

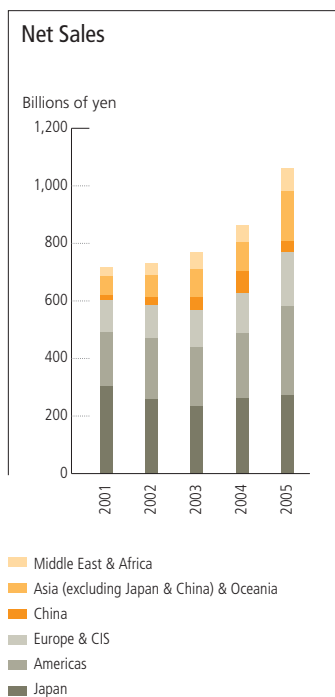
# Construction and Mining Equipment



▲ (JAPAN)



(JAPAN) ▶



Consolidated sales of construction and mining equipment climbed 22.9% over the previous year, to ¥1,061.1 billion (US\$9,917 million), topping the one trillion mark for the first time, supported particularly by boosted overseas sales.

Overseas, the Komatsu Group effectively capitalized on expanded demand worldwide, except for the Chinese market which has entered an adjustment phase, and expanded sales 31.1% over the previous year, to ¥789.6 billion (US\$7,380 million), renewing the record-high figures for the third consecutive year. With accelerated sales in North America, in particular, coupled with expanded sales in Latin America where natural resource development was burgeoning, sales in the Americas surpassed Japanese sales for the first time.

Sales in Japan increased 4.1% over the previous year, to ¥271.4 billion (US\$2,537 million).

Segment profit for the construction and mining equipment business expanded 45.5% over the previous year, to ¥78.4 billion (US\$733 million). Sharp price hikes of steel materials and an increase in expenses resulting from rapid expansion of production were offset by boosted sales as well as continued efforts to reduce production costs and improve sales prices.

## Japan

Although private-sector capital investments increased moderately, public-sector investments continued to decline in Japan. Construction



▲ (U.S.A.)

◀ (JAPAN)

▲ (U.S.A.)

investments as a whole declined slightly from the previous year. However, exports of used Japanese equipment remained brisk to meet thriving overseas demand, which facilitated renewals of equipment centering on hydraulic excavators, resulting in continued increase in demand for new equipment in Japan. The Komatsu Group worked to increase sales prices and reinforce the service business based on the KOMTRAX asset management system for customers' equipment, while expanding sales of new machines. The Komatsu Group also worked to expand the used equipment business, primarily through Komatsu Used Equipment Corp. and improve management efficiency of affiliated rental equipment companies. As a result, sales in Japan increased from the previous year.

#### Expanding Production Capacity in Japan

In response to expanding demand worldwide for construction and mining equipment, we have been working to improve our production capabilities. Concerning main components, such as engines and hydraulic units, we manufacture them mainly in Japan and supply them to our assembly plants around the world. Therefore, we have continued to make investments in facilities since 2003, reinforcing our production capacity.

In December 2004, we launched the production of the PC3000 hydraulic excavator for mining use at the Rokko Plant in Kobe City. While Komatsu Mining Germany GmbH has previously engaged in concentrated production of our super-size hydraulic excavators such as the PC3000, we have

expanded our production capacity by adding the Rokko Plant to meet thriving demand for mining equipment worldwide. The first machine from the Rokko Plant was shipped to an Indonesian customer in March this year.

#### The Tenth Anniversary of Auctions of Used Equipment

Komatsu Used Equipment has recently celebrated the 10th anniversary of its auctions of used construction equipment. Since their first auction in 1994, they have welcomed customers from over 20 countries at their Yokohama, Kobe and Fukuoka centers. Today, around 7,000 machines are traded annually at these centers, placing their centers as one of the best auction sites for used equipment held in Japan. During their auction in November last year, the 30,000th machine on a cumulative basis was traded. The Komatsu Group has concerted its efforts to expand so-called downstream businesses such as rental and used equipment, and parts and service. In particular, their auctions have been very popular, reflecting strong overseas demand.

## The Americas

Sales in the Americas climbed over the previous year, fueled by expanded demand for construction equipment against the backdrop of buoyant construction investments in the United States, coupled with big growth in demand for mining equipment.



▲ (EUROPE)



▲ (CIS)



(CHINA) ►

In North America, under the leadership of Komatsu America Corp. (KAC), the Komatsu Group aggressively worked to expand sales of products, improve customer support capabilities and reinforce distributors. Also during the year, KAC's Chattanooga Manufacturing Operation in Tennessee commenced production of articulated dump trucks to meet brisk sales backed by their excellent market evaluation. In Central and South America, sales of mining equipment remained strong, especially those of large dump trucks, resulting in a substantial gain in sales in these regions.

#### Becoming Preferred Supplier for Rio Tinto, World's Largest Mining House

We have won the status of preferred supplier from Rio Tinto, one of the world's largest mining houses, allowing us to deliver our large equipment for use in their mines around the world. As Rio Tinto is expected to invest over US\$1 billion in the next five years, we will be treated as an important supplier of large hydraulic excavators and bulldozers in addition to dump trucks. Our machines will be produced by our plants in Japan, Germany and North America, and we are going to provide them with technological support to improve productivity, safety and environmental conservation in addition to maintenance.

#### Demonstrating Full-Line Offerings at CONEXPO 2005

CONEXPO 2005, the world's largest-scale tradeshow for construction equipment, was held in Las Vegas in the United

States in March 2005. CONEXPO is held every three years, and the CONEXPO 2005 accommodated the exhibitions of 1,968 construction equipment-related companies from around the world and attracted over 120,000 visitors. The Komatsu Group, under the leadership of KAC, displayed 25 models, ranging from large equipment, such as the PC1800 hydraulic excavator, HM300 articulated dump truck and WA700 wheel loader, to the PC09 mini excavator.

#### One Hundred 930E Dump Trucks in Operation

Since 1998 KAC has delivered 930E super-large dump trucks to CODELCO Chile, the world's largest copper producer. In March 2005, KAC recorded the cumulative total of 100 units of delivery. Our 930E dump trucks are supporting round-the-clock, year-round operations of CODELCO's Chuquicamata and Radomiro Tomic copper mines in northern Chile.

## Europe and CIS

While demand stayed firm in Europe, the Komatsu Group carried out aggressive sales activities in concert with the market introduction of over 20 renewed and new models. Together with the positive effects of full-scale entry to the forestry equipment market by Komatsu Forest AB, European sales increased sharply over the previous year. In the Commonwealth of Independent States (CIS: former



▲ (ASIA)

◀ (ASIA)

Soviet republics), sales advanced, centering on mining equipment and pipelayers for construction of pipelines for oil and natural gas. In particular, a long-term supply agreement with the government of Turkmenistan, which extends to 2010, creates a bright outlook for continuous large-lot orders for equipment. The Komatsu Group worked to improve customer support capabilities by opening a local office and training center.

## China

The construction equipment market in China, which had expanded rapidly in the last few years, has slowed substantially since May 2004, adversely affected by the Chinese government's credit-squeeze measures and consolidation of industrial parks. While the fall in demand stopped in the last half period, sales in China decreased from the previous year. The Komatsu Group responded promptly to this market change by analyzing real-time information concerning the operating conditions of KOMTRAX-equipped machines. The Komatsu Group also completed inventory adjustment at an early phase of the demand decline, and worked to secure profits by cutting back fixed costs and thoroughly managing credits. Under the leadership of Komatsu (China) Ltd., the Komatsu Group restructured and reinforced its distributor network and broadened the product range of locally produced equipment, getting prepared for future market recovery.

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## Asia & Oceania and the Middle East & Africa

Sales in Asia & Oceania expanded sharply over the previous year, as the Komatsu Group captured expanded demand for mining equipment in addition to brisk demand for hydraulic excavators and other construction equipment. Especially in Asia, sales doubled over the previous year, supported by buoyant sales of mining equipment, including excellent sales of large dump trucks in Indonesia.

In addition to sales in Turkey, with its good economy, sales in the Middle East accelerated against the backdrop of thriving construction investments in oil producing countries with expanded revenues from increased prices of crude oil. Sales in Africa also made a substantial gain, centering on mining equipment.

### Bangkok Komatsu: Celebrating the 10th anniversary

In March 2005, Bangkok Komatsu Co., Ltd. (BKC) celebrated its 10th anniversary. While the Thai market for construction equipment was seriously impacted by the currency crisis of 1997, BKC has since grown steadily as an export base of the Komatsu Group. In response to expanded demand for construction equipment worldwide, BKC doubled the production capacity for its mainstay PC200 medium-size hydraulic excavators, building up the monthly production capacity of 200 units in fiscal 2005. BKC exports about 80% of all units today.