KOMATSU LTD
Form 20-F
July 05, 2007
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 20-F

(Mark One)

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

or

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

For the fiscal year ended March 31, 2007

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

COMMISSION FILE NUMBER: 1-7239

KABUSHIKI KAISHA KOMATSU SEISAKUSHO

(Exact name of registrant as specified in its charter)

KOMATSU LTD.

(Translation of registrant s name into English)

JAPAN

(Jurisdiction of incorporation or organization)

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

(Address of principal executive offices)

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:

Common Stock*

*4,108,564 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.

994,368,068 shares (excluding 4,375,992 shares of Treasury Stock)

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

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

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 x, No ¨

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

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

Indicate by check mark which financial statement item the registrant has elected to follow. Item 17 ¨, Item 18 x.

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

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

Cautionary Statement with respect to forward-looking statements:

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

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

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PART I

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PART I

Item 1. Identity of Directors, Senior Management and Advisers

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

A. Selected Financial Data

The following data for each of the fiscal years ended March 31, 2003 through March 31, 2007 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, 2006 and 2007, the related consolidated statements of income, shareholders equity and cash flows for the three fiscal years ended March 31, 2007 and the notes thereto that appear elsewhere in this annual report.

Selected Financial Data

	(Millions of yen, except per share amounts)				
	2007	2006	2005	2004	2003
Income Statement Data:					
Net Sales 1)	1,893,343	1,612,140	1,356,071	1,127,300	1,027,290
Operating Income 1)	244,741	163,428	95,862	29,870	23,972
Income from continuing operations before income taxes, minority interests and equity in earnings of affiliated companies 1)	236,491	155,779	91,869	22,503	9,853
Income taxes 1)	79,745	43,970	34,285	(5,966)	4,698
Income from continuing operations 1)	153,264	109,141	55,868	25,726	1,403
Income from discontinued operations less applicable income taxes, minority interests and equity in earnings of affiliated companies 1)	11,374	5,149	3,142	1,237	1,606
Net income 2)	164,638	114,290	59,010	26,963	3,009
Per Share Data:					
Net income					
Basic	165.70	115.13	59.51	27.17	3.09
Diluted	165.40	114.93	59.47	27.16	3.09
Cash dividends					
Yen	23.00	14.00	9.00	6.00	6.00
U.S. cents 3)	19.49				
Depreciation and amortization	72,709	72,640	69,020	69,863	70,229
Capital Investment 1) 4)	129,680	113,934	76,907	65,235	60,163
Research and development expenses 1)	46,306	44,560	41,123	42,602	39,027

	(Millions of yen)				
Balance Sheet Data:					
Total Assets	1,843,982	1,652,125	1,449,068	1,348,645	1,306,354
Shareholders Equity	776,717	622,997	477,144	425,507	395,366
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	994,368,068	993,645,492	991,420,696	992,488,276	992,528,649

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Notes:

1) On October 18, 2006, the Company sold 51.0% of the shares of its consolidated subsidiary, Komatsu Electronic Metals Co., Ltd. (KEM), to SUMCO CORPORATION (SUMCO). Prior to this disposition, the Company held a 61.9% equity interest in KEM. On January 30, 2007, the Company signed a definitive agreement to sell the outdoor power equipment (OPE) business of Komatsu Zenoah Co. to a Japanese subsidiary of Husqvarna AB of Sweden. The sale of the OPE business was completed on April 2, 2007. As a result, the operating results of KEM and its subsidiaries as well as the OPE business of Komatsu Zenoah Co. and its subsidiaries engaging in the OPE business are no longer consolidated in Komatsu s results as of the date of their respective disposition. The operating results of these subsidiaries and the OPE business, and the gain recognized on the sale of KEM and its subsidiaries are presented as income from discontinued operations in the consolidated statements of income in accordance with Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, except for research and development expenses for the fiscal years ended March 31, 2003 and 2004. The above figures have been reclassified to take these sales into consideration.

2) Net income for the fiscal year ended March 31, 2003 includes a charge of ¥265 million for the cumulative effect of accounting changes for goodwill and other intangible assets.

3) The conversion rate between the Japanese yen to the U.S. dollar for the fiscal year ended March 31, 2007 is the approximate rate of exchange prevailing at the Federal Reserve Bank of New York as of March 30, 2007.

4) 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 the acquisition of property, plant and equipment including properties under capital leases on an accrual basis which reflects the effects of timing differences between acquisition dates and payment dates. Komatsu s management uses this financial indicator to manage its capital investment and it believes that such indicator is useful to investors in that such indicator presents accrual basis capital investment in addition to the cash basis capital expenditures 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 recent available exchange rate for Japanese yen into U.S. dollars was ¥123.84 = U.S.$1 as of June 25, 2007.

Yen Exchange Rates per U.S. dollar:

				(Yen)
	Average	**High**	**Low**	**Period-End**
Year ended March 31				
2003	121.10	115.71	133.40	118.07
2004	112.75	104.18	120.55	104.18
2005	107.28	102.26	114.30	107.22
2006	113.67	104.64	119.66	117.48
2007	116.55	112.26	121.02	117.56

	High	**Low**	**Period-End**
2006			
December	114.98	119.02	119.02
2007			
January	118.49	121.81	121.02
February	118.33	121.77	118.33
March	116.01	118.15	117.56
April	117.69	119.84	119.44
May	119.77	121.79	121.76

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B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

Given the business environment in which Komatsu operates, Komatsu is exposed to a variety of risks and uncertainties. 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, demand for Komatsu s products in both the Construction and Mining Equipment operating segment and the Industrial Machinery, Vehicles and Others operating segment 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, which may lead to inefficient inventory levels and/ or production capacities, thereby exerting a downward pressure on the sales prices of Komatsu s products. Such changes in the business environment in which Komatsu operates may result in Komatsu recording lower profitability and incurring additional expenses in the Construction and Mining Equipment operating segment and the Industrial Machinery, Vehicles and Others operating segment, and may adversely affect Komatsu s results of operations.

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(2) Foreign Currency Exchange Rate Fluctuations

Approximately 70% 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 locating its production bases globally and placing 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 rate fluctuates beyond Komatsu s projected fluctuation range, Komatsu s results of operations may be adversely affected.

(3) Fluctuations in Financial Markets

While Komatsu is currently working on improving the efficiency of its assets to reduce its interest-bearing debt, its aggregate short- and long-term interest-bearing debt was approximately ¥350 billion as of March 31, 2007. 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.

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(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 enacts 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 bear 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 are amended, Komatsu may be required to bear 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 ensure 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, supply 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 our 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 its product prices. 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 exceeds Komatsu s expectations or a prolonged shortage of materials and parts occurs, 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, sales 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 occurs that causes 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 sales of Komatsu s products and other service activities may result. Such delays or disruptions may adversely affect Komatsu s results of operations.

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 with Dresser Industries Inc. named Komatsu Dresser Company (currently known as Komatsu America Corp.) in the United States.

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 (currently 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 (currently 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 November 2003, the Company entered into an agreement with KONE Corporation to acquire 100% of the shares of KONE s two subsidiaries - Partek Forest AB and Partek Forest Holdings, LLC - in order to make a full-scale entry into the forestry equipment market. The acquisition was completed in December 2003 and the two companies and their 12 subsidiaries have been treated as consolidated subsidiaries of the Company since December 31, 2003.

In July 2005, the Company s wholly-owned subsidiary, Komatsu America Corp. (KAC), 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 (REC), 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.

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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. 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 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, 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 outdoor power equipment (OPE) business of Komatsu Zenoah Co. to a Japanese subsidiary of Husqvarna AB of Sweden. The sale of the OPE business was completed in April 2007.

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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, 2007, 2006 and 2005 were ¥ 129,680 million, ¥113,934 million and ¥76,907 million, respectively. Capital investment for the fiscal year ended March 31, 2007 by operating segment was as follows.

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Capital Investment by Operating Segment

	Millions of Yen	Percentage Change
	Fiscal Year ended March 31, 2007	as compared to the Fiscal Year ended March 31, 2006
Construction and Mining Equipment	¥ 111,003	11.4%
Industrial Machinery, Vehicles and Others	¥ 18,541	31.0%
Electronics	¥ 136	-13.4%
Total	¥ 129,680	13.8%

Notes:

1) Amounts include certain leased machinery and equipment accounted for as capital leases.

2) Capital investment from discontinued operations has been reclassified and previously reported amounts have been reclassified accordingly.

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

In the Construction and Mining Equipment operating segment, Komatsu responded to a rising level of demand for its products for the fiscal year ended March 31, 2007 by bolstering its production capacity for products that were in high demand, such as large mining equipment, and main components of its equipment, such as transmissions, axles, hydraulics, final drives and engines. In addition, Komatsu established new plants in Ibaraki Prefecture, Japan as well as in Chennai, India to increase its production capacity. In the Industrial Machinery, Vehicles and Others operating segment, Komatsu established a new plant in Ishikawa Prefecture, Japan (the Kanazawa Plant) to increase its production capacity.

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The following table sets forth in further detail the principle construction projects Komatsu undertook during the fiscal year ended March 31, 2007 by operating segment follows.

Operating segment	Main facilities
Construction and Mining Equipment	Establishment of Oyama Plant of the Company - Products: Engines, hydraulic equipment - Location: Oyama City, Tochigi Prefecture, Japan
	Establishment of Ibaraki Plant of the Company - Products: Large dump trucks, large wheel loaders - Location: Hitachinaka City, Ibaraki Prefecture, Japan
	Incorporation of Komatsu India Private Limited - Products: Large dump trucks - Location: Chennai, India
Industrial Machinery, Vehicles and Others	Establishment of Kanazawa Plant of the Company - Products: Large presses for automotive manufacturers - Location: Kanazawa City, Ishikawa Prefecture, Japan

Komatsu s capital investment for the fiscal year ended March 31, 2007 was primarily financed by funds on hand and capital leases.

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

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B. Business Overview

GENERAL

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

While Komatsu s core business continues to be construction and mining equipment, Komatsu has engaged in other businesses, such as industrial machinery and vehicles, and electronics. Each such business is described in further detail below under the heading PRODUCTS AND SERVICES.

The manufacturing operations of Komatsu are conducted primarily at plants located in Japan, the United States, Germany, the United Kingdom, Sweden, 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.

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PRODUCTS AND SERVICES

Komatsu s business activities are divided into three operating segments: (1) Construction and Mining Equipment, (2) Industrial Machinery, Vehicles and Others, and (3) Electronics.

The following table sets forth Komatsu s net sales by operating segments for the fiscal years ended March 31, 2007, 2006 and 2005, which is reproduced from the Company s audited consolidated financial statements.

Net Sales by Operating Segments

	(Millions of Yen)					
	Fiscal Year Ended March 31, 2007		Fiscal Year Ended March 31, 2006		Fiscal Year Ended March 31, 2005	
Construction and Mining Equipment	¥ 1,567,723	82.8%	¥ 1,291,223	80.1%	¥ 1,061,161	78.3%
Industrial Machinery, Vehicles and Others	298,022	15.7%	279,497	17.3%	248,487	18.3%
Electronics	27,598	1.5%	41,420	2.6%	46,423	3.4%
Total	¥ 1,893,343	100.0%	¥ 1,612,140	100.0%	¥ 1,356,071	100.0%

Note:

1) On October 18, 2006, the Company sold 51.0% of the shares of its consolidated subsidiary, KEM, to SUMCO. Prior to this disposition, the Company held a 61.9% equity interest in KEM. On January 30, 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. The sale of the OPE business was completed on April 2, 2007. As a result, the operating results of KEM and its subsidiaries as well as the OPE business of Komatsu Zenoah Co. and its subsidiaries engaging in the OPE business are no longer consolidated in Komatsu s results as of the date of their respective disposition. The operating results of these subsidiaries and the OPE business, and the gain recognized on the sale of KEM and its subsidiaries are presented as income from discontinued operations in the consolidated statements of income in accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. The above net sales figures have been reclassified to take these sales into consideration.

(1) Construction and Mining Equipment

The Construction and Mining Equipment operating segment has been Komatsu s mainstay operating segment during the last several decades, and it is expected to remain Komatsu s core operating segment, along with the Industrial Machinery, Vehicles and Others operating segment. Net sales from this operating segment has increased sharply during the last few years and accounted for 82.8% of Komatsu s total net sales for the fiscal year ended March 31, 2007.

Products

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:

Category	Principal Products
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 (Iron Moles)
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*

Note: Those products denoted with an asterisk (*) are principal products or major lines of business of Komatsu s consolidated subsidiaries.

To remain competitive in this operating segment, Komatsu introduced the Dantotsu Strategy in 2003 and has been working to increase the number of Dantotsu products. Dantotsu means unique and unrivaled in Japanese. Komatsu only designates its product as a Dantotsu product 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. Since the introduction of Dantotsu products, Komatsu has been working to replace many of its product models with Dantotsu products. Dantotsu products include WA500 Series and WA600 Wheel loaders to name a few. Komatsu plans to continue to conduct 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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(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 15.7% of Komatsu s total net sales for the fiscal year ended March 31, 2007. During the fiscal year ended March 31, 2007, Komatsu received increased orders from its customers for large presses that incorporated new technologies. Komatsu expects further growth in this operating segment and management now views this operating segment to be one of its core operating segments along with the Construction and Mining Equipment operating segment.

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 and the creation of training materials. Komatsu s principal products in this operating segment fall into the following categories of equipment.

Category	Principal Products
Metal Forging and Stamping Presses	Large presses, AC-servo presses*, small and medium-sized presses* and forging presses*
Sheet-Metal Machines and Machine Tools	Press brakes*, shears*, laser cutting machines*, fine plasma cutting machines*, and crankshaft millers*
Industrial Vehicles, Logistics	Forklift trucks*, packing and transport*
Defense Systems	Ammunition and armored personnel carriers
Others	Commercial-use prefabricated structures

Note: Those products denoted with an asterisk (*) are principal products or major lines of business of Komatsu s consolidated subsidiaries.

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(3) Electronics

Net sales from the Electronics operating segment for the fiscal year ended March 31, 2007 decreased by 33.4% as compared to the fiscal year ended March 31, 2006. This decline was due mainly to decreased sales resulting from the sale of a portion of the polycrystalline silicon business executed in the fiscal year ended March 31, 2006. Net sales from this segment accounted for 1.5% of Komatsu s total net sales for the fiscal year ended March 31, 2007. Komatsu s principal products in this operating segment fall into the following category.

Category	Principal Products
Temperature-Control Equipment	Thermoelectric modules* and temperature-control equipment for semiconductor manufacturing*

Note: Those products denoted with an asterisk (*) are principal products or major lines of business of Komatsu s consolidated subsidiaries.

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PRINCIPAL MARKETS

Komatsu operates and competes in the following six principal markets: (i) Japan, (ii) the Americas, (iii) Europe and Commonwealth of Independent States (CIS), (iv) China, (v) Asia (excluding Japan and China) and Oceania and (vi) 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, 2007, 2006 and 2005. 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, 2007		**Fiscal Year Ended March 31, 2006**		**Fiscal Year Ended March 31, 2005**	
Japan	¥ 487,103	25.7%	¥ 482,825	29.9%	¥ 479,007	35.3%
Americas	537,836	28.4%	477,718	29.6%	355,561	26.2%
Europe and CIS	324,071	17.1%	232,329	14.4%	195,281	14.5%
China	129,443	6.8%	89,667	5.6%	51,987	3.8%
Asia (excluding Japan and China) and Oceania	252,768	13.4%	213,719	13.3%	190,458	14.0%
Middle East and Africa	162,122	8.6%	115,882	7.2%	83,777	6.2%
Total	¥ 1,893,343	100.0%	¥ 1,612,140	100.0%	¥ 1,356,071	100.0%

Note: In accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, net sales from discontinued operations have been reclassified and previously reported amounts have been reclassified accordingly.

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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 230 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 facilitating the delivery of emergency spare parts. 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. Most of Komatsu s Electronics products are sold directly to customers and to a lesser extent sold through distributors and dealers.

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SOURCES OF SUPPLY

As it is neither economical nor efficient for Komatsu to manufacture all of its necessary components and parts, Komatsu produces some of its major equipment components internally and purchases other components and parts, such as electrical components, tires, hoses, and batteries, from specialized suppliers. 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.

PATENTS AND LICENSES

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

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

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COMPETITIVE ENVIRONMENT

Construction and Mining Equipment

As a manufacturer of a full line of construction equipment, Komatsu provides a broad range of products for mining and general construction as well as utility equipment. Komatsu s competitors in the Construction and Mining Equipment operating segment consist of global competitors, regional competitors and locally-specialized competitors. While there is intense competition in all of the product categories in this operating segment, Komatsu continuously maintains its firm position as one of the largest manufacturers in the industry. In particular, Komatsu has made considerable technological advances with respect to its hydraulic excavators for which demand is increasing in recent years. While the competition in the hydraulic excavators market is intense, Komatsu maintains its position as one of the market leaders. In addition, Komatsu enjoys a high market share in dump truck sales for mining use because only a few of Komatsu s competitors have the capability to develop large scale dump trucks for mining use as Komatsu. Komatsu also believes that its use of information technologies, such as the KOMTRAX machine tracking system (a system that transmits mechanical information concerning the condition of construction equipment), and Vehicle Health Monitoring System and WebCARE (systems that transmit mechanical information regarding main components of mining equipment), which enables enhance data collection and analysis, provides Komatsu with a competitive advantage.

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The competitive environment for the fiscal year ended March 31, 2007 by geographic area is described in further detail below.

In Greater Asia which includes Asia as well as China and India, the Middle East and CIS, Komatsu maintained a strong position against its competitors. It is expected that the economies in Greater Asia will achieve strong growth in the future and while Komatsu considers the market to be promising, it also expects the market to be highly competitive.

North America is the largest market for construction equipment in the world and competition is intense within each product category. Among Komatsu s competitors, Caterpillar Inc. is the market leader in construction and mining equipment in terms of market share.

In Europe, in addition to global companies, there are many regional or locally specialized competitors who have firm footings in the local market. Komatsu competes with different competitors in each country or region in Europe. The market in Europe is very competitive and it has not been easy for Komatsu to improve its market position in Europe.

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Industrial Machinery, Vehicles and Others

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

(i) 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. of Japan and Schuler AG and Müler-Weingarten AG of Germany to be its major competitors. In Japan, Japanese manufacturers, including Komatsu, have an advantage over non-Japanese manufacturers who compete with other Japanese manufacturers. Likewise, German manufacturers enjoy dominant positions and have a competitive advantage over non-German manufacturers in the German large press market. In other markets, Komatsu competes with regional and locally specialized competitors in addition to the above-mentioned manufacturers.

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, Minster Machine Company of the United States and Chin Fong Machine Industrial Co., Ltd. of Taiwan.

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(ii) Sheet Metal Machines and Machine Tools

With respect to sheet metal machines, 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.

The principal products of Komatsu s machine tool business include crankshaft millers, camshaft millers and multiplex machine tools. 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 and China, Komatsu mainly competes with Boehringer and Heller.

(iii) Forklift Trucks

The major markets for forklift trucks have traditionally been Europe, the United States, China and Japan. Recently, China has been developing 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.

Electronics

In the Electronics operating segment, Komatsu s principal products consist of temperature control equipment such as thermoelectric modules used for semiconductor manufacturing equipment and optical communications systems. Komatsu Electronics Inc. (KELK) possesses one of the most advanced levels of thermoelectric technology in the world and considers itself to be a market leader in the micro-module market, which utilizes this technology. Komatsu believes that its technology enables Komatsu to achieve a strong market position in the micro-module market. Komatsu considers its principal competitor in this industry to be Marlow Industries Inc. of the United States. The precision requirements for temperature control in the semiconductor manufacturing process have become increasingly difficult due to the continually decreasing line width of semiconductors and the shift to 300mm wafers. Komatsu believes that KELK s cutting-edge thermoelectric technology will enable it to achieve further growth in sales volume in the temperature control equipment market.

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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 construction equipment which only has obtained such approval is allowed to be used in construction projects that are 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 rage 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, the compliance with which is now mandatory in Japan.

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In the United States, the Environmental Protection Agency (EPA) introduced the Tier I standards for equipment of 130kW or greater in 1996. The Tier III standards are being phased in since 2006, and 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 process of implementing the third stage of this directive commenced in 2006 and is expected to continue through 2008.

Komatsu has attained compliance with all regulatory standards that have already taken effect and expects to finish the small -sized equipment development to meet the Tier III standards of Japan, the United States and European Union in time for their enforcement. Komatsu also has continued 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 have been in effect since October 1997. The type approval system for low-vibration construction equipment started in October 1996, which is not legally binding but sets forth regulatory standards for vibratory hammers and hydraulic excavators.

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. The 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.

Komatsu s management has defined environmental issues as one of its important management tasks and has made it a company-wide priority to promote awareness of environmental issues. In 1991, Komatsu s environmental management framework was built by creating the Earth Environment Committee. In 1992, Komatsu s management established the Komatsu Earth Environment Charter and has put in place initiatives designed to reduce the impact of its business operations to the environment, mainly focusing on its Construction and Mining Equipment operating segment. In July 2003, Komatsu s management revised this Charter and established three new guiding principles: (1) contributing towards the realization of a sustainable society, (2) striving to optimize both environmental and economic performance, and (3) observing corporate social responsibility. Simultaneously, Komatsu created the Environmental Affairs Department to expand Komatsu s environmental conservation efforts in all of its business operations and promote environmental management on a consolidated basis, including all of its overseas manufacturing subsidiaries.

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In 1997, Komatsu started auditing its manufacturing facilities in Japan to obtain ISO 14001 certification. As a result, by the end of March 2003, all of its manufacturing facilities in Japan acquired ISO 14001 certification. Audits based on ISO 14001 are primarily designed to inspect the functional effectiveness of the environmental management system at each facility, and do not necessarily identify potential environmental risks at the facility. In 2004, Komatsu commenced voluntary audits of its facilities with an emphasis on their environmental performance. Internal auditors of Komatsu evaluate facilities using the Komatsu Environmental Check Sheets and share their findings with the audited facility and the entire Komatsu group to promote further improvements within the Komatsu group. For additional information such as figures and goals related to Komatsu s environmental measures as well as environmental accounting, please refer to the latest edition of Komatsu s Environmental & Social Report, which is available through Komatsu s website.

STRATEGIES

In April 2007, Komatsu implemented Global Teamwork for 15, a new mid-range management plan. Under Global Teamwork for 15 Komatsu aims to continue its focus on introducing Dantotsu products, further enhance its market position in Greater Asia and continue to strive to improve its fixed costs, all of which it has striven to achieve since the first phase of the its management plan called Reform of Business Structure in 2001, by positioning the Construction and Mining Equipment, and the Industrial Machinery, Vehicles and Others businesses as its two core operations. By positioning these two businesses at the core of its operations, management believes that Komatsu will be better situated to develop and introduce products that are better suited to regional demands, in particular, the regional demands of the Greater Asia region, to expand local production and to further enhance its product support operations. In addition, under Global Teamwork for 15 Komatsu will continue its efforts to develop its human resources on a global basis, which is one of the objectives of the second phase of the Reform for Business Structure, that was implemented beginning in 2006. Komatsu recognizes that its growth is sustained by its personnel and intends to facilitate the training of its personnel.

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In addition to the above initiatives, which Komatsu has been focused on for some years, Komatsu has identified the following four new key objectives, for which it aims to achieve certain results under Global Teamwork for 15.

The first objective is the establishment of a flexible manufacturing infrastructure. Komatsu intends to utilize its global sales and production systems and global procurement programs in order to further improve the flexibility of its manufacturing infrastructure to quickly adjust to fluctuations in demand. By sharing market information among distributors, plants and suppliers, Komatsu hopes to accurately incorporate such information into production, sales and inventory planning in the short-term. In the medium-term, Komatsu intends to accurately incorporate such information into its capital investment planning to ensure it will have appropriate levels of production capacity.

The second objective is to expand its utility equipment business. In April 2007, Komatsu Utility Co., Ltd. was established by consolidating Komatsu Zenoah Co. s compact-construction equipment business into Komatsu Forklift Co., Ltd. s forklift business. Komatsu expects this consolidation to create synergistic effects in production and development, thereby enhancing its product competitiveness in the utility equipment market. Komatsu Utility Co., Ltd. will focus its efforts on the Greater Asia market to enhance its position in the utility equipment market and to improve its profits.

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The third objective is the expansion of Komatsu s parts business. Komatsu will continue its efforts to improve sales of ground engaging tools, such as buckets, teeth and undercarriage parts, expand the number of parts depots, provide support to its training centers and train more product support personnel through its education programs. By acquiring utilization information of its customers machines through real-time monitoring systems such as the KOMTRAX, Komatsu hopes to further optimize its parts inventories, accelerate the delivery of parts to its customers and increase automated sales to increase sales and improve its profits.

The fourth objective is the reinforcement of its industrial machinery business. Komatsu hopes to increase production volume, reduce production lead time, improve the quality of its products and services, and reduce the cost of its products by fully utilizing its newly established Kanazawa plant in Japan.

C. Organizational Structure

As of March 31, 2007, the Company had 145 consolidated subsidiaries and 39 affiliates under the equity method. The following is a list of the principal consolidated subsidiaries as of March 31, 2007.

Name of the Company	Country of Incorporation	Ownership Interest (%)
Komatsu Forklift Co., Ltd.	Japan	100.0
Komatsu Zenoah Co.	Japan	100.0
Komatsu Castex Ltd.	Japan	100.0
Komatsu Tokyo Ltd.	Japan	100.0
Komatsu Kinki Ltd.	Japan	100.0

Komatsu Nishi-Nihon Lid.	Japan	100.0
Komatsu Used Equipment Corp.	Japan	100.0
Komatsu Rental Japan Ltd.	Japan	100.0
Komatsu Industries Corporation	Japan	100.0
Komatsu Machinery Corporation	Japan	100.0
Komatsu Logistics Corp.	Japan	100.0
Komatsu Electronics, Inc.	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 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 and corresponds to the proportion of voting power.

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D. Property, Plants and Equipment

Komatsu s manufacturing operations for the Construction and Mining Equipment operating segment are conducted in 44 principal plants, 11 of which are located in Japan. As of March 31, 2007, the 44 principal plants had an aggregate manufacturing floor space of 1,751 thousand square meters (18,848 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, 2007, the net book value of the property owned by Komatsu was ¥388,393 million, of which ¥500 million was subject to encumbrances.

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The name and location of Komatsu s principal plants, their approximate aggregate floor space, and the principal products manufactured therein as of March 31, 2007 are as follows:

Name and Location	Floor Space Thousand sq. meter	Thousand sq. ft	Principal products
Japan:			
Awazu Plant	227	2,443	Small and medium-sized bulldozers,
Komatsu, Ishikawa			small hydraulic excavators,
			mini excavators,
			small and medium-sized wheel loaders
Komatsu Plant	44	474	Large presses,
Komatsu, Ishikawa			small and medium-sized presses,
			press brakes,
			shears
Osaka Plant 1)	157	1,690	Large bulldozers,
Hirakata, Osaka			medium-sized and large-sized hydraulic excavators,
			recycling equipments
Oyama Plant 2)	201	2,164	Diesel engines,
Oyama, Tochigi			hydraulic equipment
Mooka Plant	76	818	Large wheel loaders,
Mooka, Tochigi			dump trucks,
			road-building machines
Kanazawa Plant	15	161	Large presses,
Kanazawa, Ishikawa			small and medium-sized presses,
			press brakes,
			shears
Ibaraki Plant	40	431	Large wheel loaders,
Hitachinaka, Ibaraki			dump trucks
Komatsu Zenoah Co.	60	646	Mini-excavators
Kawagoe, Saitama	39	420	Skid steer loaders
Koriyama, Fukushima	21	226	Outdoor power equipment,

			compact 2-stroke engines, hydraulic equipment
Komatsu Castex Ltd. Himi, Toyama	63	678	Steel castings Iron castings Pattern for casting
Komatsu Forklift Co., Ltd. Oyama, Tochigi	75	807	Forklift trucks Automated conveyance systems, etc.

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The Americas			
Komatsu America Corp.	125	1,346	
Tennessee, U.S.A.	31	334	Medium-sized hydraulic excavators
Quebec, Canada,	14	151	Small and medium-sized wheel loaders
South Carolina, U.S.A.	18	194	Backhoe loaders
Illinois, U.S.A.	62	667	Wheel loaders, Large-sized dump trucks
Hensley Industries, Inc.	18	194	Buckets, teeth, edges, adapters
Texas, U.S.A.			
Komatsu do Brasil Ltda.	57	614	Medium-sized hydraulic excavators,
Suzano, São Paulo, Brazil			small and medium-sized bulldozers,
			wheel loaders
Europe			
Komatsu UK Ltd.	60	646	Large and medium-sized hydraulic excavators
Birtley, UK			
Komatsu Hanomag GmbH	77	829	Small and medium-sized wheel loaders,
Hanover, Germany			mini 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 bulldozers,
			small and medium-sized wheel loaders,
			motor graders,
			dump trucks
PT Komatsu Undercarriage Indonesia	12	129	Undercarriage components and spare parts
Bekasi, Indonesia			

Komatsu (Changzhou) Construction Machinery Corporation Jiangsu, China	16	172	Wheel loaders, motor graders, medium-sized hydraulic excavators, dump trucks
Komatsu Shantui Construction Machinery Co., Ltd. Shandong, China	39	420	Small and medium-sized hydraulic excavators
Bangkok Komatsu Co. Ltd. Chonburi, Thailand	14	151	Medium-sized hydraulic excavators, backhoe loaders

Notes:

1) The space of Rokko plant is included.

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 it 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 Installation and Disposal of Equipment

Komatsu conducts various businesses in Japan and overseas, and the details of future capital investment plans to install new and more efficient equipment and to dispose of obsolete equipment were not decided as of March 31, 2007. As of the filing date of this annual report, Komatsu plans to make capital investment of ¥138,000 million by the end of fiscal year ending March 31, 2008. The amount of capital investment expected to be made by March 31, 2008, the principal investment objectives and the sources of funding by operating segment are set forth in the below table.

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Operating Segment	Expected capital investment amount by March 31, 2008 (Millions of Yen)	Principal investment objectives	Source of funding
Construction and Mining Equipment	121,000	To increase operating efficiency of production lines and to develop new products, etc.	Funds on hand, bank borrowings
Industrial Machinery, Vehicles and Others	17,000	To increase operating efficiency of production lines, to renew obsolete equipment and to improve productivity, etc.	Funds on hand, bank borrowings
Total	138,000		

Note: Capital investment amounts exclude consumption tax, etc.

In the Construction and Mining Equipment operating segment, investments in Japan will focus on the expansion of production capacity for key components. For example, Komatsu will continue the development of new and updated models of its products, such as Dantotsu products, and will enhance production capacity and improve models to comply with the Tier III emission standards. In the Industrial Machinery, Vehicles and Others operating segment, Komatsu will invest capital to increase the operating efficiency of its production lines, replace deteriorating facilities and enhance overseas production capacity.

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 ¥118 to U.S.$1.00, the approximate buying rate of Japanese yen as of noon on March 30, 2007 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. Komatsu s three principal operating segments consist of Construction and Mining Equipment, Industrial Machinery, Vehicles and Others, and Electronics. Sales for the fiscal year ended March 31, 2007 in the Construction and Mining Equipment operating segment accounted for approximately 82.8% of consolidated net sales, while sales in the Industrial Machinery, Vehicles and Others operating segment and the Electronics operating segment each accounted for approximately 15.7% and 1.5% of consolidated net sales, respectively. On October 18, 2006, the Company sold 51.0% of the shares of KEM, its then consolidated subsidiary to SUMCO. Prior to this disposition, the Company held a 61.9% equity interest in KEM and classified the business of KEM and its subsidiaries under the Electronics operating segment. As a result of this disposition, the operating results of KEM and its subsidiaries business are no longer consolidated within the Electronics operating segment of Komatsu s results from the date of disposition. Of the consolidated net sales for the fiscal year ended March 31, 2007, 25.7% of net sales was derived from sales to customers located in Japan, and 74.3% of net sales was derived from sales to customers located outside of Japan. For additional information about Komatsu s products, competitive position, organizational structure and property, plants and equipment, see Item 4. Information on the Company.

The average exchange rate between the Japanese yen and the U.S. dollar was ¥116.55 for the fiscal year ended March 31, 2007 and ¥113.67 for the fiscal year ended March 31, 2006. 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, 2007 and 2006 in Item 5.A. Operating Results.

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Management Policy

The cornerstone of Komatsu s management policy is to maximize its corporate value by maintaining and enhancing the Quality and Reliability of its products and services. This policy emphasizes, among other things, delivering safe and innovative products and services that respond to customers needs. Komatsu is continuing its group-wide effort to enhance the Quality and Reliability of all organizations, businesses, employees and management. In fact, continuously improving the Quality and Reliability of its products and services is one of the top priorities of Komatsu s management.

Komatsu s management believes that the value of a corporation is represented by the trust its stakeholders and society place in such corporation. To continue to earn the trust of its stakeholders and society, thereby increasing its value, Komatsu has established two management goals. The first is to maintain a high level of profitability and financial position in its industry and to strive to enhance its position in the global market, especially in the Greater Asia region. The second goal is to manage its business in a manner that takes into consideration the fact that Komatsu s market value reflects the trust placed in Komatsu by society and its stakeholders.

In order to achieve the management goals described above, Komatsu continued to implement the management plan it calls the Reform of Business Structure during the fiscal year ended March 31, 2007, which is described in further detail below.

As goals for the first phase of the Reform for Business Structure, which started in 2001, Komatsu has been focused on launching greater number of Dantotsu products, enhancing Komatsu s market position in Greater Asia and reducing fixed costs. Komatsu commenced the second phase of the Reform for Business Structure in 2006 while continuing to work on the goals of the first phase of the Reform for Business Structure. The objectives of the second phase of the Reform for Business Structure has been to reform Komatsu s Value-Chain by utilizing information technologies, reinforce jobsite capabilities and develop appropriate levels of human resources globally.

By Value-Chain, Komatsu is referring to the chain of values generated from all of its business activities starting from research and development and production to sales, including financing and services. For example, demand for construction and mining equipment is affected by cyclical changes in the economies. As advances in information technology have made it possible for Komatsu to determine market changes by allowing it to receive up-to-date information, including information of the operating conditions of the existing customers machines, Komatsu believes that it can enhance its competitive advantage over its competitors by adjusting sales volume, production levels and inventory status effectively in a timely manner before its competitors can respond to such market changes. To improve its Value-Chain, in the fiscal year ended March 31, 2007, Komatsu worked to develop a systems infrastructure through which it could share global sales and production information collected through these advances in information technology with its distributors, plants and suppliers on a real-time basis so as to achieve greater global manufacturing operational efficiencies. Jobsite capabilities means the mindset and power of its employees to continuously strive to improve Komatsu s products in order to create higher quality products and implement manufacturing systems that operate more efficiently.

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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, 2006 and 2007.

Management considers segment profit, which is a Japanese accounting principle, 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.

Management Indices	Results for Fiscal Year Ended March 31 2007	2006	Percentage Change 2007 vs. 2006
Net Sales	¥ 1,893,343 million	¥ 1,612,140 million	17.4%
Segment Profit [1)	¥ 249,746 million	¥ 164,501 million	51.8%
Operating Income	¥ 244,741 million	¥ 163,428 million	49.8%
Operating Income Ratio [2)	12.9%	10.1%	2.8 points
ROE [3)	23.5%	20.8%	2.7 points
Net DER [4)	0.33	0.49	-0.16

Notes:

1) Segment Profit = Net sales {(cost of sales) + (selling, general and administrative expenses)} Segment Profit is calculated in conformity with Japanese accounting principles.

2) Operating Income Ratio = Operating income/Net sales

3) ROE = Net income for the year/{(Shareholders equity at the beginning of the year) + (Shareholders equity at the end of the year)/2}

4) Net DER = {(Interest-bearing debt) (Cash and time deposits)}/Shareholders equity

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General Overview

During the fiscal year ended March 31, 2007, the U.S. economy slowed considerably. While private consumption spending continued to increase, the housing sector had a substantial drag on economic growth, with residential housing investments declining. In addition, the manufacturing sector, particularly in the automobile and construction sectors, recorded weak results in the U.S. In Europe, economic growth accelerated at its fastest pace in six years as domestic demand strengthened, fueled by robust export growth and strong investment. In Japan, the economy s underlying momentum remained robust, with expanded private investments, which was supported by strong profits, improved corporate balance sheets and rising export growth as a result of weaker Japanese yen exchange rates. Among emerging markets and developing countries, China and India reported rapid economic growth, with such momentum sustained across other emerging markets and developing countries that are rich in natural resources and are able to benefit from high commodity prices.

Komatsu s consolidated business results for the fiscal year ended March 31, 2007 continued to post record-high figures in both net sales and operating income, with net sales registering the fifth consecutive year of increase and operating income registering the fifth consecutive year of increase. In the Construction and Mining Equipment operating segment, Komatsu once again recorded an increase in sales for the fiscal year ended March 31, 2007 by effectively capitalizing the increase in market demand in such equipment resulting from expanded activity in the areas of resource and infrastructure development around the world. In the Industrial Machinery, Vehicles and Other operating segment, all subsidiaries and affiliates of Komatsu recorded solid performance and increased sales figures. In the Electronics operating segment, sales declined from the previous fiscal year due primarily to the sale of the polycrystalline silicon business during the fiscal year ended March 31, 2006.

The increase in operating income was largely due to improved price realization, higher sales volume and currency exchange rate effects of a weaker Japanese yen, which was partially offset by an increase in purchase costs of steel materials, tires and other purchased parts.

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Summary of Operating Results

Consolidated net sales for the fiscal year ended March 31, 2007 increased by 17.4% from fiscal year ended March 31, 2006 to ¥1,893,343 million (U.S.$16,045 million) due primarily to increased sales in the Construction and Mining Equipment operating segment. Operating income for the fiscal year ended March 31, 2007 was ¥244,741 million (U.S.$2,074 million), which increased by 49.8% as compared to the fiscal year ended March 31, 2006. 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% from the fiscal year ended March 31, 2006, to ¥236,491 million (U.S.$2,004 million). Net income for the fiscal year ended March 31, 2007 increased by 44.1% to ¥164,638 million (U.S.$1,395 million) from the fiscal year ended March 31, 2006.

Net Sales

Consolidated net sales for the fiscal year ended March 31, 2007 increased by 17.4% to ¥1,893,343 million (U.S.$16,045 million) as compared to the fiscal year ended March 31, 2006. This increase was primarily due to increased sales in the Construction and Mining Equipment operating segment.

Segment Profit

Consolidated segment profit for the fiscal year ended March 31, 2007 increased by 51.8% to ¥249,746 million (U.S.$2,116 million) as compared to the fiscal year ended March 31, 2006. This increase was mainly due to increased sales in the Construction and Mining Equipment operating segment. Segment profit is calculated in conformity with Japanese accounting principles.

Operating Income, Operating Income Ratio

Operating income, for the fiscal year ended March 31, 2007 rose by 49.8%, or ¥81,313 million, to ¥ 244,741 million (U.S.$2,074 million) from ¥163,428 million recorded for the fiscal year ended March 31, 2006.

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.

ROE

Net income in the fiscal year ended March 31, 2007 increased 44.1% to ¥164,638 million (U.S. $ 1,395 million), compared with the fiscal year ended March 31, 2006. As a result, ROE for the fiscal year ended March 31, 2007 increased by 2.7 percentage points to 23.5% from 20.8% in the fiscal year ended March 31, 2006.

Net DER

Komatsu s aggregate interest-bearing debt as of March 31, 2007 was ¥349,074 million (U.S.$2,958 million), which decreased by ¥28,839 million in fiscal year ended March 31, 2007 as compared to fiscal year ended March 31, 2006. Net interest-bearing debt after deducting cash and deposits also decreased by ¥51,041 million to ¥256,821 million (U.S.$2,176 million) in fiscal year ended March 31, 2007. As a result, net DER for the fiscal year ended March 31, 2007 decreased to 0.33 from 0.49 for the fiscal year ended March 31, 2006.

Critical Accounting Policies

Komatsu prepares its consolidated financial statements in conformity with U.S. generally accepted accounting principles. 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 of the Notes to Consolidated Financial Statements.

(2) Deferred Income Tax Assets

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.

While Komatsu s management believes that all deferred tax assets after adjustments for valuation allowance will be realized, Komatsu may need to adjust its deferred tax assets or valuation allowance if its estimates differ from actual results due to poor operating results and lower future taxable income than the estimated taxable income. These adjustments to the valuation allowance could materially affect Komatsu s financial position and results of operations. For additional information, see Note 16 of the Notes to Consolidated Financial Statements.

(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 is lower than 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 our 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. generally accepted accounting principles, 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.

During the fiscal year ended March 31, 2007, the Company and domestic subsidiaries adopted a discount rate of 2.0% to determine net periodic benefit cost, the same discount rate used for the fiscal year ended March 31, 2006. 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 February 2006, FASB issued SFAS No.155, Accounting for Certain Hybrid Financial Instruments an amendment of SFAS No.133 and 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. SFAS 155 permits fair value re-measurement for any hybrid financial instrument that contains an embedded derivative, and establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative. SFAS 155 is effective for the fiscal periods beginning after September 15, 2006 and is required to be adopted by the Company in the fiscal year beginning April 1, 2007. The Company is currently evaluating the effect that the adoption of SFAS 155 will have on its consolidated results of operations and financial condition but expects it will not have a material impact.

In March 2006, FASB issued SFAS No.156, Accounting for Servicing of Financial Assets an amendment of FASB Statement No.140. SFAS 156 amends SFAS 140 to clarify the accounting for servicing assets and servicing liabilities. Among other provisions, the new accounting standard requires all separately recognized servicing assets and servicing liabilities to be initially measured at fair value, if practicable. SFAS 156 is effective for the fiscal periods beginning after September 15, 2006 and is required to be adopted by the Company in the fiscal year beginning April 1, 2007. The Company is currently evaluating the effect that the adoption of SFAS 156 will have on its consolidated results of operations and financial condition but expects it will not have a material impact.

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In June 2006, FASB issued Interpretation No.48 (FIN 48), Accounting for Uncertainty in Income Taxes an interpretation of SFAS No.109, Accounting for income Taxes. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in financial statements in accordance with SFAS 109. This interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for the fiscal periods beginning after December 15, 2006 and is required to be adopted by the Company in the fiscal year beginning April 1, 2007. The Company is currently evaluating the effect that the adoption of FIN 48 will have on its consolidated results of operations and financial condition but expects it will not have a material impact.

In September 2006, FASB issued SFAS No.157, Fair Value Measurements. SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS 157 is effective for the fiscal periods beginning after November 15, 2007 and is required to be adopted by the Company in the fiscal year beginning April 1, 2008. The Company is currently evaluating the effect that the adoption of SFAS 157 will have on its consolidated results of operations and financial condition but expects it will not 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 159 permits entities 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 159 is effective for the fiscal periods beginning after November 15, 2007 and is required to be adopted by the Company in the fiscal year beginning April 1, 2008. The Company is currently evaluating the effect that the adoption of SFAS 159 will have on its consolidated results of operations and financial condition but expects it will not have a material impact.

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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. The U.S. dollar amounts represent conversion from Japanese yen amounts at the rate of ¥118 to U.S.$1, the approximate buying rate of the Japanese yen as of noon on March 30, 2007 in New York City as reported by the Federal Reserve Bank of New York, and are included only for the convenience of the reader.

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	Millions of Yen Fiscal Years Ended March 31, 2007		2006		Percentage change 2007 vs. 2006	Millions of U.S. dollars 2007
Net sales	**¥ 1,893,343**	100.0%	¥ 1,612,140	100.0%	17.4%	**$ 16,045**
Cost of sales	**1,356,511**	71.6%	1,185,240	73.5%	14.5%	**11,496**
Selling, general and administrative expenses	**287,086**	15.2%	262,399	16.3%	9.4%	**2,433**
Impairment loss on long-lived assets held for use	**81**	0.0%	4,791	0.3%	-98.3%	**0**
Impairment loss on goodwill			3,041	0.2%		
Other operating income (expenses)	**(4,924)**	-0.3%	6,759	0.4%	-172.9%	**(42)**
Operating income	**244,741**	12.9%	163,428	10.1%	49.8%	**2,074**
Other expenses	**(8,250)**		(7,649)		7.9%	**(70)**
Interest and dividend income	**8,532**		6,824		25.0%	**72**
Interest expense	**(15,485)**		(12,208)		26.8%	**(131)**
Other-net	**(1,297)**		(2,265)		-42.7%	**(11)**
Income from continuing operations before income taxes, minority interests and equity in earnings of affiliated companies	**236,491**	12.5%	155,779	9.7%	51.8%	**2,004**
Income taxes						
Current	**76,102**		45,751		66.3%	**645**
Deferred	**3,643**		(1,781)		-304.5%	**31**
Total	**79,745**	4.2%	43,970	2.8%	81.4%	**676**
Income from continuing operations before minority interests and equity in earnings of affiliated companies	**156,746**	8.3%	111,809	6.9%	40.2%	**1,328**
Minority interests in income of consolidated subsidiaries	**(6,580)**		(5,335)		23.3%	**(55)**
Equity in earnings of affiliated companies	**3,098**		2,667		16.2%	**26**
Income from continuing operations	**153,264**	8.1%	109,141	6.8%	40.4%	**1,299**
Income from discontinued operations, less applicable income taxes, minority interests and equity in affiliated companies	**11,374**	0.6%	5,149	0.3%	120.9%	**96**
Net income	**¥ 164,638**	8.7%	¥ 114,290	7.1%	44.1%	**$ 1,395**

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	Yen		U.S. dollars
Per share data			
Income from continuing operations:			
Basic	**¥154.25**	¥109.94	**$1.30**
Diluted	**153.97**	109.75	**1.30**
Income from discontinued operations:			
Basic	**11.45**	5.19	**0.10**
Diluted	**11.43**	5.18	**0.10**
Net Income:			
Basic	**165.70**	115.13	**1.40**
Diluted	**165.40**	114.93	**1.40**
Cash dividends per share	**¥23.00**	¥14.00	**0.19**

	Millions of Yen Fiscal Years Ended March 31, 2007		2006		Percentage change 2007 vs. 2006	Millions of U.S. dollars 2007
Segment Profit	**¥249,746**	13.2%	¥164,501	10.2%	51.8%	**$2,116**

Notes:

1) Segment profit is calculated in conformity with Japanese accounting principles. Segment profit is obtained by subtracting cost of sales and selling, general and administrative expenses from net sales.

2) Starting from the fiscal year ended March 31, 2007, Komatsu changed its method for presenting its consolidated statements of income from a single-step method to a multiple-step method. To calculate the percentage change from the previous fiscal year, Komatsu used the corresponding figures for the fiscal year ended March 31, 2006 which was reclassified using the multiple-step method.

3) On October 18, 2006, the Company sold 51.0% of the shares of KEM to SUMCO. Prior to this disposition, the Company held a 61.9% equity interest in KEM. On January 30, 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. The sale of the OPE business was completed on April 2, 2007. As a result, the operating results of KEM and its subsidiaries as well as the OPE business of Komatsu Zenoah Co. and its subsidiaries engaging in the OPE business are no longer consolidated in Komatsu s results as of the date of their respective disposition. The operating results of these subsidiaries and the OPE business, and the gain recognized on the sale of KEM and its subsidiaries are presented as income from discontinued operations in the consolidated statements of income in accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. The above consolidated statements of income have been reclassified to take these sales into consideration.

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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 (U.S.$16,045 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 primary due to increased sales in the Construction and Mining Equipment operating segment, which was supported by increased sales in the Industrial Machinery, Vehicles and Other operating segment. This increase was partially offset by the decrease in sales in the Electronics 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 Other operating segment also contributed to the 17.4% increase in net sales as it increased by 6.6%, or ¥18,525 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 to customers in the Electronics operating segment decreased by 33.4%, or ¥13,822 million for the fiscal year ended March 31, 2007 as compared to the fiscal year ended March 31, 2006 and 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. See discussion in the operating segment section provided below for additional information.

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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 (U.S.$11,496 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 volumes of 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 (U.S.$2,433 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 volumes of sales. Although Komatsu experienced an increase in certain expenses during the fiscal year ended March 31, 2007, due to its efforts to reinforce its product support and services structure, safety and environmental management system, and regulatory compliance programs relating to environmental and other regulations, the ratio of selling, general and administrative expenses to net sales decreased by 1.1 percentage points to 15.2% as compared to 16.3% for the fiscal year ended March 31, 2006. This decrease in the ratio of selling, general and administrative expenses to net sales was also due to Komatsu s continuous efforts to decrease fixed costs as part of its Reform of Business Structure project.

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 98.3%, or ¥4,710 million, to ¥81 million (U.S.$0.69 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.

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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 (U.S.$2,074 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.

Other Expenses

Consolidated other expenses for the fiscal year ended March 31, 2007 increased by 7.9%, or ¥601 million, to ¥8,250 million (U.S. $70 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 (U.S.$131 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 (U.S.$72 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 (U.S.$2,004 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 (U.S.$676 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 of the Notes to 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 (U.S.$1,328 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 (U.S.$55 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 (U.S.$26 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.

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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 (U.S.$1,299 million) as compared to ¥109,141 million for the fiscal year ended March 31, 2006.

Income from Discontinued Operations Less Applicable Income Taxes, Minority Interests and Equity in Earnings of Affiliated Companies

Consolidated income from discontinued operations less applicable income taxes, minority interests and equity in earnings of affiliated companies for the fiscal year ended March 31, 2007 increased by 120.9%, or ¥6,225 million, to ¥11,374 million (U.S.$96 million) as compared to ¥5,149 million for the fiscal year ended March 31, 2006. Consolidated income from discontinued operations less applicable income taxes, minority interests and equity in earnings of affiliated companies for the fiscal year ended March 31, 2007 include the gain from the sale of KEM s shares in the amount of approximately ¥7.5 billion (U.S.$ 64 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 (U.S.$1,395 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.

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Segment Profit

Segment profit, which is one of Komatsu s key management indices, is calculated in conformity with Japanese accounting principles by subtracting the 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 (U.S.$2,116 million) for the fiscal year ended March 31, 2007 from ¥164,501 million for the fiscal year ended March 31, 2006. Segment profit in 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 (U.S.$1,870 million) from ¥142,904 million for the fiscal year ended March 31, 2006. Factors contributing to the increase in Segment profit in the Construction and Mining Equipment operating segment for the fiscal year ended March 31, 2007 were: (i) higher gross margin resulting from increased sales volume (which increased segment profit by approximately ¥53.5 billion), (ii) higher product prices (which increased segment profit by approximately ¥46.4 billion), (iii) gains from foreign exchange rate fluctuations 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 ¥16.1 billion), and (iv) lower costs. Such factors offset the higher prices of steel materials, tires and other purchased parts (which decreased segment profit by approximately ¥14.6 billion), and higher fixed costs related to research and development activities and reinforcing Komatsu s sales and product support services. Segment profit for the Industrial Machinery, Vehicles and Others operating segment for the fiscal year ended March 31, 2007 increased by 31.5%, or ¥7,085 million, to ¥29,555 million (U.S.$250 million) from ¥22,470 million for the fiscal year ended March 31, 2006. This increase was primarily due to increased sales generated by the consolidated subsidiaries of the Company, including Komatsu Forklift Co., Ltd., Komatsu Industries Corp., Komatsu Machinery Corp. and Komatsu Logistics Corp., and other subsidiaries. In the Electronics operating segment, while Komatsu Electronics Inc., a wholly-owned subsidiary engaging in the production and sale of temperature-control equipment for semiconductor manufacturing, increased profits within the Electronics operating segment, the sale of polycrystalline silicon business reduced overall segment profit for the fiscal year ended March 31, 2007 to ¥2,137 million (U.S.$18 million) by 29.8%, or ¥908 million, from ¥3,045 million in the fiscal year ended March 31, 2006.

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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.

	Millions of Yen Fiscal Years Ended March 31,		Percentage Change 2007 vs.	Millions of U.S. dollars
	2007	2006	2006	2007
Net sales:				
Construction and Mining Equipment				
Customers	**¥ 1,567,723**	¥ 1,291,223	21.4%	**$ 13,286**
Intersegment	**20,253**	21,203	-4.5%	**171**
Total	**1,587,976**	1,312,426	21.0%	**13,457**
Industrial Machinery, Vehicles and Others				
Customers	**298,022**	279,497	6.6%	**2,526**
Intersegment	**99,229**	82,196	20.7%	**841**
Total	**397,251**	361,693	9.8%	**3,367**
Electronics				
Customers	**27,598**	41,420	-33.4%	**234**
Intersegment	**13**	15	-13.3%	**0**
Total	**27,611**	41,435	-33.4%	**234**
Elimination	**(119,495)**	(103,414)	15.6%	**(1,013)**
Consolidated Net Sales	**¥ 1,893,343**	¥ 1,612,140	17.4%	**16,045**
Segment Profit :				
Construction and Mining Equipment	**¥ 220,606**	¥ 142,904	54.4%	**1,870**
Industrial Machinery, Vehicles and Others	**29,555**	22,470	31.5%	**250**
Electronics	**2,137**	3,045	-29.8%	**18**
Total	**252,298**	168,419	49.8%	**2,138**
Corporate expenses and elimination	**(2,552)**	(3,918)	-34.9%	**(22)**
Consolidated Segment Profit	**¥ 249,746**	¥ 164,501	51.8%	**$ 2,116**

Notes:

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

2)

In conformity with Japanese accounting principles, segment profit is obtained by subtracting the aggregate sum of cost of sales and selling, general and administrative expenses, from net sales.

3) On October 18, 2006, the Company sold 51.0% of the shares of KEM to SUMCO. Prior to this disposition, the Company held a 61.9% equity interest in KEM. On January 30, 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. The sale of the OPE business was completed on April 2, 2007. As a result, the operating results of KEM and its subsidiaries as well as the OPE business of Komatsu Zenoah Co. and its subsidiaries engaging in the OPE business are no longer consolidated in Komatsu s results as of the date of their respective disposition. The operating results of these subsidiaries and the OPE business, and the gain recognized on the sale of KEM and its subsidiaries are presented as income from discontinued operations in the consolidated statements of income in accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. The above consolidated statements of income have been reclassified to take these sales into consideration.

Net sales to customers recognized by sales destination

	Millions of Yen Fiscal Years Ended March, 31		Percent Change	Millions of U.S.dollars
	2007	**2006**	**2007 vs 2006**	**2007**
(1) Construction and Mining Equipment operating segment				
Japan	**¥ 282,596**	¥ 274,792	2.8%	**$ 2,395**
Americas	**480,193**	421,133	14.0%	**4,069**
Europe and CIS	**311,808**	224,272	39.0%	**2,642**
China	**108,392**	68,145	59.1%	**919**
Asia (excluding Japan, China) and Oceania	**229,881**	195,728	17.4%	**1,948**
Middle East and Africa	**154,853**	107,153	44.5%	**1,312**
(2) Industrial Machinery, Vehicles and Others	**298,022**	279,497	6.6%	**2,526**
(3) Electronics	**27,598**	41,420	-33.4%	**234**
Consolidated net sales	**¥ 1,893,343**	¥ 1,612,140	17.4%	**$ 16,045**

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Construction and Mining Equipment

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 (U.S.$13,286 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 (U.S.$2,395 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 export volume. 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.

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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 (U.S.$4,069 million) as compared to ¥421,133 million for the fiscal year ended March 31, 2006.

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 (U.S.$2,642 million) as compared to ¥224,272 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 (U.S.$1,948 million) as compared to ¥195,728 million for the fiscal year ended March 31, 2006.

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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 (U.S.$919 million) as compared to ¥68,145 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 mining 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 (U.S.$1,312 million) for the fiscal year ended March 31, 2007 as compared to the fiscal year ended March 31, 2006.

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 (U.S.$1,870 million) as compared to ¥142,904 million for the fiscal year ended March 31, 2006. This increase was primarily due to positive factors such as expanded gross margin as a result of increased sales volume, gain from foreign exchange rates, price increase and cost reductions of its products which outweighed negative factors such as the soaring price of parts, an increase in research and development expenses for developing models which are compliant with new emission gas regulations, and the costs incurred to reinforce its sales and product support organization. Komatsu also worked to further improve its management efficiency by merging ten affiliated rental companies to Komatsu Rental Japan Ltd. in October 2006.

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Industrial Machinery, Vehicles and Others

Consolidated net sales to customers in the Industrial Machinery, Vehicles and Others operating segment for the fiscal year ended March 31, 2007 increased by 6.6%, or ¥18,525 million, to ¥298,022 million (U.S.$2,526 million) as compared to ¥279,497 million for the fiscal year ended March 31, 2006. Segment profit for the Industrial Machinery, Vehicles and Others operating segment for the fiscal year ended March 31, 2007 increased by 31.5%, or ¥7,085 million, to ¥29,555 million (U.S.$250 million) as compared to ¥22,470 million for the fiscal year ended March 31, 2006. The increase of sales and profits were primarily due to strong sales recorded by Komatsu s principal subsidiaries, such as Komatsu Forklift Co, Ltd. and Komatsu Industries Corporation. For example, Komatsu Forklift 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.

Electronics

Consolidated net sales to customers in the Electronics operating segment for the fiscal year ended March 31, 2007 decreased by 33.4%, or ¥13,822 million, to ¥27,598 million (U.S.$ 234 million) as compared to ¥41,420 million for the fiscal year ended March 31, 2006. This decrease was primarily due to decreased sales resulting from the sale of the polycrystalline silicon business, which completed during the fiscal year ended March 31, 2007, while Komatsu Electronics Inc., a wholly-owned subsidiary engaging in the production and sale of temperature-control equipment for semiconductor manufacturing, expanded sales for the fiscal year ended March 31, 2007. Segment profit for the Electronics operating segment for the fiscal year ended March 31, 2007 decreased by 29.8%, or ¥908 million, from ¥3,045 million to ¥2,137 million (U.S.$18 million) as compared to the fiscal year ended March 31, 2006.

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Performance by Geographic Segments

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

	Millions of Yen Fiscal Years Ended March 31, 2007	2006	Percentage Change 2007 vs. 2006	Millions of U.S. dollars 2007
Net sales:				
Japan				
Customers	**¥ 739,206**	¥ 682,260	8.3%	**$ 6,264**
Intersegment	**396,361**	297,784	33.1%	**3,359**
Total	**1,135,567**	980,044	15.9%	**9,623**
Americas				
Customers	**527,792**	466,049	13.2%	**4,473**
Intersegment	**38,221**	22,596	69.1%	**324**
Total	**566,013**	488,645	15.8%	**4,797**
Europe				
Customers	**298,509**	212,844	40.2%	**2,530**
Intersegment	**34,450**	29,760	15.8%	**292**
Total	**332,959**	242,604	37.2%	**2,822**
Others				
Customers	**327,836**	250,987	30.6%	**2,778**
Intersegment	**20,678**	19,250	7.4%	**175**
Total	**348,514**	270,237	29.0%	**2,953**
Elimination	**(489,710)**	(369,390)	32.6%	**(4,150)**
Consolidated	**¥ 1,893,343**	¥ 1,612,140	17.4%	**$ 16,045**
Segment Profit (loss):				
Japan	**¥ 140,193**	¥ 89,913	55.9%	**$ 1,188**
Americas	**51,842**	38,966	33.0%	**439**
Europe	**32,104**	20,315	58.0%	**272**
Others	**38,033**	22,539	68.7%	**322**
Corporate and elimination	**(12,426)**	(7,232)	71.8%	**(105)**
Consolidated	**¥ 249,746**	¥ 164,501	51.8%	**$ 2,116**

Note: In conformity with Japanese accounting principles, segment profit is obtained by subtracting the aggregate sum of cost of sales and selling, general and administrative expenses, from net sales.

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Japan

Net sales to customers in the Japan geographic segment for the fiscal year ended March 31, 2007 increased by 8.3%, or ¥56,946 million, to ¥739,206 million (U.S.$6,264 million) as compared to ¥682,260 million for the fiscal year ended March 31, 2006. In the Construction and Mining Equipment business, overseas demand in mining and infrastructure construction 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 for Japan for the fiscal year ended March 31, 2007 increased by 55.9% (or ¥50,280 million) from ¥89,913 million to ¥140,193 million (U.S.$1,188 million) as compared to the fiscal year ended March 31, 2006.

Americas

Net sales to customers in the Americas geographic segment for the fiscal year ended March 31, 2007 increased by 13.2% (or ¥61,743 million) from ¥466,049 million to ¥527,792 million (U.S.$4,473 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, which sales increase exceeded that of the last fiscal year. This increase in sales was partially offset by the decrease in sales in the Electronics operating segment as a result of the sale of ASiMI during the fiscal year ended March 31, 2006.

Segment profit for the Americas for the fiscal year ended March 31, 2007 increased by 33.0% (or ¥12,876 million) from ¥38,966 million to ¥51,842 million (U.S.$439 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 in the Electronics operating segment as a result of the sale of ASiMI during the fiscal year ended March 31, 2006.

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Europe

Net sales to customers in Europe geographic segment for the fiscal year ended March 31, 2007 increased by 40.2%, or ¥85,665 million, to ¥298,509 million (U.S.$2,530 million) as compared to ¥212,844 million for the fiscal year ended March 31, 2006. This increase 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 for Europe for the fiscal year ended March 31, 2007 increased by 58.0%, or ¥ 11,789 million, to ¥32,104 million (U.S.$272 million) as compared to ¥20,315 million for the fiscal year ended March 31, 2006, such improvement was due primarily to increased sales of construction and mining equipment.

Others

Net sales to customers in the Others geographic segment for the fiscal year ended March 31, 2007 increased by 30.6%, or ¥76,849 million, to ¥327,836 million (U.S.$2,778 million) as compared to ¥250,987 million for the fiscal year ended March 31, 2006. This increase was due primarily to the increase in sales of construction and mining equipment mainly in China and Australia as a result of economic growth and increased demand in those areas.

Segment profit for the Others geographic segment for the fiscal year ended March 31, 2007 increased by 68.7%, or ¥15,494 million, to ¥38,033 million (U.S.$322 million) as compared to ¥22,539 million for the fiscal year ended March 31, 2006, such improvement was due primarily to increased sales of construction and mining equipment.

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Comparison of Fiscal Years Ended March 31, 2006 and 2005

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.

	Millions of Yen				Percentage
	Fiscal Years Ended March 31,				change
	2006		2005		2006 vs. 2005
Net sales	**¥ 1,612,140**	100.0%	¥ 1,356,071	100.0%	**18.9%**
Cost of sales	**1,185,240**	73.5%	1,009,859	74.5%	**17.4%**
Selling, general and administrative expenses	**262,399**	16.3%	252,011	18.6%	**4.1%**
Impairment loss on long-lived assets held for use	**4,791**	0.3%	4,200	0.3%	**14.1%**
Impairment loss on goodwill	**3,041**				
Other operating income (expenses)	**6,759**		5,861		**15.3%**
Operating income	**163,428**	10.1%	95,862	7.1%	**70.5%**
Other expenses	**(7,649)**		(3,993)		**91.6%**
Interest and dividend income	**6,824**		5,138		**32.8%**
Interest expense	**(12,208)**		(10,611)		**15.1%**
Other-net	**(2,265)**		1,480		**-253.0%**
Income from continuing operations before income taxes, minority interests and equity in earnings of affiliated companies	**155,779**	9.7%	91,869	6.8%	**69.6%**
Income taxes					
Current	**45,751**		16,056		**184.9%**
Deferred	**(1,781)**		18,229		**-109.8%**
Total	**43,970**	2.7%	34,285	2.5%	**28.2%**
Income from continuing operations before minority interests and equity in earnings of affiliated companies	**111,809**	6.9%	57,584	4.2%	**94.2%**
Minority interests in income of consolidated subsidiaries	**(5,335)**		(2,603)		**105.0%**
Equity in earnings of affiliated companies	**2,667**		887		**200.7%**
Income from continuing operations	**109,141**	6.8%	55,868	4.1%	**95.4%**
Income from discontinued operations, less applicable income taxes, minority interests and equity in earnings of affiliated companies	**5,149**	0.3%	3,142	0.2%	**63.9%**
Net income	**¥ 114,290**	7.1%	¥ 59,010	4.4%	**93.7%**

	Yen	
Per share data		
Income from continuing operations:		
Basic	**¥109.94**	¥56.34
Diluted	**109.75**	56.30
Income from discontinued operations:		

Basic	**5.19**	3.17
Diluted	**5.18**	3.17
Net income:		
Basic	**115.13**	59.51
Diluted	**114.93**	59.47
Cash dividends per share	**¥14.00**	¥9.00

	Millions of Yen				Percentage
	Fiscal Years Ended March 31,				change
	2006		2005		2006 vs. 2005
Segment profit	**164,501**	10.2%	94,201	6.9%	**74.6%**

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Notes:

1) Segment profit is calculated in conformity with Japanese accounting principles. Segment profit is obtained by subtracting cost of sales and selling, general and administrative expenses from net sales.

2) Starting from the fiscal year ended March 31, 2007, Komatsu changed its method for presenting its consolidated statements of income from a single-step method to a multiple-step method. To calculate the percentage change from the previous fiscal year, Komatsu used the corresponding figures for the fiscal year ended March 31, 2005 and 2006 which was reclassified using the multiple-step method.

3) On October 18, 2006, the Company sold 51.0% of the shares of KEM to SUMCO. Prior to this disposition, the Company held a 61.9% equity interest in KEM. On January 30, 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. The sale of the OPE business was completed on April 2, 2007. As a result, the operating results of KEM and its subsidiaries as well as the OPE business of Komatsu Zenoah Co. and its subsidiaries engaging in the OPE business are no longer consolidated in Komatsu s results as of the date of their respective disposition. The above consolidated statements of income have been reclassified to take these sales into consideration.

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Net sales

Consolidated net sales for the fiscal year ended March 31, 2006 increased by 18.9% (or ¥256,069 million) from ¥1,356,071 million to ¥1,612,140 million as compared to the fiscal year ended March 31, 2005. For the fourth consecutive fiscal year, Komatsu recorded growth with respect to net sales. The 18.9% increase was primarily due to increased sales in the Construction and Mining Equipment operating segment, which primarily resulted from (1) the expansion of the U.S. economy, (2) the development of and increased investments in infrastructure by countries in emerging markets, (3) an increase in demand for raw materials that produce energy and (4) the rising prices of primary commodities.

Net sales in the Construction and Mining Equipment operating segment, the Industrial Machinery, Vehicles and Other operating segment for the fiscal year ended March 31, 2006 increased by 21.7% (or ¥230,062 million) and 12.5% (or ¥31,010 million) as compared to the fiscal year ended March 31, 2005, respectively. Net sales in the Electronics operating segment for the fiscal year ended March 31, 2006 decreased by 10.8% (or ¥5,003 million) as compared to the fiscal year ended March 31, 2005. See the discussion in the operating segment section provided below for additional information.

Cost of Sales

Komatsu s consolidated cost of sales increased by 17.4% (or ¥175,381 million) from ¥1,009,859 million to ¥1,185,240 million as compared to the fiscal year ended March 31, 2005, in line with the increase in sales for the fiscal year ended March 31, 2006. The ratio of cost of sales to net sales decreased by 1.0 points from 74.5% to 73.5% for the fiscal year ended March 31, 2006 as compared to the fiscal year ended March 31, 2005 because the increase in cost of sales for the fiscal year ended March 31, 2006 was fully offset by the increase in net sales for the fiscal year ended March 31, 2006 due to Komatsu s ability to leverage its fixed cost.

Selling, General and Administrative Expenses

Selling, general and administrative expenses rose by 4.1% in the fiscal year ended March 31, 2006 to ¥262,399 million from ¥252,011 million in the fiscal year ended March 31, 2005, primarily due to higher direct selling expenses, which is in line with the increase in sales volume during the year ended March 31, 2006. Although Komatsu experienced an increase in certain expenses in the fiscal year ended March 31, 2006 due to its efforts to reinforce its product support and services structure, safety and environmental management system, and compliance programs relating to environmental and other regulations, the ratio of selling, general and administrative expenses to net sales decreased by 2.3 points to 16.3% as compared to 18.6% for the fiscal year ended March 31, 2005 as Komatsu benefited from its continuous efforts to decrease fixed costs as part of the Reform of Business Structure project.

Impairment Loss on Long-Lived Assets Held for Use

The impairment loss on long-lived assets held for use for the fiscal year ended March 31, 2006 increased by 14.1% (or ¥591 million) from ¥4,200 million to ¥4,791 million as compared to the fiscal year ended March 31, 2005.

Impairment Loss on goodwill

The impairment loss on goodwill for the fiscal year ended March 31, 2006 increased by ¥3,041 million from ¥0 million to ¥3,041 million as compared to the fiscal year ended March 31, 2005. For the fiscal year ended March 31, 2006, Komatsu recognized an impairment loss of ¥3,041 million on goodwill allocated to a reporting unit in the Construction and Mining Equipment operating segment due to the unfavorable business circumstance relating to the net assets of such reporting unit. This impairment loss was recognized based on the amount by which the sum of the net book value of the reporting unit to which the goodwill was assigned exceeded the estimated fair value of such reporting unit as determined based on estimated future discounted cash flows.

Operating Income.

Consolidated operating income for the fiscal year ended March 31, 2006 increased by 70.5% (or ¥67,566 million) from ¥95,862 million to ¥163,428 million as compared to the fiscal year ended March 31, 2005.

Other Expenses

Consolidated other expenses for the fiscal year ended March 31, 2006 increased by 91.6% (or ¥3,656 million) from ¥3,993 million to ¥7,649 million as compared to the fiscal year ended March 31, 2005. This 91.6% increase was primarily due to the loss of ¥4,298 million suffered by Komatsu in connection with the sale or disposal of its fixed assets during the fiscal year ended March 31, 2006 as it made efforts to improve its manufacturing facilities, as well as, net foreign exchange loss of ¥1,545 million.

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

Consolidated income from continuing operations before income taxes, minority interests and equity in earnings of affiliated companies for the fiscal year ended March 31, 2006 increased by 69.6% (or ¥63,910 million) from ¥91,869 million to ¥155,779 million as compared to the fiscal year ended March 31, 2005.

Total Income Taxes

Total consolidated income taxes for the fiscal year ended March 31, 2006 increased by ¥9,685 million to ¥43,970 million due to an income tax expense of ¥34,285 million for the fiscal year ended March 31, 2005. The actual effective tax rate for the fiscal year ended March 31, 2006 decreased to 28.2 % from 37.3% as compared to the fiscal year ended March 31, 2005. The change in effective tax rate for the fiscal year ended March 31, 2006 as compared to the prior fiscal year was largely due to the tax benefit recognized by Komatsu America Corp. amounting to ¥18,357 million on net operating loss carry forwards of its subsidiaries. The difference between the combined statutory tax rate of 40.8% and the actual effective tax rate of 28.2% was caused by a realization of tax benefits on operating losses of subsidiaries and income from foreign subsidiaries being taxed at a rate lower than the Japanese statutory rate, which was offset in part by operating losses for which no benefit has been recognized and non-deductible expenses.

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, 2006 increased by ¥54,225 million from ¥57,584 million to ¥111,809 million as compared to the fiscal year ended March 31, 2005.

Minority Interests in Income of Consolidated Subsidiaries

Minority interests in income of consolidated subsidiaries for the fiscal year ended March 31, 2006 increased by ¥2,732 million from ¥2,603 million to ¥5,335 million as compared to the fiscal year ended March 31, 2005. Minority interests in income of consolidated subsidiaries increased mainly because of improved earnings recorded by subsidiaries in China.

Equity in Earnings of Affiliated Companies

Consolidated equity in earnings of affiliated companies for the fiscal year ended March 31, 2006 increased by ¥1,780 million from ¥887 million to ¥2,667 million as compared to the fiscal year ended March 31, 2005, due to the improved earnings recorded by affiliated companies in which Komatsu owns minority interests.

Income from Continuing Operations

As a result, consolidated income from continuing operations for the fiscal year ended March 31, 2006 increased by ¥53,273 million from ¥55,868 million to ¥109,141 million as compared to the fiscal year ended March 31, 2005.

Income from Discontinued Operations Less Applicable Income Taxes, Minority Interests And Equity In Earnings of Affiliated Companies

Consolidated income from discontinued operations less applicable income taxes, minority interests and equity in earnings of affiliated companies for the fiscal year ended March 31, 2006 increased by ¥2,007 million from ¥3,142 million to ¥5,149 million as compared to the fiscal year ended March 31, 2005.

Net Income.

As a result of the above factors, Komatsu s consolidated net income for the fiscal year ended March 31, 2006 increased by ¥55,280 million from ¥59,010 million to ¥114,290 million, as compared to the fiscal year ended March 31, 2005. Accordingly, basic net income per share rose to ¥115.13 for the fiscal year ended March 31, 2006 from ¥59.51 for the fiscal year ended March 31, 2005. Diluted net income per share rose to ¥114.93 for the fiscal year ended March 31, 2006 from ¥59.47 for the fiscal year ended March 31, 2005.

Segment Profit

Segment profit for the fiscal year ended March 31, 2006 increased by 74.6% (or ¥70,300 million) from ¥94,201 million to ¥164,501 million as compared to the fiscal year ended March 31, 2005. Segment profit is calculated in conformity 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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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, 2006 and 2005.

	Millions of Yen Fiscal Years Ended March 31, 2006	Millions of Yen Fiscal Years Ended March 31, 2005	Percentage Change 2006 vs. 2005
Net sales:			
Construction and Mining Equipment			
Customers	**¥ 1,291,223**	¥ 1,061,161	21.7%
Intersegment	**21,203**	15,199	39.5%
Total	**1,312,426**	1,076,360	21.9%
Industrial Machinery, Vehicles and Others			
Customers	**279,497**	248,487	12.5%
Intersegment	**82,196**	62,155	32.2%
Total	**361,693**	310,642	16.4%
Electronics			
Customers	**41,420**	46,423	-10.8%
Intersegment	**15**	26	-42.3%
Total	**41,435**	46,449	-10.8%
Elimination	**(103,414)**	(77,380)	33.6%
Consolidated Net Sales	**¥ 1,612,140**	¥ 1,356,071	18.9%
Segment Profit :			
Construction and Mining Equipment	**¥ 142,904**	¥ 78,427	82.2%
Industrial Machinery, Vehicles and Others	**22,470**	15,440	45.5%
Electronics	**3,045**	5,414	-43.8%
Total	**168,419**	99,281	69.6%
Corporate expenses and elimination	**(3,918)**	(5,080)	-22.9%
Consolidated Segment Profit	**¥ 164,501**	¥ 94,201	74.6%

Note:

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

2)

In conformity with Japanese accounting principles, segment profit is calculated by subtracting the aggregate sum of cost of sales and selling, general and administrative expenses, from net sales.

3) On October 18, 2006, the Company sold 51.0% of the shares of KEM to SUMCO. Prior to this disposition, the Company held a 61.9% equity interest in KEM. On January 30, 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. The sale of the OPE business was completed on April 2, 2007. As a result, the operating results of KEM and its subsidiaries as well as the OPE business of Komatsu Zenoah Co. and its subsidiaries engaging in the OPE business are no longer consolidated in Komatsu s results as of the date of their respective disposition. The above consolidated statements of income have been reclassified to take these sales into consideration.