

Construction & Mining Equipment



PC27MR-2 mini hydraulic excavator with tight tail swing launched in March 2004

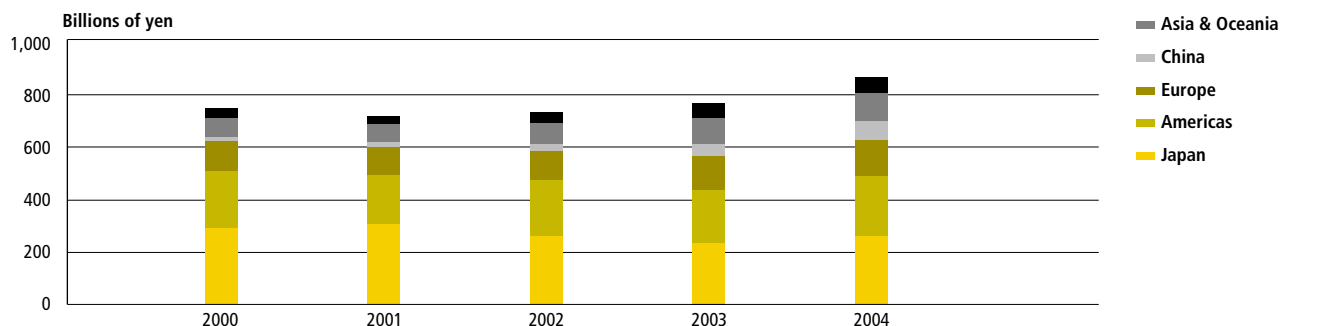
The mission of this business, centering on construction, mining and utility (compact) equipment, is to contribute to the prosperity of our customers worldwide through safe, innovative products, services and systems as we globalize. This business is also responsible for playing the leading role of promoting the growth of the Komatsu Group by establishing a solid position in each of its markets. We are working to become recognized as an international leader in quality and reliability with all products manufactured around the world, as well as in the quality and speed of our customer support, safety and environmental concerns.

Consolidated net sales of construction and mining equipment for the year climbed to ¥863.2 billion (US\$8,300 million), up 12.4% over the previous year, fueled by particularly buoyant overseas sales, and renewed the record-high figure.

During the year under review, Komatsu continued to boost sales in the thriving Chinese market. In the world's largest market of North America, Komatsu also expanded sales against the backdrop of recovered demand after four years of slack market conditions. As a result, overseas sales for the year advanced 13.3% over the previous year, to ¥602.5 billion (US\$5,794 million), renewing the record-high sales for the second consecutive year. In Japan, demand also upturned and Komatsu expanded sales 10.5% over the previous year, to ¥260.7 billion (US\$2,507 million). Segment profit for the construction and mining equipment business totaled ¥53.9 billion (US\$518 million) for the year, representing an impressive improvement of 86.0% from a year ago.

Komatsu launched the market introduction of Unique and Unrivaled products which have attained both outstanding advantages and cost reductions as a result of its efforts in the "Spirit of Manufacturers" reform. The MR-2 mini hydraulic excavator series, introduced as the first Unique and Unrivaled product in July last year, enjoyed brisk sales in the major utility equipment markets, such as Japan and North America, and contributed to expanded sales of utility equipment. Strong sales of PC400 and 450 hydraulic excavators, as well as the D475A super-large crawler dozers, also helped to increase sales in Japan and other major markets of the world. All models have enjoyed excellent customer evaluation.

Net sales



Japan



While construction investments remained sluggish in Japan, demand for equipment renewals increased, centering on hydraulic excavators and mini excavators, as exports of used equipment from Japan expanded against the backdrop of accelerating overseas demand. Komatsu teamed up with its distributors nationwide, concentrating its efforts on enhancing the product lineup of the GALEO-series equipment, and launching the Unique and Unrivaled products on the market. As a result, sales in Japan improved from the previous year after two years of decline.

Further reinforcing the burgeoning used equipment business

Komatsu Used Equipment Corp., which is engaged in the sales of used equipment, continued to boost sales for the year and to strengthen its business foundation, by expanding the scale of its centers for used equipment and improving the utilization of its bidding system on the Internet. At three auctions held in its Kobe, Yokohama and Fukuoka centers in March 2004, the company sold over 2,600 units, achieving record highs in the number of units auctioned, the amount of sales, and the percentage of successful bids. To coordinate and manage the operations of used and rental equipment together, Komatsu established the Rental and Used Equipment Division within the Construction & Mining Equipment Marketing Division in January 2004.

Expanding production capacity in Japan to meet world-wide growth in demand

Against the backdrop of expanding demand for construction equipment around the world, Komatsu's plants in Japan operated in high gear for exports throughout the year. By anticipating that overseas demand will continue to increase into the next fiscal year ending March 31, 2005, Komatsu expanded production capacity for key components whose production is concentrated in Japan. Specifically these include, the Oyama Plant for hydraulic components and the Osaka Plant for final drives, which are supplied to Komatsu's assembly plants in Japan and abroad. Keeping pace with growth in demand around the world, both plants are enhancing their supply capabilities of respective components for medium-size hydraulic excavators, as they continue investments to improve and expand their production capacities and streamline the production processes.



Assembly line for hydraulic excavators at the Osaka Plant operating at a high rate



Auction center of Komatsu Used Equipment Corp. which continued to expand sales for the year

The Americas



In the United States, after four years of decline, demand for construction and mining equipment upturned, driven by corporate investment incentives coupled with robust housing starts. While working to enhance its product development and customer support capabilities and to strengthen its distributors, Komatsu America Corp., continued its focus on efforts to step-up sales of GALEO-series equipment. In particular, sales of the US-series tight tail swing hydraulic excavators were brisk in response to their outstanding features, including a high level of safety which prevents accidents when the cab body turns, and resultant ease of operations with no worries about the back-end. Launched this year as a Unique and Unrivaled product, the PC400LC medium-sized hydraulic excavators received the keen attention of customers for their outstanding productivity per fuel cost and other features, and helped to increase Komatsu's market share for hydraulic excavators in North America. Komatsu also expanded the product range of its original articulated dump trucks, which were initially introduced on the market in 2001, and expanded sales at a higher rate than that of market demand.

In addition to superb basic performance which had already been proven by its predecessor the MR-1, the MR-2 series mini hydraulic excavators with tight tail swing, introduced as the first Unique and Unrivaled product, have attained the world's highest class of safety and improvements in operator comfort and serviceability. With this new series, Komatsu America Corp. doubled sales of utility equipment from the previous year.

In the Central and South Americas, while demand for construction and mining equipment remained sluggish, Komatsu expanded sales to an iron-ore mine in Brazil during the year.

Developing the autonomous dump truck

During the year, Komatsu developed an autonomous dump truck capable of unmanned operation by inputting the route and task information in the computer program. With test operations already underway in the United States, the commercialization of this dump truck is scheduled for 2005. As full utilization of the high-precision, global positioning system (GPS), ensures safety and enables management and operation of the fleet by a small number of operators, Komatsu expects to see new demand in areas where operators are hard to find, and for deployment at strenuous work sites at high altitudes.



Sales of articulated dump trucks expanded with a broadened line-up



PC8000 super-large hydraulic excavator produced by Komatsu Mining Germany GmbH and delivered to iron-ore and other mines around the world, including the Central and South Americas

Europe



In Europe where overall demand recovered from the previous year, Komatsu worked to reinforce its sales and service by consolidating all marketing capabilities at Komatsu Europe International N.V., the European regional headquarters, and expanded the scale of its parts supply center for Europe, the Middle East and Africa. In the Commonwealth of Independent States (CIS or former Soviet Republics), including Russia, demand advanced in the mining industry and from resource development projects, including a petroleum gas development project in Sakhalin. As a full-line manufacturer, Komatsu accelerated sales for the year by providing a diverse range of products and by reinforcing its customer support capabilities. As a result, Komatsu expanded sales over the previous year in Europe, including the CIS.

Additionally, Komatsu worked to build up sales and service capabilities in Russia by anticipating an increase in demand for equipment in urban areas.

Subsidiaries launching self-developed models

During the year, Komatsu UK Ltd., and Komatsu Utility Europe S.p.A., developed the renewed PW160 wheeled hydraulic excavator and new wheeled handlers, respectively. Both products generated great enthusiasm among the visitors at the bauma 2004, the world's largest class tradeshow for construction equipment held in Munich, Germany, in March of this year. Komatsu has launched sales of these new products and expects they will contribute to an increase in European sales.



Many products, including models made in Europe, displayed at the bauma 2004 held in Munich, Germany in March 2004

Komatsu making full-scale entry into the forestry equipment market

In the second half period, Komatsu acquired Partek Forest AB (renamed as Komatsu Forest AB in January 2004), a Swedish manufacturer of forestry equipment. As the second largest specialized manufacturer of forestry equipment, the former Partek Forest supplied its equipment to some 30 countries particularly in Europe and the United States under the brand name of Valmet. Having inherited its management resources, Komatsu Forest will continue to supply equipment under the well known Valmet brand name, as the company incorporates Komatsu's technologies to further improve the quality and reliability of its equipment. Meanwhile, Komatsu has manufactured and supplied its own forestry equipment based on construction equipment. By adding Komatsu Forest products for full-line offerings, Komatsu has made full-scale entry into the forestry equipment market.

Komatsu receiving a large-lot order from Turkmenistan

In 2002, Komatsu and ITOCHU Corporation signed a long-term supply agreement until 2010 for construction equipment with the government of Turkmenistan. As part of a contract based on this agreement, Komatsu received an order for 250 machines including bulldozers, hydraulic excavators and pipe layers to build and repair pipelines for natural gas. In addition to five service facilities already opened in Turkmenistan, Komatsu has also worked to reinforce its sales and product support capabilities by establishing a training center for operators and service mechanics and a local office.



At the signing ceremony with the government of Turkmenistan

China



Demand continued to demonstrate sizable growth, removing some concerns over the adverse effects of credit squeeze and other negative factors. Komatsu focused its efforts on expanding the local production capacity and broadening the product range, and thereby accomplished outstanding growth in sales over the previous year.

Komatsu (China) Ltd. boosted sales for the year, focusing on hydraulic excavators. Making full use of its training center in Changzhou, the company continued to support distributors in their efforts to strengthen sales and service capabilities.

Komatsu Shantui Construction Machinery Co., Ltd. continued to step up production and sales of hydraulic excavators, especially the mainstay PC200 model. The company also built on sales of smaller PC60 machines which the company embarked on producing during the year.

Komatsu (Changzhou) Construction Machinery Corp. expanded sales of 30 and 40-ton class hydraulic excavators in response to growth in demand for larger equipment. With respect to wheel loaders, Komatsu (Changzhou) Construction Machinery-made models have begun to enjoy excellent customer evaluations, especially from the quarry and harbor transportation industries, which look for high productivity and durability in their equipment. The company has successfully expanded business with China's public corporation of oil and coal mining by delivering a large number of wheel loaders during the year.

Introducing the KOMTRAX machine operations management system in China

In addition to expanding sales of new equipment, Komatsu has proactively been working to strengthen its customer support capability. During the year, Komatsu led the industry by making a full introduction of the GPS-incorporated KOMTRAX machine operations management system on the Chinese market. By locating the position of machines and remotely managing their operating conditions through this system, Komatsu is not only better positioned to improve service efficiency of its distributors, but has also made the strategic move to expand the used equipment and spare parts businesses in the future.

Launching long-term training for service mechanics

In March 2004, Komatsu (China) opened a training program for new service mechanics of its distributors at Shangdong Jiaotong University in Jinan, Shangdong Province. Keeping pace with the expanding market, Komatsu (China) has aggressively been working to reinforce its customer support capability by training service mechanics with advanced technical skills. Designed for 10-month training sessions, including a practical on-the-job training at Komatsu (Changzhou) Construction Machinery, this program has a total of 115 participants from 27 distributors. Their average age is 22.5. After completing the program, they should assume a leadership role in the servicing of Komatsu machines in China.



Assembly lines for hydraulic excavators at Komatsu Shantui Construction Machinery



Komatsu (Changzhou) Construction Machinery-made wheel loaders ready for delivery

Asia & Oceania and the Middle East & Africa



In all these regions, Komatsu's sales increased steadily, supported primarily by demand recovery of mining equipment.

In Southeast Asia, Komatsu teamed up with a powerful distributor, carried out aggressive sales and service activities, and won a large-lot order for mining equipment in Indonesia in the second half period. In Oceania, Komatsu steadily captured growth in demand for construction equipment as housing starts, while meeting increased demand for mining equipment in Australia during the year.

In the Middle East, while there were some concerns over the adverse effects of the Iraqi situation, Komatsu secured sales at about the same level as last year. In Africa, Komatsu expanded sales over the previous year, by seizing upon demand in the mining industry and from infrastructure developments in the Republic of South Africa, the largest market in Africa.

Demand for mining equipment expanding against the backdrop of increased commodity prices

As commodity prices jumped worldwide, demand for mining equipment began to grow in the last half period of the fiscal year under review. In addition to signing supply contracts with three major mining companies which operate mines around the world, Komatsu focused its efforts on expanding sales of mining equipment in the Central and South Americas, Oceania, Africa and other mining regions of the world. In Indonesia, the development of coalmines took up momentum with their geographical and pricing advantages for exports to China and other Asian countries. Komatsu capitalized on this opportunity and won a large-lot equipment supply order to a leading contractor.



Five 730E off-highway dump trucks delivered to Pamapersada Nusantara, a leading mining contractor in Indonesia

Also during the year, Komatsu began receiving many orders for the WA1200 super-large wheel loaders from around the world and secured a large volume of backlog orders. Komatsu America Corp. and Komatsu Mining Germany GmbH have steadily built on orders for super-large off-highway dump trucks, and super-large hydraulic excavators for mining use, respectively, since the last half period.

While continuing its efforts to secure orders from mining companies around the world, Komatsu is strengthening operations in the CIS where demand for equipment is growing in mining and energy development projects. To expand sales of the mining equipment business, Komatsu is also doubling sales efforts for hydraulic excavators, bulldozers, wheel loaders and other supporting equipment in addition to the main mining equipment of dump trucks.

Reinforcing the spare parts business by introducing competitive products

As an important task, Komatsu engages in sales of spare parts to keep customer demand within the Komatsu Group sales and service networks. PT Komatsu Undercarriage Indonesia manufactures crawler components and spare parts for construction equipment and supplies them to Komatsu Group companies in Asia. During the year, the company expanded production capacity to capture growing demand in Southeast Asia and emphasized the development of cost-competitive spare parts. As a result, the company achieved more-than-doubled sales for the year.



Superb orders continuing for the WA1200 super-large wheel loader