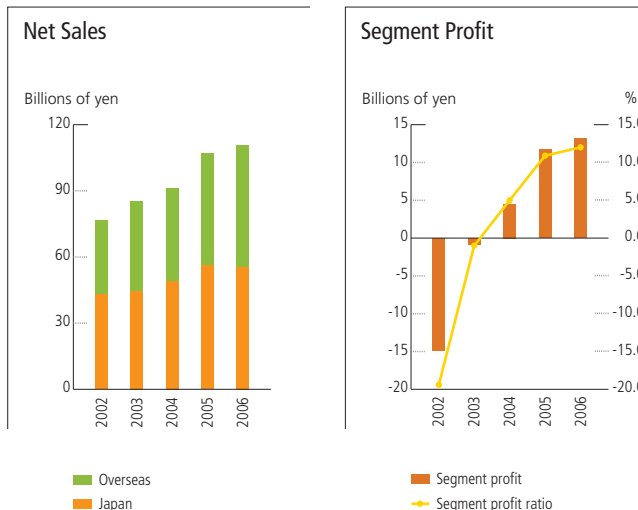


Electronics



Consolidated sales* from the Electronics segment increased 3.2% over the previous year, to ¥110.5 billion (US\$945 million). Segment profit of this business improved 13.0%, to ¥13.2 billion (US\$113 million), continuing to attain a segment profit ratio of over 10%.

During the year under review, while we accommodated negative factors of reduced sales and profits resulting from the sale of Advanced Silicon Materials LLC (ASiMI), a U.S. subsidiary engaging in the manufacturing and sales of polycrystalline silicon, the silicon wafer business improved its results, enabling the overall Electronics segment to exceed the previous year's results.

* Sales made to external customers after elimination.

The Silicon Wafer Business Continues to Improve

Demand in the semiconductor market was buoyant during the year under review, and in tandem with the semiconductor market, the silicon wafer market was robust. Komatsu Electronic Metals Co., Ltd. (KEM) focused its efforts to strengthen its business and expand profits centering on 300mm and discrete wafers in addition to its stronghold 200mm wafers. As for

300mm wafers, KEM fully utilized its monthly production capacity of 75,000 pieces in Japan and worked to expand their sales.

Expanding Production Capacity for 300mm Wafers

Semiconductor device manufacturers began full-scale investments in facilities for 300mm wafers, rapidly expanding the market size for 300mm wafers. In this environment, KEM worked to expand its production capacity for 300mm wafers. In Japan, KEM increased its monthly production capacity to 75,000 pieces at the Nagasaki and Miyazaki plants together in the summer of 2005 and emphasized expansion of production volume during the year under review. Furthermore, the KEM Group began investing in integrated production facilities for 300mm wafers with a monthly production capacity of 50,000 pieces at Formosa Komatsu Silicon Corporation (FKS), which is currently producing 200mm wafers exclusively in Taiwan. FKS is going to start production of 300mm wafers before the end of 2006.

Polycrystalline Silicon Business Sold

Komatsu Ltd. had continued negotiations with Renewable Energy Corporation AS (REC), a Norwegian manufacturer of solar battery materials to systems, concerning the sale of ASiMI. After the negotiations, Komatsu America Corp., Komatsu's U.S. subsidiary with 100% ownership interest of ASiMI, formally signed the definitive agreement with SGS Holdings Inc., a U.S. subsidiary of REC and sold 75% of its ownership interest to SGS Holdings at the end of July last year.

In 2002, ASiMI, jointly with Silicon Technologies AS, a subsidiary of REC, established Solar Grade Silicon LLC to produce and sell polycrystalline silicon for solar applications. For the establishment of this jointly owned company, ASiMI contributed its Moses Lake Plant (Washington State) in kind and held 30% of the stakes, which was included in the sale of ASiMI.



Silicon wafers made by KEM