

Business Results

We are very pleased to report that the Komatsu Group continued to improve its performance for fiscal 2005, ended March 31, 2005. Consolidated business results for the year renewed the record-high figures in both net sales and profits, registering their third consecutive year of improvements. This growth is supported by business expansion of the construction and mining equipment and all other segments. At the same time, the Komatsu Group achieved all goals of the "Move The World. KOMATSU 5-800" mid-range management plan one year ahead of the original plan for the year ending March 31, 2006.

Management Goals of "Move The World. KOMATSU 5-800" and Results for the Year

	Results for the Year	Goals for March 31, 2006
Sales	1,434.7 billion yen	1,250 billion yen
Operating profit* ¹	101.9 billion yen	80 billion yen
Return on assets (ROA)	7.1%	5%
Net debt-to-equity ratio* ²	0.70	1 or under

*1 Operating profit is the sum of segment profit (net sales less cost of sales and selling, general and administrative expenses). It conforms to Japanese accounting principles, and does not represent consolidated operating profit under U.S.GAAP.

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

Consolidated net sales increased 19.9 % over the previous year, to ¥1,434.7 billion (US\$13,409 million, at US\$1=¥107), demonstrating the second consecutive year of renewing record-high figures. In the construction and mining equipment segment, the Komatsu Group effectively capitalized on expanded demand worldwide, boosting sales in the world's largest market of North America and other regions, except for China, where sales declined. In the industrial machinery, vehicles and others segment, sales of forklift trucks, industrial machinery and other products expanded against the backdrop of buoyant market conditions. In the electronics segment, both silicon wafer and polycrystalline silicon businesses increased sales over the previous year, while growth of the semiconductor market slowed in the second half period.

Operating profit reached ¥101.9 billion (US\$953 million), up 54.6%, topping the ¥100 billion mark for the first time and setting another record-high figure. Coupled with expanded sales in all business segments, Komatsu Group's efforts to reduce production costs and increase sales prices offset the negative effects of skyrocketed prices of steel materials and increased expenses resulting from boosted production, and

demonstrated further improvement of profitability.

Income before income taxes, minority interests and equity in earnings expanded 3.7 times over the previous year, to ¥98.7 billion (US\$922 million), reflecting improved non-operating income, including proceeds from the sale of land for the former Kawasaki Plant, in addition to increased operating profit. Net income for the year increased 2.2 times over the previous year, to ¥59.0 billion (US\$551 million). Both income before income taxes and net income represent record-high figures.

Basic Policy for Dividends

Komatsu is building a sound financial position and flexible and agile corporate strength to increase its corporate value. Concerning cash dividends to shareholders, the Company maintains the basic policy of redistributing profits by first striving to continue stable dividends and then considering business results, payout ratio and other related matters in a comprehensive manner. Based on this policy, we have set fiscal 2005 year-end per share dividends at ¥6, an increase of ¥2 from a year ago. Together with the interim per share dividends, annual dividends per share increased to ¥11, an increase of ¥4 from the previous year.

Working to enhance the total sum of trust given to us by society and all stakeholders

For the year under review, the construction and mining equipment segment and all other business segments effectively capitalized on market recoveries, expanded both sales and profits and achieved all management goals of the "Move The World. KOMATSU 5-800" mid-range management plan a year ahead of schedule. Having defined 10% or higher operating profit ratio as our next management goal, we are accelerating our efforts to further improve profitability of the Komatsu Group.

Concurrently, we will make efficient use of management resources by facilitating a selective focus based on the criteria of technological advantage and profitability for all our businesses. We will also reinforce our competitive foundation through such measures as strengthening financial position, building on groups of employees with high morale and expanding a competition-based organizational framework. Furthermore, all employees of the Komatsu Group will work on their individual tasks by keeping the importance of compliance, safety and environmental conservation in mind.



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

1. Improvement of Profitability

The construction and mining equipment segment, Komatsu's mainstay business, will first work to attain an operating profit ratio of 10% or higher.

In the "Greater Asia" region where the Komatsu Group maintains a strong market position and can expect market expansion, we will double our efforts to reinforce our business operations, including expansion of our customer support networks. In the United States and Europe, we will enhance our market position by introducing DANTOTSU (Unique and Unrivaled) products featuring outstanding performance, while expanding and strengthening our distributors. In Japan, we will continue our efforts to develop and expand a new IT-deployed business model for the rental equipment business. In the mining equipment market where strong demand should continue, we will reinforce our Repair and Maintenance (R&M) business in addition to accelerating sales of the equipment itself. We will

also promote differentiation from competitors by developing an autonomous hauling system with off-highway dump trucks and taking other initiatives.

With respect to sales, we provide a finance service, an important marketing tool of manufacturers, in the United States and Australia. We will introduce this service in other regions of the world. Concerning product development, Tier 3 emission standards will be in effect in the United States and Europe in January 2006, calling for a substantial reduction of NOx. We are going to launch new models which meet Tier 3 standards. While working to ensure successful market introduction by placing top priority on maintaining and improving quality, we will also work to enhance profitability by setting appropriate prices for those new models.

In the industrial machinery, vehicles and others segment, related divisions and companies of the Komatsu Group will strive to improve profits by promoting differentiation from their respective competitors, as they continue to introduce new products with unrivaled features. In the electronics segment, we remain steadfast in our determination to improve quality and costs of the silicon wafer business in Japan and Taiwan. For both segments, we will also strive to attain an operating profit ratio of 10% or higher.

2. Reform of Sales and Production Planning Procedures

The Komatsu Group will work to seize business opportunities and improve production efficiency by detecting any signs of demand change as soon as they surface and responding flexibly to them. By utilizing IT advantages such as our proprietary KOMTRAX asset management system for customers' equipment, we are well positioned to see real-time market conditions around the world and promote Groupwide reforms of sales and production planning procedures.

To achieve optimal production on a global basis, we will centralize the management of operating conditions of plants around the world and equalize the volume of production for each plant. However, each plant must first attain top-level cost competitiveness in its respective region. To this end, we will promote optimal procurement and logistics reform on a global basis while improving production technologies.

3. Strengthening Corporate Governance on a Groupwide Basis

The Komatsu Group is working to further strengthen corporate governance to ensure sound and transparent management. Having reduced the number of Board members and appointed external directors and auditors, we are refining the effectiveness of the Board by renovating the operational aspects of the meetings to facilitate thorough discussions of important management matters and prompt decision makings. To improve the reliability of management, we are also steadily working to reinforce our internal control system. Teaming up with Komatsu, our group companies are also strengthening their corporate governance by reforming their Board of Directors and raising their auditors' capabilities.

We believe our corporate value is the total sum of trust given to us by society and all our stakeholders. To maintain and enhance our corporate value, appropriate information disclosure is fundamental. Social trust is particularly important. Therefore, based on our policy of placing top priority on compliance, all top management officers and employees of the Komatsu Group are required to comply with the Business Rules according to *Komatsu's Code of Worldwide Business Conduct* in addition to the laws and regulations.

Centered on the "Spirit of Manufacturers" dedication, 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 2005



Toshitaka Hagiwara
Chairman of the Board

Masahiro Sakane
President and CEO