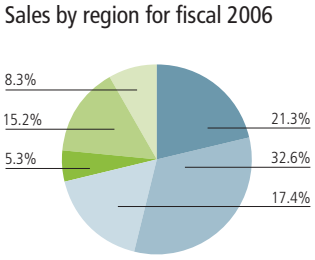
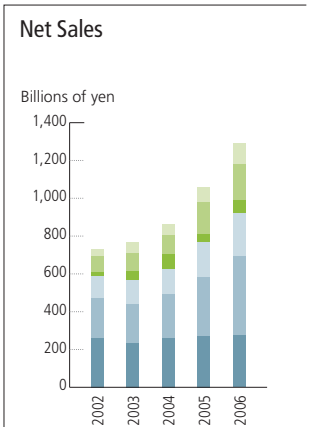
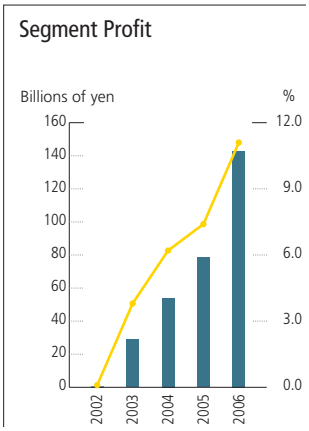
Construction and Mining Equipment







Consolidated sales* of construction and mining equipment reached ¥1,291.2 billion (US$11,036 million) for the year under review, up 21.7% over the previous year.

* Sales made to external customers after elimination.

Segment profit of the construction and mining equipment business made a substantial gain of 82.2%, to ¥142.9 billion (US$1,221 million) for the year under review, reflecting improved selling prices and production costs in addition to boosted sales. Segment profit ratio improved to 10.9%, achieving the goal of 10% or higher.

During the year under review, we proactively expanded the production capacity of key components, such as diesel engines and hydraulic equipment, against the backdrop of strong growth in demand for construction and mining equipment. We also began construction of a new manufacturing plant for large construction equipment adjacent to the Port of Hitachinaka in Ibaraki Prefecture, and decided to build a new plant in India where demand is expected to accelerate in the near future.

Production volume continues to expand at the engine assembly line of the Oyama Plant.

The Komatsu Group concerted its efforts in the development of construction equipment by incorporating the leading-edge "ecot3" engine technology which meets the latest emission regulations of Japan, the U.S. and Europe. During the year, in Japan, North America and Europe, the Group launched sales of its stronghold medium-sized PC200 hydraulic excavator which features significant reduction in fuel consumption and noise as well as enhanced safety.

Japan

While Japanese construction investments remained at about the same level from the previous year, demand for new equipment increased over the previous year, supported by the robust export of used construction equipment from Japan which further promoted market stock adjustment in Japan coupled with ongoing reconstruction projects in earthquake and typhoon-devastated areas. In this environment, the Komatsu Group worked to strengthen the used equipment business and improve the management efficiency of the rental equipment business, while expanding sales of new equipment and increasing selling prices. As a result, while the Group accommodated some factors, which pressed sales down resulting from a selective focus of business, Japanese sales remained at about the same level from the previous year.

The Americas

Demand in the Americas continued to expand, driven by buoyant housing investments from the previous year in the world's largest market of the United States and burgeoning developments of natural resources centering on Latin America. Reconstruction projects in Hurricane Katrina-destroyed areas also increased demand. In North America, the Komatsu Group boosted sales as it carried out aggressive marketing by increas-

ing selling prices, strengthening distributorships and improving parts-delivery capability, while promoting production efficiency. Sales in Latin America were also strong, especially sales of mining equipment in Brazil and Chile.

Europe & CIS

In Europe, while demand continuously increased in tandem with growth of the European Union, the Komatsu Group strengthened its distributor networks in eastern Europe and worked to improve production efficiency mainly by transferring the production of certain models among its plants within Europe. The Komatsu Group also expanded sales of forestry equipment. As a result, sales in Europe advanced over the previous year.

In the Commonwealth of Independent States (CIS: former Soviet republics), in addition to burgeoned demand in the mining and energy-related sectors, sales increased, supported by expanded demand for hydraulic excavators in Moscow and other metropolitan cities.

Forestry Equipment Business Going Strong

Through Komatsu Forest AB of Sweden, the Komatsu Group made a full-scale entry into the forestry equipment market in 2004. Against the backdrop of thriving demand for pulp, we won large-lot orders in Brazil and Russia during the year. In Brazil, for example, we received about 60 units of forestry equipment, such as forwarders and harvesters, as well as about 50 sets of attachments, including Komatsu Forest-made harvester heads. About 40 of those attachments were sold with Komatsu construction equipment, demonstrating a synergy effect with construction equipment.

Komatsu Forest-made Valmet 370E harvester head attached to Komatsu's PC200 hydraulic excavator

China

Demand picked up momentum in China as the fiscal year began. In particular, demand for small hydraulic excavators and mini excavators accelerated. Demand for medium-sized and large equipment also expanded against the backdrop of growth in the number of resource development projects. Under these market conditions, the Komatsu Group expanded the local production of mini excavators and embarked on the production of dump trucks. We also introduced a new IT-based management system to our distributors to strengthen their corporate muscle. As a result, sales increased solidly over the previous year.

A Large-lot Order for Mining Equipment Received from Chinese Coal Mining Company

The Komatsu Group and Tomen Corporation have won a 10 billion yen-worth order for 46 units of mining equipment, including 27 units of the world's largest class dump truck 930E, from a major coal company of China, and will start delivery during the current fiscal year. Although China is the world's largest producer of coal, it has become urgent for her to expand coal production resulting from accelerated domestic demand under rapid economic growth. In this environment, the mining industry is working to improve production efficiency by promoting large-scale operations and eliminating and consolidating smaller-scale operations. We are sure that our large equipment with leading-edge technological advantages will make vital contributions in this regard.

Breakdown of the Order

Machine models	No. of units	Production plants
930E dump truck	27	Peoria Plant, Komatsu America Corp.
D375A bulldozer	9	Osaka Plant (Japan)
WD600 wheel dozer	6	Mooka Plant (Japan)
GD825A motor grader	4	Mooka Plant (Japan)

Asia & Oceania

Indonesian demand turned downward in the civil engineering and construction sectors, as affected by the skyrocketed prices of fossil fuels. Thanks to strong demand for mining equipment in both regions, total sales continued to increase, supported especially by expanded sales of off-highway dump trucks.

The Middle East & Africa

In the Middle East, demand accelerated against the backdrop of increased investment in infrastructure developments mainly in oil producing countries, resulting from a high level of crude prices. Demand also increased for mining equipment in Africa, in particular. Under good market conditions of both regions, the Komatsu Group worked to reinforce product support capabilities and boosted sales over the previous year.

Expanding Production Capacities for Construction and Mining Equipment

New Plant under Construction Adjacent to the Port of Hitachinaka on the Pacific Ocean Coast

Accompanied by population growth and urbanization worldwide, global demand for energy and natural resources is increasing sharply, and mining is burgeoning. The Komatsu Group produces large equipment for mining and other uses at the Mooka and Osaka plants in Japan, the Peoria Plant of Komatsu America Corp. in the United States, at Komatsu Mining Germany GmbH in Germany, and PT. Komatsu Indonesia. By projecting that the current high level of demand will continue, we are building a new plant in Japan to expand our production capacity. It has been 11 years since we built the new plant of Komatsu Zenoah Co. last in Japan. Construction of the new plant (Ibaraki Plant) is underway adjacent to the Port of Hitachinaka which is designated as a core international port. Scheduled to start up in January 2007, the Ibaraki Plant will produce large wheel loaders, dump trucks and other large equipment. Simultaneously, we will start up a new plant for large presses in Kanazawa City on the Japan Sea coast. For both plants, we plan to invest about 30 billion yen (US$256 million).

In addition to expanding production capacity with these new plants, we should be able to cut down on-land transportation costs and CO_2 emissions considerably, as they are adjacent to the ports.

Artist's conception of the Ibaraki Plant

Strengthening Production Capability in India

In January 2006, the Komatsu Group established Komatsu India Private Limited as a wholly owned subsidiary of Komatsu Asia & Pacific Pte Ltd. Situated in Chennai (formerly, Madras) on the southeastern coast, Komatsu India will build a new plant to produce 50- to 90-ton dump trucks and is planning to establish a sales and service base in east Kolkata (formerly, Calcutta) in a close proximity to the region where coal and iron-ore mines are concentrated. Komatsu India is working for production start up at the Chennai Plant in January 2007, like two new plants in Japan.

India, one of the BRICs, has the second largest population of one billion and the seventh largest land area of the world. In tandem with her recent economic growth, demand for construction and mining equipment is rapidly increasing. In addition to mining rich natural resources such as coal and iron ore, a number of large projects, including the construction of highways which extend 13,000 kilometers (8,125 miles) in total, and irrigation systems, are starting, which will need our earth-moving equipment.

In 1998, we established L&T-Komatsu Limited (LTK) in Bangalore, jointly with a local partner. LTK has since then produced mainly PC200 excavators. With an addition of the new plant for mining dump trucks, the Komatsu Group is going to further enhance its presence in the Indian market.

Komatsu India plans to produce the same model of dump trucks.

Production of Dump Trucks Launched in China

Komatsu (Changzhou) Construction Machinery Corporation (KCCM) has launched production of two models of dump trucks with payload capacity of 30 to 50 tons, in addition to hydraulic excavators and wheel loaders. Demand for mining equipment is expanding worldwide, and Chinese demand for dump trucks is also growing as its mines are becoming larger in scale and increasingly mechanized. KCCM is going to further expand its production capability with the target of 50 units annually in 2007. The Komatsu Group is going to strengthen its product support capabilities, including parts supply, to make contributions to the mechanization of mining operations in China.

Assembly line for dump trucks at Komatsu (Changzhou) Construction Machinery

Global Manufacturing Operation for Construction and Mining Equipment

Assembly

		HE	WL	Bull	RDT	ADT	MG	Mini HE	SSL	BHL	TH	Mini WL	Mobil Crushers	Forestry
The Americas	Komatsu America Chattanooga	●				●								
	Peoria				●									
	Newberry								●	●				
	Candiac		●											
	Komatsu do Brasil	●	●	●										
	Komatsu Forest													●
Europe and CIS	Komatsu UK	●												
	Komatsu Hanomag		●									●		
	Komatsu Utility Europe							●	●	●	●			
	Komatsu Mining Germany	●												
	Komatsu Forest													●
Asia	Komatsu Indonesia	●	●	●	●		●							
	Bangkok Komatsu	●								●				
	L&T-Komatsu	●												
China	Komatsu (Changzhou) Construction Machinery	●	●		●									
	Komatsu Shantui Construction Machinery	●												
	Komatsu Zenoah (Shandong) Machine							●						
Japan	Komatsu Awazu	●	●	●				●						
	Osaka	●		●									●	
	Rokko	●		●										
	Mooka		●		●	●	●							
	Komatsu Zenoah							●	●					

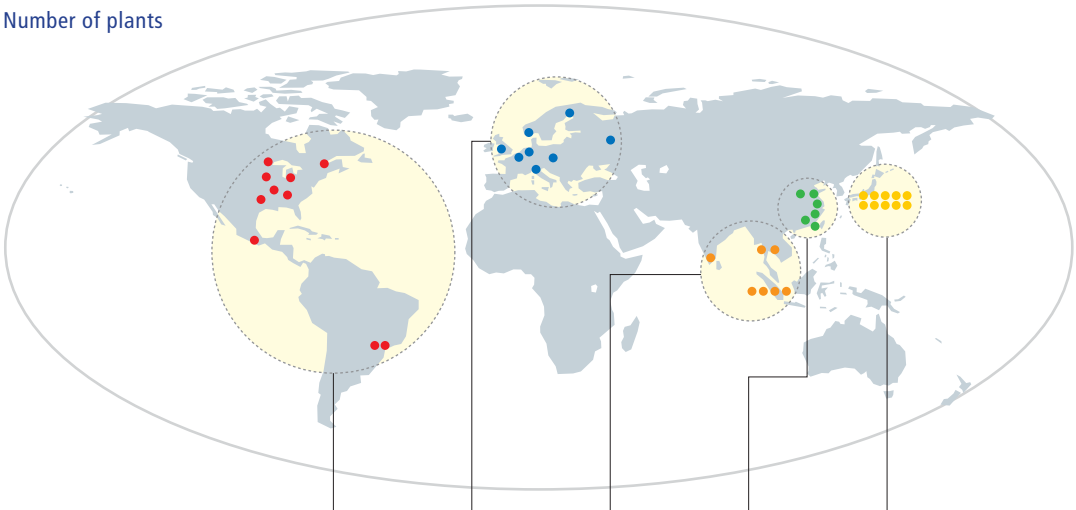
HE : Hydraulic excavators
WL : Wheel loaders
Bull : Bulldozers
RDT : Rigid-typed dump trucks
ADT : Articulated dump trucks
MG : Motor graders
Mini HE : Mini hydraulic excavators
SSL : Skid steer loaders
BHL : Backhoe loaders
TH : Telescopic handlers
Mini WL : Mini wheel loaders

Components, parts and applied products

		Engines	Hydraulic component	GET attachments	Under-carriages	Sheet metal parts	Casting parts	Cabs	Generators
The Americas	Cummins Komatsu Engine	●							
	Hensley Industries			●					
	Komatsu Mexicana			●					
	Atommix Industria					●			
Europe and CIS	Stavmek					●			
	Komatsu KVX			●					
	KRANEKS International					●			
Asia	Komatsu Undercarriage Indonesia				●				
	Pandu Dayatama Patria		●						
	CABTEC THAI							●	
	Hokuriku United Forging Industry				●				
China	Komatsu (Changzhou) Foundry						●		
	Hensley Lingfeng			●					
	Komatsu Power Generation Systems (Shanghai)								●
Japan	Komatsu Oyama	●	●						
	Komatsu Zenoah		●						
	Komatsu Cummins Engine	●							
	Komatsu Castex						●		
	Komatsu Cabtec							●	

GET : Ground engaging tools

Number of plants



	The Americas	Europe and CIS	Asia	China	Japan	Total
Assembly	6	5	3	3	5	22
Components, parts and applied products	4	3	4	3	5	19
Total	**10**	**8**	**7**	**6**	**10**	**41**

Market Introduction of New Models

In January 2006, Tier III emission standards were enforced in the United States and Europe. The Japanese government plans to enforce new emission standards in October 2006. The Komatsu Group has been aggressively launching new models with the leading-edge "ecot3" engine which has cleared the new emission standards of Europe, the U.S. and Japan. The Komatsu Group is also going to introduce other new models with enhanced performance based on the concepts of environment conservation, safety and IT.

PC200 hydraulic excavator

This excavator achieves 10% (max) reduction* of fuel consumption through electronic controls of in-house developed and manufactured engine and hydraulic equipment. It also features considerably reduced noise and enhanced safety.

* Compared to our conventional model in the same class

D155AX large bulldozer

This dozer incorporates the innovative SIGMADOZER blade for improved productivity. Its automatic transmission with lockup torque converter improves fuel consumption. All together, this dozer achieves a 25% improvement* in fuel efficiency.

* Compared to our conventional model in the same class

WA600 large wheel loader

After extensive renewals with a larger bucket capacity, higher engine output and heavier operating weight, this new model is placed one class above. This model achieves a 20% improvement* in fuel efficiency with high-efficiency hydraulic controls of the new hydraulic system and the leading-edge engine technology.

* Compared to our conventional model in the same class

HM300 articulated dump truck

The in-house developed automatic retarder accelerator control system offers safe and comfortable operability. Compared with conventional models, this new model improves fuel consumption while operating at low torque.

Komatsu America: Showcasing new products on field day

Komatsu America Corp. invited North American distributors and their customers to the annual Field Day event in Las Vegas from February 28, 2006 for four weeks. Komatsu America exhibited over 20 machines, including new models equipped with Tier III-compliant engines, demonstrating Komatsu's technological and product support capabilities. The number of visitors reached 2,000 for the four weeks. In particular, the D155AX reached bulldozer (after full renewal) attracted the constant attention of visitors.

Komatsu Europe International: Showcasing new products at the INTERMAT 2006

In April 2006, the INTERMAT 2006, known as one of the world's three largest exhibitions of earthmoving equipment, was held in Paris, France. Held once every three years, it welcomed over 200,000 visitors this year. The Komatsu Group, under the leadership of Komatsu Europe International N.V., exhibited 38 models, ranging from utility equipment to large mining equipment. Especially, the PC200 hydraulic excavator, WA500 and 600 large wheel loaders, D155AX large bulldozer, all after full renewal, attracted the keen attention of visitors. For the first time we also displayed some machines outside, demonstrating their impressive performance.

Leading-edge Engine Technology "ecot3"

Tier III emission standards, which have already been introduced in the United States and Europe and will be introduced in Japan later this year, require a substantial reduction of nitrogen oxides (NOx). To reduce the amount of NOx, you will need to lower the combustion temperature, which will, in return, increase the amount of particulate matters (PM) and worsen fuel economy. In this light, we are required to reduce both NOx and PM at the same time, while improving fuel consumption in order to lower customers' running costs.

By taking advantage of our in-house development and manufacturing capabilities of key components, such as engines and hydraulic equipment, and electronic control technologies, and by incorporating the leading-edge technology, the Komatsu Group has overcome this technological challenge and successfully developed the "ecot3" engine technology. We are already mounting "ecot3"-based engines on new models.

Tier III-compliant engine which incorporates Komatsu's advanced engine technology