

KOMATSU LTD  
Form 20-F  
June 30, 2008  
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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

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

For the fiscal year ended March 31, 2008

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

# 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)

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

### Securities 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

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

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**Common Stock\***

\*5,308,564 American Depositary Shares evidenced by American Depositary Receipts, each American Depositary Share representing 4 shares of Common Stock of Komatsu.

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.

995,103,847 shares (excluding 3,640,213 shares of Treasury Stock)

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

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

Note: Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

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

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

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

U.S. GAAP

International Financial Reporting Standards as issued  
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

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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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Not applicable.

**Item 2. Offer Statistics and Expected Timetable**

Not applicable.

**Item 3. Key Information****A. Selected Financial Data**

The following data for each of the fiscal years ended March 31, 2004 through March 31, 2008 has 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, 2007 and 2008, the related consolidated statements of income, shareholders' equity and cash flows for the three fiscal years ended March 31, 2008 and the notes thereto that appear elsewhere in this annual report.

**Selected Financial Data**

	(Millions of yen, except per share amounts)				
	2008	2007	2006	2005	2004
<b>Income Statement Data:</b>					
Net sales 1)	2,243,023	1,893,343	1,612,140	1,356,071	1,127,300
Operating income 1)	332,850	244,741	163,428	95,862	29,870
Income from continuing operations before income taxes, minority interests and equity in earnings of affiliated companies 1)	322,210	236,491	155,779	91,869	22,503
Income taxes 1)	115,794	79,745	43,970	34,285	(5,966)
Income from continuing operations 1)	203,826	153,264	109,141	55,868	25,726
Income from discontinued operations less applicable income taxes 1)	4,967	11,374	5,149	3,142	1,237
Net income	208,793	164,638	114,290	59,010	26,963
<b>Per Share Data:</b>					
Net income					
Basic	209.87	165.70	115.13	59.51	27.17
Diluted	209.59	165.40	114.93	59.47	27.16
Cash dividends					
Yen	38.00	23.00	14.00	9.00	6.00
U.S. cents 2)	38.00				
<b>Depreciation and amortization</b>	75,664	72,709	72,640	69,020	69,863
<b>Capital Investment 1) 3)</b>	145,730	129,680	113,934	76,907	65,235
<b>Research and development expenses 1)</b>	49,673	46,306	44,560	41,123	42,602

(Millions of yen)

<b>Balance Sheet Data:</b>					
Total assets	2,105,146	1,843,982	1,652,125	1,449,068	1,348,645
Shareholders' equity	887,126	776,717	622,997	477,144	425,507
Number of shares issued at year-end	998,744,060	998,744,060	998,744,060	998,744,060	998,744,060
Number of shares outstanding at year-end	995,103,847	993,786,759	993,645,492	991,420,696	992,488,276





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Notes:

- 1) In the fiscal year ended March 31, 2007, Komatsu disposed of its majority interest in Komatsu Electronic Metals Co., Ltd. ( KEM ). In the fiscal year ended March 31, 2008, Komatsu sold the outdoor power equipment ( OPE ) business of Komatsu Zenoah Co. and its subsidiaries. As a result, operating results and the gain recognized on the sale of KEM and its subsidiaries as well as the OPE business of Komatsu Zenoah Co. and its subsidiaries are presented as Income from discontinued operations less applicable income taxes, except for research and development expenses for the fiscal year ended March 31,2004.
- 2) The conversion rate between the Japanese yen to the U.S. dollar for the fiscal year ended March 31, 2008 is ¥100 to U.S.\$1.00, the approximate buying rate of Japanese yen as of noon on March 31, 2008 in New York City as reported by the Federal Reserve Bank of New York.
- 3) The term Capital Investment as used in the above Selected Financial Data should be distinguished from the term Capital Expenditures as used in the consolidated statements of cash flows. The term Capital Investment as used in the above Selected Financial Data is defined to refer to costs relating to the purchase of property, plant and equipment including properties under capital leases on an accrual basis which reflects the effect of timing differences between acquisition dates and payment dates. Komatsu s management uses this financial indicator to manage its capital investment and believes that this indicator is useful to investors in that this indicator presents accrual based capital investment in addition to the cash based capital expenditures provided in the consolidated statements of cash flows.

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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 expressed in Japanese yen per U.S. dollar during the periods indicated. The average Japanese yen exchange rates represent average noon buying rates on the last business day of each month during the respective period. The most recently available exchange rate for Japanese yen into U.S. dollars was ¥107.89 = U.S.\$1.00 as of June 23, 2008.

**Yen Exchange Rates per U.S. dollar:**

	Average	High	Low	(Yen) Period-End
Year ended March 31				
2004	112.75	104.18	120.55	104.18
2005	107.28	102.68	111.39	107.22
2006	113.67	104.64	119.66	117.48
2007	116.55	112.26	121.02	117.56
2008	113.61	96.88	124.09	99.85
		High	Low	Period-End
2007				
December		109.68	114.45	111.71
2008				
January		105.42	109.70	106.74
February		104.19	108.15	104.19
March		96.88	103.99	99.85
April		100.87	104.56	104.53
May		103.01	105.52	105.46

**B. Capitalization and Indebtedness**

Not applicable.

**C. Reasons for the Offer and Use of Proceeds**

Not applicable.

**D. Risk Factors**

Given the business environment in which Komatsu operates, 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.

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### **(1) Economic and Market Conditions**

As Komatsu is engaged in business on a global scale, the economic and market conditions and competitive environment in which Komatsu operates differs from region to region. In addition, demand for Komatsu's products as well as the business environment in which Komatsu operates may change substantially as a result of changes in the economic and market conditions of each such region.

In economically-advanced regions in which Komatsu operates, Komatsu's business is generally affected by cyclical changes in the economies. 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 addition, in recent years, Komatsu's business has been expanding in newly-developing markets such as China, India, Russia, the Middle East and Africa. Komatsu has been making capital investments in line with such expansion of business. Economic conditions in such newly-developing markets, however, are dependent on the price of natural resources and the level of exports to economically-advanced regions, and are subject to numerous uncertainties. While Komatsu regularly monitors demand trends, demand in such newly-developing markets may be much lower than anticipated.

These changes in the business environment in which Komatsu operates may lead to inefficient inventory levels and/or production capacities, thereby causing Komatsu to record lower profitability and incur additional expenses. Accordingly, Komatsu's results of operations may be adversely affected.

### **(2) Foreign Currency Exchange Rate Fluctuations**

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

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**(3) Fluctuations in Financial Markets**

While Komatsu is currently working on improving the efficiency of its assets to reduce its interest-bearing debt, its aggregate short- and long-term interest-bearing debt was approximately ¥450 billion as of March 31, 2008. Although Komatsu has strived to reduce the effect of interest rate fluctuations by procuring funds at fixed interest rates, an increase in interest rates may increase Komatsu's interest expenses with respect to its interest-bearing debt subject to floating interest rates, thereby adversely affecting 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 various governmental regulations and approval procedures in the countries in which it operates. If the government of a given country were to enact new laws and regulations, such as laws and regulations relating to import/export duties, quotas, currency restrictions and taxation, which are unfavorable to Komatsu, Komatsu may be required to incur increased expenses in order to comply with such regulations. Such increased expenses may adversely affect Komatsu's results of operations.

**(5) Environmental Laws and Regulations**

Komatsu's products and business operations are required to comply with increasingly stringent environmental laws and regulations in the numerous countries in which Komatsu operates. Komatsu expends a significant share of its management resources, such as research and development expenses, to comply with regulations concerning air and wastewater emission levels of its manufacturing facilities and products. If the existing standards were to be amended, Komatsu may be required to incur increased costs and to make further capital expenditures to comply with such new standards. Incurrence of such additional environmental compliance costs may adversely affect Komatsu's results of operations.

**(6) Product Liability**

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

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### **(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.

### **(8) Procurement, Production and Other Matters**

Komatsu's procurement of parts and materials for its products is exposed to the fluctuations in commodity prices, mainly in the price of steel metal. Price increases in commodities may increase the costs of materials as well as production costs of Komatsu's products. In addition, an increase in commodity prices may result in a shortage of product parts and materials, making it difficult for Komatsu to engage in the timely procurement of parts and materials and manufacture of its products, thereby lowering Komatsu's production efficiency. In an effort to reduce any adverse effect to its business as a result of an increase in material costs, Komatsu plans to reduce other costs and pass on the increase in material costs to its customers through product price increases. Komatsu plans to minimize the effects of a shortage in product parts or materials by promoting closer collaboration among all of its related business divisions. However, if the increase in commodity prices were to exceed Komatsu's expectations or a prolonged shortage of materials and parts were to occur, Komatsu's results of operations may be adversely affected.

### **(9) Information Security, Intellectual Property and Other Matters**

Komatsu may obtain confidential information concerning its customers and individuals in the normal course of its business. Komatsu also holds confidential business and technological information. Komatsu maintains such confidential information with the utmost care. To safeguard such confidential information from unauthorized access, tampering, destruction, leakage, losses and other damages, Komatsu employs appropriate safety measures, including implementing technological safety measures and strengthening its information management capabilities. If a leak of confidential information concerning customers and individuals were to occur, Komatsu may become liable for damages, or its reputation and 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 a third party were to claim that Komatsu is liable for infringing on such third party's intellectual property rights, Komatsu's results of operations may be adversely affected.

### **(10) Natural Calamities, Wars, Terrorism, Accidents and Other Matters**

Komatsu conducts its business operations on a global scale and operates and maintains development, production, supply and other business facilities in many countries. If natural disasters, such as earthquakes and floods, wars, terrorist acts, accidents, unforeseeable criticism or interference by third parties or any malfunction of information and telecommunication systems in regions in which Komatsu operates were to occur and cause extensive damage to one or more of its facilities that cannot become fully operational within a short period of time, delays or disruption in the procurement of materials and parts or the production and supply of Komatsu's products and other services may result. Such delays or disruptions may adversely affect Komatsu's results of operations.

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### **Item 4. Information on the Company**

#### **A. History and Development of the Company**

The Company was incorporated in May 1921 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 +81-3-5561-2628 (Finance & Treasury 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 range 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) export 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).

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

In July 2005, KAC, the Company's wholly-owned subsidiary, completed the sale of 75% of its ownership interest in Advanced Silicon Materials LLC ( ASiMI ) to Solar Grade Silicon Holdings Inc., a U.S. subsidiary of Renewable Energy Corporation AS, a Norwegian company, while retaining the remaining 25% ownership interest. Simultaneously with the sale, the ownership interest in ASiMI was classified into Class A Units and Class B Units with the Class A Units having sole voting rights. The 25% ownership interest retained by KAC in ASiMI is in the form of Class B Units which do not have voting rights but whose consent is required for certain matters, including a liquidation of ASiMI and certain actions relating to the long term materials supply agreement. Ownership of the Class B Unit does not entitle KAC to share prospectively in the underlying profits and losses of ASiMI.

In July 2006, the Company entered into an agreement with Linde AG of Germany to acquire Linde AG's 35% equity interest in the Company's consolidated subsidiary, Komatsu Forklift Co., Ltd. (now consisting part of Komatsu Utility Co., Ltd.). In August 2006, the Company bought this 35% equity interest in Komatsu Forklift Co., Ltd. from Linde AG, making Komatsu Forklift Co., Ltd. a wholly-owned subsidiary.

In September 2006, the Company entered into an agreement with SUMCO CORPORATION ( SUMCO ) pursuant to which the Company agreed to accept SUMCO's tender offer for KEM. In October 2006, the Company sold 51.0% of its equity ownership in its consolidated subsidiary, KEM, to SUMCO. Prior to this disposition, the Company held a 61.9% equity interest in KEM.

In October 2006 and December 2006, the Company completed two transactions to acquire an aggregate 29.3% equity interest in NIPPEI TOYAMA CORPORATION ( NIPPEI TOYAMA ), one of the leading manufacturers in the field of transfer machines used in the processing of automobile engines, various grinding machines, wire saws used in the semiconductor and solar application industries, and laser cutting machines.

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. In connection with this sale and reorganization within Komatsu, 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.



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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 and Mining Equipment operating segment. Komatsu's capital investment for the fiscal years ended March 31, 2008, 2007 and 2006 were ¥145,730 million, ¥129,680 million and ¥113,934 million, respectively. Capital investment for the fiscal year ended March 31, 2008 by operating segment was as follows.

**Capital Investment by Operating Segment**

	Millions of Yen Fiscal Year ended March 31, 2008	Percentage Change as compared to the Fiscal Year ended March 31, 2007
Construction and Mining Equipment	¥ 133,356	20.1%
Industrial Machinery, Vehicles and Others	¥ 12,374	-33.7%
<b>Total</b>	<b>¥ 145,730</b>	<b>12.4%</b>

Notes:

- 1) Amounts include certain leased machinery and equipment accounted for as capital leases.
- 2) From the fiscal year ended March 31, 2008, Komatsu reclassified its operating segments into two operating segments from three operating segments. Accordingly, percentage changes as compared to the fiscal year ended March 31, 2007 in the above table were calculated using the financial data for the fiscal year ended March 31, 2007, which have been retrospectively reclassified using the new operating segments.
- 3) The term "Capital Investment" as used in the above Selected Financial Data should be distinguished from the term "Capital Expenditures" as used in the consolidated statements of cash flows. The term "Capital Investment" as used in the above Selected Financial Data is defined to refer to costs relating to the purchase of property, plant and equipment including properties under capital leases on an accrual basis which reflects the effect of timing differences between acquisition dates and payment dates. Komatsu's management uses this financial indicator to manage its capital investment and believes that this indicator is useful to investors in that this indicator presents accrual based capital investment in addition to the cash based capital expenditures provided in the consolidated statements of cash flows.

For the fiscal year ended March 31, 2008, Komatsu reinforced its production capacity for main components that are produced in Japan, such as transmissions, axles, final drives, hydraulics and engines, in order to respond to the increase in demand in the Construction and Mining Equipment operating segment. In addition, Komatsu made capital investments in production facilities for DANTOTSU products and products that comply with the latest engine emissions standards. 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 these products are equipped with one or more features that its competitors cannot match for some time.

In the Industrial Machinery, Vehicles and Others operating segment, Komatsu made capital investment to improve productivity, particularly in large presses, in response to the increase in demand for such products.

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The following table sets forth in further detail the principal construction projects Komatsu undertook during the fiscal year ended March 31, 2008 for the Construction and Mining Equipment operating segment. No principal construction projects were undertaken by Komatsu for the Industrial Machinery, Vehicles and Others operating segment for the fiscal year ended March 31, 2008.

**Main facilities completed in the fiscal year ended March 31, 2008**

<b>Operating segment</b>	<b>Main facilities</b>
Construction and Mining Equipment	<p>Additional establishment of a plant for major components manufacturing at the Awazu Plant of the Company</p> <ul style="list-style-type: none"> <li>- Products: Transmission components and others</li> <li>- Location: Komatsu City, Ishikawa Prefecture</li> </ul> <p>Additional establishment of a plant for major components manufacturing at the Oyama Plant of the Company</p> <ul style="list-style-type: none"> <li>- Products: Engines, hydraulic equipment</li> <li>- Location: Oyama City, Tochigi Prefecture</li> </ul>

**New constructions, expansions and overhauls of main facilities in progress during the fiscal year ended March 31, 2008**

<b>Operating segment</b>	<b>Main facilities</b>
Construction and Mining Equipment	<p>New establishment of the Kanazawa Plant No.2 of the Company</p> <ul style="list-style-type: none"> <li>- Products: Super-large hydraulic excavators</li> <li>- Location: Kanazawa City, Ishikawa Prefecture</li> </ul> <p>Additional establishment of a plant for major components manufacturing of Komatsu Castex Ltd.</p> <ul style="list-style-type: none"> <li>- Products: Cylinder block and others</li> <li>- Location: Himi City, Toyama Prefecture</li> </ul> <p>Incorporation of Komatsu Undercarriage China Corp.</p> <ul style="list-style-type: none"> <li>- Products: Crawler components of construction equipment</li> <li>- Location: Jining City, Shandong Province, China</li> </ul> <p>Incorporation of Komatsu Manufacturing Rus LLC</p> <ul style="list-style-type: none"> <li>- Products: Medium-sized hydraulic excavators and others</li> <li>- Location: Yaroslavl, Russia</li> </ul>

Komatsu's capital investments for the fiscal year ended March 31, 2008 was primarily financed by funds on hand, bank borrowings and capital leases.

For information on expected principal capital investments, see Item 4.D. Property, Plants and Equipment.



**Table of Contents****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.

Beginning in the fiscal year ended March 31, 2008, Komatsu reclassified its business segments into the following two operating segments: (1) Construction and Mining Equipment and (2) Industrial Machinery, Vehicles and Others. Historically, Komatsu's business consisted of three operating segments: (1) Construction and Mining Equipment, (2) Industrial Machinery, Vehicles and Others, and (3) Electronics. Starting in the fiscal year ended March 31, 2008, however, Komatsu reclassified its electronics related business as a part of the Industrial Machinery, Vehicles and Others operating segment, as opposed to an independent segment. Having disposed the silicon wafer business of KEM during the fiscal year ended March 31, 2007, Komatsu's management believes that this reclassification realigns Komatsu's operating segments in a manner that is consistent with the way in which they now manage their business. Figures for the Industrial Machinery, Vehicles and Others operating segment have been retrospectively adjusted for the prior fiscal years to reflect this reclassification throughout this annual report.

The manufacturing operations of Komatsu are conducted primarily at plants located in Japan, the United States, Germany, the United Kingdom, Sweden, India, Indonesia, Brazil, Italy, China and Thailand. 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 and sales distributors who primarily sell products to retail dealers in their respective geographic area.

## PRODUCTS AND SERVICES

Komatsu's business activities are divided into two operating segments: (1) Construction and Mining Equipment and (2) Industrial Machinery, Vehicles and Others.

The following table sets forth Komatsu's net sales by operating segments for the fiscal years ended March 31, 2008, 2007 and 2006, which is reproduced from the Company's audited consolidated financial statements.

**Net Sales by Operating Segments**

	(Millions of Yen)					
	Fiscal Year Ended March 31, 2008		Fiscal Year Ended March 31, 2007		Fiscal Year Ended March 31, 2006	
Construction and Mining Equipment	¥ 1,897,620	84.6%	¥ 1,567,723	82.8%	¥ 1,291,223	80.1%
Industrial Machinery, Vehicles and Others	345,403	15.4%	325,620	17.2%	320,917	19.9%
<b>Total</b>	<b>¥ 2,243,023</b>	<b>100.0%</b>	<b>¥ 1,893,343</b>	<b>100.0%</b>	<b>¥ 1,612,140</b>	<b>100.0%</b>

Note: From the fiscal year ended March 31, 2008, Komatsu reclassified its operating segments into two operating segments from three operating segments. Accordingly, the financial data for the fiscal years ended March 31, 2007 and 2006 in the above table have been retrospectively reclassified using the new operating segments.

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## (1) Construction and Mining Equipment

The Construction and Mining Equipment operating segment has been Komatsu's mainstay operating segment during the last several decades. Net sales from this operating segment has increased sharply during the last few years and accounted for 84.6% of Komatsu's total net sales for the fiscal year ended March 31, 2008.

Komatsu offers various types of construction and mining equipment, ranging from super-large machines capable of mining applications to mini units for urban use. Komatsu's range of products in this operating segment 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 of equipment:

<b>Category</b>	<b>Principal Products</b>
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 debris crushers, mobile soil recyclers and mobile tub grinders
Other Equipment	Railroad maintenance equipment
Engines and Components	Diesel engines, diesel generator sets and hydraulic equipment
Casting Products	Steel castings and iron castings

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. Since the introduction of DANTOTSU products, Komatsu has been working to replace many of its product models with DANTOTSU products. DANTOTSU products include WA500 and WA600 wheel loaders to name a few. Komatsu plans to continue making model changes to replace some of its existing construction and mining equipment product models with DANTOTSU products.

In addition, Komatsu has been focused on downstream businesses, such as the used equipment business and the rental equipment business. Recognizing the increase in demand for used equipment outside of Japan, 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.

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The principal products developed in the Construction and Mining Equipment operating segment during the fiscal year ended March 31, 2008 are listed below:

<b>Company</b>	<b>Product</b>	<b>Model</b>
Komatsu Ltd.	Hydraulic Excavators	PC120-8, PC300-8, PC350-8, PC400-8, PC450-8
	Bulldozers	D31EX-22, D31PX-22, D37EX-22, D37PX-22, D39EX-22, D39PX-22, D51EX-22, D51PX-22, D61EX-15E0, D61PX-15E0
	Wheel Loader	WA320-6
	Mobile Debris Crusher	BR580JG-1
Komatsu Utility Co., Ltd.	Hydraulic Excavators	PC18MR-3, PC27MR-3, PC30MR-3, PC35MR-3, PC40MR-3, PC45MR-3
	Wheel Loaders	WA30-6, WA40-6, WA50-6
Komatsu Utility Europe S.p.A.	Hydraulic Excavators	PC14R-3, PC16R-3, PC26MR-3, PC80MR-3
	Backhoe Loaders	WB91R-5E0, WB93R-5E0, WB97R-5E0
	Telescopic Handlers	WH609-1E0, WH613-1E0, WH713-1E0, WH714-1E0, WH716-1E0
	Wheeled Hydraulic Excavators	PW160-7, PW200-7, PW220-7
Komatsu Hanomag GmbH	Wheel Loaders	WA65-6, WA70-6, WA80-6, WA90-6, WA100M-6
	Dump Truck	HD1500-7
Komatsu America Corp.	Backhoe Loader	WB142-5

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## (2) Industrial Machinery, Vehicles and Others

Net sales from the Industrial Machinery, Vehicles and Others operating segment has been increasing during the last few years and accounted for 15.4% of Komatsu's total net sales for the fiscal year ended March 31, 2008. 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, forklift trucks and other services such as logistics. Komatsu's principal products in this operating segment fall into the following categories of equipment:

<b>Category</b>	<b>Principal Products</b>
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 and grinding machines
Industrial Vehicles and Logistics	Forklift trucks, packing and transport
Defense Systems	Ammunition and armored personnel carriers
Temperature-control equipment	Thermoelectric modules and temperature-control equipment for semiconductor manufacturing
Others	Commercial-use prefabricated structures

For the fiscal year ended March 31, 2008, Komatsu developed innovative presses incorporating its AC Servo technologies, such as a large-sized AC servo transfer press line and the new small-sized AC servo press H2W with flexible slide motion. Komatsu also developed a high speed automatic transfer machine (take-out separator) for the Gatling press machine GT3300. In addition, with respect to machine tools, Komatsu recently developed the milling-centering machine GHD200 as a zone system integration of crank shaft machining line, as well as the cableveyor-less auto loader GGA30 with high speed and low noise levels. With respect to industrial vehicles, Komatsu developed vehicles with improved maneuvering capabilities, such as a 1-ton class electric type reach forklift truck, a 1-ton and 2-ton class electric type counter-balance hybrid specification forklift truck, a 3-ton electric type counter-balance forklift truck, a 1-ton class electric type counter-balance forklift truck for China under its FB Series, a 10-ton class diesel engine type forklift truck and a 2-ton class diesel engine type forklift truck for USA and EU under its FD Series. Komatsu's 1-ton class electric type counter-balance hybrid specification forklift truck won the Minister of Economy, Trade and Industry Award presented by the Japan Machinery Federation in 2008 as the most excellent energy-saving machinery for industrial use.

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## PRINCIPAL MARKETS

Komatsu operates and competes in the following six principal markets: (1) Japan, (2) the Americas, (3) Europe and Commonwealth of Independent States ( 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 sales destination (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 sales destination for the fiscal years ended March 31, 2008, 2007 and 2006. Net sales data by sales origin are set forth in Note 22 to the Company's audited consolidated financial statements, included elsewhere in this report.

**Net Sales by Region**

	(Millions of Yen)					
	Fiscal Year Ended March 31, 2008		Fiscal Year Ended March 31, 2007		Fiscal Year Ended March 31, 2006	
Japan	¥ 505,185	22.5%	¥ 487,103	25.7%	¥ 482,825	29.9%
Americas	541,160	24.1%	537,836	28.4%	477,718	29.6%
Europe and CIS	427,679	19.1%	324,071	17.1%	232,329	14.4%
China	189,902	8.5%	129,443	6.8%	89,667	5.6%
Asia (excluding Japan and China) and Oceania	348,462	15.5%	252,768	13.4%	213,719	13.3%
Middle East and Africa	230,635	10.3%	162,122	8.6%	115,882	7.2%
<b>Total</b>	<b>¥ 2,243,023</b>	<b>100.0%</b>	<b>¥ 1,893,343</b>	<b>100.0%</b>	<b>¥ 1,612,140</b>	<b>100.0%</b>



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### **SALES AND DISTRIBUTION**

Komatsu's international and domestic sales and distribution for its Construction and Mining Equipment operating segment are conducted primarily through a network of subsidiaries, affiliates and independent distributors, and to a lesser extent by its partners of jointly-owned companies.

Komatsu's construction and mining equipment sales and distribution operations in Japan focus principally on retail sales to customers, partly on an installment basis. In addition, Komatsu has enhanced its equipment rental services in Japan by using rental companies as its agents, especially for its construction and utility equipment, in response to strong demand from customers. Distributors and dealers form the core of the service network in Japan, providing total customer-support services.

Komatsu's overseas construction and mining equipment sales and service network consists of approximately 220 distributors. Komatsu supplies its products to distributors around the world through trading companies and the Company's subsidiaries and affiliated companies, supported by Komatsu's liaison offices. The Company's major sales subsidiaries and affiliates are located in Australia, Belgium, Brazil, Chile, China, France, Germany, India, Indonesia, Italy, Russia, Singapore, South Africa, Sweden, the United Arab Emirates and the United States. These subsidiaries and affiliates provide additional inventory and technical assistance to Komatsu's distributors while also strengthening the capability of emergency spare parts delivery. These subsidiaries and affiliates as well as Komatsu's distributors provide the services that customers may require with respect to their construction and mining equipment outside of Japan.

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

### **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. Komatsu also procures some of its parts, such as metal forgings, machine components, sheet metal parts and various accessories, from its business partners. Therefore, the fluctuations in prices of materials for such components, such as steel materials, may affect Komatsu's results of operations. Komatsu believes, however, 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**

Komatsu's businesses have historically experienced some seasonal fluctuations in sales. While there are variations by market and product, Komatsu's consolidated sales for the fourth quarter have been highest for each of the past four fiscal years. However, this seasonality has generally not been material to Komatsu's results of operations.

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### 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.

### COMPETITIVE ENVIRONMENT

#### *Construction and Mining Equipment*

As a manufacturer of a full line of construction and mining equipment, Komatsu provides a broad range of products from super-large equipment for mining use to general construction equipment. While there is intense competition in all of the product categories in this operating segment, Komatsu continuously maintains its position as one of the market leaders in every region in which it operates.

Komatsu's competitors in the Construction and Mining Equipment operating segment consist of global competitors, regional competitors and locally specialized competitors. Major global competitors include Caterpillar Inc. ( Caterpillar ), Terex Corporation, Hitachi Construction Machinery Co., Ltd.( Hitachi Construction ), Volvo Construction Equipment NV( Volvo ) and CNH Global N.V. The competitive environments differ according to regions and product models.

Although it has been experiencing a sharp downturn in demand, North America is still the largest market for construction equipment in the world and Caterpillar is the market leader in terms of sales.

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

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In the market Komatsu calls Greater Asia, which consists of Asia as well as China, India, the Middle East and CIS, Komatsu's competitors include Caterpillar, Hitachi Construction, and Korean manufacturers such as Hyundai Heavy Industries Co., Ltd. and Doosan Infracore Co., Ltd. In China, where the increase in demand has been particularly prominent in recent years among the markets in Greater Asia, Komatsu competes with a number of local manufacturers in addition to the above-mentioned competitors.

Komatsu continues to strive to develop DANTOTSU products that demonstrate truly outstanding features, such as fuel efficiency, information technology and environment-friendliness, which features Komatsu believes its competitors will not be able to match for some time. Komatsu is not only focused on improving the performance of its products, but also is focused on developing a variety of IT-applied systems, such as KOMTRAX (Komatsu Machine Tracking System) and an autonomous hauling system, in order to maximize the productivity of its customers. Komatsu believes that such IT applications provide Komatsu with a competitive advantage in the construction and mining equipment market.

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### *Industrial Machinery, Vehicles and Others*

In the Industrial Machinery, Vehicles and Others operating segment, Komatsu's principal products consist of (1) metal forging and stamping presses, (2) sheet metal machines, (3) machine tools and (4) forklift trucks. As discussed below, the market for all of these products is highly competitive.

#### *(1) Metal Forging and Stamping Presses*

Komatsu manufactures and sells stamping presses that are used to press doors, roofs and other automobile parts into shapes. With respect to large presses, which are mainly sold to automobile manufacturers, Komatsu considers Ishikawajima-Harima Heavy Industries Co., Ltd., Hitachi Zosen Fukui Corporation and AIDA Engineering, Ltd. (AIDA) of Japan and Schuler AG of Germany to be its major competitors.

In Japan, Japanese manufacturers, including Komatsu, have an advantage over non-Japanese manufacturers. Likewise, in Germany, German manufacturers enjoy dominant positions and have a competitive advantage over non-German manufacturers. In other markets, regional and locally specialized competitors in addition to the above-mentioned major manufacturers compete with each other, making the markets highly competitive.

The competitive environment of these products has become increasingly intense in Asia, mainly in China and India, where many automobile manufacturers have been establishing manufacturing plants and making large capital investment.

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

#### *(2) Sheet Metal Machines*

With respect to sheet metal machines that are used to cut and bend steel sheets, Japan is the major market for Komatsu's products and Komatsu's competitors consist of other Japanese manufacturers, such as Amada and Koike Sanso Kogyo Co., Ltd. Amada enjoys a large market share with a wide range of products in the industry. To effectively compete in this industry, Komatsu follows a niche-market strategy.

#### *(3) Machine Tools*

The principal product of Komatsu's machine tool business is crankshaft millers that are used to cut and fabricate engine parts for automobiles. Major competitors in the crankshaft millers market include Boehringer Werkzeugmaschinen GmbH (Boehringer) and Gebrüder Heller Maschinenfabrik GmbH (Heller) of Germany. In Japan, Komatsu enjoys a predominant position in the crankshaft miller market. On the other hand, German manufacturers dominate the market in Germany. In other markets, such as North America, China and South Korea, Komatsu mainly competes with Boehringer and Heller.

#### *(4) Forklift Trucks*

The major markets for forklift trucks have traditionally been Europe, the United States and Japan. Recently, China has overtaken Japan and developed into the third major 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 of forklift trucks primarily focus on forklift trucks.

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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, various environmental controls regulating the manufacturing processes, such as the management of toxic chemicals and hazardous wastes, green procurement and recycling. Komatsu's operations and products are designed to comply with all applicable environmental regulations currently in effect in the relevant jurisdictions. Komatsu expects to remain in substantial compliance with existing applicable environmental control regulations and does not expect that the costs of compliance with foreseeable regulations will have a material effect upon its financial position and results of operations. Some of the important environmental laws and regulations that affect Komatsu's businesses are summarized below.

*Regulations regarding engine emissions*

The Ministry of Land, Infrastructure and Transport of Japan ( MLIT ) introduced the approval system for low-emission type construction equipment used in construction in 1997, setting the maximum emission levels by model and power range. While the maximum emission levels set by MLIT are not legally binding, they function as practical standards on engine emissions, since only construction equipment that has obtained such approval is allowed to be used in construction projects under the direct control of MLIT. MLIT lowered its original limit values in 2003. Such limits are known as the Tier II standards. In 2006, a new law took effect in Japan to control exhaust emissions from off-road specific vehicles in the power range over 19kW, including those used at construction sites. In connection with the implementation of this new law, exhaust emission limits were lowered further. Such new limits are known as the Tier III standards, compliance with which is now mandatory in Japan.

In the United States, the Environmental Protection Agency introduced the Tier I standards for equipment of 130kW or greater in 1996. The Tier III standards have been phased in since 2006, and the far more stringent Tier IV standards are scheduled to be phased in starting 2011.

In Europe, the Engine Emissions Directive 97/68/EC regarding the 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 and the second stage of the directive was implemented from 2002 to 2004. The third stage of this directive was implemented in 2006 to 2008.

Komatsu has attained compliance with all regulatory standards that have already taken effect and continues to make progress in its preparations to comply with the Tier IV standards to be implemented in the near future in Japan, the United States and European Union.

*Regulations regarding noise and vibration*

In Japan, the type approval system for low-noise emission and low-vibration type construction equipment was established by MLIT 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 meets the standards set forth by MLIT. The current measurement method and limits on noise levels have been in effect since October 1997. The type approval system for low-vibration construction equipment started in October 1996, which sets forth non-binding regulatory standards for vibratory hammers and hydraulic excavators.

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In Europe, European Parliament and Council Directive 95/27/EC 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 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. In January 2002, European Parliament and Council Directive 2000/14/EC 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 such products must bear a CE-mark and the indication of their guaranteed sound-power level before they can be brought to the 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 requires further noise reduction has been in effect since January 2006.

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### MANAGEMENT POLICY AND STRATEGIES

#### *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. 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, Target and Issues Ahead*

Komatsu defines corporate value as the total sum of trust given to it by society and all stakeholders. To increase this corporate value, Komatsu has set the following two management goals.

- To maintain its top-level profitability and financial position in the industry and enhance its position in the global marketplace, especially in Greater Asia.
  
- To continue management, while keeping market value in mind, which reflects the amount of trust given to it by society and shareholders.

To achieve these goals above, Komatsu will promote the following three matters as Komatsu's permanent ongoing tasks. (1) thorough measures for compliance, safety and environmental conservation, (2) dissemination of The KOMATSU Way\* and human resource development, and (3) brand management activities.

Furthermore, Komatsu is continuing its efforts on the following seven activities of importance for the Global Teamwork for 15 mid-range management plan, the goal of which is set for the year ending March 31, 2010. Komatsu is determined to produce achievements.

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### (1) Development of DANTOTSU Products

Komatsu is promoting the development of DANTOTSU products by taking advantage of Komatsu's group-wide strengths, such as in-house capabilities to develop and produce key components including engines and hydraulic units which enable a substantial reduction of fuel consumption, IT applications as represented by KOMTRAX (Komatsu Machine Tracking System), and an autonomous haulage system for super-large dump trucks.

### (2) Further Enhancement of Market Position in Greater Asia

Komatsu is going to further enhance its market position in Greater Asia especially by leading its competitors in product launchings, expanding local production, and further reinforcing sales and product support capabilities.

### (3) Business Expansion in the Entire Value Chain\*\*

In addition to expanding its parts business, Komatsu is working to expand businesses in the entire value chain. Specifically, Komatsu is also going to expand peripheral businesses in relation to construction and mining equipment, such as (1) services and remanufacturing, (2) retail finance, (3) rental and used equipment, (4) working gears (attachments) and forest machines by capitalizing on Komatsu group-wide areas of original technological edge and facilitating collaboration among different business operations.

### (4) Establishment of Flexible Manufacturing Operations

By taking effective advantage of global sales, production, procurement and other operations, Komatsu is going to further enhance production flexibility in tune with demand changes and foreign exchange fluctuations. Komatsu is also going to share market information among distributors, plants and suppliers. In the short term, Komatsu is going to accurately incorporate such information into production, sales and inventory planning. In the medium term, Komatsu will accurately incorporate useful information into capital investment planning in order to ensure appropriate production capacity.

### (5) Expansion of Utility Equipment Business

Komatsu is working further to generate synergy in production and development of forklift trucks and compact-construction equipment in order to enhance product competitiveness. Komatsu is also working to improve its position in the utility equipment industry and improve earnings by doubling its efforts in Greater Asia.

### (6) Reinforcement of Industrial Machinery Business

Komatsu is working to further expand its industrial machinery business by generating more synergy with NIPPEI TOYAMA as a new member of Komatsu and by strengthening business, particularly in Greater Asia.



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## (7) Reduction of Fixed Costs

Komatsu has been working to reduce fixed costs since the commencement of the first-stage Reform of Business Structure project. Komatsu is working to further cut down fixed costs by applying IT to improve operations.

- \* When the founder of Komatsu established the Company in 1921, he defined the guiding principles of the Company to be overseas expansion, quality first, technology innovation, and human resource development. Management believes that Komatsu's strengths were built up by earlier generations of employees based on these principles in the course of Komatsu's growth and these principles are still ingrained in the minds of Komatsu employees today. Management defines The Komatsu Way as Komatsu's strengths, the beliefs that support the strengths, the basic attitude and patterns of behavior. Management is convinced that Komatsu can further enhance its reliability and continue to grow by all Komatsu employees sharing and passing on the Komatsu Way.

\*\* Values generated by business activities of Komatsu with its partners, i.e., distributors and suppliers, and customers. Management has established the following financial targets for the mid-range management plan Global Teamwork for 15.

	<b>Targets for Fiscal Year Ending March 31, 2010</b>
Operating income ratio	15% or above
ROE (Return on Equity) 1)	Keeping 20% level
Net debt-to-equity Ratio 2)	0.2 or below

Notes:

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

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

**<Premises>**

	<b>Fiscal Year 2010</b>
Guideline on net sales	¥2,400 billion (+/- ¥100 billion)
Guideline on exchange rates	¥110/1USD, ¥145/1EUR

**Table of Contents****C. Organizational Structure**

As of March 31, 2008, the Company had 165 consolidated subsidiaries and 41 affiliates accounted for by the equity method. The following is a list of the principal consolidated subsidiaries as of March 31, 2008.

Name	Country of Incorporation	Ownership Interest (proportion of voting power held) (%)
Komatsu Utility Co., Ltd.	Japan	100.0
Komatsu Castex Ltd.	Japan	100.0
Komatsu Tokyo Ltd.	Japan	100.0
Komatsu Kinki Ltd.	Japan	100.0
Komatsu Nishi-Nihon Ltd.	Japan	100.0
Komatsu Used Equipment Corp.	Japan	100.0
Komatsu Rental Japan Ltd.	Japan	100.0
BIGRENTAL Co., Ltd.	Japan	57.9
Komatsu Industries Corporation	Japan	100.0
Komatsu Machinery Corporation	Japan	100.0
NIPPEI TOYAMA CORPORATION	Japan	93.7
		(97.7)
Komatsu Logistics Corp.	Japan	100.0
Komatsu America Corp.	U.S.A.	100.0
Komatsu Latin-America Corp.	U.S.A.	100.0
Komatsu do Brasil Ltda.	Brazil	100.0
Komatsu Cummins Chile Ltda.	Chile	81.8
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 Deutschland GmbH	Germany	100.0
Komatsu France S.A.	France	100.0
Komatsu Utility Europe S.p.A.	Italy	100.0
Komatsu Italia S.p.A.	Italy	100.0
Komatsu Forest AB	Sweden	100.0
Komatsu CIS LLC	Russia	100.0
Komatsu Financial Europe N.V.	Belgium	100.0
Komatsu Southern Africa (Pty) Ltd.	South Africa	80.0
Komatsu Asia & Pacific Pte Ltd.	Singapore	100.0
PT Komatsu Indonesia	Indonesia	94.9
Bangkok Komatsu Co., Ltd.	Thailand	74.8
Komatsu Australia 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

Note: Proportion of ownership interest includes indirect ownership.

**Table of Contents****D. Property, Plants and Equipment**

Komatsu's manufacturing operations for the Construction and Mining Equipment operating segment are conducted in 49 plants, 13 of which are located in Japan. As of March 31, 2008, 29 principal plants (out of 49 plants) had an aggregate manufacturing floor space of 1,626 thousand square meters (17,504 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 they are located. A portion of the properties owned by Komatsu is subject to mortgages or other types of liens. As of March 31, 2008, the net book value of the property owned by Komatsu was ¥491,146 million, of which ¥5,497 million was 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, 2008 are as follows:

Name and Location	Floor Space		Principal products
	Thousand sq. meter	Thousand sq. ft	
<b>Japan:</b>			
Awazu Plant	233	2,508	Small- hydraulic excavators,
Komatsu, Ishikawa			small- and medium-sized wheel loaders,
			small- and medium-sized bulldozers,
			motor graders
Komatsu Plant	44	474	Large presses
Komatsu, Ishikawa			
Kanazawa Plant	15	161	Large presses
Kanazawa, Ishikawa			
Osaka Plant 1)	157	1,690	Medium- and large-sized hydraulic excavators,
Hirakata, Osaka			large bulldozers,
			recycling equipments
Oyama Plant 2)	201	2,164	Diesel engines,
Oyama, Tochigi			hydraulic equipment
Mooka Plant	80	861	Dump trucks,
Mooka, Tochigi			articulated dump trucks
Ibaraki Plant	40	431	Large wheel loaders,
Hitachinaka, Ibaraki			dump trucks
Koriyama Plant	30	323	Hydraulic equipment

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Koriyama, Fukushima

Komatsu Utility Co., Ltd.

Oyama, Tochigi

Kawagoe, Saitama

Komatsu Castex Ltd.

Himi, Toyama

NIPPEI TOYAMA CORPORATION

Nanto, Toyama

Yokosuka, Kanagawa

75

39

69

68

9

807

420

743

732

97

Mini wheel loaders, forklift trucks

Mini excavators

Steel castings,

iron castings,

patterns for casting

Transfer machines, machining centers, laser cutting machines

Semiconductor manufacturing equipment

**Table of Contents****The Americas**

Komatsu America Corp. Tennessee, U.S.A.	31	334	Medium-sized hydraulic excavators, articulated dump trucks
Quebec, Canada,	14	151	Small- and medium-sized wheel loaders
South Carolina, U.S.A.	18	194	Backhoe loaders, skid steer loaders
Illinois, U.S.A.	62	667	Large dump trucks
Hensley Industries, Inc.	18	194	Buckets, teeth, edges, adapters
Texas, U.S.A.			
Komatsu do Brasil Ltda.	62	667	Medium-sized hydraulic excavators,
Suzano, São Paulo, Brazil			small- and medium-sized wheel loaders, medium-sized bulldozers, motor graders

**Europe**

Komatsu UK Ltd.	60	646	Medium- and large-sized hydraulic excavators
Birtley, UK			
Komatsu Hanomag GmbH	77	829	Wheeled hydraulic excavator,
Hanover, Germany			small- and medium-sized wheel loaders, compactors
Komatsu Forest AB	12	129	Forestry equipment (wheel type)
Umea, Sweden			
Komatsu Mining Germany GmbH	23	248	Super-large hydraulic excavators
Düsseldorf, Germany			
Komatsu Utility Europe S.p.A.	43	463	Mini excavators,
Este, Italy			backhoe loaders, skid steer loaders

**Asia (excluding Japan) and Oceania**

PT Komatsu Indonesia	55	592	Medium-sized hydraulic excavators,
Jakarta, Indonesia			small- and medium-sized wheel loaders, small- and medium-sized bulldozers, motor graders, dump trucks
PT Komatsu Undercarriage Indonesia	12	129	Undercarriage components and spare parts

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Bekasi, Indonesia

Komatsu (Changzhou) Construction Machinery Corporation 16 172 Medium-sized hydraulic excavators,

medium-sized wheel loaders,

Jiangsu, China

dump trucks

Komatsu Shantui Construction Machinery Co., Ltd. 39 420 Small- and medium-sized hydraulic excavators

Shandong, China

Bangkok Komatsu Co. Ltd. 24 258 Medium-sized hydraulic excavators,

backhoe loaders

Chonburi, Thailand  
Notes:

- 1) The floor space of the Rokko plant is included in the floor space figure.
- 2) Komatsu Cummins Engine Co., Ltd. and a portion of Komatsu Castex Ltd. are located at the Oyama Plant of the Company.

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The head office of the Company is located in a ten-story 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 the Construction, Expansion and Improvement of Facilities**

Komatsu conducts various businesses in Japan and overseas. While the details of future capital investment plans to install new and more efficient equipment and to dispose of obsolete equipment had not been decided as of March 31, 2008, as of the filing date of this annual report, Komatsu plans to make capital investments of approximately ¥178,000 million in the fiscal year ending March 31, 2009.

The amount of capital investment expected to be made in the fiscal year ending March 31, 2009, the principal investment objectives and the sources of funding by operating segment are set forth in the below table. From the fiscal year ending March 31, 2009, Komatsu has reclassified its business segments into the following two operating segments: (1) Construction, Mining and Utility Equipment and (2) Industrial Machinery and Others. Accordingly, plans for capital investments have been made using these new operating segments.

<b>Operating Segment</b>	<b>Approximate expected capital investment amount in the fiscal year ending March 31, 2009 (Millions of Yen)</b>	<b>Principal investment objectives</b>	<b>Sources of funding</b>
Construction, Mining and Utility Equipment	169,000	To increase production capacity and to develop and manufacture new products, etc.	Funds on hand, bank borrowings, etc.
Industrial Machinery and Others	9,000	To increase production capacity, to renew obsolete equipment and to increase operating efficiency, etc.	Funds on hand, bank borrowings, etc.
Total	178,000		

Note: Capital investment amounts exclude consumption tax, etc.

In the Construction, Mining and Utility Equipment operating segment, Komatsu plans to make investments that would increase production capacity for key components and materials, and reallocate its production resources in an effort to utilize its production facilities on a global basis. In addition, Komatsu will continue to invest in the development and production of DANTOTSU products as well as products that comply with engine emissions standards. In the Industrial Machinery and Others operating segment, Komatsu plans to invest capital to increase production capacity, increase operational efficiency and 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. For the convenience of the reader, Japanese yen amounts have been converted to U.S. dollar amounts at the rate of ¥100 to U.S.\$1.00, the approximate buying rate of Japanese yen as of noon on March 31, 2008 in New York City as reported by the Federal Reserve Bank of New York.

*Komatsu's Business*

Komatsu is a global organization engaged primarily in the manufacturing, development, marketing and sale of industrial-use equipment and products. Beginning in the fiscal year ended March 31, 2008, Komatsu reclassified its business segments into the following two operating segments: (1) Construction and Mining Equipment and (2) Industrial Machinery, Vehicles and Others. Historically, Komatsu's business consisted of three operating segments: (1) Construction and Mining Equipment, (2) Industrial Machinery, Vehicles and Others and (3) Electronics. Starting in the fiscal year ended March 31, 2008, however, Komatsu reclassified its electronics related business as a part of the Industrial Machinery, Vehicles and Others operating segment, as opposed to an independent segment. Komatsu's management believes that this reclassification realigned Komatsu's operating segments in a manner that is consistent with the way in which they now manage their business. Figures for the Industrial Machinery, Vehicles and Others operating segment have been retrospectively adjusted for the prior fiscal years to reflect this reclassification.

Sales for the fiscal year ended March 31, 2008 in the Construction and Mining Equipment operating segment and the Industrial Machinery, Vehicles and Others operating segment accounted for approximately 84.6% and 15.4% of consolidated net sales, respectively. Of the consolidated net sales for the fiscal year ended March 31, 2008, 22.5% of net sales were derived from sales to customers located in Japan, and 77.5% of net sales were derived from sales to customers located outside of Japan. For additional information about 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 ¥113.61 for the fiscal year ended March 31, 2008 and ¥116.55 for the fiscal year ended March 31, 2007. 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, 2008 and 2007 in Item 5.A. Operating Results.



**Table of Contents***General Overview*

During the fiscal year ended March 31, 2008, the expansion of the world economy lost speed compared to the previous fiscal years. Economic activities in economically advanced regions decelerated sharply in the second half of the fiscal year ended March 31, 2008, mainly due to the effects of the subprime mortgage crisis on the financial markets and financial institutions. In North America, residential investments decreased and consumption and business investments slowed down, affected by the tighter lending conditions that resulted after a period of turbulence in the financial markets in August 2007. While the Western European economy continued to expand for most of the fiscal year, growth decelerated towards the end of the fiscal year as consumer and business confidence fell in response to the dislocation of the financial sector and the impact of rising oil prices. In Japan, the economy remained resilient and robust exports supported by strong demand from Asia and Europe fueled economic growth. Despite the overall resilience of the Japanese economy, residential investments continued to slump following the tightening of Japanese building standards in June 2007 and household spending remained weak. By contrast, the newly-developing economies were less affected by the turbulence in the financial markets described above and continued to grow robustly, led particularly by China and India. Despite the slow-down in growth in economically advanced regions, the commodity markets remained strong mainly driven by robust demand from newly-developing economies, which accounted for much of the increase in worldwide, commodity consumption in recent years. The sharp increase in commodity prices boosted exports, foreign direct investment and domestic investment in commodity-exporting countries in Africa and Latin America, as well as oil exporting countries in the Middle East.

*Summary of Operating Results*

Komatsu's consolidated business results for the fiscal year ended March 31, 2008 continued to post record-high figures in both net sales and operating income, registering the sixth consecutive year of improvement in these two figures. Consolidated net sales for the fiscal year ended March 31, 2008 increased by 18.5% from the fiscal year ended March 31, 2007 to ¥2,243,023 million (U.S.\$22,430 million) due primarily to increased net sales in the Construction and Mining Equipment operating segment. In the Construction and Mining Equipment operating segment, Komatsu once again recorded an increase in net sales for the fiscal year ended March 31, 2008 by effectively capitalizing on the increase in market demand in such equipment resulting from expanded activity in the areas of resource and infrastructure development around the world. While market demand in construction and mining equipment in North America continued to weaken due to an economic slowdown, which in part was facilitated by the subprime mortgage crisis in the U.S., worldwide market demand for construction and mining equipment increased against the backdrop of thriving resource development activities around the world and infrastructure development activities particularly in newly-developing markets. Steady sales growth in the Industrial Machinery, Vehicles and Others operating segment, which reflects continuing sales improvements in the industrial machinery business due primarily to increased capital investments by the automobile sector on a worldwide basis, also contributed to the increase in consolidated net sales. In addition, the net sales increase in the forklift truck business due primarily to increased sales in Greater Asia also contributed to the sales growth in the Industrial Machinery, Vehicles and Others operating segment.

Operating income for the fiscal year ended March 31, 2008 was ¥332,850 million (U.S.\$3,329 million), which increased by 36.0% as compared to the fiscal year ended March 31, 2007. This increase in operating income was largely due to positive factors such as (1) increased sales, (2) the realization of sales at higher prices, (3) lower manufacturing costs and (4) beneficial changes in foreign exchange rates, which outweighed negative factors such as higher purchase prices of steel materials, tires and other purchased parts and higher fixed expenses related to research and development activities and reinforcement of Komatsu's sales and product support services.

Income from continuing operations before income taxes, minority interests and equity in earnings of affiliated companies for the fiscal year ended March 31, 2008 increased by 36.2% from the fiscal year ended March 31, 2007 to ¥322,210 million (U.S.\$3,222 million).

Net income for the fiscal year ended March 31, 2008 increased by 26.8% to ¥208,793 million (U.S.\$2,088 million) from the fiscal year ended March 31, 2007.

**Table of Contents***Key Management Indices*

Komatsu's management uses the following six financial indicators to assess its financial condition and results of operations: (1) net sales, (2) segment profit, (3) operating income, (4) operating income ratio, (5) return on equity ratio ( ROE ) and (6) net debt-to-equity ratio ( Net DER ). Set forth below are the results for the fiscal years ended March 31, 2008 and 2007.

Management considers segment profit, which is determined in a manner that is consistent with Japanese accounting principles, to be one of its key management indices because it enables management to evaluate financial data for each operating and geographic segment separately, without the effect of nonrecurring events and other factors unrelated to business activities, such as impairment loss or interest income/expense. Based on such evaluation of financial data for each operating and geographic segment, management assesses the performance of each such operating and geographic segment and determines how to allocate resources to each such segment.

Management Indices	Results for Fiscal Year Ended March 31,		Percentage Change 2008 vs. 2007
	2008	2007	
Net Sales	¥ 2,243,023 million	¥ 1,893,343 million	18.5%
Segment Profit <sup>1)</sup>	¥ 334,586 million	¥ 249,746 million	34.0%
Operating Income	¥ 332,850 million	¥ 244,741 million	36.0%
Operating Income Ratio <sup>2)</sup>	14.8%	12.9%	1.9 points
ROE <sup>3)</sup>	25.1%	23.5%	1.6 points
Net DER <sup>4)</sup>	0.39	0.33	0.06

Notes:

- 1) Segment Profit = Net Sales - {(Cost of Sales) + (Selling, General and Administrative Expenses)}

Segment Profit is determined in a manner that is consistent with Japanese accounting principles.

- 2) Operating Income Ratio = Operating Income/Net Sales

- 3) ROE = Net Income for the fiscal year / {(Shareholders' Equity at the beginning of the fiscal year) + (Shareholders' Equity at the end of the fiscal year) / 2}

- 4) Net DER = (Interest-bearing Debt - Cash and Cash Equivalents - Time Deposits) / Shareholders' Equity

As discussed under Item 4.B. Business Overview, MANAGEMENT POLICY AND STRATEGIES, one of the goals of Komatsu's Global Teamwork for 15 - mid-range management plan is to (1) achieve an operating income ratio of 15% or more, (2) maintain its ROE at the 20% level and (3) decrease its Net DER to 0.2 or lower by no later than March 31, 2010.

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*Net Sales*

Consolidated net sales for the fiscal year ended March 31, 2008 increased by 18.5% to ¥2,243,023 million (U.S.\$22,430 million) as compared to the fiscal year ended March 31, 2007. This increase was primarily due to increased sales in the Construction and Mining Equipment operating segment. Steady growth in the Industrial Machinery, Vehicles and Others operating segment also contributed to the increase in consolidated net sales. In the Construction and Mining Equipment operating segment, sales continued to increase for the fiscal year ended March 31, 2008 as Komatsu captured the expanded market demand for construction and mining equipment resulting from increased demand for commodities and increased infrastructure development activities around the world. In the Industrial Machinery, Vehicles and Others operating segment, sales increased as mainly Komatsu effectively took advantage of increased capital investments by the automobile sector on a worldwide basis.

*Segment Profit*

Consolidated segment profit for the fiscal year ended March 31, 2008 increased by 34.0% to ¥334,586 million (U.S.\$3,346 million) as compared to the fiscal year ended March 31, 2007. This increase was due primarily to increased segment profit for the Construction and Mining Equipment operating segment, which was supported by (1) increased sales, (2) the realization of sales at higher prices, (3) lower manufacturing costs and (4) beneficial changes in foreign exchange rates. Segment profit is determined in a manner that is consistent with Japanese accounting principles.

*Operating Income, Operating Income Ratio*

Operating income for the fiscal year ended March 31, 2008 increased by 36.0%, or ¥88,109 million, to ¥ 332,850 million (U.S.\$3,329 million) from ¥244,741 million recorded for the fiscal year ended March 31, 2007 due primarily to (1) increased sales, (2) the realization of sales at higher prices, (3) lower manufacturing costs and (4) beneficial changes in foreign exchange rates.

Operating income ratio for the fiscal year ended March 31, 2008 increased by 1.9 percentage points to 14.8% from 12.9% for the fiscal year ended March 31, 2007.

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*ROE*

Net income in the fiscal year ended March 31, 2008 increased by 26.8% to ¥208,793 million (U.S.\$2,088 million) compared with the fiscal year ended March 31, 2007 due primarily to the increase in operating income. As a result, ROE for the fiscal year ended March 31, 2008 increased by 1.6 percentage points to 25.1% from 23.5% in the fiscal year ended March 31, 2007.

*Net DER*

Komatsu's aggregate interest-bearing debt as of March 31, 2008 was ¥452,095 million (U.S.\$4,521 million), which increased by ¥103,021 million in the fiscal year ended March 31, 2008 as compared to the fiscal year ended March 31, 2007, due mainly to new additions of consolidated subsidiaries, including NIPPEI TOYAMA and BIGRENTAL Co., Ltd, ( BIGRENTAL ), a construction equipment rental company having a substantial market share of the rental market with a strong business presence in the Tohoku and northern Kanto regions.

Net interest-bearing debt after deducting cash and deposits also increased by ¥93,167 million to ¥349,988 million (U.S.\$3,500 million) in the fiscal year ended March 31, 2008. As a result, Net DER for the fiscal year ended March 31, 2008 increased to 0.39 from 0.33 for the fiscal year ended March 31, 2007.

*Critical Accounting Policies*

Komatsu prepares its consolidated financial statements in conformity with U.S. GAAP. Komatsu's management consistently 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.

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### (1) Allowance for Doubtful Receivables

Komatsu estimates the collectability of its trade receivables taking into consideration numerous factors including the current financial position by 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. 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 5 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 Komatsu 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 available tax planning strategies. Komatsu's management estimates its future taxable income and considers the likelihood of deferred tax assets recovery 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 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.

Benefit derived from uncertain tax positions is recognized when the tax position meets the more-likely-than-not recognition threshold based on technical merits of the position. Any benefit is measured as the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement with appropriate taxing authority. Komatsu assesses the likelihood of sustaining such tax positions at each reporting date, with any changes in estimate reflected in the period 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 will be successfully sustained, Komatsu may need 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 and lower future taxable income than the estimated taxable income or interpretation by 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 16 to the Consolidated Financial Statements.

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(3) Valuation of Long-Lived Assets and Goodwill

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

Komatsu reviews its goodwill annually for impairment. An impairment of goodwill is deemed to occur when the carrying value 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 shall be 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. If the carrying amount of the reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss shall be recognized in an amount equal to that excess.

In the event that Komatsu's strategy and market conditions change, 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. Thus, 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.

While fair value estimates are made at a specific point in time based on relevant market information and information about financial instruments, these estimates are subjective in nature and may change due to the 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, Komatsu considers the period and amount of its decline, and the financial conditions and prospects of each subject company. If the market price for marketable investment securities declines below Komatsu's acquisition cost and such condition extends for more than six months, Komatsu considers the decline to be other-than-temporary and recognizes impairment of such marketable investment securities. In assessing other-than-temporary impairment of non-marketable investment securities, Komatsu considers the financial conditions and prospects of each subject company and other relevant factors. While Komatsu believes that there are no major impairments of its investment securities at present, if the performance and business conditions of a subject company deteriorates due to a change in business circumstances, Komatsu may recognize an impairment of its investment securities.

### (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 13 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 average of discount rates adopted by the Company and subsidiaries in Japan to determine net periodic benefit cost was 1.9% and 2.0% for the fiscal years ended March 31, 2008 and 2007, respectively. The average of discount rates adopted by subsidiaries outside Japan was 5.6% and 5.3% for the fiscal years ended March 31, 2008 and 2007, respectively. 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.

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.

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## (6) Securitization

Komatsu has several accounts receivable securitization programs, and such securitizations are expected to remain an important source of funding for Komatsu in the future. Receivables that are securitized are removed from its consolidated balance sheet when they are sold. Komatsu has entered into contractual arrangements with special purpose entities solely for the purpose of securitizing its receivables. For key assumptions used in measuring the fair value of retained interests related to securitization transactions, see Item 5.E. Off-Balance Sheet Arrangements.

*Recent Accounting Standards Not Yet Adopted*

In September 2006, Financial Accounting Standards Board ( FASB ) issued SFAS No. 157, Fair Value Measurements. SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS No. 157 is effective from the fiscal period beginning after November 15, 2007 and is required to be adopted by Komatsu in the fiscal year beginning April 1, 2008. In February 2008, FASB issued FASB Staff Position No. FAS 157-1, Application of SFAS No.157 to SFAS No.13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13 and No. FAS 157-2, Effective Date of SFAS No. 157 which partially delay the effective date of SFAS No. 157 for one year for certain nonfinancial assets and liabilities and remove certain leasing transactions from its scope. Komatsu is currently evaluating the effect that the adoption of SFAS No. 157 will have on its consolidated results of operations and financial condition but does not expect it to have a material impact.

In February 2007, FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of SFAS No. 115. SFAS No. 159 permits entities the option to choose to measure certain financial assets and liabilities at fair value. The unrealized gains and losses on items for which the fair value option has been elected are required to be reported in earnings. SFAS No. 159 is effective from the fiscal period beginning after November 15, 2007 and is required to be adopted by Komatsu in the fiscal year beginning April 1, 2008. Komatsu is currently evaluating the effect that the adoption of SFAS No. 159 will have on its consolidated results of operations and financial condition but does not expect it to have a material impact.

In December 2007, FASB issued SFAS No. 141 (revised 2007) ( SFAS No. 141R ), Business Combinations. SFAS No. 141R establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired or gained from a bargain purchase. SFAS No. 141R also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. SFAS No. 141R is effective from the fiscal period beginning on or after December 15, 2008 and is required to be adopted by Komatsu in the fiscal year beginning April 1, 2009. Komatsu is currently evaluating the effect that the adoption of SFAS No. 141R will have on its consolidated results of operations and financial condition.

In December 2007, FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51. SFAS No. 160 establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS No. 160 also establishes disclosure requirements that clearly identify and distinguish between the controlling and noncontrolling interests and requires the separate disclosure of income attributable to controlling and noncontrolling interests. SFAS No. 160 is effective from the fiscal period beginning on or after December 15, 2008 and is required to be adopted by Komatsu in the fiscal year beginning April 1, 2009.



**Table of Contents****Comparison of the Fiscal Years ended March 31, 2008 and 2007**

The following tables set forth selected consolidated financial and operating data, 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**

	Millions of Yen Fiscal Years Ended March 31,				Percentage change 2008 vs. 2007	Millions of U.S. dollars 2008
	2008		2007			
<b>Net sales</b>	<b>¥ 2,243,023</b>	100.0%	<b>¥ 1,893,343</b>	100.0%	18.5%	<b>\$ 22,430</b>
<b>Cost of sales</b>	<b>1,590,963</b>	70.9%	<b>1,356,511</b>	71.6%	17.3%	<b>15,910</b>
<b>Selling, general and administrative expenses</b>	<b>317,474</b>	14.2%	<b>287,086</b>	15.2%	10.6%	<b>3,175</b>
<b>Impairment loss on long-lived assets held for use</b>	<b>2,447</b>	0.1%	<b>81</b>	0.0%		<b>24</b>
<b>Impairment loss on goodwill</b>	<b>2,870</b>	0.1%				<b>29</b>
<b>Other operating income (expenses)</b>	<b>3,581</b>	0.1%	<b>(4,924)</b>	-0.3%	-172.7%	<b>36</b>
<b>Operating income</b>	<b>332,850</b>	14.8%	<b>244,741</b>	12.9%	36.0%	<b>3,329</b>
<b>Other income (expenses)</b>	<b>(10,640)</b>		<b>(8,250)</b>		29.0%	<b>(106)</b>
Interest and dividend income	<b>10,265</b>		<b>8,532</b>		20.3%	<b>103</b>
Interest expense	<b>(16,699)</b>		<b>(15,485)</b>		7.8%	<b>(167)</b>
Other-net	<b>(4,206)</b>		<b>(1,297)</b>			<b>(42)</b>
<b>Income from continuing operations before income taxes, minority interests and equity in earnings of affiliated companies</b>	<b>322,210</b>	14.4%	<b>236,491</b>	12.5%	36.2%	<b>3,222</b>
<b>Income taxes</b>						
Current	<b>104,142</b>		<b>76,102</b>			<b>1,041</b>
Deferred	<b>11,652</b>		<b>3,643</b>			<b>117</b>
<b>Total</b>	<b>115,794</b>	5.2%	<b>79,745</b>	4.2%	45.2%	<b>1,158</b>
<b>Income from continuing operations before minority interests and equity in earnings of affiliated companies</b>	<b>206,416</b>	9.2%	<b>156,746</b>	8.3%	31.7%	<b>2,064</b>
<b>Minority interests in income of consolidated subsidiaries</b>	<b>(9,435)</b>		<b>(6,580)</b>			<b>(94)</b>
<b>Equity in earnings of affiliated companies</b>	<b>6,845</b>		<b>3,098</b>			<b>68</b>
<b>Income from continuing operations</b>	<b>203,826</b>	9.1%	<b>153,264</b>	8.1%	33.0%	<b>2,038</b>
<b>Income from discontinued operations less applicable income taxes</b>	<b>4,967</b>	0.2%	<b>11,374</b>	0.6%	-56.3%	<b>50</b>

<b>Net income</b>	<b>¥ 208,793</b>	9.3%	¥ 164,638	8.7%	26.8%	<b>\$ 2,088</b>
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	Yen		U.S. dollars
<b>Per share data</b>			
<b>Income from continuing operations:</b>			
Basic	¥ 204.88	¥ 154.25	\$ 2.05
Diluted	204.61	153.97	2.05
<b>Income from discontinued operations:</b>			
Basic	4.99	11.45	0.05
Diluted	4.98	11.43	0.05
<b>Net income:</b>			
Basic	209.87	165.70	2.10
Diluted	209.59	165.40	2.10
<b>Cash dividends per share</b>	¥ 38.00	¥ 23.00	\$ 0.38

	Millions of Yen				Percentage change	Millions of U.S. dollars
	Fiscal Years Ended March 31,				2008 vs.	2008
	2008	2007			2007	
<b>Segment profit</b>	334,586	249,746	14.9%	13.2%	34.0%	\$ 3,346

## Notes:

- 1) In the fiscal year ended March 31, 2007, Komatsu disposed of its majority interest in KEM. In the fiscal year ended March 31, 2008, Komatsu sold the OPE business of Komatsu Zenoah Co. and its subsidiaries. As a result, operating results and the gain recognized on the sale of KEM and its subsidiaries as well as the OPE business of Komatsu Zenoah Co. and its subsidiaries are presented as Income from discontinued operations less applicable income taxes.
- 2) Segment profit is determined in a manner that is consistent with Japanese accounting principles. Segment profit is obtained by subtracting cost of sales and selling, general and administrative expenses from net sales.

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### *Net Sales*

Consolidated net sales for the fiscal year ended March 31, 2008 increased by 18.5%, or ¥349,680 million, to ¥2,243,023 million (U.S.\$22,430 million) from ¥1,893,343 million for the fiscal year ended March 31, 2007. For the sixth consecutive fiscal year, Komatsu recorded increased net sales. The 18.5% increase was primarily due to increased sales in the Construction and Mining Equipment operating segment. Steady increase in sales in the Industrial Machinery, Vehicles and Others operating segment also contributed to the 18.5% increase in consolidated net sales.

For the fiscal year ended March 31, 2008, net sales to customers in the Construction and Mining Equipment operating segment increased by 21.0%, or ¥329,897 million, as compared to the fiscal year ended March 31, 2007. While market demand in construction and mining equipment in North America continued to weaken due to an economic slowdown, which in part was facilitated by the subprime mortgage crisis in the U.S., worldwide market demand for construction and mining equipment increased against the backdrop of thriving resource development activities around the world and infrastructure development activities particularly in newly-developing markets.

In addition, net sales to customers in the Industrial Machinery, Vehicles and Others operating segment increased by 6.1%, or ¥19,783 million, as compared to the fiscal year ended March 31, 2007. This increase was primarily due to increased sales in sheet metal and press machines, which reflected increased capital investments by the automobile sector on a worldwide basis. Improved sales in the forklift truck business, particularly in Greater Asia, also contributed to the increase in consolidated net sales. See discussion in the operating segments provided below for additional information.

### *Cost of Sales*

Cost of sales on a consolidated basis increased by 17.3%, or ¥234,452 million, to ¥1,590,963 million (U.S.\$15,910 million) for the fiscal year ended March 31, 2008 from ¥1,356,511 million for the fiscal year ended March 31, 2007, due primarily to increased sales. While higher purchase prices of steel materials, tires and other purchased parts also increased the cost of sales by approximately ¥18,800 million, Komatsu improved cost of sales to sales ratio per product unit by improving production efficiency in several ways, such as by shortening the manufacturing time of certain products by utilizing newer equipment and achieving an optimal layout in its facilities. Such manufacturing cost reduction efforts contributed to a 0.7 percentage point decrease in the cost of sales to sales ratio to 70.9% for the fiscal year ended March 31, 2008 from 71.6% for the fiscal year ended March 31, 2007.

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**Table of Contents***Selling, General and Administrative Expenses*

Selling, general and administrative expenses rose by 10.6% for the fiscal year ended March 31, 2008 to ¥317,474 million (U.S.\$3,175 million) from ¥287,086 million for the fiscal year ended March 31, 2007, primarily due to higher direct selling expenses, such as shipping and handling costs and sales commissions, which resulted principally from increased sales. Other factors that contributed to the increase in selling, general and administrative expenses included increased fixed expenses associated with Komatsu's efforts to reinforce its research and development, sales and product support and services structures, safety and environmental management systems, and regulatory compliance programs relating to environmental and other regulations. In particular, research and development expenses, a substantial portion of which is included in selling, general and administrative expenses, rose by 7.3% for the fiscal year ended March 31, 2008 to ¥49,673 million, due mainly to research and development activities relating to the Construction and Mining Equipment operating segment, such as the development of new DANTOTSU products and next generation engines that comply with newly adopted emissions regulations that will become effective in the near future.

*Impairment loss on long-lived assets held for use*

Consolidated impairment loss on long-lived assets held for use for the fiscal year ended March 31, 2008 increased by ¥2,366 million, to ¥2,447 million (U.S.\$24 million) as compared to ¥81 million for the fiscal year ended March 31, 2007. This increase was due primarily to an impairment loss on intangible assets allocated to a reporting unit in North America that is engaged in the forestry equipment business, which is included in the Construction and Mining Equipment operating segment.

*Impairment loss on goodwill*

Consolidated impairment loss on goodwill for the fiscal year ended March 31, 2008 was ¥2,870 million (U.S.\$29 million) while Komatsu recognized no impairment loss on goodwill for the fiscal year ended March 31, 2007. Komatsu recognized an impairment loss of ¥2,870 on goodwill allocated to a reporting unit in North America that is engaged in the forestry equipment business, which is included in the Construction and Mining Equipment operating segment, due to an unfavorable business circumstance where the reporting unit was located.

*Operating Income*

Consolidated operating income for the fiscal year ended March 31, 2008 increased by 36.0%, or ¥88,109 million, to ¥332,850 million (U.S.\$3,329 million) as compared to ¥244,741 million for the fiscal year ended March 31, 2007. This increase in operating income was largely due to positive factors such as (1) increased sales, (2) the realization of sales at higher prices, (3) lower manufacturing costs and (4) beneficial changes in foreign exchange rates, which outweighed negative factors such as higher purchase prices of steel materials, tires and other purchased parts and higher fixed expenses related to research and development activities and reinforcement of Komatsu's sales and product support services. As a result, operating income ratio for the fiscal year ended March 31, 2008 increased by 1.9 percentage points to 14.8% from 12.9% for the fiscal year ended March 31, 2007 due primarily to improved gross margin.

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### *Other Income (Expenses)*

Consolidated other expenses for the fiscal year ended March 31, 2008 increased by 29.0%, or ¥2,390 million, to ¥10,640 million (U.S. \$106 million) as compared to ¥8,250 million for the fiscal year ended March 31, 2007. This increase was due primarily to foreign exchange losses, which increased by ¥2,544 million to ¥3,467 million as compared to ¥923 million for the fiscal year ended March 31, 2007. Interest expense for the fiscal year ended March 31, 2008 increased by 7.8%, or ¥1,214 million, to ¥16,699 million as compared to ¥15,485 million for the fiscal year ended March 31, 2007. Interest and dividend income for the fiscal year ended March 31, 2008 increased by 20.3%, or ¥1,733 million, to ¥10,265 million as compared to ¥8,532 million for the fiscal year ended March 31, 2007, and partially offset the increase in interest expenses.

### *Income from Continuing Operations Before Income Taxes, Minority Interests and Equity in Earnings of Affiliated Companies*

As a result of the above factors, consolidated income from continuing operations before income taxes, minority interests and equity in earnings of affiliated companies for the fiscal year ended March 31, 2008 increased by 36.2%, or ¥85,719 million, to ¥322,210 million (U.S.\$3,222 million) as compared to ¥236,491 million for the fiscal year ended March 31, 2007.

### *Total Income Taxes*

Total consolidated income taxes for the fiscal year ended March 31, 2008 increased by ¥36,049 million to ¥115,794 million (U.S.\$1,158 million) from ¥79,745 million for the fiscal year ended March 31, 2007. The actual effective tax rate for the fiscal year ended March 31, 2008 increased to 35.9% from 33.7% for the fiscal year ended March 31, 2007. The difference between the Japanese statutory tax rate of 40.8% and the actual effective tax rate of 35.9% was caused by income of foreign subsidiaries taxed at a rate lower than the Japanese statutory tax rate and a realization of previously reserved tax benefits on operating losses of subsidiaries, which were offset in part by non-deductible expenses. For additional information, see Note 16 to the Consolidated Financial Statements.

### *Income from Continuing Operations Before Minority Interests and Equity in Earnings of Affiliated Companies*

As a result of the above factors, consolidated income from continuing operations before minority interests and equity in earnings of affiliated companies for the fiscal year ended March 31, 2008 increased by ¥49,670 million to ¥206,416 million (U.S.\$2,064 million) as compared to ¥156,746 million for the fiscal year ended March 31, 2007.

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*Minority Interests in Income of Consolidated Subsidiaries*

Minority interests in income of consolidated subsidiaries for the fiscal year ended March 31, 2008 increased by ¥2,855 million to ¥9,435 million (U.S.\$94 million) as compared to ¥6,580 million for the fiscal year ended March 31, 2007. Minority interests in income of consolidated subsidiaries increased mainly as a result of the improved earnings recorded primarily by subsidiaries in the Construction and Mining Equipment operating segment, such as Komatsu Australia Pty Ltd. and Komatsu Shantui Construction Machinery Co., Ltd.

*Equity in Earnings of Affiliated Companies*

Consolidated equity in earnings of affiliated companies for the fiscal year ended March 31, 2008 increased by ¥3,747 million to ¥6,845 million (U.S.\$68 million) as compared to ¥3,098 million for the fiscal year ended March 31, 2007, due to improved earnings recorded by affiliated companies held under the equity accounting method, such as L&T-Komatsu Limited, and the addition of new affiliated companies held under the equity method, such as NIPPEI TOYAMA (before it became a consolidated subsidiary in March 2008).

*Income from Continuing Operations*

As a result of the above, consolidated income from continuing operations for the fiscal year ended March 31, 2008 increased by 33.0%, or ¥50,562 million, to ¥203,826 million (U.S.\$2,038 million) as compared to ¥153,264 million for the fiscal year ended March 31, 2007.

*Income from Discontinued Operations Less Applicable Income Taxes*

Consolidated income from discontinued operations less applicable income taxes for the fiscal year ended March 31, 2008 decreased by 56.3%, or ¥6,407 million, to ¥4,967 million (U.S.\$50 million) as compared to ¥11,374 million for the fiscal year ended March 31, 2007. The total amount of consolidated income from discontinued operations less applicable income taxes for the fiscal year ended March 31, 2008 consisted entirely of the gain recognized from the sale of the OPE business of Komatsu Zenoah Co. and its subsidiaries.

*Net Income*

As a result of the above factors, Komatsu's consolidated net income for the fiscal year ended March 31, 2008 increased by 26.8%, or ¥44,155 million, to ¥208,793 million (U.S.\$2,088 million) as compared to ¥164,638 million for the fiscal year ended March 31, 2007. Accordingly, basic net income per share rose to ¥209.87 for the fiscal year ended March 31, 2008 from ¥165.70 for the fiscal year ended March 31, 2007. Diluted net income per share rose to ¥209.59 for the fiscal year ended March 31, 2008 from ¥165.40 for the fiscal year ended March 31, 2007.

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*Segment Profit*

Segment profit, which is one of Komatsu's key management indices, is determined in a manner that is consistent with Japanese accounting principles by subtracting cost of sales and selling, general and administrative expenses from net sales. Komatsu considers segment profit to be one of its key management indices because it enables management to evaluate financial data for each operating and geographic segment separately, without the effect of nonrecurring events and other factors unrelated to business activities, such as impairment loss or interest income/expense. Based on such evaluation of financial data for each operating and geographic segment, management assesses the performance of each such operating and geographic segment and determines how to allocate resources to each such segment.

Segment profit on a consolidated basis increased by 34.0%, or ¥84,840 million, to ¥334,586 million (U.S.\$3,346 million) for the fiscal year ended March 31, 2008 from ¥249,746 million for the fiscal year ended March 31, 2007, due primarily to increased segment profit for the Construction and Mining Equipment operating segment. A slight increase in segment profit for the Industrial Machinery, Vehicles and Others operating segment also contributed to the increase in segment profit on a consolidated basis. For information regarding segment profit by operating segments and geographic segments, see Performance by Operating Segments and Performance by Geographic Segments (based on the geographic origin of the seller) below.



**Table of Contents****Performance by Operating Segments**

The following table indicates net sales and segment profit broken down by operating segments for the fiscal years ended March 31, 2008 and 2007. In evaluating the financial data for each operating segment, Komatsu's management considers sales by the location of its customers to be particularly helpful for the Construction and Mining Equipment operating segment, its primary operating segment. Accordingly, in addition to providing performance information by operating segment, the below table and related discussion provide information regarding sales in the Construction and Mining Equipment operating segment broken down by geographic locations of Komatsu's customer. Performance information by geographic segments (which are separately identified by management), which provides performance information based on the geographic location of the seller (as opposed to the customer), is provided under Performance by Geographic Segments (based on the geographic origin of the seller).

**Performance by Operating Segments**

	Millions of Yen Fiscal Years Ended March 31,		Percentage Change 2008 vs. 2007	Millions of U.S. dollars 2008
	2008	2007		
<b>Net sales:</b>				
Construction and Mining Equipment				
Customers	¥ 1,897,620	¥ 1,567,723	21.0%	\$ 18,976
Japan	¥ 288,631	¥ 282,596	2.1%	\$ 2,886
Americas	481,283	480,193	0.2%	4,813
Europe and CIS	414,254	311,808	32.9%	4,143
China	175,934	108,392	62.3%	1,759
Asia (excluding Japan, China) and Oceania	316,728	229,881	37.8%	3,167
Middle East and Africa	220,790	154,853	42.6%	2,208
Intersegment	26,285	20,253	29.8%	263
<b>Total</b>	<b>1,923,905</b>	<b>1,587,976</b>	<b>21.2%</b>	<b>19,239</b>
Industrial Machinery, Vehicles and Others				
Customers	345,403	325,620	6.1%	3,454
Intersegment	110,240	97,743	12.8%	1,102
<b>Total</b>	<b>455,643</b>	<b>423,363</b>	<b>7.6%</b>	<b>4,556</b>
Elimination	(136,525)	(117,996)	15.7%	(1,365)
<b>Consolidated Net Sales</b>	<b>¥ 2,243,023</b>	<b>¥ 1,893,343</b>	<b>18.5%</b>	<b>22,430</b>
<b>Segment Profit:</b>				
Construction and Mining Equipment	¥ 304,385	¥ 220,606	38.0%	3,044
Industrial Machinery, Vehicles and Others	33,727	32,695	3.2%	337
<b>Total</b>	<b>338,112</b>	<b>253,301</b>	<b>33.5%</b>	<b>3,381</b>
Corporate expenses and elimination	(3,526)	(3,555)	-0.8%	(35)
<b>Consolidated Segment Profit</b>	<b>¥ 334,586</b>	<b>¥ 249,746</b>	<b>34.0%</b>	<b>\$ 3,346</b>

Notes:

- 1) Transfers between segments are made at estimated arm's-length prices.
- 2) From the fiscal year ended March 31, 2008, Komatsu reclassified its operating segments into two operating segments from three operating segments. Accordingly, the financial data for the fiscal year ended March 31, 2007 in the above table have been retrospectively reclassified using the new operating segments.
- 3) Segment profit is determined in a manner that is consistent with Japanese accounting principles. Segment profit is obtained by subtracting cost of sales and selling, general and administrative expenses from net sales.

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*Construction and Mining Equipment*

*Net sales*

Consolidated net sales to customers in the Construction and Mining Equipment operating segment for the fiscal year ended March 31, 2008 increased by 21.0%, or ¥329,897 million, to ¥1,897,620 million (U.S.\$18,976 million) as compared to ¥1,567,723 million for the fiscal year ended March 31, 2007. As demand for construction and mining equipment manufactured by Komatsu continued to expand, Komatsu not only introduced new DANTOTSU models and increased sales of DANTOTSU products, which feature superior performance in fuel consumption and other areas, but also realized sales of its products at higher prices and strengthened its product support capability for products. In response to the increased demand for Komatsu's equipment, Komatsu took steps to further increase its production capacities by commencing plans to construct new facilities in Japan for manufacturing key components and new assembly plants, particularly in Asia, in concert with supplier partners.

Net sales to customers in Japan (based on sales destination) for the fiscal year ended March 31, 2008 increased by 2.1%, or ¥6,035 million, to ¥288,631 million (U.S.\$2,886 million) as compared to ¥282,596 million for the fiscal year ended March 31, 2007. In the fiscal year ended March 31, 2008, public-sector investments remained weak in Japan and the demand for new equipment declined around the middle of the fiscal year resulting from a drop in housing construction in light of the tightening of the Japanese building standards. Despite such circumstances, an increase in demand for new equipment by customers who wished to replace their existing equipment, together with Komatsu's efforts to expand sales of new equipment centering on DANTOTSU models, realize higher prices and strengthen its used equipment business, resulted in an increase in net sales to customers in Japan. The increase in sales of new equipment was facilitated in part by the strong export demand of used equipment, which, combined with Komatsu's marketing efforts and strong used equipment prices, provided additional incentives to customers in Japan to replace their existing equipment with new equipment. In light of these market circumstances, Komatsu acquired a majority interest in BIGRENTAL in the fiscal year ended March 31, 2008 as a first step to integrate BIGRENTAL and Komatsu Rental Japan Ltd. to further build up its rental and used equipment business.

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In North America, demand for construction equipment has declined since the second half of 2006, reflecting a drop in U.S. housing starts. Demand for construction and mining equipment continued to weaken in North America for the fiscal year ended March 31, 2008 due to an economic slowdown, which was triggered in part by the subprime mortgage crisis in the U.S. In Latin America, demand for mining equipment continued to increase reflecting greater demand for natural resources. Given such environment, Komatsu made efforts to adjust distributors inventory levels in North America and strengthen sales and product support capabilities for the mining industry in the Americas. Against such backdrop, net sales to customers in North America decreased by 12.5% as compared to the fiscal year ended March 31, 2007 while net sales to customers in Latin America increased by 30.7% as compared to the fiscal year ended March 31, 2007. As a result, net sales to customers in the Americas (based on sales destination) for the fiscal year ended March 31, 2008 increased by only 0.2%, or ¥1,090 million, to ¥481,283 million (U.S.\$4,813 million) as compared to ¥480,193 million for the fiscal year ended March 31, 2007.

In Europe, demand for construction and mining equipment expanded in Germany, which is the largest construction and mining equipment market in Europe, as well as Central and Eastern Europe reflecting Germany's healthy economic condition and the increase in infrastructure development in Central and Eastern Europe. In light of such increased demand, Komatsu has been working for the last several years to strengthen its network of distributors in this region by increasing the number of distributors and conducting trainings to familiarize its distributors with Komatsu's products. Due in part to such efforts, Komatsu accelerated sales of DANTOTSU models and realized sales at higher prices. Komatsu also shortened production lead-time. In CIS, demand sharply increased as a result of increased infrastructure developments in urban areas and natural resource and energy developments. In CIS, Komatsu has strived to (1) increase the number of distributors and strengthen their capabilities under the leadership of Komatsu CIS LLC, its regional headquarters, and (2) strengthen sales and product support capabilities for the mining industry by educating distributors and improving after sales support services. As a result, net sales to customers in Europe and CIS (based on sales destination) for the fiscal year ended March 31, 2008 increased by 32.9%, or ¥102,446 million, to ¥414,254 million (U.S.\$4,143 million) as compared to ¥311,808 million for the fiscal year ended March 31, 2007.

In China, demand for construction and mining equipment continued to record a high rate of growth supported mainly by the increase in infrastructure developments, exploration of new mines and greater reliance upon mechanical equipment. Komatsu increased sales of new equipment by launching the medium-sized PC200 renewed hydraulic excavator model, which offers better fuel economy, and by using information received from customers about current and future needs and real time data about its machines compiled through its deployment of information technology (such as KOMTRAX). In addition, Komatsu focused its efforts on improving the operational efficiency of its sales and production activities and increasing its competitiveness by strengthening its capability to analyze customers' equipment utilizing data compiled by KOMTRAX, its machine tracking system. As a result, net sales to customers in China (based on sales destination) for the fiscal year ended March 31, 2008 increased by 62.3%, or ¥67,542 million, to ¥175,934 million (U.S.\$1,759 million) as compared to ¥108,392 million for the fiscal year ended March 31, 2007.

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In Indonesia, which is the largest construction and mining equipment market of Southeast Asia, demand continued to expand in the civil engineering, agricultural and forestry sectors. Demand for mining equipment also surged reflecting the high demand for natural resources. In India, demand for equipment used for infrastructure and resource development increased steadily driven by India's strong economic growth. In Oceania, demand for mining equipment was particularly strong driven by increased resource development activities. Given this environment, Komatsu focused its efforts on expanding production capacity and sales and product support capabilities for its mining equipment in Asia and Oceania. As a result, net sales to customers in Asia and Oceania (based on sales destination) for the fiscal year ended March 31, 2008 increased by 37.8%, or ¥86,847 million, to ¥316,728 million (U.S.\$3,167 million) as compared to ¥229,881 million for the fiscal year ended March 31, 2007.

In the Middle East and Africa, against the backdrop of skyrocketing prices of crude oil and other commodities, demand for Komatsu's construction and mining equipment remained strong due primarily to increased infrastructure development in the Middle East and resource and infrastructure development in Africa. In light of this environment, Komatsu strengthened its sales and product support capabilities by providing more training for its distributors, strengthening its after sales support services and establishing parts depots. As a result, net sales to customers in the Middle East and Africa (based on sales destination) for the fiscal year ended March 31, 2008 increased by 42.6%, or ¥65,937 million, to ¥220,790 million (U.S.\$2,208 million) as compared to ¥154,853 million for the fiscal year ended March 31, 2007.

*Segment Profit*

Segment profit for the Construction and Mining Equipment operating segment for the fiscal year ended March 31, 2008 increased by 38.0%, or ¥83,779 million, to ¥304,385 million (U.S.\$3,044 million) from ¥220,606 million for the fiscal year ended March 31, 2007. Factors that contributed to this increase for the fiscal year ended March 31, 2008 include: (1) increased sales (which increased segment profit by approximately ¥64,500 million), (2) the realization of sales at higher prices (which increased segment profit by approximately ¥42,400 million), (3) lower manufacturing costs (which increased segment profit by approximately ¥10,800 million) and (4) beneficial changes in foreign exchange rates as the Japanese yen strengthened against the U.S. Dollar and weakened against the Euro during the fiscal year ended March 31, 2008 (which increased segment profit by approximately ¥2,500 million). Such factors offset the higher purchase prices of steel materials, tires and other purchased parts (which decreased segment profit by approximately ¥18,800 million), and higher fixed expenses related to research and development activities and reinforcement of Komatsu's sales and product support services (which decreased segment profit by approximately ¥17,700 million).

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*Industrial Machinery, Vehicles and Others*

*Net Sales*

Consolidated net sales to customers in the Industrial Machinery, Vehicles and Others operating segment for the fiscal year ended March 31, 2008 increased by 6.1%, or ¥19,783 million, to ¥345,403 million (U.S.\$3,454 million) as compared to ¥325,620 million for the fiscal year ended March 31, 2007. This increase was primarily due to continued improvement in sales in the industrial machinery business as well as the forklift truck business reflecting strong capital investments on a worldwide basis.

Komatsu's industrial machinery business effectively took advantage of increased capital investments made by the automobile sector, enjoying good sales of large presses, sheet metal and press machines of Komatsu Industries Corporation and machine tools of Komatsu Machinery Corporation. In the forklift truck business, Komatsu Utility Co., Ltd. expanded sales of its new models and strengthened its sales and service capabilities, mainly in Greater Asia. Komatsu Utility Co., Ltd. also made efforts to increase sales of electric forklift trucks in Japan by, among other things, introducing the industry's first hybrid electric forklift truck.

*Segment Profit*

Segment profit for the Industrial Machinery, Vehicles and Others operating segment for the fiscal year ended March 31, 2008 increased by 3.2%, or ¥1,032 million, to ¥33,727 million (U.S.\$337 million) from ¥32,695 million for the fiscal year ended March 31, 2007. This increase was primarily due to the expansion of business generated by the consolidated subsidiaries of the Company, especially Komatsu Industries Corporation, Komatsu Machinery Corporation and Komatsu Logistics Corp.

**Table of Contents****Performance by Geographic Segments (based on the geographic origin of the seller)**

The following table indicates net sales and segment profit broken down by the geographic origin of the seller for the fiscal years ended March 31, 2008 and 2007.

**Performance by Geographic Segments**

	Millions of Yen Fiscal Years Ended March 31,		Percentage Change 2008 vs. 2007	Millions of U.S. dollars 2008
	2008	2007		
<b>Net sales:</b>				
Japan	1,292,314	1,135,567	13.8%	12,923
Americas	567,243	566,013	0.2%	5,672
Europe and CIS	452,222	332,959	35.8%	4,522
Others	517,887	348,514	48.6%	5,179
Elimination	(586,643)	(489,710)	19.8%	(5,866)
Consolidated	¥ 2,243,023	¥ 1,893,343	18.5%	\$ 22,430
<b>Segment Profit (loss):</b>				
Japan	¥ 173,063	¥ 140,193	23.4%	1,731
Americas	56,667	51,842	9.3%	567
Europe and CIS	44,088	32,104	37.3%	441
Others	68,204	38,033	79.3%	682
Corporate and elimination	(7,436)	(12,426)	-40.2%	(74)
Consolidated	¥ 334,586	¥ 249,746	34.0%	\$ 3,346

Note: Segment profit is determined in a manner that is consistent with Japanese accounting principles. Segment profit is obtained by subtracting cost of sales and selling, general and administrative expenses from net sales.

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### *Japan*

#### *Net Sales*

Net sales in the Japan geographic segment (based on the geographic origin of the seller) for the fiscal year ended March 31, 2008 increased by 13.8%, or ¥156,747 million, to ¥1,292,314 million (U.S.\$12,923 million) as compared to ¥1,135,567 million for the fiscal year ended March 31, 2007. This increase in net sales was primarily due to increased export from Japan of construction and mining equipment as a result of the significant increase in resource and infrastructure development activity in Latin America, Europe, CIS, Africa, Asia and Oceania. In addition, the continuing increase in sales of industrial machinery resulting from the increase in capital investments in the automobile sector also contributed to the increase in net sales in the Japan geographic segment.

#### *Segment Profit*

Segment profit for the Japan geographic segment (based on the geographic origin of the seller) for the fiscal year ended March 31, 2008 increased by 23.4%, or ¥32,870 million, from ¥140,193 million to ¥173,063 million (U.S.\$1,731 million) as compared to the fiscal year ended March 31, 2007, due to the increase in net sales as discussed above.

### *Americas*

#### *Net Sales*

Net sales in the Americas geographic segment (based on the geographic origin of the seller) for the fiscal year ended March 31, 2008 increased by only 0.2%, or ¥1,230 million, from ¥566,013 million to ¥567,243 million (U.S.\$5,672million) as compared to the fiscal year ended March 31, 2007. Net sales remained flat as the increase in sales of mining equipment in Latin America was substantially offset by the decrease in sales of construction and utility equipment in North America as a result of decreased housing and infrastructure development in North America.

#### *Segment Profit*

Segment profit for the Americas geographic segment (based on the geographic origin of the seller) for the fiscal year ended March 31, 2008 increased by 9.3%, or ¥4,825 million, from ¥51,842 million to ¥56,667million (U.S.\$567 million) as compared to the fiscal year ended March 31, 2007. This increase was due primarily to a more optimal product mixture.



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*Europe and CIS*

*Net Sales*

Net sales in the Europe and CIS geographic segment (based on the geographic origin of the seller) for the fiscal year ended March 31, 2008 increased by 35.8%, or ¥119,263 million, to ¥452,222 million (U.S.\$4,522million) as compared to ¥332,959 million for the fiscal year ended March 31, 2007. This increase was due primarily to an increase in sales of construction and utility equipment in European and CIS markets as a result of increased infrastructure development in urban areas in addition to natural resource and energy developments in CIS. Increased sales of large excavators from Germany to various resource markets around the world also contributed to increased sales in this geographic segment.

*Segment Profit*

Segment profit for the Europe and CIS geographic segment (based on the geographic origin of the seller) for the fiscal year ended March 31, 2008 increased by 37.3%, or ¥ 11,984 million, to ¥44,088 million (U.S.\$441 million) as compared to ¥32,104 million for the fiscal year ended March 31, 2007, due to the increase in net sales as discussed above.

*Others*

*Net Sales*

Net sales in the Others geographic segment (based on the geographic origin of the seller) for the fiscal year ended March 31, 2008 increased by 48.6%, or ¥169,373 million, to ¥517,887 million (U.S.\$5,179 million) as compared to ¥348,514 million for the fiscal year ended March 31, 2007. This increase was due primarily to increased sales of construction and mining equipment in China as well as in other countries in Asia, Oceania and Africa reflecting the economic growth and the rise in infrastructure development.

*Segment Profit*

Segment profit for the Others geographic segment (based on the geographic origin of the seller) for the fiscal year ended March 31, 2008 increased by 79.3%, or ¥30,171 million, to ¥68,204 million (U.S.\$682 million) as compared to ¥38,033 million for the fiscal year ended March 31, 2007, due primarily to increased sales in Asia.

**Table of Contents****Comparison of the Fiscal Years ended March 31, 2007 and 2006**

The following tables set forth selected consolidated financial and operating data, 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**

	Millions of Yen Fiscal Years Ended March 31,				Percentage change 2007 vs. 2006
	2007		2006		
<b>Net sales</b>	<b>¥ 1,893,343</b>	100.0%	¥ 1,612,140	100.0%	<b>17.4%</b>
<b>Cost of sales</b>	<b>1,356,511</b>	71.6%	1,185,240	73.5%	<b>14.5%</b>
<b>Selling, general and administrative expenses</b>	<b>287,086</b>	15.2%	262,399	16.3%	<b>9.4%</b>
<b>Impairment loss on long-lived assets held for use</b>	<b>81</b>	0.0%	4,791	0.3%	
<b>Impairment loss on goodwill</b>			3,041	0.2%	
<b>Other operating income (expenses)</b>	<b>(4,924)</b>	-0.3%	6,759	0.4%	<b>-172.9%</b>
<b>Operating income</b>	<b>244,741</b>	12.9%	163,428	10.1%	<b>49.8%</b>
<b>Other income (expenses)</b>	<b>(8,250)</b>		(7,649)		<b>7.9%</b>
Interest and dividend income	<b>8,532</b>		6,824		<b>25.0%</b>
Interest expense	<b>(15,485)</b>		(12,208)		<b>26.8%</b>
Other-net	<b>(1,297)</b>		(2,265)		
<b>Income from continuing operations before income taxes, minority interests and equity in earnings of affiliated companies</b>	<b>236,491</b>	12.5%	155,779	9.7%	<b>51.8%</b>
<b>Income taxes</b>					
Current	<b>76,102</b>		45,751		<b>66.3%</b>
Deferred	<b>3,643</b>		(1,781)		<b>-304.5%</b>
<b>Total</b>	<b>79,745</b>	4.2%	43,970	2.7%	<b>81.4%</b>
<b>Income from continuing operations before minority interests and equity in earnings of affiliated companies</b>	<b>156,746</b>	8.3%	111,809	6.9%	<b>40.2%</b>
<b>Minority interests in income of consolidated subsidiaries</b>	<b>(6,580)</b>		(5,335)		<b>23.3%</b>
<b>Equity in earnings of affiliated companies</b>	<b>3,098</b>		2,667		<b>16.2%</b>
<b>Income from continuing operations</b>	<b>153,264</b>	8.1%	109,141	6.8%	<b>40.4%</b>
<b>Income from discontinued operations less applicable income taxes</b>	<b>11,374</b>	0.6%	5,149	0.3%	<b>120.9%</b>
<b>Net income</b>	<b>¥ 164,638</b>	8.7%	¥ 114,290	7.1%	<b>44.1%</b>

		Yen	
<b>Per share data</b>			
<b>Income from continuing operations:</b>			
Basic	¥	154.25	¥ 109.94
Diluted		153.97	109.75
<b>Income from discontinued operations:</b>			
Basic		11.45	5.19
Diluted		11.43	5.18
<b>Net Income:</b>			
Basic		165.7	115.13
Diluted		165.4	114.93
<b>Cash dividends per share</b>	¥	<b>23.00</b>	¥ 14.00

	Millions of Yen				Percentage change 2007 vs. 2006
	Fiscal Years Ended March 31, 2007		2006		
<b>Segment Profit</b>	¥	<b>249,746</b>	13.2%	¥ 164,501	10.2%

Notes:

- 1) In the fiscal year ended March 31, 2007, Komatsu disposed of its majority interest in KEM. In the fiscal year ended March 31, 2008, Komatsu sold the OPE business of Komatsu Zenoah Co. and its subsidiaries. As a result, operating results and the gain recognized on the sale of KEM and its subsidiaries as well as the OPE business of Komatsu Zenoah Co. and its subsidiaries are presented as Income from discontinued operations less applicable income taxes.
- 2) Segment profit is determined in a manner that is consistent with Japanese accounting principles. Segment profit is obtained by subtracting cost of sales and selling, general and administrative expenses from net sales.

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### *Net sales*

Consolidated net sales for the fiscal year ended March 31, 2007 increased by 17.4%, or ¥281,203 million, to ¥1,893,343 million from ¥1,612,140 million for the fiscal year ended March 31, 2006. For the fifth consecutive fiscal year, Komatsu recorded increased net sales. The 17.4% increase was primarily due to increased sales in the Construction and Mining Equipment operating segment, which was supported by increased sales in the Industrial Machinery, Vehicles and Others operating segment. For the fiscal year ended March 31, 2007, net sales to customers in the Construction and Mining Equipment operating segment increased by 21.4%, or ¥276,500 million, as compared to the fiscal year ended March 31, 2006. Komatsu continued to record increased sales in this operating segment by effectively capitalizing on increased market demand for construction and mining equipment as the number of commodities and infrastructure projects increased around the world.

In addition, net sales to customers in the Industrial Machinery, Vehicles and Others operating segment also contributed to the 17.4% increase in net sales as net sales to customers in the Industrial Machinery, Vehicles and Others operating segment increased by 1.5%, or ¥4,703 million, as compared to the fiscal year ended March 31, 2006. Komatsu recorded good performance and expanded sales, reflecting increased sales in forklifts and sheet metal and press machines. Sales of electronics products decreased for the fiscal year ended March 31, 2007 as compared to the fiscal year ended March 31, 2006, which was an offsetting factor to the increase in net sales. This decrease was primarily due to the fact that Komatsu sold its polycrystalline business during the fiscal year ended March 31, 2006.

### *Cost of Sales*

Accompanying the rise in sales, cost of sales on a consolidated basis increased by 14.5%, or ¥171,271 million, to ¥1,356,511 million for the fiscal year ended March 31, 2007 from ¥1,185,240 million for the fiscal year ended March 31, 2006, due primarily to increased sales. Komatsu's efforts at reducing manufacturing costs by improving production efficiency contributed to a 1.9 percentage point improvement in the cost of sales to sales ratio for the fiscal year ended March 31, 2007 to 71.6% from 73.5% for the fiscal year ended March 31, 2006.

### *Selling, General and Administrative Expenses*

Selling, general and administrative expenses rose by 9.4% for the fiscal year ended March 31, 2007 to ¥287,086 million from ¥262,399 million for the fiscal year ended March 31, 2006, primarily due to higher direct selling expenses, such as shipping and handling costs and sales commission, which resulted principally from increased sales.

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### *Impairment loss on long-lived assets held for use*

Consolidated impairment loss on long-lived assets held for use for the fiscal year ended March 31, 2007 decreased by ¥4,710 million, to ¥81 million as compared to ¥4,791 million for the fiscal year ended March 31, 2006. This significant decrease was due primarily to the fact that Komatsu did not realize an impairment loss in a large amount for the fiscal year ended March 31, 2007 as it did for the fiscal year ended March 31, 2006 when it conducted a reevaluation of its manufacturing machinery and equipment prior to its discontinuance and recorded a large loss for such machinery and equipment prior to the construction of a new plant.

### *Impairment loss on goodwill*

Komatsu did not recognize any impairment loss on goodwill for the fiscal year ended March 31, 2007, unlike the fiscal year ended March 31, 2006. For the fiscal year ended March 31, 2006, ¥3,041 million of impairment loss on goodwill was recognized when it recognized an impairment loss on goodwill allocated to a reporting unit in the Construction and Mining Equipment operating segment due to the unfavorable business circumstances relating to the net assets of such reporting unit.

### *Operating Income*

Consolidated operating income for the fiscal year ended March 31, 2007 increased by 49.8%, or ¥81,313 million, to ¥244,741 million as compared to ¥163,428 million for the fiscal year ended March 31, 2006. As a result, operating income ratio for the fiscal year ended March 31, 2007 increased by 2.8 percentage points to 12.9% from 10.1% for the fiscal year ended March 31, 2006. This increase was due primarily to (1) increased sales, (2) the realization of sales at higher prices, (3) beneficial changes in foreign exchange rates and (4) lower manufacturing costs.

### *Other Income (Expenses)*

Consolidated other expenses for the fiscal year ended March 31, 2007 increased by 7.9%, or ¥601 million, to ¥8,250 million as compared to ¥7,649 million for the fiscal year ended March 31, 2006. This increase was due primarily to the increase in interest expense which increased by 26.8%, or ¥3,277 million, to ¥15,485 million as compared to ¥12,208 million for the fiscal year ended March 31, 2006, as a result of an increase in interest rates for Komatsu's variable rate debt obligations reflecting market movement. Interest and dividend income for the fiscal year ended March 31, 2007 increased by 25.0%, or ¥1,708 million, to ¥8,532 million as compared to ¥6,824 million for the fiscal year ended March 31, 2006, and partially offset the increase in interest expense. This 25.0% increase in interest and dividend income was primarily due to the increase in interest income received from customers to whom Komatsu provided financing in connection with the purchase of Komatsu equipment.

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### *Income from Continuing Operations Before Income Taxes, Minority Interests and Equity in Earnings of Affiliated Companies*

As a result of the above factors, consolidated income from continuing operations before income taxes, minority interests and equity in earnings of affiliated companies for the fiscal year ended March 31, 2007 increased by 51.8%, or ¥80,712 million, to ¥236,491 million as compared to ¥155,779 million for the fiscal year ended March 31, 2006.

### *Total Income Taxes*

Total consolidated income taxes for the fiscal year ended March 31, 2007 increased by ¥35,775 million to ¥79,745 million from ¥43,970 million for the fiscal year ended March 31, 2006. The actual effective tax rate for the fiscal year ended March 31, 2007 increased to 33.7% from 28.2% for the fiscal year ended March 31, 2006. The total change in the effective tax rate for the fiscal year ended March 31, 2007 as compared to the prior fiscal year was largely due to changes in the amount of tax benefits realized in connection with operating losses of certain subsidiaries. For additional information, see Note 16 to the Consolidated Financial Statements.

### *Income from Continuing Operations Before Minority Interests and Equity in Earnings of Affiliated Companies*

As a result of the above factors, consolidated income from continuing operations before minority interests and equity in earnings of affiliated companies for the fiscal year ended March 31, 2007 increased by ¥44,937 million to ¥156,746 million as compared to ¥111,809 million for the fiscal year ended March 31, 2006.

### *Minority Interests in Income of Consolidated Subsidiaries*

Minority interests in income of consolidated subsidiaries for the fiscal year ended March 31, 2007 increased by ¥1,245 million to ¥6,580 million as compared to ¥5,335 million for the fiscal year ended March 31, 2006. Minority interests in income of consolidated subsidiaries increased mainly as a result of improved earnings recorded by subsidiaries in Australia and China.

### *Equity in Earnings of Affiliated Companies*

Consolidated equity in earnings of affiliated companies for the fiscal year ended March 31, 2007 increased by ¥431 million to ¥3,098 million as compared to ¥2,667 million for the fiscal year ended March 31, 2006, in part due to the improved earnings recorded by affiliated companies in which Komatsu owns minority interests.

### *Income from Continuing Operations*

As a result of the above, consolidated income from continuing operations for the fiscal year ended March 31, 2007 increased by 40.4%, or ¥44,123 million, to ¥153,264 million as compared to ¥109,141 million for the fiscal year ended March 31, 2006.

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### *Income from Discontinued Operations Less Applicable Income Taxes*

Consolidated income from discontinued operations less applicable income taxes for the fiscal year ended March 31, 2007 increased by 120.9%, or ¥6,225 million, to ¥11,374 million as compared to ¥5,149 million for the fiscal year ended March 31, 2006. Consolidated income from discontinued operations less applicable income taxes for the fiscal year ended March 31, 2007 include the gain from the sale of KEM's shares in the amount of approximately ¥7,500 million.

### *Net Income*

As a result of the above factors, Komatsu's consolidated net income for the fiscal year ended March 31, 2007 increased by ¥50,348 million to ¥164,638 million as compared to ¥114,290 million for the fiscal year ended March 31, 2006. As a result, basic net income per share rose to ¥165.70 for the fiscal year ended March 31, 2007 from ¥115.13 for the fiscal year ended March 31, 2006. Diluted net income per share rose to ¥165.40 for the fiscal year ended March 31, 2007 from ¥114.93 for the fiscal year ended March 31, 2006.

### *Segment Profit*

Segment profit, which is one of Komatsu's key management indices, is determined in a manner that is consistent with Japanese accounting principles by subtracting cost of sales and selling, general and administrative expenses from net sales. Komatsu considers segment profit to be one of its key management indices because it enables management to evaluate financial data for each operating and geographic segment separately, without the effect of factors unrelated to business activities, such as impairment loss or interest income/expense. Based on such evaluation of financial data for each operating and geographic segment, management assesses the performance of each such operating and geographic segment and determines how to allocate resources to each such segment.

Segment profit on a consolidated basis increased by 51.8%, or ¥85,245 million, to ¥249,746 million for the fiscal year ended March 31, 2007 from ¥164,501 million for the fiscal year ended March 31, 2006. This increase was due primarily to increased segment profit for the Construction and Mining Equipment operating segment, which was supported by the increase in segment profit for the Industrial Machinery, Vehicles and Others operating segment. For information regarding segment profit by operating segments and geographic segments, see Performance by Operating Segments and Performance by Geographic Segments (based on the geographic origin of the seller) below.

**Table of Contents****Performance by Operating Segments**

The following table indicates net sales and segment profit broken down by operating segments for the fiscal years ended March 31, 2007 and 2006. In evaluating the financial data for each operating segment, Komatsu's management considers sales by the location of its customers to be particularly helpful for the Construction and Mining Equipment operating segment, its primary operating segment. Accordingly, in addition to providing performance information by operating segment, the below table and related discussion provide information regarding sales in the Construction and Mining Equipment operating segment broken down by geographic locations of Komatsu's customer. Performance information by geographic segments (which are separately identified by management), which provides performance information based on the geographic location of the seller (as opposed to the customer), is provided under Performance by Geographic Segments (based on the geographic origin of the seller).

**Performance by Operating Segments**

	Millions of Yen		Percentage Change 2007 vs. 2006
	Fiscal Years Ended March 31, 2007	2006	
<b>Net sales:</b>			
Construction and Mining Equipment			
Customers	¥ 1,567,723	¥ 1,291,223	21.4%
Japan	¥ 282,596	¥ 274,792	2.8%
Americas	480,193	421,133	14.0%
Europe and CIS	311,808	224,272	39.0%
China	108,392	68,145	59.1%
Asia (excluding Japan, China) and Oceania	229,881	195,728	17.4%
Middle East and Africa	154,853	107,153	44.5%
Intersegment	20,253	21,203	-4.5%
<b>Total</b>	<b>1,587,976</b>	<b>1,312,426</b>	<b>21.0%</b>
Industrial Machinery, Vehicles and Others			
Customers	325,620	320,917	1.5%
Intersegment	97,743	81,033	20.6%
<b>Total</b>	<b>423,363</b>	<b>401,950</b>	<b>5.3%</b>
Elimination	(117,996)	(102,236)	15.4%
<b>Consolidated Net Sales</b>	<b>¥ 1,893,343</b>	<b>¥ 1,612,140</b>	<b>17.4%</b>
<b>Segment Profit :</b>			
Construction and Mining Equipment	¥ 220,606	¥ 142,904	54.4%
Industrial Machinery, Vehicles and Others	32,695	25,078	30.4%
<b>Total</b>	<b>253,301</b>	<b>167,982</b>	<b>50.8%</b>
Corporate expenses and elimination	(3,555)	(3,481)	2.1%
<b>Consolidated Segment Profit</b>	<b>¥ 249,746</b>	<b>¥ 164,501</b>	<b>51.8%</b>

Notes:



- 1) Transfers between segments are made at estimated arm's-length prices.
- 2) From the fiscal year ended March 31, 2008, Komatsu reclassified its operating segments into two operating segments from three operating segments. Accordingly, the financial data for the fiscal years ended March 31, 2007 and 2006 in the above table have been retrospectively reclassified using the new operating segments.
- 3) Segment profit is determined in a manner that is consistent with Japanese accounting principles. Segment profit is obtained by subtracting cost of sales and selling, general and administrative expenses from net sales.

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### *Construction and Mining Equipment*

#### *Net Sales*

Consolidated net sales to customers in the Construction and Mining Equipment operating segment for the fiscal year ended March 31, 2007 increased by 21.4%, or ¥276,500 million, to ¥1,567,723 million as compared to ¥1,291,223 million for the fiscal year ended March 31, 2006. As the markets for products manufactured by Komatsu continued to grow worldwide, Komatsu expanded production capacity in consultation with suppliers, worked jointly with Komatsu's distributors to launch updated models of its existing products that comply with new emission gas regulations in Japan, North America and Europe, and reinforced its sales and service operations in Greater Asia.

With respect to production, Komatsu proactively expanded its manufacturing capacity for key components, such as engines and hydraulic equipment. In January 2007, Komatsu opened the Ibaraki Plant in Japan for the production of large dump trucks and wheel loaders. In India where the economy has been growing rapidly, Komatsu opened Komatsu India Private Limited and also embarked on the production of large dump trucks.

Net sales to customers in Japan (based on sales destination) for the fiscal year ended March 31, 2007 increased by 2.8%, or ¥7,804 million, to ¥282,596 million as compared to ¥274,792 million for the fiscal year ended March 31, 2006. This increase was due primarily to increased capital outlays in the private sector as a result of increased profits, improved corporate balance sheet, and growth in exports. In addition, the increase in net sales in Japan was due in part to an increase in demand for new equipment in Japan, especially in the rental industry, during the fiscal year ended March 31, 2007 as a result of (1) the robust export of used construction equipment from Japan to developing countries such as China and countries in the Middle East, which contributed to the decrease in the stock of equipment that is in use in Japan and (2) the increase in demand for equipment complying with the new emission gas regulations.

In the Americas, while demand declined for small construction equipment due to the slowing in the housing market in the United States, demand for other equipment remained strong in non-residential construction projects, highway-related projects and resource development projects. In Latin America, demand for mining equipment increased. Given such environment, Komatsu made efforts to increase sales of its Tier III emission regulations compliant models and to realize the appropriate sales price of its products in North America. Komatsu also worked to reinforce its sales and product support capabilities for the mining industry in both North and South America. As a result, net sales to customers in the Americas (based on sales destination) for the fiscal year ended March 31, 2007 increased by 14.0%, or ¥59,060 million, to ¥480,193 million as compared to ¥421,133 million for the fiscal year ended March 31, 2006.

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In Europe, market demand improved in Germany, the largest European market of Komatsu products, and in Eastern Europe. Komatsu made efforts to capture such increase in demand by (1) introducing and expanding sales of its Tier III-compliant models, including a large wheel loader with enhanced capabilities, (2) streamlining its production process starting with the procurement of raw materials and parts to the manufacturing and sales of its products and (3) strengthening its distribution network by relocating its distributors in Eastern Europe. In CIS, sales expanded driven by strong demand in resource development-related sectors and infrastructure developments in metropolitan areas. As a result, net sales to customers in Europe and CIS (based on sales destination) for the fiscal year ended March 31, 2007 increased by 39.0%, or ¥87,536 million, to ¥311,808 million as compared to ¥224,272 million for the fiscal year ended March 31, 2006.

In China, the construction and mining equipment market continued to record a high rate of growth for Komatsu's products. Komatsu focused its efforts on streamlining its production and sales operations using information regarding current and prospective outlooks it received through its discussion with customers and real time data about its machines through the deployment of information technology. Komatsu also expanded sales of mining equipment primarily in large dump trucks as a result of increased mining activities. As a result, net sales to customers in China (based on sales destination) for the fiscal year ended March 31, 2007 increased by 59.1%, or ¥40,247 million, to ¥108,392 million as compared to ¥68,145 million for the fiscal year ended March 31, 2006.

Komatsu continued to record strong sales in mining equipment in Oceania. Sales in Indonesia, the largest market of Komatsu's products in Southeast Asia, also increased reflecting the recovery in demand within the civil engineering sector. As a result, net sales to customers in Asia and Oceania (based on sales destination) for the fiscal year ended March 31, 2007 increased by 17.4%, or ¥34,153 million, to ¥229,881 million as compared to ¥195,728 million for the fiscal year ended March 31, 2006.

In the Middle East and Africa, demand for Komatsu's products continued to expand due primarily to an increase in the number of infrastructure development projects in Saudi Arabia and other oil producing countries, as well as in Turkey, and an increase in the number of resource development projects in African countries. To capture increased investments in infrastructure development projects mainly in oil-producing countries, Komatsu carried out aggressive marketing and promotion activities and worked to reinforce product support functions by increasing the number of its support centers and personnel. As a result, net sales to customers in the Middle East and Africa (based on sales destination) increased by 44.5%, or ¥47,700 million, from ¥107,153 million to ¥154,853 million for the fiscal year ended March 31, 2007 as compared to the fiscal year ended March 31, 2006.

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### *Segment Profit*

Segment profit for the Construction and Mining Equipment operating segment for the fiscal year ended March 31, 2007 increased by 54.4%, or ¥77,702 million, to ¥220,606 million from ¥142,904 million for the fiscal year ended March 31, 2006. This increase was primarily due to the following factors: (1) increased sales (which increased segment profit by approximately ¥53,500 million), (2) the realization of sales at higher prices (which increased segment profit by approximately ¥46,400 million), (3) beneficial changes in foreign exchange rates as the Japanese yen weakened against both the U.S. Dollar and the Euro during the fiscal year ended March 31, 2007 (which increased segment profit by approximately ¥16,100 million) and (4) lower manufacturing costs. Such factors offset the higher purchase prices of steel materials, tires and other purchased parts (which decreased segment profit by approximately ¥14,600 million), and higher fixed expenses related to research and development activities and reinforcing Komatsu's sales and product support services.

### *Industrial Machinery, Vehicles and Others*

#### *Net Sales*

Consolidated net sales to customers in the Industrial Machinery, Vehicles and Others operating segment for the fiscal year ended March 31, 2007 increased by 1.5%, or ¥ 4,703 million, to ¥325,620 million as compared to ¥320,917 million for the fiscal year ended March 31, 2006.

The increase of sales was primarily due to strong sales recorded by Komatsu's principal subsidiaries, such as Komatsu Forklift Co, Ltd. (now consisting part of Komatsu Utility Co., Ltd.) and Komatsu Industries Corporation. For example, Komatsu Forklift Co., Ltd. (now consisting part of Komatsu Utility Co., Ltd.) increased its sales by not only expanding sales in the Middle East and Asian markets but also launching a full line of new battery-powered forklifts models in the overseas markets. For fiscal year ended March 31, 2007, sales of Komatsu Industries' sheet metal and press machines were brisk mainly due to high demand for AC Servo technology-incorporated presses. With respect to large presses, Komatsu commenced production at its new plant in Ishikawa Prefecture in Japan in January 2007, expanding its production capacity to meet increasing orders for AC Servo technology-incorporated presses.

#### *Segment Profit*

Segment profit for the Industrial Machinery, Vehicles and Others operating segment for the fiscal year ended March 31, 2007 increased by 30.4%, or ¥7,617 million, to ¥32,695 million as compared to ¥25,078 million for the fiscal year ended March 31, 2006. This increase was primarily due to increased sales as discussed above, which was partially offset by a decrease resulting from the sale of the polycrystalline silicon business.

**Table of Contents****Performance by Geographic Segments (based on the geographic origin of the seller)**

The following table indicates net sales and segment profit broken down by the geographic origin of the seller for the fiscal years ended March 31, 2007 and 2006.

**Performance by Geographic Segments**

	Millions of Yen		Percentage Change 2007 vs. 2006
	Fiscal Years Ended March 31, 2007	2006	
<b>Net sales:</b>			
Japan	1,135,567	980,044	15.9%
Americas	566,013	488,645	15.8%
Europe and CIS	332,959	242,604	37.2%
Others	348,514	270,237	29.0%
Elimination	(489,710)	(369,390)	32.6%
Consolidated	¥ 1,893,343	¥ 1,612,140	17.4%
<b>Segment Profit (loss):</b>			
Japan	¥ 140,193	¥ 89,913	55.9%
Americas	51,842	38,966	33.0%
Europe and CIS	32,104	20,315	58.0%
Others	38,033	22,539	68.7%
Corporate and elimination	(12,426)	(7,232)	71.8%
Consolidated	¥ 249,746	¥ 164,501	51.8%

Note: Segment profit is determined in a manner that is consistent with Japanese accounting principles. Segment profit is obtained by subtracting cost of sales and selling, general and administrative expenses from net sales.

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*Japan*

*Net Sales*

Net sales in the Japan geographic segment (based on the geographic origin of the seller) for the fiscal year ended March 31, 2007 increased by 15.9%, or ¥155,523 million, to ¥1,135,567 million as compared to ¥980,044 million for the fiscal year ended March 31, 2006. In the Construction and Mining Equipment business, overseas demand in resource and infrastructure development remained steady and exports of construction and mining equipment grew significantly primarily due to the expansion of the global economy. In the Industrial Machinery, Vehicles and Others operating segment, the industrial machinery business and the forklift business led the continued growth in sales as exports of such products increased.

*Segment Profit*

Segment profit for the Japan geographic segment (based on the geographic origin of the seller) for the fiscal year ended March 31, 2007 increased by 55.9%, or ¥50,280 million, from ¥89,913 million to ¥140,193 million as compared to the fiscal year ended March 31, 2006, due to the increase in net sales as discussed above.

*Americas*

*Net Sales*

Net sales in the Americas geographic segment (based on the geographic origin of the seller) for the fiscal year ended March 31, 2007 increased by 15.8%, or ¥77,368 million, from ¥488,645 million to ¥566,013 million as compared to the fiscal year ended March 31, 2006. This increase in net sales was primarily due to the increase in sales of construction and mining equipment. This increase in net sales was partially offset by the sale of ASiMI (i.e., the polycrystalline silicon business) during the fiscal year ended March 31, 2006.

*Segment Profit*

Segment profit for the Americas geographic segment (based on the geographic origin of the seller) for the fiscal year ended March 31, 2007 increased by 33.0%, or ¥12,876 million, from ¥38,966 million to ¥51,842 million as compared to the fiscal year ended March 31, 2006. This increase was due primarily to Komatsu's continuing effort to improve the sales prices of its products in the Construction and Mining Equipment operating segment, which was partially offset by a decrease in sales of electronics products as a result of the sale of ASiMI during the fiscal year ended March 31, 2006.

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*Europe and CIS*

*Net Sales*

Net sales in the Europe and CIS geographic segment (based on the geographic origin of the seller) for the fiscal year ended March 31, 2007 increased by 37.2%, or ¥90,355 million, to ¥332,959 million as compared to ¥242,604 million for the fiscal year ended March 31, 2006. This increase in net sales was due primarily to an increase in sales of construction and mining equipment, including an increase in sales of large hydraulic excavators, as resource development activities increased in this geographic segment.

*Segment Profit*

Segment profit for the Europe geographic segment (based on the geographic origin of the seller) for the fiscal year ended March 31, 2007 increased by 58.0%, or ¥11,789 million, to ¥32,104 million as compared to ¥20,315 million for the fiscal year ended March 31, 2006. This improvement was due primarily to increased sales of construction and mining equipment.

*Others*

*Net Sales*

Net sales in the Others geographic segment (based on the geographic origin of the seller) for the fiscal year ended March 31, 2007 increased by 29.0%, or ¥78,277 million, to ¥348,514 million as compared to ¥270,237 million for the fiscal year ended March 31, 2006. This increase was due primarily to the increase in net sales of construction and mining equipment, mainly in China and Australia as a result of increased demand due in part to the economic growth of such countries.

*Segment Profit*

Segment profit for the Others geographic segment (based on the geographic origin of the seller) for the fiscal year ended March 31, 2007 increased by 68.7%, or ¥15,494 million, to ¥38,033 million as compared to ¥22,539 million for the fiscal year ended March 31, 2006. This improvement was due primarily to increased sales of construction and mining equipment.

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***Discontinued Operations***

On October 18, 2006, the Company sold to SUMCO 51.0% of the shares of KEM (now known as SUMCO TECHXIV CORPORATION), which was a reporting unit in the Electronics operating segment (the Electronics operating segment has been consolidated into the Industrial Machinery, Vehicles and Others operating segment starting with the fiscal year ended March 31, 2008). Prior to this disposition, the Company held a 61.9% equity interest in KEM. Accordingly, KEM and its subsidiaries are no longer consolidated in Komatsu's results. On April 2, 2007, the OPE business of Komatsu Zenoah Co., a reporting unit in the Industrial Machinery, Vehicles and Others operating segment was sold to a Japanese subsidiary of Husqvarna AB of Sweden. Accordingly, the OPE business of Komatsu Zenoah Co. and its subsidiaries engaging in the OPE business are no longer consolidated in Komatsu's results. In accordance with SFAS No. 144, the gain on the sale of KEM's shares and operating results less applicable income taxes, related to KEM and its subsidiaries as well as the gain on sale of the OPE business of Komatsu Zenoah Co. and operating results less applicable income taxes of the OPE business of Komatsu Zenoah Co. and its OPE business subsidiaries, are presented as income from discontinued operations less applicable income taxes in the consolidated statements of income. Assets and liabilities related to the OPE business of Komatsu Zenoah Co. and its OPE business subsidiaries were classified as held for sale on the consolidated balance sheet as of March 31, 2007. The cash flows attributable to the discontinued operations are not presented separately from the cash flows attributable to activities of the continuing operations in the consolidated statements of cash flows.



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Selected financial information in connection with the discontinued operations for the fiscal years ended March 31, 2008, 2007 and 2006 were as follows:

	2008	Millions of yen 2007	2006	Millions of U.S. dollars 2008
Net sales	¥	¥ 63,416	¥ 89,829	\$
Income before income taxes, minority interests and equity in earnings of affiliated companies (including gain on sale of the OPE business of Komatsu Zenoah Co. of ¥8,331 million in 2008 and gain on sale of KEM s shares of ¥18,769 million in 2007)	<b>8,331</b>	29,544	13,294	<b>83</b>
Income taxes	<b>3,364</b>	14,566	3,051	<b>34</b>
Minority interests in income of consolidated subsidiaries		(3,613)	(5,132)	
Equity in earnings of affiliated companies		9	38	
Income from discontinued operations less applicable income taxes	<b>¥ 4,967</b>	¥ 11,374	¥ 5,149	<b>\$ 50</b>

Assets held for sale and liabilities held for sale at March 31, 2007 are summarized as follows:

	Millions of yen 2007
<b>Assets held for sale</b>	
Trade notes and accounts receivable	¥ <b>9,088</b>
Inventories	<b>3,567</b>
Property, plant and equipment	<b>1,874</b>
Other assets	<b>1,792</b>
Total	<b>16,321</b>
	Millions of Yen 2007
<b>Liabilities held for sale</b>	
Short-term debt	¥ <b>1,294</b>
Trade notes and accounts payable	<b>4,242</b>
Other Liabilities	<b>2,383</b>
Total	¥ <b>7,919</b>

**Table of Contents****B. Liquidity and Capital Resources***Cash Flow*

Set forth below is the condensed consolidated statements of cash flows for the fiscal years ended March 31, 2008, 2007 and 2006.

**Condensed Consolidated Statements of Cash Flows**

	Millions of yen			Millions of
	Fiscal Years Ended March 31, 2008	2007	2006	U.S. dollars 2008
Net cash provided by operating activities	¥ 160,985	¥ 162,124	¥ 136,107	\$ 1,610
Net cash used in investing activities	(128,182)	(99,620)	(81,792)	(1,282)
Net cash used in financing activities	(17,422)	(41,389)	(83,460)	(174)
Effect of exchange rate change on cash and cash equivalents	(5,570)	1,087	1,632	(56)
Net increase (decrease) in cash and cash equivalents	9,811	22,202	(27,513)	98
Cash and cash equivalents, beginning of year	92,199	69,997	97,510	922
Cash and cash equivalents, end of year	¥ 102,010	¥ 92,199	¥ 69,997	\$ 1,020

## Fiscal Year ended March 31, 2008

Net cash provided by operating activities for the fiscal year ended March 31, 2008 decreased by ¥1,139 million to ¥160,985 million (U.S.\$1,610 million) as compared to the fiscal year ended March 31, 2007. Working capital increase partially offset an increase in net income resulting from good business performance.

Net cash used in investing activities for the fiscal year ended March 31, 2008 increased by ¥28,562 million to ¥128,182 million (U.S.\$1,282 million) as compared to the fiscal year ended March 31, 2007. Aggressive capital investments in Japan and overseas to expand production capacity and improve productivity as well as the acquisition of the shares of NIPPEI TOYAMA (for which Komatsu paid ¥41,234 million) and BIGRENTAL (for which Komatsu paid ¥8,564 million), which offset cash received from the sale of the OPE business (for which Komatsu received ¥18,250 million).

Net cash used in financing activities in the fiscal year ended March 31, 2008 decreased by ¥23,967 million to ¥17,422 million (U.S.\$174 million) as compared to the fiscal year ended March 31, 2007.

As a result of the above, cash and cash equivalents as of March 31, 2008 totaled ¥102,010 million (U.S.\$1,020 million), an increase of ¥9,811 million compared to the balance as of March 31, 2007.

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Fiscal Year ended March 31, 2007

Net cash provided by operating activities for the fiscal year ended March 31, 2007 increased by ¥26,017 million to ¥162,124 million as compared to the fiscal year ended March 31, 2006. While Komatsu required a greater amount of working capital to respond to increased sales and manufacturing activity as a result of increased demand for Komatsu's products for the fiscal year ended March 31, 2007, improvements in Komatsu's business performance more than offset such increase in working capital needs.

Net cash used in investing activities for the fiscal year ended March 31, 2007 increased by ¥17,828 million to ¥99,620 million as compared to the fiscal year ended March 31, 2006. Such increase was primarily attributable to the continued capital investments made by Komatsu to enhance its production capabilities and productivity in Japan and overseas. The cash proceeds received from the sale of the shares of KEM to SUMCO was used to acquire an equity interest in NIPPEI TOYAMA, which acquisition strengthened one of Komatsu's core businesses in the Industrial Machinery, Vehicles and Others operating segment.

Net cash used in financing activities in the fiscal year ended March 31, 2007 decreased by ¥42,071 million to ¥41,389 million as compared to the fiscal year ended March 31, 2006, due primarily to the repayment of a syndicated loan in the amount of ¥32,500 million in Japan.

As a result of the above, cash and cash equivalents as of March 31, 2007 totaled ¥92,199 million, an increase of ¥22,202 million compared to the balance as of March 31, 2006.

#### Cash Flow Related to Discontinued Operations

Cash flows attributable to the operating, investing and financing activities of the discontinued operations are not presented separately from the cash flows attributable to activities of the continuing operations. Net cash provided by operating activities of the discontinued operations were ¥14,805 million and ¥24,823 million for the fiscal years ended March 31, 2007 and 2006, respectively. Net cash used in investing activities of the discontinued operations were ¥18,295 million and ¥21,665 million for the fiscal years ended March 31, 2007 and 2006, respectively. Net cash provided by financing activities of the discontinued operations was ¥1,870 million for the fiscal year ended March 31, 2007, and net cash used in financing activities of the discontinued operations was ¥4,090 million for the fiscal year ended March 31, 2006.

Cash flows used in investing activities of the discontinued operations have been provided mainly by cash flows from their operating activities. In addition, Komatsu's discontinued operations did not have any material effect on cash flows from its financing activities. Accordingly, the absence of cash flows from its discontinued operations did not have any material impact on Komatsu's liquidity and capital resources.

#### *Capital Investment*

Komatsu's management defines "Capital Investment" as costs relating to the purchase of property, plant and equipment including properties under capital leases on an accrual basis, which reflects the effect of timing differences between acquisition dates and payment dates. Komatsu's management uses this indicator to manage its capital investment and Komatsu's management 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.

For the fiscal year ended March 31, 2008, Komatsu focused its capital investments on the Construction and Mining Equipment operating segment to respond to increased demand. More specifically, Komatsu increased its production capacity of key components, such as transmissions, axles, final drives, hydraulics and engines, by building a new transmission plant. In addition, Komatsu invested capital in its production facilities to manufacture DANTOTSU products and the products that comply with the latest emissions regulations. In the Industrial Machinery, Vehicles and Others operating segment, Komatsu made capital investments particularly in the large size industrial machinery business to improve productivity.

As a result, Komatsu's capital investment on a consolidated basis for the fiscal year ended March 31, 2008 was ¥145,730 million (U.S.\$1,457 million), an increase of ¥16,050 million from the fiscal year ended March 31, 2007.

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### *Source of Funds and Liquidity Management*

Komatsu's principal capital resources policy is to maintain sufficient capital resources to be able to respond promptly to future capital needs in connection with its operations and to maintain an appropriate level of liquidity. Consistent with this policy, Komatsu has secured various sources of funding, such as bank loans, notes, securitized receivables and lines of credit. Komatsu expects to use cash generated from its operations, funds procured through such external sources and its group-wide cash management system to satisfy future capital expenditures and working capital needs. Komatsu manages funds held by its subsidiaries through a group-wide cash management system in order to improve the efficiency and effectiveness of its cash management. Transfers of funds from subsidiaries in the form of cash dividend, loans or advances are restricted under regulatory requirements of countries in which some of its subsidiaries are located. Nonetheless, Komatsu does not expect these restrictions to have a significant impact on its ability to meet its cash obligations.

Komatsu's short-term funding needs have been met mainly by cash flows from operating activities, as well as by bank loans, securitized receivables and the issuance of commercial paper. As of March 31, 2008, certain consolidated subsidiaries of the Company maintained committed credit line agreements totaling ¥10,846 million (U.S.\$108 million) with financial institutions to secure liquidity. As of March 31, 2008, approximately ¥2,087 million (U.S.\$21 million) was available to be used under such credit line agreements, which contain customary covenants. Komatsu is not subject to any covenants limiting its ability to incur additional indebtedness. In addition, the Company has a ¥80,000 million (U.S.\$800 million) commercial paper program, ¥68,000 million (U.S.\$680 million) of which was unused as of March 31, 2008. The amount of capital raised through its commercial paper program has depended upon Komatsu's financing needs, investor demand and market conditions, as well as the ratings outlook for Komatsu. To fulfill Komatsu's medium- to long-term funding needs, the Company has established a bond program under which it can issue up to ¥100,000 million of variable-term bonds and the Company, Komatsu Finance America Inc. and Komatsu Europe Coordination Center N.V. have established a U.S.\$1.2 billion Euro Medium Term Note ( EMTN ) program. As of March 31, 2008, the principal amount of bonds outstanding under the bond program was ¥20,000 million (U.S.\$ 200 million) and the principal amount of notes outstanding under the EMTN program was ¥75,644 million (U.S.\$756 million). The amount of capital raised through such programs has depended upon Komatsu's financing needs, investor demand and market conditions, as well as the ratings outlook for Komatsu. Komatsu has also established programs to securitize trade notes and accounts receivables for the purpose of accelerating the receipt of cash related to its finance receivables and diversifying its sources of funding. As of March 31, 2008, the balance of such off-balance sheet securitized receivables was ¥166,256 million (U.S.\$1,663 million). For additional information about the interest rate structure and maturity dates for these borrowings, see Note 12 to the Consolidated Financial Statements.

### *Credit Ratings*

The Company obtains credit ratings from three rating agencies: Standard and Poor's services ( S&P ), Moody's Investors Service, Inc. ( Moody's ) and Rating and Investment Information, Inc. ( R&I ). As of March 31, 2008, the Company's long-term debt ratings were as follows:

	<b>S&amp;P</b>	<b>Moody's</b>	<b>R&amp;I</b>
Long-term debt	A	A2	AA-

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*Fiscal 2008 Financial Position*

Komatsu's short-term debt as of March 31, 2008, which primarily consisted of short-term bank loans, increased by ¥6,642 million to ¥108,890 million (U.S.\$1,089 million) from March 31, 2007. Such short-term debt was used as working capital.

Komatsu's long-term debt, including debt that was scheduled to mature as of March 31, 2009, increased by ¥96,379 million to ¥343,205 million (U.S.\$3,432 million) in the fiscal year ended March 31, 2008 as compared to the fiscal year ended March 31, 2007. As of March 31, 2008, Komatsu's long-term debt excluding market value adjustment consisted of (1)¥154,870 million in loans from banks, insurance companies and other financial institutions, and so on, (2)¥75,644 million in EMTN, (3)¥30,815 million in unsecured bonds and (4)¥81,876 million in capital lease obligations. Such long-term debt was used primarily for capital expenditures and long-term working capital needs. For information about the interest rate structure and maturity dates for these borrowings, see Note 12 to the Consolidated Financial Statements. As a result, Komatsu's interest-bearing debt as of March 31, 2008, including its capital lease obligations, increased by ¥103,021 million to ¥452,095 million (U.S.\$4,521 million) as compared to that of March 31, 2007. Net interest-bearing debt after deducting cash and deposits also increased by ¥93,167 million to ¥349,988 million (U.S.\$3,500 million) in the fiscal year ended March 31, 2008. As a result, Komatsu's net debt-to-equity ratio as of March 31, 2008 was 0.39, compared to 0.33 as of March 31, 2007.

As of March 31, 2008, current assets increased by ¥129,932 million to ¥1,273,677 million (U.S. \$12,737 million), while current liability increased by ¥76,352 million to ¥861,532 million (U.S. \$8,615 million). As the increase of current liability was lower than that of current assets, the current ratio, which is calculated by dividing current assets by current liabilities, as of March 31, 2008, was 147.8%, which reflected an increase of 2.1 percentage points from the fiscal year ended March 31, 2007.

Based on the cash flow from its operating activities, the available sources of funds and the current ratio, Komatsu believes that it has sufficient means to satisfy its liquidity needs and future obligations.

Komatsu committed to make capital investments totaling approximately ¥24,700 million as of March 31, 2008 in order to increase production capacity, develop and manufacture new products, renew obsolete equipment and increase operating efficiency. Such capital investments are financed primarily by funds on hand and bank borrowings. As of the filing date of this annual report, Komatsu has no additional material commitments to make capital investments.

**Table of Contents****C. Research and Development, Patents and Licenses, etc.**

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

The following table presents Komatsu's research and development expenses for the fiscal years ended March 31, 2008, 2007 and 2006. Research and development expenses are recognized when incurred.

R&D expenses	Millions of yen			Millions of
	Fiscal Years Ended March 31,			U.S. dollars
	2008	2007	2006	2008
Construction and Mining Equipment	¥ 42,077	¥ 37,644	¥ 36,271	\$ 421
Industrial Machinery, Vehicles and Others	¥ 7,596	¥ 8,662	¥ 8,289	\$ 76
<b>Total</b>	<b>¥ 49,673</b>	<b>¥ 46,306</b>	<b>¥ 44,560</b>	<b>\$ 497</b>

Note: From the fiscal year ended March 31, 2008, Komatsu reclassified its operating segments into two operating segments from three operating segments. Accordingly, the financial data for the fiscal years ended March 31, 2007 and 2006 in the above table have been retrospectively reclassified using the new operating segments.

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The objectives of the research and development activities by operating segment for the fiscal year ended March 31, 2008 are described below.

(1) Construction and Mining Equipment

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

Komatsu has been engaged in the research and development of information technology, including remote management technology (which enables remote management of equipment by obtaining information regarding machine locations, operating conditions and vehicle health, using state-of-the-art remote sensing and telecommunication technologies), control technology and artificial intelligence. Equipment with control systems and management systems using these technologies has been rapidly penetrating the construction and mining equipment market. Komatsu is striving to achieve the complete automation of its equipment.

Komatsu has made advances in research and development relating to energy conservation, component recycling and reuse, and the evaluation of environmental loads through lifecycle assessment techniques based on the belief that it is possible to reduce environmental burdens while achieving economic efficiency. In particular, in recent years, Komatsu's first priority in research and development has been to develop technology to reduce fuel consumption by its machines, which leads to both CO<sub>2</sub> emission reduction and economic benefits to customers. Komatsu has also been expending significant effort to develop technology that enables its machines to emit cleaner exhaust gas. Komatsu's products comply with the current emissions standards in all of the countries in which they operate. Komatsu is continuously seeking to develop new technology for cleaner exhaust gas to meet stricter emissions standards that are to become effective in the future. In addition, Komatsu has worked to improve the working conditions for machine operators by improving safety measures and reducing noise and vibration levels of its machines.

(2) Industrial Machinery, Vehicles and Others

Research and development in the Industrial Machinery, Vehicles and Others operating segment is principally conducted in the fields of large presses and sheet-metal forging machines (by Komatsu Industries Corporation), machine tools (by Komatsu Machinery Corporation), industrial vehicles for logistics use (by Komatsu Utility Co., Ltd.) and temperature control equipment (by Komatsu Electronics Inc., KELK).

In the field of industrial machinery, Komatsu has focused on developing functional enhancements and increasing automation of peripheral equipment in order to respond to the growing customer need to increase the productivity and flexibility of large presses and sheet-metal forging equipment. With respect to industrial vehicles, Komatsu has developed vehicles with improved maneuvering capabilities. With respect to temperature control equipment, KELK has engaged in the research and development of high-performance temperature control equipment, high-performance thermoelectric module heat exchange units and micro thermo-modules for use in optical communications.

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**Table of Contents****D. Trend Information***Construction and Mining Equipment*

Demand for construction and mining equipment manufactured by Komatsu continued to expand worldwide except in North America for the fiscal year ended March 31, 2008. In order to capture the increased demand, Komatsu further expanded its production capacities for construction and mining equipment in concert with its supplier partners, including establishing new facilities in Japan for the production of key components and increasing production capacity of assembly plants particularly in Asia. In preparation for further growth in demand, Komatsu also began its plans to construct three new plants during the fiscal year ended March 31, 2008: (1) one to produce super-large hydraulic excavators adjacent to the Port of Kanazawa in Ishikawa Prefecture, Japan, (2) one to produce medium-sized hydraulic excavators, forklift trucks and other equipment in Yaroslavl, northeast of Moscow, Russia and (3) one to produce crawlers for construction equipment in Jining, Shandong, China. For additional information about Komatsu's future capital investment plan, see Item 4 D. Property, Plants and Equipment.

Although there are some concerns relating to the future of construction and mining equipment, such as the increase in the prices of raw materials as well as a decrease in demand for construction equipment in the United States, Komatsu expects the strong demand for construction and mining equipment to continue, particularly in the newly-developing markets reflecting strong demand for key commodities. Growth of the world economy over the past several years has been driven by the emerging and developing economies and these economies are becoming an important participant in global trade. It is projected that these economies would continue to grow robustly while the GDP growth rate of these economies for the fiscal year ending March 31, 2009 is likely to be moderate. Since growth in these economies is more resource-intensive, increase in demand for key commodities is likely to continue. In response to such an environment, Komatsu plans to expand its production capacity and further improve its profits by launching new products and realizing higher sales prices.

*Industrial Machinery, Vehicles and Others*

In the fiscal year ended March 31, 2008, Komatsu's industrial machinery business effectively took advantage of capital investments mainly by the automobile sector on a worldwide basis, enjoying increased sales of large presses, sheet metal and press machines. Komatsu anticipates this demand to continue in the fiscal year ending March 31, 2009 against the backdrop of strong capital investments by the automobile sector, supported by increasing demand for automobiles especially in the newly-developing markets. In response to such expected increase in demand, Komatsu built an additional facility (Kanazawa Plant in Ishikawa Prefecture, Japan) and started the production of large presses that are used in manufacturing automobile bodies in January 2007. For additional information about Komatsu's future capital investment plan, see Item 4 D. Property, Plants and Equipment.

To further reinforce the industrial machinery business, the Company acquired a 29.3% equity interest in NIPPEI TOYAMA in December 2006. In January 2008, the Company launched a tender offer to obtain all remaining issued and outstanding shares of NIPPEI TOYAMA, resulting in an equity-holding ratio of 93.7% as of March 31, 2008. The Company plans to make NIPPEI TOYAMA a wholly-owned subsidiary through share exchanges by the end of August 2008. Komatsu anticipates an increase in overall net sales when sales generated by NIPPEI TOYAMA as a newly consolidated subsidiary are incorporated.



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### *Reclassification of Business Segments*

Komatsu's management has decided to reclassify the forklift truck business of Komatsu Utility Co., Ltd. and Komatsu Logistics Corp. from the Industrial Machinery, Vehicles and Others operating segment to the Construction and Mining Equipment operating segment starting from the fiscal year ending March 31, 2009. The forklift truck business was merged with the compact construction equipment business when Komatsu Utility Co., Ltd. was established in April 2007 by consolidating Komatsu Zenoah Co.'s compact-construction equipment business into Komatsu Forklift Co., Ltd.'s forklift business. Komatsu Logistics Corp. has strong relations with the construction and mining equipment business through the transportation of products, components and parts. Management believes that it is better positioned to make management decisions more swiftly by integrating these business resources with the construction and mining equipment business. In light of these upcoming reclassifications, Komatsu's operating segments will be called Construction, Mining and Utility Equipment and Industrial Machinery and Others starting from the fiscal year ending March 31, 2009.

### *Forward looking statements*

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

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

**Table of Contents****E. Off-Balance Sheet Arrangements**

Komatsu has several accounts receivable securitization programs which are expected to become an important source of capital for Komatsu in the future. As of March 31, 2008, Komatsu had securitized accounts receivable of ¥166,256 million (U.S.\$1,663 million) or approximately 21.0% of its total receivables as of that date.

The securitized receivables are removed from the consolidated balance sheet when they are sold. Komatsu has entered into contractual arrangements with special purpose entities solely for the purpose of securitizing its receivables. A downgrading or worsening of the quality of Komatsu's receivables portfolio could restrict it from using its receivables securitization programs. Its receivables as of March 31, 2008 and 2007 are summarized as follows:

	Millions of yen Fiscal Years Ended March 31,		Millions of U.S. dollars 2008
	2008	2007	
Trade notes	¥ 101,724	¥ 136,837	\$ 1,017
Accounts receivable	433,370	353,034	4,334
<b>Total</b>	<b>535,094</b>	<b>489,871</b>	<b>5,351</b>
Less: allowance	(11,470)	(11,808)	(115)
<b>Trade receivables-current</b>	<b>¥ 523,624</b>	<b>¥ 478,063</b>	<b>\$ 5,236</b>
Long-term trade receivables	¥ 89,695	¥ 73,669	\$ 897

Installment and lease receivables (less unearned interests) are included in trade notes and accounts receivables and long-term trade receivables. Lease receivables primarily represent receivables from customers for equipment leased by Komatsu Utility Co., Ltd. These leases are accounted for as sales-type leases in conformity with SFAS No. 13. Equipment sales revenue from sales-type leases is recognized at the inception of the leases. As of March 31, 2008 and 2007, lease receivables consisted of the following:

	Millions of yen Fiscal Years Ended March 31,		Millions of U.S. dollars 2008
	2008	2007	
Minimum lease payments receivable	¥ 24,492	¥ 22,935	\$ 245
Unearned income	(2,569)	(2,212)	(26)
<b>Net lease receivables</b>	<b>¥ 21,923</b>	<b>¥ 20,723</b>	<b>219</b>

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Cash flows received for all securitization activities from the sale of trade notes and accounts receivable for the fiscal years ended March 31, 2008, 2007 and 2006 were ¥343,457 million (U.S.\$3,435 million), ¥355,627 million and ¥382,669 million, respectively.

Certain consolidated subsidiaries retain responsibility to service sold trade receivables and accounts receivable that are sold pursuant to a securitization transaction. However, contractual servicing fees are not received from the third parties separately. The investors and the trusts that hold the receivables have no or limited recourse rights to certain subsidiaries' assets in case of debtor's default. Appropriate reserves have been established for potential losses relating to the limited recourse of the sold receivables. Also certain subsidiaries, except for a certain U.S. subsidiary, as transferor do not retain any interest in the receivables sold.

The components of securitized trade receivables and other assets managed together as of March 31, 2008 and 2007 were as follows:

	Millions of yen Fiscal Years Ended March 31,		Millions of U.S. dollars 2008
	2008	2007	
Total amount of trade receivables that are managed and securitized	¥ 791,045	¥ 748,478	\$ 7,910
Assets transferred	(166,256)	(184,938)	(1,663)
<b>Total amount of trade receivables on balance sheet</b>	<b>¥ 624,789</b>	<b>¥ 563,540</b>	<b>\$ 6,248</b>

A certain U.S. subsidiary's retained interests, which are included in the recourse provisions, are subordinate to investor interests and their values are subject to certain key assumptions. Key assumptions used in measuring the fair value of such retained interests relating to securitization transactions completed during the fiscal years ended March 31, 2008 and 2007 were as follows:

	Fiscal Years Ended March 31,	
	2008	2007
Weighted-average life	29 months	30 months
Prepayment speed over the life	0.5%	0.7%
Expected credit losses over the life	0.9%	1.0%

The carrying amount of such retained interests was ¥3,015 million (U.S.\$30 million) asset and ¥202 million liability as of March 31, 2008 and 2007, respectively. The impact of 10% and 20% changes to the key assumptions on the fair value of such retained interests as of March 31, 2008 is immaterial to Komatsu's business as a whole.

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

As of March 31, 2008, Komatsu had ¥9,746 million (U.S.\$97million) of contingent liabilities with financial institutions for discounted and transferred receivables on a recourse basis.

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

For each guarantee issued, Komatsu is required to perform under such guarantee if the borrower defaults on a payment required to be made by the applicable contract's terms. The contract terms range from 10 years to 30 years in the case of employees' housing loans, and from 1 to 8 years in the case of loans borrowed by Komatsu's affiliated companies and other companies. The maximum aggregate amount of undiscounted payments Komatsu would have had to make in the event that a payment default were to occur for these loans was ¥65,050 million (U.S.\$651 million) as of March 31, 2008. The carrying amounts of liabilities recognized for Komatsu's obligations as guarantor under these guarantees as of March 31, 2008 were believed to be insignificant by its management. Some of these guarantees were secured by collateral or insurance.

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

Commitments for capital investment as of March 31, 2008, totaled approximately ¥24,700 million (U.S.\$247 million).

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

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

Komatsu also issues contractual product warranties under which they generally guarantee the performance of products delivered and services rendered for a certain period or term. Changes in accrued product warranty costs for the fiscal years ended March 31, 2008 and 2007 are summarized below:

	Millions of yen		Millions of U.S. dollars
	Fiscal Years Ended March 31,		
	2008	2007	2008
Balance at beginning of year	¥ 28,999	¥ 26,582	290
Addition	27,879	39,756	279
Utilization	(22,933)	(37,862)	(229)
Other	(2,055)	523	(21)
Balance at end of year	31,890	¥ 28,999	319

**Table of Contents****F. Tabular Disclosure of Contractual Obligations**

The following tables set forth Komatsu's contractual obligations as of March 31, 2008.

	Total	Millions of yen Expected Maturity Date			
		Less than 1 year	1-3 years	3-5 years	More than 5 years
Short-term Debt Obligations	108,782	108,782			
Long-term Debt Obligations (excluding Capital Lease Obligations)	253,578	80,838	87,574	83,694	1,472
Capital (Finance) Lease Obligations	81,876	27,206	33,157	19,353	2,160
Operating Lease Obligations	12,523	3,845	4,521	1,563	2,594
Interest on interest-bearing debt	20,826	11,942	6,691	2,010	183
Pension and other postretirement obligations	4,963	4,963			
<b>Total</b>	<b>482,548</b>	<b>237,576</b>	<b>131,943</b>	<b>106,620</b>	<b>6,409</b>

	Total	Millions of U.S. dollars Expected Maturity Date			
		Less than 1 year	1-3 years	3-5 years	More than 5 years
Short-term Debt Obligations	1,088	1,088			
Long-term Debt Obligations (excluding Capital Lease Obligations)	2,536	808	876	837	15
Capital (Finance) Lease Obligations	819	272	332	194	21
Operating Lease Obligations	125	38	45	16	26
Interest on Interest-bearing Debt	208	119	67	20	2
Pension and Other Postretirement Obligations	49	49			
<b>Total</b>	<b>4,825</b>	<b>2,374</b>	<b>1,320</b>	<b>1,067</b>	<b>64</b>

Short-term and long-term debt obligations exclude SFAS No. 133 market value adjustments of ¥108 million (U.S.\$1 million) and ¥7,751 million (U.S.\$78 million), respectively.

Interest on interest-bearing debt is based on rates in effect as of March 31, 2008.

Pension and other postretirement obligations reflect contributions expected to be made during the year ending March 31, 2009 only, as the amounts of funding obligations beyond the next year are not yet determinable.

Commitments for capital investment as of March 31, 2008 totaled approximately ¥24,700 million (U.S.\$247 million).

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

### **G. Safe Harbor**

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

**Table of Contents****Item 6. Directors, Senior Management and Employees****A. Directors and Senior Management**

Set forth below are the Directors and Corporate Auditors of the Company, their date of birth, current position with the Company, prior positions, the dates when they assumed such positions and other principal business activities performed outside the Company as of June 25, 2008. The Company's senior management is comprised of all of the directors (excluding outside directors) listed below.

**Board of Directors****Masahiro Sakane**

Date of Birth:	Jan. 7, 1941
Director Since:	Jun. 1989
Current Positions:	Chairman of the Board and Representative Director (since Jun. 2007)

## Prior Positions:

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

## Principal Business Activities outside the Company:

None

**Kunio Noji\***

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

## Prior Positions:

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

## Principal Business Activities outside the Company:

None

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**Yoshinori Komamura\***

Date of Birth: Feb. 20, 1948  
 Director Since: Jun. 2005  
 Current Positions: Director (since Jun. 2005)  
 Senior Executive Officer (Senmu) (since Apr. 2007)  
 President of Construction and Mining Equipment Marketing Division (since Apr. 2005)

Prior Positions:  
 Apr. 2005 Senior Executive Officer (Joumu)  
 Jun. 1999 President and Representative Director of Komatsu Europe International N.V.  
 Apr. 1970 Joined the Company

Principal Business Activities outside the Company:  
 None

**Yasuo Suzuki\***

Date of Birth: Jan. 28, 1948  
 Director Since: Jun. 2004  
 Current Positions: Director (since Jun. 2004)  
 Senior Executive Officer (Senmu) (since Apr. 2007)  
 President of Industrial Machinery General Headquarters (since Apr. 2008)

Prior Positions:  
 Apr. 2004 Senior Executive Officer (Joumu)  
 Jun. 2002 Executive Officer  
 Apr. 2002 President, Industry Machinery Division  
 Apr. 1970 Joined the Company

Principal Business Activities outside the Company:  
 None



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**Kenji Kinoshita\***

Date of Birth: Oct. 7, 1947  
 Director Since: Jun. 2007  
 Current Positions: Director (since Jun. 2007)  
 Chief Financial Officer ( CFO ) (since Jun. 2001)  
 Senior Executive Officer (Senmu) (since Apr. 2008)  
 Supervising CSR and Corporate Communications and Investor Relations (since Apr. 2008)

Prior Positions:  
 Apr. 2004 Senior Executive Officer (Joumu)  
 Jun. 2000 Executive Officer  
 Jan. 1996 General Manager, Finance and Treasury Dept., Accounting Division  
 Jul. 1971 Joined the Company

Principal Business Activities outside the Company:  
 None

**Masahiro Yoneyama**

Date of Birth: Jul. 3, 1946  
 Director Since: Jun. 2004  
 Current Positions: Director (since Jun. 2004)  
 Representative of All China Operations (since Apr. 2006)

Prior Positions:  
 Apr. 2007 Senior Executive Officer (Senmu)  
 Apr. 2003 Senior Executive Officer (Joumu)  
 Jun. 1999 Executive Officer  
 Jun. 1996 General Manager, Human Resources Dept.  
 Apr. 1970 Joined the Company

Principal Business Activities outside the Company:  
 Chairman of Komatsu (China) Ltd.

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**Susumu Isoda**

Date of Birth: Jan. 20, 1947  
 Director Since: Jun. 2007  
 Current Positions: Director (since Jun. 2007)

Prior Positions:  
 Apr. 2006 Senior Executive Officer (Senmu)  
 Apr. 2003 Senior Executive Officer (Joumu)  
 Jun. 1999 Executive Officer  
 Jun. 1998 Director  
 Oct. 1997 Osaka Plant Manager  
 Apr. 1969 Joined the Company

Principal Business Activities outside the Company:  
 President and Representative Director of Komatsu Utility Co., Ltd. (since Apr. 2007)

**Morio Ikeda**

Date of Birth: Dec. 25, 1936  
 Director Since: Jun. 2005  
 Current Position: Outside Director (since Jun. 2005)

Prior Positions:  
 Jun. 2006 Advisor to Shiseido Co., Ltd. (current position)  
 Jun. 2005 Chairman and Director of Shiseido Co., Ltd.  
 Jun. 2001 Representative Director, President and Chief Executive Officer of Shiseido Co., Ltd.  
 Jun. 2000 Executive Vice President and Representative Director of Shiseido Co., Ltd.  
 Jun. 1997 Senior Executive Director and Representative Director of Shiseido Co., Ltd.  
 Jun. 1995 Executive Director of Shiseido Co., Ltd.  
 Jun. 1990 Director of Shiseido Co., Ltd.  
 Apr. 1961 Joined Shiseido Co., Ltd.

Principal Business Activities outside the Company:  
 Advisor to Shiseido Co., Ltd. (since Jun. 2006)  
 Chairman of the Board of Trustees of Toyo Eiwa Jogakuin

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**Kensuke Hotta**

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

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

Principal Business Activities outside the Company:  
 Chairman and Representative Director of Hotta Partners Inc.

**Noriaki Kano**

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

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

Principal Business Activities outside the Company:  
 None

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**Corporate Auditors**

**Masafumi Kanemoto**

Date of Birth:	May 11, 1947
Corporate Auditor Since:	Jun. 2002
Current Position:	Corporate Auditor (Full Time) (since Jun. 2002)

Prior Positions:

Mar. 1999	General Manager, Auditing Office of the Company
Dec. 1994	Senior Manager, Controlling Department, Accounting Division of the Company
Apr. 1970	Joined the Company

Principal Business Activities outside the Company:  
None

**Masaji Kitamura**

Date of Birth:	Aug. 19, 1947
Corporate Auditor Since:	Jun. 2008
Current Positions:	Corporate Auditor (Full Time) (since Jun. 2008) Assistant to President (since Apr. 2008)

Prior Positions:

Apr. 2007	Senior Executive Officer (Joumu)
Apr. 2005	President of Construction and Mining Equipment Strategy Division
Apr. 2003	Executive Officer
Jun. 1994	President of Procurement Division of Osaka Plant, Construction Equipment Division
Apr. 1971	Joined the Company

Principal Business Activities outside the Company:  
None

**Table of Contents****Takaharu Dohi**

Date of Birth:	Jul. 12, 1933
Corporate Auditor Since:	Jun. 1999
Current Position:	Corporate Auditor (since Jun. 1999)

## Prior Positions:

Jul. 1998	Registered as attorney-at-law (bengoshi)
Jun. 1998	Resigned from the Public Prosecutor General
Jan. 1996	Public Prosecutor General
Jul. 1995	Superintendent Public Prosecutor of the High Public Prosecutors Office in Tokyo
Jul. 1993	Superintendent Public Prosecutor of the High Public Prosecutors Office in Osaka
May. 1992	Deputy Prosecutor General
Apr. 1958	Appointed Public Prosecutor

## Principal Business Activities outside the Company:

Attorney-at-law (bengoshi)
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**Makoto Okitsu**

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

## Prior Positions:

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

## Principal Business Activities outside the Company:

Advisor to Teijin Limited (since Jun. 2008)
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**Hiroyuki Kamano**

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

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

Principal Business Activities outside the Company:	
	Attorney-at-law (bengoshi)
	Partner of Kamano Sogo Law Offices

Notes:

- 1) Directors Morio Ikeda, Kensuke Hotta and Noriaki Kano satisfy the requirements for outside director set forth in Article 2, Item 15 of the Corporation Act of Japan.
- 2) Corporate auditors Takaharu Dohi, Makoto Okitsu and Hiroyuki Kamano satisfy the requirements for outside corporate auditors set forth in Article 2, Item 16 of the Corporation Act of Japan.
- 3) The Company introduced an executive officer system in June 1999. As of June 25, 2008, the Company has 26 officers including 4 persons simultaneously holding the position of director. Such persons have been marked with an asterisk in the above table.
- 4) There are no family relationships between any of the directors or corporate auditors of the Company.
- 5) There are no arrangements or understandings with major shareholders, customers, suppliers or others, pursuant to which any of the directors or corporate auditors of the Company were selected as a director or member of senior management.

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### *Corporate Governance*

#### *Basic Stance on Corporate Governance*

To become a company which enjoys an ever larger trust of all stakeholders by maximizing its corporate value, Komatsu is working to strengthen corporate governance, improve management efficiency, advocate corporate ethics and ensure sound management on a group-wide basis. To further improve transparency of the management to shareholders and investors, Komatsu discloses information in a fair and timely manner and actively engages in investor relations activities by holding meetings in Japan and abroad to explain business results.

#### *Current State of Progress Concerning Corporate Governance*

### (1) Current Conditions Concerning Management Organizations Relating to Decision-Making, Execution and Supervisory and Other Corporate Governance Functions

#### a. Organizational Framework

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

The Company's Board of Directors meets every month, discusses and adopts resolutions concerning important matters and determines management policies of Komatsu. The Company's Board of Directors also closely supervises and monitors the performance of management duties by representative and other directors. Three outside directors have been appointed to the Company's Board of Directors (which consisted of ten persons as of March 31, 2008) to enhance management transparency and objectivity.

With respect to corporate auditors (which consisted of five persons as of March 31, 2008), Komatsu has consistently made sure that at least half of them are outside corporate auditors. Each corporate auditor attends the Company's Board of Directors meetings and other important meetings and audits the performance of duties by directors. The Board of Corporate Auditors of the Company performs such audit functions by meeting every month, determines audit policies, establishes scope of responsibilities and accountability and receives periodic status update reports from the directors as to the performance of his or her management duties. The Company has established the Office of Auditors' Staff and assigned 5 employees who work as full-time and part-time assistants to the corporate auditors.

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

The Company established the Compensation Council with a majority of external experts in 1999 and has utilized the recommendations of such experts when revising the compensation system for its directors.

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

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### **b. Support for Outside Directors (and Outside Corporate Auditors)**

As a general rule, the Company provides the outside directors (and the outside corporate auditors) with the materials for Board meetings beforehand to ensure sufficient time for review. Concerning particularly important resolution matters, the Board of Directors discusses them in the Board meeting prior to the Board meeting where the concerned matters are scheduled for resolution. In this manner, the Company ensures that the directors will have sufficient time to review the matters before they resolve them and that they will be able to utilize the matters, which were pointed out during the earlier discussion, as proposals for review when resolving the concerned matters.

### **c. Collaboration between Corporate Auditors and Independent Public Accounting Firm**

When making audit plans, corporate auditors exchange opinions with the contracted independent public accounting firm concerning audit policies, audit items focused upon and audit approaches in order to accomplish effective and efficient auditing. Corporate auditors also observe the independent public accounting firm when the firm audits Komatsu's business bases, affiliated companies and other related entities.

Corporate Auditors and the independent public accounting firm also hold meetings to exchange audit information as needed during a given fiscal year, thus improving mutual collaboration and engaging in expeditious auditing. Furthermore, corporate auditors evaluate the methods and results of the independent public accounting firm by checking important matters at each interim and fiscal year-end, receiving their audit report and hearing their audit summary.

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

### **d. Collaboration between Corporate Auditors and the Internal Audit Department**

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

In addition to reporting the audit results above to the Board of Corporate Auditors, the Internal Audit Department maintains close and substantive collaborations with corporate auditors, for example, by providing information on a routine basis.

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

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

### **(2) Summary of Personal, Capital or Business Relationships or Other Vested Interests between the Company and its Outside Directors and Corporate Auditors**

Messrs. Morio Ikeda, Kensuke Hotta and Noriaki Kano are outside directors of the Company as stipulated in Article 2, Item 15 of the Corporation Act of Japan, and none of them have any special vested relationship with the Company. Messrs. Takaharu Dohi, Makoto Okitsu, and Hiroyuki Kamano are outside corporate auditors of the Company as stipulated in Article 2, Item 16 of the Corporation Act of Japan, and none of them have any special vested relationship with the Company.

### ***Interest of Management in Certain Transactions***

None.



**Table of Contents****B. Compensation**

The aggregate compensation, including bonuses and stock options, paid by the Company for the fiscal year ended March 31, 2008 to all directors and corporate auditors for services in all capacities, was ¥1,133 million. The breakdown of the compensation is set forth below.

	Number of Persons Paid	Amount Paid (Millions of Yen)
<b><u>Remuneration</u></b>		
(including bonuses and stock options to Directors)		
Directors	10	1,041
Corporate Auditors	5	92
<b>Total</b>	<b>15</b>	<b>1,133</b>

Note: Of the aggregate remuneration paid to directors and corporate auditors, the amounts of remuneration paid to outside directors and outside corporate auditors are as follows.

	Number of Persons Paid	Amount Paid (Millions of Yen)
<b><u>Remuneration</u></b>		
(including bonuses and stock options to Outside Directors)		
Outside Directors	3	91
Outside Corporate Auditors	3	27
<b>Total</b>	<b>6</b>	<b>118</b>

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*Bonuses*

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

*Retirement Allowance*

At the ordinary general meeting of shareholders held on June 22, 2007, a resolution was passed to abolish the retirement benefit system for directors and corporate auditors and to pay each director and corporate auditor the amount of retirement benefits for the period of service up to June 22, 2007 at the time of their respective retirement. Accordingly, Komatsu did not make any provision for retirement allowance for the fiscal year ended March 31, 2008 and will not make any provision for retirement allowance in the future.

*Stock Options*

Komatsu has stock option plans for (1) directors of the Company and (2) certain employees of the Company and directors of major subsidiaries of the Company. Under these plans, the Company may grant rights to subscribe for or purchase shares of common stock of the Company ( Stock Acquisition Rights ) upon approval by shareholders at the ordinary general meeting of shareholders. The Company does not grant Stock Acquisition Rights to corporate auditors.

At the 138th ordinary general meeting of shareholders held on June 22, 2007, the shareholders approved the establishment of the maximum limit of ¥360 million for the yearly remuneration for directors of the Company in the form of stock options (of which, no more than ¥50 million is allocated for outside directors). Within this maximum limit, the Company may issue Stock Acquisition Rights as stock options upon resolution of the Board of Directors. The maximum number of Stock Acquisition Rights to be issued on a date within one year from the day of the ordinary general meeting of shareholders of the respective fiscal year is 239 units (of which a total number of 33 units is allocated for outside directors). The maximum number of shares of common stock of the Company subject to Stock Acquisition Rights is 239,000 shares (of which, 33,000 shares are allocated for outside directors).

During the fiscal year ended March 31, 2008, the Company granted to its Directors 239 Stock Acquisition Rights conferring the right to purchase a total number of 239,000 shares of common stock of the Company. The exercise price for these Stock Acquisition Rights issued as of September 3, 2007 was ¥3,661 per share. These Stock Acquisition Rights are exercisable from September 3, 2008 to August 31, 2015.

The Company plans to resolve an issuance and an allocation of the Stock Acquisition Rights as the stock options to Directors of the Company within the above annual maximum limits at a meeting of the Board of Directors to be held during the fiscal year ending March 31, 2009.

For additional information regarding the stock acquisition rights granted to Directors and certain employees of the Company and Directors of its subsidiaries during the fiscal year ended March 31, 2008, see Item 6.E. Share Ownership.

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**C. Board Practices**

All directors and corporate auditors are elected at a general meeting of shareholders. Directors serve a one year term and corporate auditors serve a four year term pursuant to the Articles of Incorporation. However, a director or a corporate auditor may serve any number of consecutive terms.

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

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

For information relating to the period during which each of the Company's directors and corporate auditors have served in their respective offices, see Item 6.A.

The Company does not have a remuneration committee but does have a Compensation Council that is composed of a majority of external experts as noted in Item 6.A. Corporate Governance .

None of the directors have entered into service contracts with the Company or any of its subsidiaries providing for benefits upon termination of employment. For additional information regarding director compensation, see Item 6.B. Compensation .

**Table of Contents****D. Employees**

The following table shows the number of employees by operating segment as of March 31, 2008, 2007 and 2006.

**Number of employees by operating segment**

	As of March 31,		
	2008	2007	2006
Construction and Mining Equipment	<b>30,171</b> <b>(6,795)</b>	26,790 (5,810)	25,103 (5,089)
Industrial Machinery, Vehicles and Others	<b>8,629</b> <b>(1,802)</b>	6,622 (1,941)	9,036 (1,840)
Corporate	<b>467</b> <b>(72)</b>	451 (55)	458 (49)
Total	<b>39,267</b> <b>(8,669)</b>	33,863 (7,806)	34,597 (6,978)

## Notes:

- 1) Numbers in parentheses refer to the average number of temporary employees, which is not included in the total numbers of employees in each operating segment.
- 2) Number of employees under Corporate refers to employees working for administrative departments who cannot be classified into specific operating segments.
- 3) The number of employees as of March 31, 2008 increased by 5,404 as compared to the number as of March 31, 2007. This increase is due primarily to the inclusion of employees of newly consolidated subsidiaries and the expansion of Komatsu's business.
- 4) Figures for the Industrial Machinery, Vehicles and Others operating segment have been retrospectively adjusted for the prior fiscal years to reflect the reclassification of the operating segments.

The Company has a labor contract with the Komatsu Labor Union covering conditions of employment. This contract, which provides that all employees except management and certain other enumerated personnel must become union members, has been renegotiated every two years and its present term runs until September 2008. The employees of the Company's principal Japanese subsidiaries are covered by separate labor contracts between such subsidiaries and the unions representing their employees. These contracts contain provisions generally similar to those contained in the Company's contract with the Komatsu Labor Union. Certain overseas employees of the Company and subsidiaries are also covered by labor contracts between the employer and unions in the relevant locale representing the employees.

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

**Table of Contents****E. Share Ownership**

The following table sets forth the number of shares owned by the directors and corporate auditors of the Company as of May 31, 2008.

<b>Name</b>	<b>Position</b>	<b>Number of shares (in thousands)</b>
Masahiro Sakane	Chairman of the Board, Representative Director	92
Kunio Noji	President, Representative Director	63
Yoshinori Komamura	Director	24
Yasuo Suzuki	Director	22
Kenji Kinoshita	Director	23
Masahiro Yoneyama	Director	28
Susumu Isoda	Director	19
Morio Ikeda	Director	1
Kensuke Hotta	Director	1
Noriaki Kano	Director	6
Masafumi Kanemoto	Corporate Auditor (Full time)	18
Masaji Kitamura	Corporate Auditor (Full time)	10
Takaharu Dohi	Corporate Auditor	0
Makoto Okitsu	Corporate Auditor	0
Hiroyuki Kamano	Corporate Auditor	3
<b>Total</b>		<b>313</b>

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

Each of the directors and corporate auditors own less than one percent of the issued and outstanding shares of common stock of the Company. The number of shares listed above does not include options that are exercisable for shares of the Company's common stock. Directors and corporate auditors are entitled to voting rights that do not differ in any respect from voting rights granted to other shareholders of the common stock of the Company.

As noted in Item 6.B. Compensation, during the fiscal year ended March 31, 2008, directors of the Company were granted 239 Stock Acquisition Rights (conferring the right to purchase a total number of 239,000 shares of common stock of the Company), and the exercise price for these Stock Acquisition Rights granted as of September 3, 2007 was ¥3,661 per share. These Stock Acquisition Rights are exercisable from September 3, 2008 to August 31, 2015.

Pursuant to approval by the shareholders at the ordinary general meeting of shareholders, certain employees of the Company and directors of major subsidiaries of the Company were granted in the aggregate 323 Stock Acquisition Rights (conferring the right to purchase a total number of 323,000 shares of common stock of the Company) during the fiscal year ended March 31, 2008. The exercise price for these Stock Acquisition Rights granted as of September 3, 2007 was ¥3,661 per share. These Stock Acquisition Rights are exercisable from September 1, 2008 to August 31, 2015.

At the 139th ordinary general meeting of shareholders held on June 24, 2008, it was approved that the Company grant no more than 271 Stock Acquisition Rights (the number of shares of common stock of the Company subject to Stock Acquisition Rights is 271,000 shares) as stock options to employees of the Company and directors of major subsidiaries of the Company. It was also approved that the Company's Board of Directors is given the authority to issue the Stock Acquisition Rights.

**Table of Contents****Item 7. Major Shareholders and Related Party Transactions****A. Major Shareholders**

The following table shows the number of the Company's shares held by the 10 major shareholders of the Company and their ownership percentage as of March 31, 2008.

**Major Shareholders as of March 31, 2008**

<b>Name of Major Shareholders</b>	<b>Number of Shares Held (in thousands)</b>	<b>Percentage (%)</b>
Japan Trustee Services Bank, Ltd. (Trust Account)	68,240	6.83
The Master Trust Bank of Japan, Ltd. (Trust Account)	65,591	6.56
Taiyo Life Insurance Company	47,164	4.72
Nippon Life Insurance Co.	33,283	3.33
State Street Bank and Trust Company	32,423	3.24
NATS CUMCO	18,172	1.81
Sumitomo Mitsui Banking Corp.	17,835	1.78
State Street Bank and Trust Company 505103	16,503	1.65
NIPPONKOA Insurance Co., Ltd.	13,962	1.39
Trust & Custody Services Bank, Ltd. (Trust Account Y)	11,875	1.18
<b>Total of Top 10 Shareholders</b>	<b>325,052</b>	<b>32.54</b>

Notes:

- 1) Shares held by the Japan Trustee Services Bank, Ltd., The Master Trust Bank of Japan, Ltd. and the Trust & Custody Services Bank, Ltd. are held through trusts.
- 2) NATS CUMCO is the share nominee of Citibank, N.A. which is the trustee of the Company's American Depositary Receipts ( ADRs ).
- 3) As joint owners of the Company's shares, Taiyo Life Insurance Company and T&D Asset Management Co., Ltd. filed a Report of Change No. 2 of the substantial share holding report with the Director of the Kanto Local Finance Bureau of the Ministry of Finance in Japan on June 13, 2005. The number of the Company's shares held by Taiyo Life Insurance Company in the foregoing table is based on the Company's record of shareholders, because the Company is unable to identify the number of shares actually held by such two entities jointly as of March 31, 2008.
- 4) As joint owners of the Company's shares, Barclays Global Investors Japan Limited and 6 joint owners filed a Report of Change No. 2 of the substantial share holding report with the Director of the Kanto Local Finance Bureau of the Ministry of Finance in Japan on October 1, 2007. The number of the Company's shares held by major shareholders in the foregoing table is based on the Company's record of shareholders, because the Company is unable to identify the number of shares actually held by Barclays Global Investors Japan Limited and 6 joint owners as of March 31, 2008.
- 5)

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

To the best knowledge of the Company, no significant change has occurred in the ownership percentage of the major shareholders listed above during the past three years, except for the increase of State Street Bank and Trust Company's ownership percentage to 3.24% as of March 31, 2008 from 0.87% as of March 31, 2007.

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

As of March 31, 2008, 15.8% of the shares of common stock issued (998,744,060 shares) were held of record by 178 residents of the United States.

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

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

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**B. Related Party Transactions**

In the ordinary course of business, Komatsu purchases and sells materials, supplies and services from and to its affiliates accounted for by the equity method. Komatsu regularly has trade accounts and other receivables payable by, and accounts payable to, its affiliates accounted for by the equity method. Furthermore, Komatsu has made loans to or received borrowings from its affiliates accounted for by the equity method for the fiscal year ended March 31, 2008. Komatsu believes all of these transactions with, and loans to and borrowings from, its affiliates accounted for by the equity method to be arms-length transactions. In addition, Komatsu does not consider the amounts of these transactions with, or loans to or borrowings from, its affiliates accounted for by the equity method to be material to its business.

For additional information, see Note 8 to the Consolidated Financial Statements included elsewhere in this report.

**C. Interests of Experts and Counsel**

Not applicable.



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**Item 8. Financial Information**

**A. Consolidated Statements and Other Financial Information**

See the Consolidated Financial Statements and Notes to Consolidated Financial Statements included in the Company's Financial Report to Shareholders for the fiscal year ended March 31, 2008 attached hereto and incorporated herein by reference.

Legal Proceedings

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

Dividend Policy

The Company makes effort to provide steady dividend payments, taking into consideration the consolidated business results in determining the amount of profit to redistribute. The Company's goal is to provide a consolidated dividend payout ratio of 20% or higher. The Company distributes dividends twice a year, i.e., distribute as year-end dividends and interim dividends. The resolutions for the distributions of year-end dividends and of interim dividends are adopted at the ordinary general meeting of shareholders and at the meeting of the Board of Directors. For the fiscal year ended March 31, 2008, the Company paid interim dividends of ¥20.0 per share, and year-end dividends of ¥22.0 per share, for a total annual per share dividend of ¥42.0.

Any retained earnings will be used to expand Komatsu's business and to strengthen its business bases by making effective investments in areas where Komatsu enjoys technological advantages.

Under the Articles of Incorporation of the Company, the Company may distribute interim dividends pursuant to Article 454, Paragraph 5 of the Corporation Act of Japan, by resolutions adopted by the Board of Directors, by setting the record date as of September 30 of each year.

**B. Significant Changes**

None.

**Table of Contents****Item 9. The Offer and Listing****A. Offer and Listing Details**

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

In the United States, the Company's American Depositary Shares ( ADSs ), each representing 4 shares of common stock, are traded over-the-counter in the form of ADRs and are issued and exchanged by Citibank, N.A. in New York as the depository.

As of March 31, 2008, out of a total of 998,744,060 shares of common stock issued, 995,103,847 shares were outstanding. This incorporates 5,308,564 ADSs (equivalent to 21,234,256 shares of common stock, or approximately 2.1% of the total number of shares of common stock outstanding) held by 11 registered ADR holders.

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

Period	TSE (Japanese Yen)		ADS (U.S. dollars)	
	High	Low	High	Low
<b>Annual highs and lows</b>				
The fiscal year ended March 31, 2004	715	408	26.05	13.70
The fiscal year ended March 31, 2005	837	583	31.88	21.30
The fiscal year ended March 31, 2006	2,255	715	76.25	26.90
The fiscal year ended March 31, 2007	2,870	1,857	95.20	66.40
The fiscal year ended March 31, 2008	4,090	2,175	138.74	82.75
<b>Quarterly highs and lows</b>				
The fiscal year ended March 31, 2007				
1 <sup>st</sup> quarter	2,670	1,857	95.20	66.80
2 <sup>nd</sup> quarter	2,350	1,912	81.70	66.40
3 <sup>rd</sup> quarter	2,440	1,992	82.40	68.50
4 <sup>th</sup> quarter	2,870	2,265	92.70	76.85
The fiscal year ended March 31, 2008				
1 <sup>st</sup> quarter	3,680	2,410	117.75	82.75
2 <sup>nd</sup> quarter	3,990	2,870	134.75	109.25
3 <sup>rd</sup> quarter	4,090	2,780	138.74	99.60
4 <sup>th</sup> quarter	2,955	2,175	115.55	84.95
<b>Monthly highs and lows</b>				
December 2007	3,420	2,780	121.81	99.60
January 2008	2,955	2,175	110.25	86.74
February 2008	2,930	2,205	108.05	84.95
March 2008	2,880	2,385	115.55	96.00
April 2008	3,190	2,600	121.07	104.50
May 2008	3,400	3,020	129.99	121.24

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**B. Plan of Distribution**

Not applicable.

**C. Markets**

See Item 9.A. Offer and listing details.

**D. Selling Shareholders**

Not applicable.

**E. Dilution**

Not applicable.

**F. Expenses of the Issue**

Not applicable.

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**Item 10. Additional Information**

**A. Share Capital**

Not applicable.

**B. Memorandum and Articles of Association**

**I. Organization and Registration**

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

**II. Objectives and Purposes**

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

1. Manufacture, repair, sale and purchase of construction machinery, agricultural machinery, industrial machinery, automobiles, internal combustion engines and various types of other machinery and equipment and parts thereof.
2. Manufacture, sale and purchase of various iron and steel goods.
3. Smelting, processing, sale and purchase of various types of iron and steel, pig-iron, ferroalloys and other special metals.
4. Manufacture, sale and purchase of various types of electric materials and equipment.
5. Manufacture, sale and purchase of various synthetic resin products.
6. Manufacture, repair, sale and purchase of various armaments and parts thereof.
7. Mining industry, and sale and purchase of minerals.
8. Designing, executing, supervising and contracting various types of civil engineering and construction work for plants, dwelling house, and other structures.
9. Sale and purchase of lumber, processed lumber products and various types of civil engineering and construction materials, machinery and equipment.
10. Sale, purchase and lease of real property.

11. Manufacture, sale and repair of industrial waste and general waste treatment devices.
12. Collection, transportation, treatment and recycling of industrial waste and general waste, sale of such recycled products, and consulting on these matters.
13. Development, creation, sales and consulting on computer software and computer systems.
14. Electronic commerce using networks such as the internet.
15. Information processing and information providing service.
16. Financing services.
17. All business incidental to each and every one of the preceding items.
18. Investing in other companies or promoting the organization of other companies.  
The objectives and purposes of other companies in which the Company may invest may not necessarily be restricted by the objectives and purposes of the Company.

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III. Directors

The Corporation Act of Japan provides that the Directors must refrain from engaging in any business competing with the Company (Art. 356, Paragraph 1, Item 1) or effecting a transaction involving a conflict of interest (Art. 356, Paragraph 1, Items 2 and 3) unless approved by the Board of Directors (Art. 365, Paragraph 1). It also provides that any Director who has a material interest in the subject matter of a resolution to be taken by the Board of Directors cannot vote in such resolution (Art. 369, Paragraph 2). Neither the Articles of Incorporation nor the Rules of the Board of Directors of the Company have any additional provisions regarding a Director's power to vote on a proposal, arrangement or contract in which the Director is materially interested. The Corporation Act of Japan does not have an explicit provision concerning a director's obligation not to use the corporation's opportunity for his or her personal benefit or for the benefit of a third party, although such a conduct may be restricted by the duty of faithfulness (Art. 355).

With respect to directors' compensation, the Corporation Act of Japan requires that, unless otherwise specified in the Articles of Incorporation (which specification does not exist in the case of the Company), amount (if the amount is fixed), the calculation method (if the amount is unfixed) or the substance (in the case of non-cash benefits) of directors' compensation shall be determined at a general meeting of shareholders (Art. 361, Paragraph 1).

The Corporation Act of Japan provides that the incurrence by a company of a significant amount of borrowings from a third party needs approval of the company's board of directors (Art. 362, Paragraph 4, Item 2). The Company's Regulations of the Board of Directors contain corresponding provisions. (The Articles of Incorporation of the Company have no specific provisions as to a borrowing power exercisable by the directors.) There is no mandatory retirement age for Directors under the Corporation Act of Japan, the Articles of Incorporation or the Regulations of the Board of Directors of the Company. There is no requirement concerning the number of shares an individual must hold in order to qualify as a Director of the Company under the Corporation Act of Japan, the Articles of Incorporation nor the Rules of the Board of Directors of the Company.

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IV. Common Stock

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

General

The Company's authorized share capital is 3,955,000,000 shares, of which 998,744,060 shares were issued as of May 31, 2008. Under the Corporation Act of Japan, shares of companies that issue share certificates must be registered and are transferable by delivery of share certificates. In order to assert shareholders' rights against the Company, a shareholder must have its name and address registered on the shareholder register under the Corporation Act of Japan, in accordance with the Company's Share Handling Regulations.

A holder of shares may choose, at its discretion, to participate in the central clearing system for share certificates under the Law Concerning Central Clearing of Share Certificates and Other Securities of Japan. Participating shareholders must deposit certificates representing all of the shares to be included in this clearing system with the Japan Securities Depository Center. If a holder is not a participating institution in the Securities Center, it must participate through a participating institution, such as a securities company or bank having a clearing account with the Securities Center. All shares deposited with the Securities Center will be registered in the name of the Securities Center on the Company's shareholder register. Each participating shareholder will in turn be registered on the Company's register of beneficial shareholders and be treated in the same way as shareholders registered on the shareholder register. For the purpose of transferring deposited shares, delivery of share certificates is not required. Entry of the share transfer in the books maintained by the Securities Center for participating institutions, or in the book maintained by a participating institution for its customers, has the same effect as delivery of share certificates. The registered beneficial owners may exercise the rights attached to the shares, such as voting rights, and will receive dividends (if any) and notices as shareholders directly from the Company. The shares held by a person as a registered shareholder and those held by the same person as a registered beneficial owner are aggregated for these purposes. Beneficial owners may at any time withdraw their shares from deposit and receive share certificates, subject to the limitations caused by the Japanese unit share system described below.

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

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Rights of Shareholders

*-Dividends from Surplus*

Under the Corporation Act of Japan, a joint stock corporation can make distribution of dividends from surplus to its shareholders (or pledgees) by the resolution of its shareholders' meeting anytime. Under the Company's Articles of Incorporation, it is only stipulated that the record date of year-end dividends shall be March 31 of each year, but it does not prevent the Company from making distribution of dividends from surplus based on other record dates. In addition, under the Corporation Act of Japan, a joint stock corporation can stipulate in its Articles of Incorporation, that it may distribute interim dividends to its shareholders (or pledgees) once per business year by resolution of its Board of Directors. Under the Company's Articles of Incorporation, the Company may, by resolution of the Board of Directors, distribute interim dividends, on the record date of which is September 30 in each year. Furthermore, under the Corporation Act of Japan, the Company can stipulate that if the length of term of office of its directors is not longer than 1 year, it can stipulate that it can basically (i.e. other than the cases its non-consolidated annual financial statements and certain documents relating to the latest fiscal year do not present fairly its assets and profit or loss, as required by ordinances of the Ministry of Justice.) make distribution of dividends from surplus to its shareholders (or pledgees) by the resolution of its Board of Directors in its Articles of Incorporation. The Company has not stipulated such clauses in its Articles of Incorporation.

Dividends from surplus will usually be distributed in cash, but it can be distributed in kind under the Corporation Act of Japan. If a distribution of dividend from surplus is to be made in kind, the Company may, pursuant to a resolution of a general meeting of shareholders or the Board of Directors