

To Our Shareholders



Toshitaka Hagiwara, Chairman of the Board & Masahiro Sakane, President and CEO

We are very pleased to report that Komatsu Ltd. posted growth in both sales and profits for fiscal 2004, ended March 31, 2004. With two consecutive years of improvement, we were able to make a V-shaped recovery more certain in our business performance.

During the year under review, we launched the "Move The World. KOMATSU 5-800" mid-range management plan for fiscal 2006, ending March 31, 2006. Having defined the "industrial-use machinery," in a broader sense of the term, to include construction and mining equipment, industrial machinery, vehicles and other industrial-use machinery, and positioning it as our core business, we concerted our efforts to speed up management actions and build a high-profit business structure.

Business Results for the Year

Consolidated net sales advanced 9.8% over the previous year, to ¥1,196.4 billion (US\$11,504 million, at US\$1=¥104), renewing the record-high after five years. In the Construction and Mining Equipment business, while enjoying the benefits of our globalization efforts over the years, we boosted overseas sales

against the backdrop of improved market conditions, including expanded demand in China and demand recovery in North America, the world's largest market. In the Japanese market where construction investments continued to decline, we also expanded sales by capturing upturned demand for equipment renewals resulting from accelerated exports of used equipment from Japan. In the Industrial Machinery, Vehicles and Others business, Komatsu Group companies implemented aggressive sales and service activities, centering on products with unique features, and increased sales over the previous year. Sales of the Electronics business also grew, reflecting improved performance of the silicon wafer business in Taiwan, in particular.

Operating profit* nearly doubled from the previous year, to ¥65.9 billion (US\$634 million), topping the last peak of ¥49.9 billion recorded for the fiscal year ended March 31, 1997. Further improvement of our earnings power reflects our continued efforts in the reduction of fixed and production costs, in addition to expanded sales of all businesses, most notably, the construction and mining equipment business.

* In conformity with Japanese accounting principles, operating profit is obtained by subtracting cost of sales and selling, general and administrative expenses, from net sales.

Income before income taxes doubled over the previous year to ¥27.0 billion (US\$260 million). In the Electronics business, we revaluated fixed assets of Advanced Silicon Materials, LLC (ASiMI) and recorded an impairment loss of ¥17.5 billion (US\$169 million) based on the assumption that the business environment will remain unfavorable with belated elimination of the demand-and-supply gap for polycrystalline silicon and intensified pricing competition.

Net income for the year reached ¥26.9 billion (US\$259 million), representing a nine-fold increase. This impressive growth reflects not only improved pre-tax income but also tax effects resulting from the completion of the sale of land and buildings of Komatsu Silicon America, Inc. which had already stopped production.

Speeding Up Management Actions and Building High-Profit Business Structure

The business environment for construction and mining equipment, industrial machinery, vehicles and other industrial-use equipment has begun to improve worldwide. While there are concerns over the further appreciation of Japanese yen, the sharp price hike in steel materials, and political instability in the Middle East region, we are shifting our stance from defense to offense. Specifically, we will build on the results of the "Spirit of Manufacturers" reform, which centers on Unique and Unrivaled products in each business segment, and accelerate the development of new business models for construction and mining equipment. We will promptly work on the tasks defined in the "Move The World. KOMATSU 5-800" mid-range management plan and diligently develop a high-profit business structure. In our daily business activities, at the same time, we will constantly reflect and confirm the importance of compliance, safety and environmental protection across the board.

1 To Accomplish the "Move The World. KOMATSU 5-800" Mid-Range Management Plan

North America, the world's largest market for construction and mining equipment, has entered a demand recovery phase. Growth in demand is also very promising for us in China where construction investments are thriving, and the Commonwealth of Independent States (CIS: the former Soviet republics), the Middle East, Africa and some other regions where investments should grow in energy-related areas and social infrastructure developments.

In addition to Asia, including China and Japan, we have built a solid market position in CIS, the Middle East and some other regions. In all these regions, we will further strengthen our operations and focus on customer support capability to build up our strength. In North America and Europe, we will work to improve our market position by expanding and reinforcing our distributor networks and launching Unique and Unrivaled products. In North America, in particular, we will aggressively work to enhance profitability of the mining and utility equipment businesses. In Japan, we will actively expand a product lifecycle-based business in the downstream market for rental and used equipment, parts and service. After establishing such new business models, as soon as possible, we will implement them on a global scale.

With respect to our businesses of forklift trucks, machine tools, sheet metal and press machinery, as well as agricultural and forestry equipment, we will work to expand sales and improve profitability, as we demonstrate the strength of the "Spirit of Manufacturers" commitment, and aggressively promote sales and service activities centering on products with unique features.

In the electronics businesses, such as silicon wafers and polycrystalline silicon, we will steadily improve their quality and costs, expand sales and improve profits.

By solving the issues in each business, we are determined to achieve the goals set in the "Move The World. KOMATSU 5-800" mid-range management plan.

2 To Build Up the "Spirit of Manufacturers" Strength and Technological Competitiveness

Continuous Launchings of Unique and Unrivaled Products

It is the most important aspect of the "Spirit of Manufacturers" reform that we develop products which demonstrate Unique and Unrivaled features and enable substantial cost reductions simultaneously, in not only construction and mining equipment, but also every other business. Komatsu will focus its efforts to develop attractive products, which feature Quality and Reliability, that are fully appreciated by customers in each business segment.

Utilization of Global Production Bases

As a result of the aggressive globalization drive for the construction and mining equipment business, Komatsu operates 34 plants worldwide. It is an important task for us to further

enhance the competitiveness of 26 plants outside of Japan and utilize them from the viewpoint of local market conditions. Our plants in Japan are equipped with advanced levels of quality and cost competitiveness supported by skills and technologies accumulated over the years, cooperation of suppliers, employees' ideas and other factors. Through the active transfer of these advantages of superior manufacturing to overseas plants, we will see that each of these plants establishes top-level quality and cost competitiveness. We will also develop sales and production plans, optimize procurement, and reform logistics from a global perspective.

Enhancement of Competitiveness of Key Components

Product competitiveness of construction and mining equipment is determined by components such as engines, hydraulic equipment and final drives. These components manifest full utilization of the so-called "mechatronics" which combines mechanical, hydraulic and control, and other technologies. Therefore it is the important that they are made through teamwork involvement of development and production people, as well as suppliers. In this light, we will continue to concentrate our production mainly in Japan, and are going to expand production capacity for components, to meet the increased production volume worldwide of construction and mining equipment.

3 To Facilitate Selective Focus on the Criteria of Technological Advantage and Profitability

We will continue selective focus in all our businesses. To facilitate efficient utilization of management resources, we will evaluate each and every business by checking whether it is making its differentiation based on technological advantages, or generating an expected level of profits, and by considering the best possible way for any given business to grow further.

4 To Reinforce Our Competitive Foundation Including Financial Position

We will continue to build up a lean, strong financial structure from the viewpoint of sound management. We will also formulate flexible, agile organizations and groups of people with the spirit of challenge.

5 To Further Strengthen Corporate Governance

We are working to further strengthen corporate governance to become a company which enjoys the deepening trust of its shareholders, and all other stakeholders, by maximizing its corporate value. We are also determined to facilitate management

efficiency, advocate corporate ethics and ensure sound management on a Groupwide basis.

In 1999 Komatsu reduced the number of members of the Board of Directors so that directors would become able to discuss important management matters thoroughly and make decisions promptly. We have also appointed two directors and two auditors from outside of the Komatsu Group to ensure transparency and objectivity of management. Concerning the compensation of directors, the Compensation Council, with a majority of external experts, has discussed the rationality and legitimacy of directors' compensations. The Council is going to further link the compensations with business performance of the Company.

To enhance the reliability of management, we will also reinforce our internal control system which includes other Komatsu Group companies. At the same time, all top management officers and employees of the Komatsu Group will work to ensure thorough compliance. All of us will abide by not only the laws and regulations, but also "Komatsu's Code of Worldwide Business Conduct."

Centered on the "Spirit of Manufacturers," Komatsu's direction remains crystal clear: "We provide the products, (hardware and software), that customers are happy to own, and we will make profits and grow." In addition to top management officers, of course, all employees of the Komatsu Group in Japan and abroad are determined to fulfill this commitment with self-confidence and a sense of mission by converging their talents and knowledge.

On behalf of the members of the Board, we would like to extend our sincere appreciation to our valued shareholders, customers, business partners and employees around the world for their support.

June 25, 2004



Toshitaka Hagiwara
Chairman of the Board

Masahiro Sakane
President and CEO