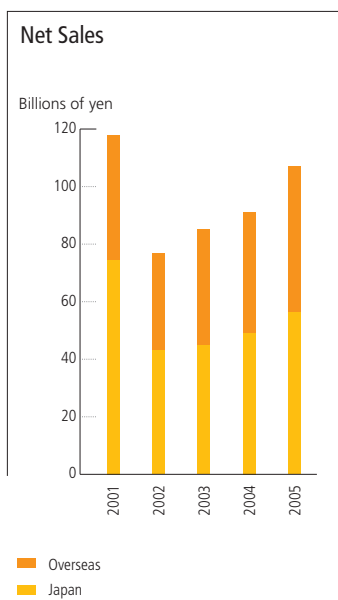


Electronics



Consolidated sales from the electronics segment increased 17.5% over the previous year, to ¥107.1 billion (US\$1,002 million) for the year. Of this figure, Japanese sales improved 14.7% to ¥56.2 billion (US\$525 million), while overseas sales advanced 20.8% to ¥50.9 billion (US\$476 million).

Segment profit made a big gain of 157.2% over the previous year, to ¥11.7 billion (US\$110 million), reflecting improved business results of affiliated companies.

<Silicon Wafer Business>

In the silicon wafer business for which Komatsu Electronic Metals Co., Ltd. (KEM) is responsible, the factory shipment volume of silicon wafers expanded to the record-high level in tandem with the burgeoning semiconductor market. Shipment volume of 200mm wafers declined in the fall of 2004, as the semiconductor industry adjusted its inventory. Concerning 300mm wafers, however, semiconductor manufacturers made full-scale capital investments as they could expect a substantial reduction of their production costs, which accelerated demand for 300mm wafers.

In such an environment, the Komatsu Electronic Metals Group carried out aggressive sales both in Japan and overseas. For its mainstay 200mm wafers, the Group worked to enhance the competitiveness of high value-added products such as epitaxial and annealed wafers, while expanding sales of discrete wafers by meeting the needs of customers. Regarding



300mm wafers, the Group focused its efforts to improve technology and quality. To meet the thriving demand for 300mm wafers, the Group has established a monthly production capacity of 45,000 pieces at the Nagasaki and Miyazaki plants together. Furthermore, the Group decided to raise the monthly production capacity of the Nagasaki Plant to 30,000 pieces and began investing in facilities to secure a monthly production capacity of 75,000 pieces in Japan.

Formosa Komatsu Silicon Corporation (FKS), KEM's subsidiary in Taiwan, embarked on sales of annealed wafers in Taiwan and the expanding market of China, which have received excellent evaluations in Japan. FKS also continued sales of polished wafers. As a result, FKS achieved a steady increase in sales.

Investing in Production of 300mm in Taiwan

To capitalize on the expanding demand for 300mm wafers, the Komatsu Electronic Metals Group has decided to build a new facility to produce some 100,000 pieces of 300mm wafers at FKS which produces 200mm wafers today. For the initial phase, the new plant will be equipped with an integrated production line for a monthly capacity of some 50,000 pieces. With production start-up scheduled for 2006, the Group will increase the production capacity in phases as it monitors demand.

<Polycrystalline Silicon Business>

Under buoyant market conditions, Advanced Silicon Materials LLC (ASiMI) boosted sales of polycrystalline silicon and monosilane gas and made remarkable improvement in profitability. In view of the fact that ASiMI's value has been enhanced by such market conditions and better performance of the company, Komatsu Ltd. determined that it is an appropriate time to sell the company. Komatsu has started negotiations for the formal contract with Renewable Energy Corporation AS, based on the basic agreement for the sale of 75% of Komatsu's stake in the first half period of the fiscal year ending March 31, 2006.

<Temperature-Control Equipment Business>

Komatsu Electronics, Inc. (KELK) increased sales of semiconductor manufacturing-related equipment, as semiconductor manufacturers sustained their aggressive capital investments. KELK also improved sales of thermoelectric modules for use in fiber optic communication over the previous year. In addition to expanding sales, KELK continued to reduce fixed and production costs during the year. As a result, KELK posted profits for the year under review.