Amount of Remuneration for Directors and Audit & Supervisory Board Members and Introduction of Restricted Stock Compensation System

Komatsu Ltd. (hereinafter "Company") hereby announces that at the meeting of the Board of Directors held on April 26, 2018, the Company reviewed the system of remuneration for the Directors and the Audit & Supervisory Board Members, and resolved to propose to the 149th Ordinary General Meeting of Shareholders which will be held on June 19, 2018 (hereinafter "Ordinary General Meeting of Shareholders") that the Company revise the amount of remuneration and introduce a restricted stock compensation system (hereinafter "System"). See below for details.

1. Revision of System of Remuneration for Directors

In an effort to maintain an objective and transparent remuneration system, the policy and levels of remuneration for the Directors and the Audit & Supervisory Board Members of the Company are deliberated by the Compensation Advisory Committee, which consists of four (4) external members and one (1) internal member. Taking its reports into consideration, the remuneration for the Directors is determined by the Board of Directors, and the remuneration for the Audit & Supervisory Board Members is determined by discussions by the Audit & Supervisory Board Members, respectively, within the range of the total amount of remuneration previously determined by resolution of the General Meeting of Shareholders. With regards to remuneration levels, comparison of other major, globally active manufacturers in Japan is made by the Compensation Advisory Committee and is reflected in its reports.

The remuneration for the Directors of the Company is comprised of the basic remuneration (fixed remuneration) and the performance-based remuneration linked to the Company's consolidated performance for a single year. On this occasion, the Company, in order to revise the remuneration system so that it will further contribute to the enhancement of the medium- and long-term corporate value of the Company, by linking the remuneration of the Directors, excluding the Outside Directors, more closely to the Company's performance, has decided, in addition to the performance-based remuneration linked to the consolidated performance for a single year (bonus in cash and the Stock-Based Remuneration A), to newly pay the performance-based remuneration (Stock-Based Remuneration B) that will reflect the degree of achievement of the targets raised in the mid-range management plan. Both of the Stock-Based Remuneration A and the Stock-Based Remuneration B shall be paid in the form of restricted stock for the purpose of further fostering the same perspective on corporate value between the Directors and shareholders.

System of Remuneration for Internal Director

(Current System)

Basic Remuneration (Fixed Remuneration)	Performance-Based Remuneration for a Single Year (Monthly Remuneration x 0 ~ 24 months)	
Monthly Remuneration x 12 months	Bonus in Cash (2/3,in principle) [up to the equivalent of 12 months' remuneration]	Stock-Based Remuneration (1/3, in principle) Stock Acquisition Rights, the exercise price of which is JPY 1



(System after Revision)

Basic Remuneration (Fixed Remuneration)	Performance-Based Remuneration for a Single Year (Monthly Remuneration x 0 ~ 24 months)		Performance-Based Remuneration Linked to Performance of Mid-Range Management Plan (Monthly Remuneration x 0 ~ 3 months)
Monthly Remuneration x 12 months	Bonus in Cash (2/3,in principle) [up to the equivalent of 12 months' remuneration]	Stock-Based Remuneration A (1/3,in principle) Restricted Stok	Stock-Based Remuneration B Restricted Stock

Newly established

For the performance-based remuneration, the bonus in cash and the Stock-Based Remuneration A shall be linked to the consolidated performance for a single year. The basic valuation indicators of the consolidated performance shall be a consolidated ROE, a consolidated ROA and a consolidated operating income ratio. Such valuation indicators may be changed in the future by a resolution of the Board of Directors. The Stock-Based Remuneration B, that will be newly paid, shall be linked to the degree of achievement of the targets raised in the mid-range management plan as shown in the below table and the number of shares with respect to which restrictions will be lifted shall be determined based on the values of the valuation bases and valuation indicators in the final year of the mid-range management plan. If a new mid-range management plan is prepared in the future, the targets, valuation bases and valuation indicators as shown in the below table may be changed by a resolution of the Board of Directors.

＜Targets, Valuation Bases and Valuation Indicators in Current Mid-Range Management Plan (for Fiscal Year Ended March 31, 2017 ~ Fiscal Year Ended March 31, 2019)＞

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

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

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

2. Revision of the Amount of Remuneration for Directors and Audit & Supervisory Board Members

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

On this occasion, the Company will submit a proposal to the Ordinary General Meeting of the Shareholders to change the amount of remuneration for the Directors of the Company from a monthly amount to a yearly amount, and to pay bonuses in cash in addition to the basic remuneration (fixed remuneration) to the Directors, other than the Outside Directors, in an amount that does not exceed the relevant remuneration amount, and in the midst of its further promotion of its global business operations, to set the remuneration amount, comprehensively taking into account the previous actual amount, the standards at other companies in and outside of Japan, and the composition of the Directors etc., so as not to exceed JPY 1,500 million per year (of which, payment to the Outside Directors shall not exceed JPY 100 million per year). In order to clarify the Outside Directors' role to make recommendations with respect to the overall management of the Company as a member of the Board of Directors, only the basic remuneration (fixed remuneration) shall be paid to the Outside Directors hereafter.

As the Audit & Supervisory Board Members are to be compensated commensurate with the increase in

their responsibilities, the Company will submit a proposal to the Ordinary General Meeting of the Shareholders to set the amount of remuneration for the Audit & Supervisory Board Members, in conjunction with the revision of the amount of the remuneration for the Directors, so as not to exceed JPY 200 million per year. The Company shall continue to pay only a basic remuneration (fixed remuneration) to the Audit & Supervisory Board Members.

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

3. Determination of the Amount of Remuneration in the Restricted Stock Compensation System for Directors

Based on "1. Revision of System of Remuneration for Directors" above, the Company will introduce the System as follows, and the Company will submit, separately from the amount of remuneration for the Directors (including the Outside Directors) set forth in 2. above, a proposal to the Ordinary General Meeting of the Shareholders with respect to the amount of remuneration in the form of the restricted stock to be granted to the Directors (excluding the Outside Directors) (hereinafter "Eligible Directors") of the Company.

[Outline of the System]

(1) Overview

- Under the System, the Company shall grant Eligible Directors monetary compensation receivables for the allocation of restricted stock for each fiscal year in principle, and, by having the Eligible Directors make contribution in kind to the Company using the monetary compensation receivables as contributed assets, shall issue or dispose of its shares of common stock to the Eligible Directors and allow them to hold such shares.
- The Company shall conclude a restricted stock grant agreement (hereinafter "Grant Agreement") with the Eligible Directors. With regard to the shares granted pursuant to the Grant Agreement (hereinafter "Granted Shares"), the Eligible Directors shall not be allowed to transfer, create a security interest on, or otherwise dispose (hereinafter "Transfer") of them at will (hereinafter "Restrictions") during a given period provided by the Grant Agreement (hereinafter "Restricted Period").

  The Company shall acquire from the Eligible Directors, free of charge, the Granted Shares with respect to which the Restrictions have not been lifted as a result of the occurrence of prescribed events, including the failure to accomplish performance targets determined by the Board of Directors based on reports of the Compensation Advisory Committee.
- Other details regarding the administration of the System shall be determined by the Board of Directors based on reports of the Compensation Advisory Committee.

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

	situation with respect to the Company's common stock occurs that necessitates the adjustment of the total number of restricted stock to be allocated, the total number of Granted Shares shall be reasonably adjusted.	
(4) Amount to be paid per share	The amount to be paid per share shall be determined by the Board of Directors to an extent that would not be considered especially advantageous to the Eligible Directors who are granted the shares of common stock of the Company under the System, that is, the closing price of the share of common stock of the Company on the Tokyo Stock Exchange on the business day immediately preceding the date of each resolution by the Board of Directors (or the closing price on the trading day immediately prior thereto if there is no trading on such business day), etc.	
(5) Restriction Period	The Restriction Period shall be three (3) years, and the Eligible Directors shall not Transfer the Granted Shares during such period.	
(6) Lifting of Restrictions	The Company shall, in principle, lift the Restrictions on the Granted Shares at the expiry of the Restriction Period.	In principle, the Company shall, at the expiry of the Restriction Period, lift the Restrictions on all or part of the Granted Shares according to the degree of achievement of the targets raised in the mid-range management plan based on the indicators set by the Board of Directors, including the major performance indicators set in the mid-range management plan. Upon determination of the number of shares with respect to which the Restrictions will be lifted according to the achievement status of the targets raised in the mid-range management plan, etc., the Company shall as a matter of course acquire, free of charge, the Granted Shares with respect to which the Company decides not to lift the

		Restrictions pursuant to the above provision.
(7) Treatment upon retirement	In the event that, prior to the expiry of the Restriction Period, the Eligible Director is deemed to have retired as a Director of the Company due to his or her death, the Company shall lift the Restrictions on all of the Granted Shares after making reasonable adjustments, as necessary, to the timing of the lifting of the Restrictions. If, prior to the the expiry of the Restriction Period, the Eligible Director retires as a Director of the Company without any reason recognized as legitimate by the Board of Directors of the Company, such as the expiration of the term of office as a Director (hereinafter "Legitimate Reason for Retirement"), the Company shall as a matter of course acquire, free of charge, all or part of the Granted Shares.	In the event that, prior to the expiry of the Restriction Period, the Eligible Director is deemed to have retired as a Director of the Company due to his or her death, the Company shall make reasonable adjustments, as necessary, to (i) the number of Granted Shares with respect to which the Restrictions are to be lifted and the timing of the lifting of the Restrictions during the period from the time of the grant of the Granted Shares to immediately prior to the determination of the number of shares with respect to which the Restrictions will be lifted according to the achievement status of the targets raised in the mid-range management plan, etc., and to (ii) the timing of the lifting of the Restrictions during the period from the determination of the number of shares with respect to which the Restrictions will be lifted according to the achievement status of the targets raised in the mid-range management plan, etc. to the expiry of the Restriction Period. If, prior to the the expiry of the Restriction Period, the Eligible Director retires as a Director of the Company without any

		Legitimate Reason for Retirement, the Company shall as a matter of course acquire, free of charge, all or part of the Granted Shares.
(8) Treatment upon Reorganization, etc.	In the event that, during the Restriction Period, a merger agreement in which the Company becomes the non-surviving company, a share exchange agreement or a share transfer plan under which the Company becomes a wholly-owned subsidiary of another company, or any other arrangement, including the reorganization of the Company (hereinafter "Reorganization, etc.") is resolved at a General Meeting of Shareholders of the Company (or at a meeting of the Board of Directors of the Company, if the relevant Reorganization, etc. does not require the approval of a General Meeting of Shareholders), the Company shall, by resolution of its Board of Directors, make reasonable adjustments, as necessary, to the timing of the lifting of the Restrictions.	In the event that, during the Restriction Period, the Reorganization, etc. is resolved at a General Meeting of Shareholders of the Company (or at a meeting of the Board of Directors of the Company, if the relevant Reorganization, etc. does not require the approval of a General Meeting of Shareholders), the Company shall, by resolution of its Board of Directors, make reasonable adjustments, as necessary, to (i) the number of Granted Shares with respect to which the Restrictions are to be lifted and the timing of the lifting of the Restrictions if such approval is obtained during the period from the time of the grant of the Granted Shares to immediately prior to the determination of the number of shares with respect to which the Restrictions will be lifted according to the achievement status of the targets raised in the mid-range management plan, etc., and to (ii) the timing of the lifting of the Restrictions if such approval is obtained during the period from the determination of the

		number of shares with respect to which the Restrictions will be lifted according to the achievement status of the targets raised in the mid-range management plan, etc. to the expiry of the Restriction Period.
(9) Other matters to be determined by the Board of Directors	Other matters relating to the System shall be determined by the Board of Directors and shall be considered to be a part of the Grant Agreement.	

(For reference)

The Company, on the condition that each proposal regarding the introduction of the System is approved and adopted at the Ordinary General Meeting of Shareholders, plans to apply a system similar to the above restricted stock compensation system to employees of the Company and the Representative Directors of the Company's major subsidiaries (hereinafter "Employees, etc.) after the close of the Ordinary General Meeting of Shareholders. In such case, the Company, subsequent to a resolution to be made at a meeting of the Board of Directors to be held in or after July 2018, plans to issue or dispose of up to 300,000 shares of its common stock and allocate them to the Eligible Directors and the Employees, etc.

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

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