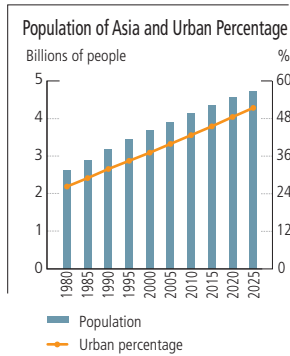


:: Back to the Future

We have expanded our business in the countries around the world, where infrastructure development has been in progress. Our efforts are not limited to today's major powers like the United States and Europe, but extend equally to emerging powers, centering on BRICS¹, where demand for our earthmoving equipment is growing sharply.

Human population entered the 20th century with 1.6 billion people and left the century with 6.1 billion. The United Nations projects that population in Asia will reach 4.37 billion, of which 1.99 billion will be in urban areas, representing 45.5% urban in 2015, compared with 39.9% today. This urban percentage² is predicted to reach 51.4% in 2025.





Source: World Population Prospects: The 2004 Revision Population Database, United Nations

We believe population growth and urbanization will continue to drive demand for our construction and mining equipment. There is a special region among these emerging powers which we call "Greater Asia." It extends from Russia, covers the whole of Asia, and includes Turkey and the Middle East. It's a land rich in natural resources and home to some 3.8 billion people, with China and India alone accounting for one third of the global population. To further reinforce our Number One market position in Greater Asia, we are focusing our efforts to not only launch new products and build up sales networks, but also expand local production, deploy IT (information technology) and strengthen our service engineering capabilities, as we work together to share a future of growth.

Notes: 1) BRICS: Brazil, Russia, India, China, and in our case, the capital letter "S" representing South Africa.
 2) Urban percentage: Percentage of people living in cities with 50,000 or more inhabitants in total population.

Reinforcing Local Production Capabilities

We manufacture construction and mining equipment as well as components and parts at 41 plants in 16 countries worldwide today. While we launched local production in the major markets of the United States and Europe in 1985, we had already embarked on local production in Mexico, Brazil and Indonesia. In the 1990s, we stepped up our efforts for local production in Asia, such as China, Thailand and India, where we expected future market expansion. Furthermore, in India, where the mining of natural resources is gaining momentum, we are currently building a new plant for large equipment in Chennai (formerly, Madras), the largest port city in the southern region, with a start-up plan for January 2007.

China: Commemorating the 50th Anniversary of Doing Business



It's been a half century since we made our debut in China by exhibiting our bulldozers and other construction equipment at Japan's industrial goods fair in Beijing and Shanghai in 1956 (left photo).

Since then we have worked to develop Chinese partners through such initiatives as technology licensing to Chinese companies to manufacture our bulldozers. In 1995, we established three manufacturing subsidiaries, Komatsu Shantui Construction Machinery Co., Ltd. (KSC), Komatsu (Changzhou) Construction Machinery Corp. (KCCM) and Komatsu (Changzhou) Foundry Corporation (KCF), jointly with local partners, and introduced Japanese-style quality and production management for full-scale local production. Since then, while the three companies have successfully expanded their product mix and production capacities, other Komatsu Group companies have also launched local production of mini-hydraulic excavators, ground engaging tools, such as bucket teeth, and generators, further strengthening our production capabilities. In fiscal 2006, the Chinese economy picked up a recovery momentum, and KSC expanded the production range of medium-sized hydraulic excavators (6- to 30-ton models). By anticipating growth in mining activities, KCCM embarked on production of 30- to 50-ton dump trucks.

Brazil: Commemorating the 30th Anniversary of Local Production

The world is paying close attention to Brazil, as a member of the so-called BRICs which are expected to lead the global economy into the future. Rich in natural resources,



Brazil has sustained an economic growth rate higher than the world average in the 2000s mainly by driving exports of minerals and agricultural and stock farm products. Brazilian demand for construction equipment accounts for about 40% of total Latin American demand.

In 1975 we established Komatsu do Brasil Ltda. (KDB) to promote local production of bulldozers in Brazil. Last year marked the 30th anniversary of production in Brazil. In 1995 we transferred the production of D41 and D61 bulldozers from Japan to KDB as the North American market was a major market for medium-sized bulldozers, and positioned KDB as an exclusive manufacturer and supply base of the Komatsu Group for D41 and D61 bulldozers. Today, in addition to the bulldozers, KDB produces three models (PC160/200/200LC) of medium-sized hydraulic excavators and WA180 wheel loaders as well as cast products.



Indonesia: Further Enhancing Its Presence as Core Plant in Southeast Asia

In 1982 we established PT. Komatsu Indonesia (KI), our third offshore plant, jointly with our local distribution partner, PT United Tractors Tbk. In the course of its growth, KI built a foundry plant in 1991 and began playing the role of Komatsu Group's supply base of cast products. At the same time, KI has grown to be a full-scale plant for construction and mining equipment, producing a wide range of equipment from medium-sized hydraulic excavators and small and medium-sized bulldozers and wheel loaders to motor graders and dump trucks.

In 2005, in response to the sharp expansion of demand for mining equipment in Indonesia and other parts of the world, KI built the second foundry plant, doubling its monthly production capacity to 1,800 tons and focusing its efforts on the production of cast parts for dump trucks and large hydraulic excavators. Also in 2005, KI started production of HD465 dump trucks and KI-original D68ESS bulldozers for the forestry industry, working to expand its product mix.

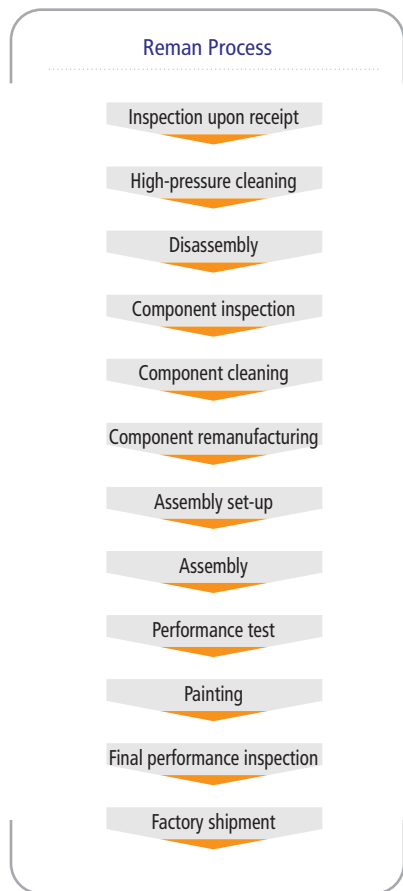
In 1995 KI went public on the Jakarta Stock Exchange, but it delisted its shares in January 2006 in line with our global strategy to enhance its maneuverability.



Thailand: Growing as Komatsu Group's Export Base for Medium-Sized Hydraulic Excavators

We established Bangkok Komatsu Co., Ltd. (BKC) jointly with our local distribution partner, Bangkok Motor Works Co., Ltd., in 1995. As a production base exclusively for the PC200 hydraulic excavator, BKC launched the mass production of PC200 models designed for the Thai market in October 1996. However, the currency crises of July 1997 in Asia gave a devastating impact to the Thai market, drastically reducing the total demand for construction equipment in Thailand. To overcome such critical conditions, BKC promptly changed its product specifications from domestic-oriented to export-oriented with the support and guidance of Komatsu in Japan and Komatsu Asia & Pacific Pte Ltd in Singapore, the regional headquarters of Asia and Oceania. While BKC had already begun exports to other Asian countries in May 1997, it embarked on export sales to North America, the world's largest market, in May 1998, steadily increasing the volume of production.

In response to expanding demand worldwide, centering on North America, particularly since 2003, BKC doubled its annual production capacity to 3,000 units in 2004, and exports 75% of the total production volume today. In December 2005, BKC started exports of PC200-8 models mounted with Tier III-compliant engines to North America. BKC is currently planning to add new production facilities to meet growing global demand for construction equipment with the target of securing an annual production capacity of 6,000 units in 2007.



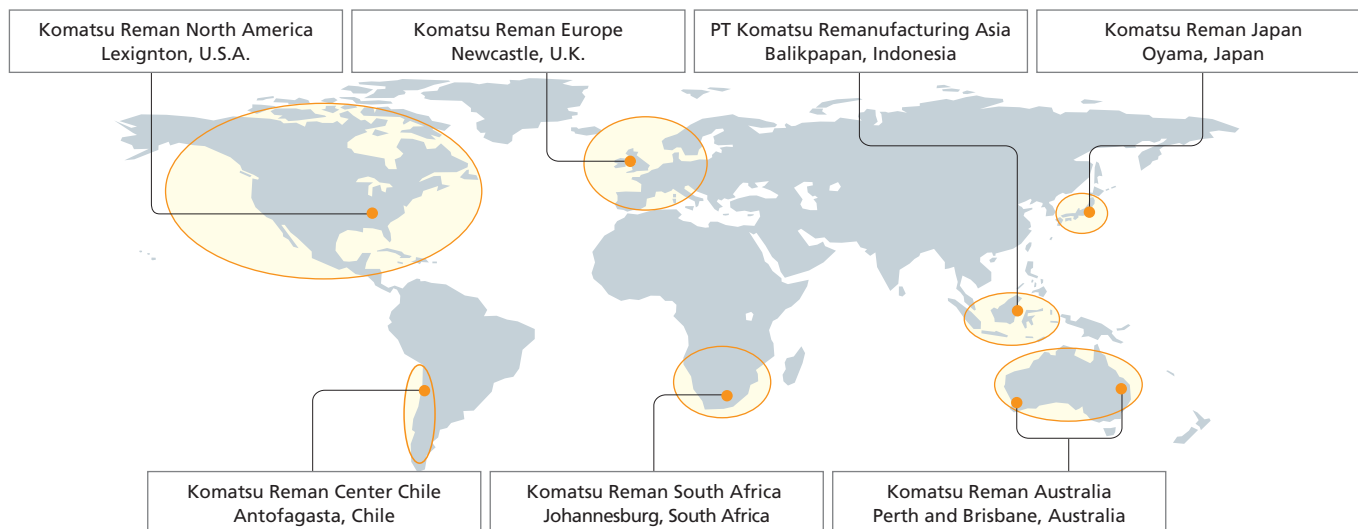
Reman: Offering Technological Expertise and A Sense of Security as Equipment Manufacturer

To facilitate more efficient use of limited natural resources, we engage in the Reman (remanufacturing) business, in which we remanufacture key components of construction and mining equipment to the same level of quality as new ones and sell them. Reman benefits include not only recycling of natural resources but also the reduction of CO₂ emissions by about 90% compared to the production of new components. In this light, we are also strengthening Reman operations as a business to contribute to environmental conservation. Today, we have seven Reman centers in the United States, Chile, Australia, Indonesia, South Africa, the United Kingdom and Japan. Looking ahead, we are going to network them like our assembly plants in order to further strengthen the Reman business.

As the mining industry has been increasing its production around the world, many Komatsu machines are working, especially in Indonesia. PT Komatsu Remanufacturing Asia (KRA), a joint-ownership company of Komatsu Asia & Pacific and United Tractors, is one of the largest Reman centers of the Komatsu Group and is equipped with the latest facilities. Operating like an assembly plant, KRA has all processes in line and conducts stringent quality inspection for each process. To support a maximum level of operating efficiency of customers' machines, KRA prepares necessary engines and other components according to the plans based on analyzed information obtained from our Vehicle Health Monitoring System (VHMS) that has been analyzed according to individual machine conditions. In this way, KRA works to minimize machine downtime, thus maximizing the production efficiency of mining and reducing running costs at the same time. By defining capacity expansion as one of the most important management tasks, KRA is working to add new lines and employees, getting ready for a sharp increase in Reman needs.

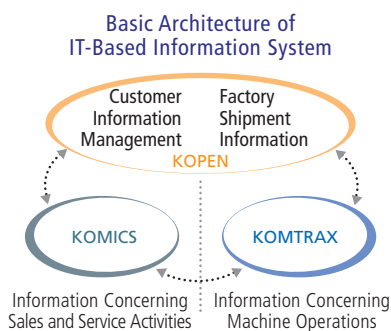


Komatsu Reman Centers in the World



Leading Innovative IT Applications

We have led the industry in IT applications when we defined IT utilization as one of the important strategies for the construction and mining equipment business in the 21st century. We are applying the leading-edge advances of IT evolution, not only to improve the performance of our machines *per se*, but to improve operations of customers and ourselves as their equipment manufacturer in the spirit of teamwork. Especially, in the emerging markets with massive land space, we provide both real-time information of their machines, working hundreds of miles away from their offices, and corresponding services.



IT Applications in China: Reforming the Value Chain

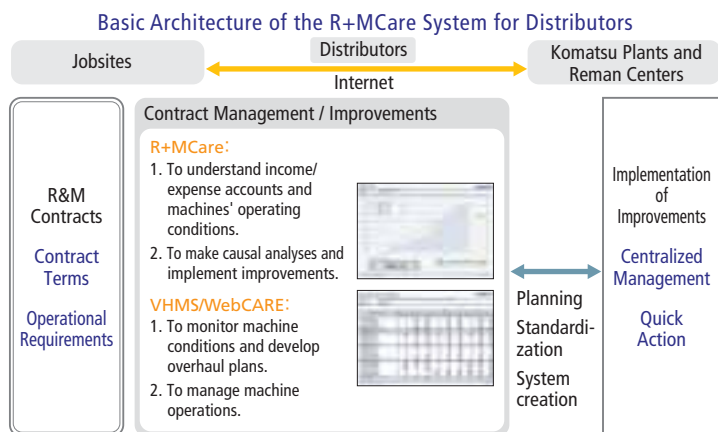
Komatsu (China) Ltd. (KC) has been advancing its efforts to develop and operate IT-based information systems. Since equipping all hydraulic excavators with the KOMTRAX machine tracking system as a standard feature and marketing them in February 2004, over 9,000 units are working in China. We believe the KOMTRAX system provides valuable information to all parties involved, i.e., our customers, distributors and Komatsu. KC analyzes and predicts market trends based on KOMTRAX information and is promoting optimization of the marketing and production plans in China. Our distributors also have real-time access to KOMTRAX information concerning the operating hours and other conditions of machines at jobsites and engage in maintenance services accordingly. In addition, they produce and deliver monthly reports for individual machines to their customers in order to help them improve efficiency of their machine management.

In 2005, KC completed the introduction of the “KOPEN” distributor resource management system to 33 distributors, promoting their business process improvements. Furthermore in September last year, KC introduced the “KOMICS” distributor sales and service support system to three distributors in Fujian, Shandong and Shannxi provinces to build the database for sales and service information in each province.

R+MCare System: Improving Efficiency of Distributors’ Support Work for Mining Contractors

Productivity is one of the most pressing concerns of mining companies. In this light, contractors need to avoid unexpected downtime of their machines and corresponding expenditures outside of the budgets. To meet such needs, we provide the Repair & Maintenance (R&M) contract to be signed by distributors and contractors. To improve their management of the R&M contract, we have recently introduced the R+MCare system. This system collects and analyzes real-time VHMS information from the machines to help our distributors plan and implement optimal repair and maintenance services. In this way, contractors will be able to not only maintain a top level of operating efficiency but also standardize the repair costs.

In June 2004, we started introducing the R+MCare to Komatsu Australia Pty. Ltd., our wholly-owned distributor, which covers the Oceania region. By linking customers’ jobsites and Komatsu Group’s plants and Reman centers on the Internet, the R+MCare has proven



a number of encouraging results, including improved risk management of income and expenditures, accelerated speed of problem analyses, and enhanced quality of machines and repair work by teaming up with our Production and Development divisions. At the same time, the Production Division has been able to advance its efforts to optimize the parts inventory. Starting in April 2005, we have introduced to our distributors in other regions, such as Komatsu Southern Africa (Pty) Ltd., Komatsu Cummins Chile Ltda. and United Tractors.

Reinforcing and Training Service Engineers

The basic policy of our product support is the commitment to ensure that our customers can use their machines in complete confidence and at a minimum cost. Needless to say, this commitment lies in the technical skills of our engineers who support trouble-free operations of machines directly at customers' jobsites. In the early 1980s, we had over 200 service engineers assigned overseas, and more than half of them worked in the regions called BRICS. In parallel with surging growth in the number of our machines at jobsites, particularly in Greater Asia, over the last few years, we have been striving to increase the number of our and our distributors' service engineers.



Accelerating the Training of On-Site Full-Time Service Engineers

Jointly with Komatsu Asia & Pacific, we are engaged in a new training program for service engineers to reinforce our on-site support capability in mines around the world. Applicable to those with previous experience in servicing construction and mining equipment, the program consists of two parts, one month for each. In Part 1, trainees study a comprehensive range of theories, from general machine management to our product support tools, such as VHMS, KOMTRAX, R&M contracts and Reman operation. In Part 2, with cooperation of large-scale mines in Asia, we offer practical trainings in which they can apply their knowledge in the actual work environment.

Upon completing the program, engineers are assigned to mines mainly in Greater Asia and Africa as on-site full-time service engineers to support trouble-free machine operations and improve customer satisfaction. While 29 such engineers have already been assigned to the jobsites, we are continuing the program to increase the number of engineers.



Changzhou Training Center: Focusing on the Training of Service Engineers of Distributors

Changzhou Training Center in Jiangsu Province opened in 1994, and has since offered 797 courses to 11,950 trainees from distributors throughout China to date. For the current fiscal year, the Center plans to offer 130 courses to over 1,900 trainees. In addition to regular product education which covers structure and operation maintenance, the curriculum is comprehensive, including mechatronic problem diagnosis, engine overhauling, welding and service manager training.

In cooperation with Shandong Jiaotong University in Jinan, the capital city of Shandong Province, we have also offered the "Komatsu (China) Long-term Training Course for New Service Staff of Distributors" since 2004. This 10-month course is offered to new service personnel of distributors, and the curriculum consists of the following: 1) "Machine Structure and Functions" and "Basic Theories and Knowledge of Electricity and Engines" (4 months in total), 2) "Professional Repair Education for Hydraulic Excavators and Wheel Loaders" (5 months in total), and 3) "Practical Training at Production Plant" (1 month). From this course, 114 and 85 persons graduated in fiscal 2004 and fiscal 2005, respectively. For fiscal 2006, 89 students began studying in March this year.

Global Training Institute: Training Product Support Specialists

Global Training Institute (GTI) is our original program designed to train candidates for key managerial positions of product support operation. GTI covers 120 subjects with trainings for 13 weeks in total. GTI has held two sessions to date and 25 persons (three from Japan, six from the Americas, five from Europe & CIS, three from China, four from Asia & Oceania, and four from the Middle East & Africa) have graduated as candidates for product support managers.



Mynhard Jacobus Smit
Customer Support Manager for
Isando Branch
Komatsu Southern Africa (Pty) Ltd.

"After completing the GTI program, I am working as Customer Support Manager of the Technical Support Department at the Isando Branch in Johannesburg. I am responsible for customer management and

administrative operations in addition to three parts depots in our territory.

The GTI provided me with a better understanding of Komatsu's policies and global business strategies. I have also been able to apply what I learned from the KAIZEN sessions to not only my own work but also my staff's. We have already generated great results.

All in all, the GTI gave me better tools and insight to be a better manager and to lead my team better. It also promoted a better and stronger commitment to the company. All of us in the program formed very good relations because all the discussions among the trainees were very intense and resulted in more trust."



Sergey Zavivalov
Deputy General Manager
Product Support
Komatsu CIS LLC

"After returning to Russia from GTI, I continued to work as the manager of service coordination and took care of distributors and product support. I was also involved in the preparation of establishing Komatsu CIS LLC (KCIS). After the company was established, I was promoted to the current position of deputy general manager of product support.

Experience and knowledge which I gained from GTI courses have made my daily job much easier and more effective. In addition to improving internal processes, such as service job control through KAIZEN activities, we have introduced this Japanese strength to our distributors. We are also conducting two-week mini GTI courses, based on the GTI materials, for the managerial staff of our distributors.

GTI has also been very helpful for the establishment of KCIS. Exchange of experience, opinions and ideas with key managers of Komatsu Japan as well as among our GTI team members helped me to plan our Product Support department structure and activities in the frame of our new company. I firmly believe GTI is necessary and very useful to build up powerful and effective Komatsu teams all around the world."