

# To All Our Stakeholders

## Business Results

We are very pleased to report that the Komatsu Group continued to improve its performance for fiscal 2006, ended March 31, 2006. Consolidated business results of the Komatsu Group for the year renewed the record-high figures in net sales, operating profit, income before income taxes and net income, especially reflecting expanded demand for construction and mining equipment around the world. Moreover, the Komatsu Group accomplished the fourth consecutive year of improvements in sales and profits, supported by the successful results of the Reform of Business Structure project undertaken since 2001.

## Consolidated Results for the Year

	Results for the Year	Change (2006/2005)
Sales	¥1,701.9 billion	+18.6%
Operating profit	¥ 176.4 billion	+73.1%
Operating profit ratio	10.4%	+3.3 pts
Income before income taxes	¥ 169.0 billion	+71.3%
Net income	¥ 114.2 billion	+93.7%

Note: 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.

Consolidated net sales reached ¥1,701.9 billion (US\$14,547 million, at US\$1=¥117). In the Construction and Mining Equipment segment, the Komatsu Group continued to accelerate sales for the year, as it effectively capitalized on demand expansion resulting from continuing development of natural resources and progress in infrastructure developments worldwide. In the Industrial Machinery, Vehicles and Others segment, sales of industrial machinery and forklift trucks continued to register strong gains during the year. In the Electronics segment, the silicon wafer business sustained growth, increasing sales over the previous year.

Operating profit climbed to ¥176.4 billion (US\$1,508 million). Operating profit ratio improved to 10.4%, up 3.3 percentage points, achieving the goal of 10% or higher one year ahead of schedule. This further improvement of profitability reflects, in addition to expanded sales, the results of efforts in increasing selling prices and reducing production costs.

Both income before income taxes and net income for the year topped the ¥100 billion mark, recording ¥169.0 billion (US\$1,445 million) and ¥114.2 billion (US\$977 million), respectively. Coupled with the substantial increase in operating profit, this notable growth of profits reflects income from the sale of Advanced Silicon Materials LLC, a U.S. subsidiary engaging in production and sales of polycrystalline silicon.

## Basic Policy for Dividends and Fiscal 2006 Year-end 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 consolidated business results, while working for the goal of a consolidated payout ratio of 20% or higher. Based on this policy, we have set fiscal 2006 year-end per share dividends at ¥10, an increase of ¥4 from a year ago. Together with the interim per share dividends, annual dividends per share increased to ¥18, an increase of ¥7 from the previous year, realizing the third consecutive year of increased dividends to shareholders.

## Working to Further Enhance Corporate Value

Projecting that demand for construction and mining equipment will continue to expand worldwide, the Komatsu Group will work for further growth and strive to improve profits by launching new products and increasing selling prices. In particular, we will focus our efforts to expand sales of DANTOTSU (Unique and Unrivaled) products equipped with unrivaled features in performance. In response to expanding demand for mining equipment, we will steadily advance the construction of new plants in Japan and overseas to expand our production capacity. In emerging markets, such as "Greater Asia," we will further reinforce our marketing and product support capabilities to attain a stronger market position.

In the industrial machinery business, the Komatsu Group will also steadily advance the construction of a new plant to increase its production capacity in response to excellent orders received for large presses. In the silicon wafer business, the Komatsu Group will



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

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strive to improve the quality and cost of 300mm wafers, while ensuring the successful start-up of a mass production line for 300mm wafers in Taiwan.

We at the Komatsu Group believe our corporate value is the total sum of trust given to us by all our stakeholders and society. To increase this corporate value, we have set the following two management goals.

- 1) To maintain industry's top-level profitability and financial position, and to enhance our position in the global marketplace, especially in the Greater Asia region: and
- 2) To continue management while keeping market value in mind, which reflects the amount of trust given to us by society and shareholders.

To accomplish these two goals, we have recently embarked on the second-stage Reform of Business Structure project. The Komatsu Group is going to form cross-functional

teams for different themes with the following measures at the core, and promote new reforms on a global scale. Depending on the themes, the Komatsu Group is going to ask partners such as distributors and suppliers to join the teams. The Komatsu Group will emphasize human resource development through such reform activities, because it is human resources that support sustainable corporate growth.

#### 1. Launching the Second-stage Reform of Business Structure

To start the reform of Komatsu Group's value chain by focusing on IT.

The Komatsu Group is going to promote reforms by deploying IT (information technology) in order to further improve the chain of value brought about by activities of distributors, suppliers and customers in addition to the Komatsu Group. Thanks to the rapid advances of IT, we are now able to understand changes in the market directly and promptly from the

operating conditions of customers' machines and other information. We are going to incorporate such changes in sales, production and inventory plans, while promoting information sharing among distributors, plants and suppliers. The Komatsu Group will also further advance IT applications to construction and mining equipment, as showcased by KOMTRAX (Komatsu Machine Tracking System) and the autonomous haulage system, in order to develop new business models designed to reform customers' productivity.

**To further reinforce "jobsite capabilities" which mean attitudes and power for constant improvements.**

Our strength lies in "jobsite capabilities" centering on manufacturing operations. We are going to reinforce this strength in Japan and overseas. To pass down this strength to future generations of employees, we are going to put it in statutory form as the KOMATSU Way. It is TQM (total quality management) that sustains improvement activities at jobsites. In the course of implementing the second-stage Reform of Business Structure project, we will use TQM group-wide as a means for solutions to problems and generate good results. This initiative is not limited to manufacturing jobsites but extends to all other jobsites in order to strengthen their capabilities and improve operational efficiency.

**2. Reinforcing Corporate Governance on a Group-wide Basis**

The Komatsu Group will reinforce its corporate governance to ensure sound and transparent management. In addition to having reduced the number of directors of the Board and invited external directors and auditors, Komatsu Ltd. is focusing its efforts to reform the operational aspects of Board meetings in order to improve the effectiveness of the Board by ensuring thorough discussions and quick decision-making. To enhance the reliability of management, the Company is going to further strengthen the internal control system. To reinforce corporate governance jointly as the Komatsu Group, the Company continuously delegates directors and auditors to other Group companies.

The Komatsu Group maintains the policy of giving top priority to compliance in business activities. Based on this policy, all top management officers and employees of the Komatsu Group observe the business rules stipulated in *Komatsu's Code of Worldwide Business Conduct* in addition to the local 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 2006



Toshitaka Hagiwara  
Chairman of the Board



Masahiro Sakane  
President and CEO