

Review of Operations

Trends and Percentage of Net Sales

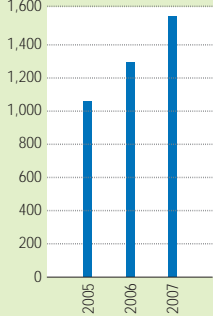
Years ended March 31

Main Product Groups

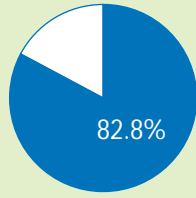
Construction and Mining Equipment

Net sales

Billions of yen



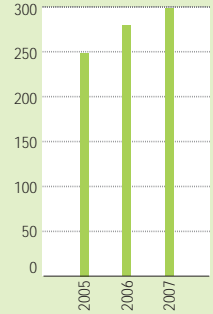
Percentage of net sales for fiscal 2007



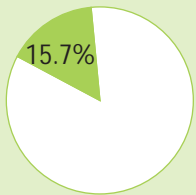
Industrial Machinery, Vehicles and Others

Net sales*

Billions of yen



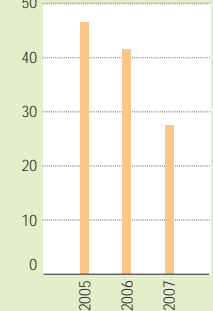
Percentage of net sales for fiscal 2007



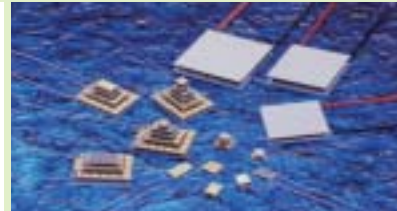
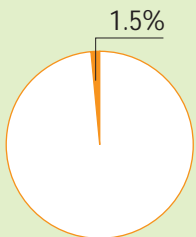
Electronics

Net sales*

Billions of yen

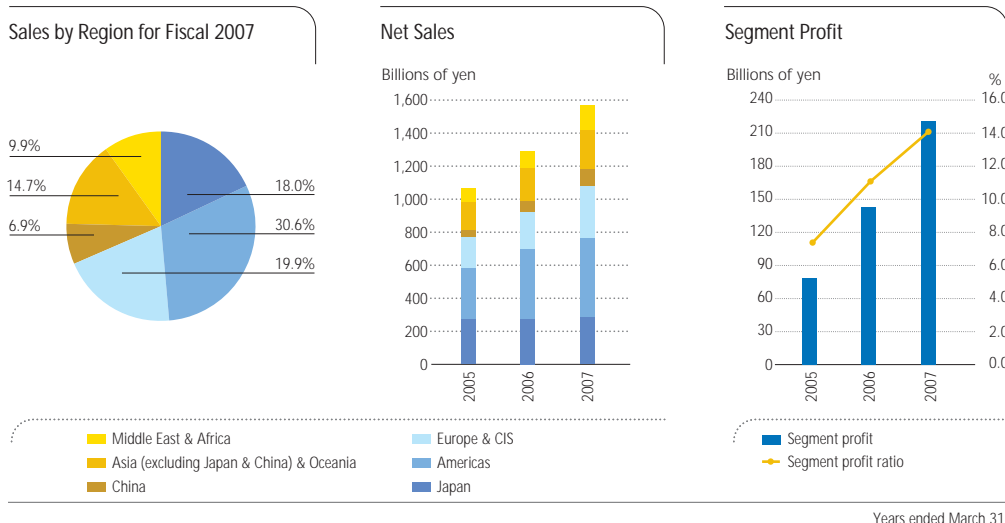


Percentage of net sales for fiscal 2007



* In accordance with the Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," sales figures in the prior years of the operations which were discontinued during the fiscal year, ended March 31, 2007, have been reclassified retrospectively.

Construction and Mining Equipment



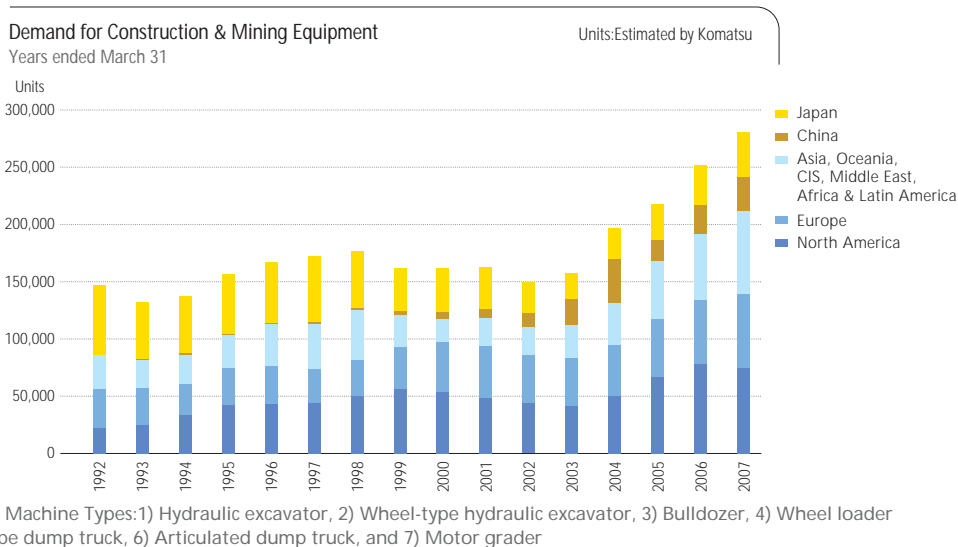
Consolidated net sales* of construction and mining equipment for the year under review climbed 21.4% over the previous year, to ¥1,567.7 billion (US\$13,286 million). As the market for our equipment continued to grow worldwide, we expanded our production capacity in cooperation with suppliers, worked jointly with our distributors to launch updated models which are compliant with new emissions regulations in North America, Europe and Japan. We also reinforced our sales and service operations in Greater Asia in particular.

* Sales made to external customers after elimination of internal sales

Segment profit of the construction and mining equipment business reached ¥220.6 billion (US\$1,870 million), up 54.4%

over the previous year, driven by improved prices of our equipment in Japan and overseas in addition to expanded sales. Segment profit ratio improved significantly by 3.0 points to 14.1%.

With respect to production, we proactively expanded our capacity for key components, such as engines and hydraulic equipment. In January of this year, we opened the Ibaraki Plant in Hitachinaka City, Ibaraki Prefecture, expanding our production capacity for large dump trucks and wheel loaders. In India, where the economy has been growing rapidly, we established Komatsu India Private Limited and also embarked on the production of large dump trucks for which we project demand will accelerate into the future.



Japan While public-sector investments remained slack, private-sector capital outlays increased. Additionally, exports of used equipment facilitated market stock adjustment, expanding demand for new equipment, especially in the rental industry.

Sales in Japan improved to ¥282.5 billion (US\$2,395 million), up 2.8% from the previous year, supported by not only expanded sales of new equipment which is compliant with the new emissions regulations, and price realization, but also increased sales of used equipment. We also worked to further improve management efficiency, including the merger of 10 affiliated rental companies in October 2006.



▲ Auction for used equipment held by Komatsu Used Equipment Corp.

The Americas In North America, while the slowing housing starts in the United States caused a decline in demand for small equipment in particular, demand for other equipment remained brisk in non-residential construction works, highway-related works and resource development. In Latin America, demand, primarily for mining equipment, increased. Under such an environment, we promoted our efforts to expand sales of Tier 3-compliant models and to realize our prices in North America. We also worked to reinforce sales and product support capabilities for the mining industry in both regions. As a result, sales in the Americas increased 14.0% over the previous year, to ¥480.1 billion (US\$4,069 million) for the fiscal year under review.



▲ Training Center of Komatsu America Corp.



▲ 930E super-large offhighway dump truck (the same model) is part of this order.

18.4 billion-yen Order for Mining Equipment from Gold Mine in Mexico Komatsu Latin-America Corp., Komatsu's regional headquarter subsidiary for the Latin American business, won an order for 64 units worth about US\$160 million (approx. ¥18.4 billion) of large mining equipment from Minera Peñasquito S.A.DE C.V., a Mexican subsidiary of Goldcorp Inc., a premier senior intermediate gold producer. Komatsu will deliver 930E super-large dump trucks and various other equipment to the customer's Peñasquito property, one of the largest undeveloped precious metal deposits in Mexico. With the first equipment shipment made in February 2007, Komatsu plans to complete the total delivery by 2011.

Europe & CIS In Europe, market demand improved in Germany, the largest European market, and in eastern Europe, continuing to expand the markets. In addition, we worked to step up sales of Tier 3-compliant models, including a large wheel loader with reinforced capabilities, streamline production, and strengthen distribution networks in eastern Europe. As a result, sales in Europe improved from the previous year.

In the Commonwealth of Independent States (CIS: former Soviet republics), sales expanded, driven by strong demand in resource development-related sectors and infrastructure development in metropolitan areas.

As a result, we expanded sales by 39.0% over the previous year, to ¥311.8 billion (US\$2,642 million) in Europe & CIS.

Order for 153 Units of Construction Equipment to Build Pipeline in Russia Jointly with Nippon Steel Trading Co., Ltd., we have won a lump sum order for 153 units of our construction equipment from a contractor of Gazprom of Russia for construction of a new pipeline for natural gas. We started shipping the equipment in May this year and plan to complete delivery by the end of the year. The deal between Nippon Steel Trading Co., Ltd. and the contractor amounts to US\$110 million (approx. ¥12.6 billion) in total.



▲ D355C large pipelayer (background) and PC400 medium-sized hydraulic excavator (foreground) deployed for pipelaying in Yamal Peninsula

The 153-unit order consists of 100 units of the D355C large pipelayer, medium-sized hydraulic excavators and large bulldozers. All our machines will be deployed for the construction of a new pipeline (approx. 1,200km long) as part of the Yamal-Europe pipeline.

China The Chinese market continued to generate a high rate of growth in demand for our equipment during the year, as the number of civil engineering projects increased in line with rural area development measures of the 11th Five-Year Guidelines and ongoing urbanization. The mining industry worked to streamline operational efficiency and develop new mines. We also focused efforts to streamline our production and sales operations based on business negotiation and machine operation information obtained through IT deployment. We also expanded sales of mining equipment centering on large dump trucks. As a result, sales in China accelerated 59.1% over the previous year, to ¥108.3 billion (US\$919 million) for the year under review.

¥13.8-billion Order for Mining Equipment from Chinese Mining Company Jointly with Toyota Tsusho Corporation, we have won an order for 45 units of large equipment, worth US\$120 million (approx. ¥13.8 billion), from Pingshuo Coal Industry Co., Ltd., a member company of China National Coal Group Corp. ("China Coal") which is one of the two major state-owned coal producers of China. The current order represents the second one from Pingshuo Coal Industry Co., Ltd., following the first order contract for equipment, worth about ¥10 billion, signed in January 2006.

China is the world's largest producer of coal. Against the backdrop of strong economic growth for recent years, however, it has become urgent for China to produce more coal. With present plans calling for the annual expansion of coal production by 100 million tons annually for 2010, the Chinese



▲ Komatsu mining equipment at a Chinese coal mine

government is promoting large-scale, efficient mining, including the consolidation of smaller-scale mines. We project that capital investments in mining should continue into the future.

Asia & Oceania While strong sales of mining equipment continued especially in Oceania, demand recovered in civil engineering, agriculture and forestry sectors in Indonesia, the largest Southeast Asian market. As a result, sales in Asia and Oceania improved 17.4% over the previous year, to ¥229.8 billion (US\$1,948 million) for the year under review.

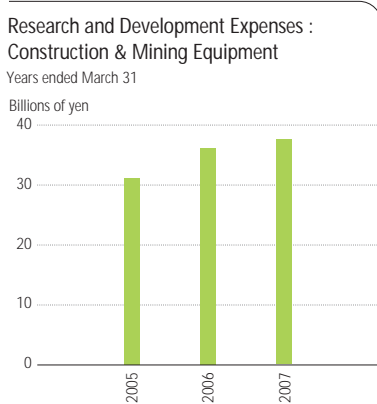


▲ Komatsu super-large dump trucks at an Australian mine

The Middle East & Africa Demand continued to expand, primarily driven by an increase in the number of infrastructure development projects in Saudi Arabia and other oil producing countries as well as in Turkey, and by buoyant mine developments in African countries. Under these market conditions, we carried out aggressive sales activities and worked to reinforce our product support capabilities. As a result, sales in the Middle East and Africa accelerated 44.5% over the previous year, to ¥154.8 billion (US\$1,312 million) for the year under review.

Research and Development

We are promoting our R&D efforts to develop technologies which will enhance customers' productivity, safety and conservation efforts in natural and social environments, to improve the capability of our products and to substantially reduce our costs. To keep pace with the globalization of our business, we are also stepping up our efforts to facilitate global R&D operations through personnel exchange and joint development. We are focusing on IT applications and environment-friendly technologies as the mid to long-range areas of importance.



IT Applications

We have developed and are developing a variety of IT-applied systems, such as KOMTRAX (Komatsu Machine Tracking System) and VHMS (Vehicle Health Monitoring System), in order to improve customers' safety and operating efficiency.

KOMTRAX-applied Product Lifecycle Business

KOMTRAX is a vehicle management system in which devices mounted on our construction equipment transmit information concerning the location, hours of use, operating conditions and the like. As of May 2007, there are over 60,000 units of KOMTRAX-mounted equipment working in Japan, China, North America and Europe. By analyzing information obtained from KOMTRAX, we are supporting our customers to improve their machine utilization and running costs throughout the product lifecycle of their equipment. By acquiring the operating hours of KOMTRAX-equipped machines on a real-time basis, we are also better positioned to analyze changes on the market at an early stage and thereby improve the accuracy of production, sales and inventory plans.

Environment-Friendly Technologies

We have completed our product development programs and launched products in response to new emission standards in the United States, Europe and Japan effective since 2006. We have

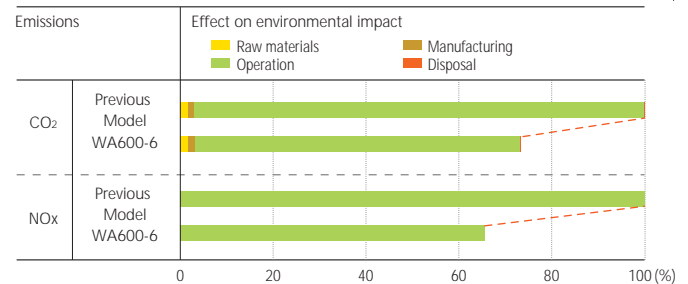
begun developing new engines which will meet Interim Tier4 emission standards to take effect in 2011. Furthermore, with a firm conviction that the simultaneous realization of environmental and economic performance is possible throughout the lifecycle of our products, we are reducing environmental impact, promoting energy savings, recycling and reusing parts, and advancing the research and development of environmental impact evaluation technologies based on the lifecycle assessment.*

* Lifecycle assessment: To determine the environmental impact of products in all stages of their lifecycles, from obtaining raw materials and production to use and disposal.

WA500 and WA600 Wheel Loaders

Both WA500-6 and WA600-6 models demonstrate our commitment to environment- and operator-friendly machines by incorporating our diverse ideas of what an ideal wheel loader should be. In addition to meeting the new emission standards in the United States, Europe and Japan with the mounting of our leading-edge "ecot3" engine, these models achieve an outstanding reduction of 20% in fuel consumption per work load and cut down CO₂ and NO_x emissions significantly, compared to the corresponding conventional models. This is made possible by combining the special large-capacity torque converter.

Lifecycle Assessment Provisional Calculations for the WA600-6 Model



▲ WA600-6 wheel loader powered by the leading-edge "ecot3" engine

Expanding Production Capacity for Construction and Mining Equipment

To meet expanding demand for construction and mining equipment worldwide, we have established and launched production at the Ibaraki Plant, a new plant in Japan, for the first time in 13 years, and Komatsu India Private Limited, the second production base in India. Simultaneously, to expand the production volume of key components which we concentrate their production in Japan and supply them to our overseas plants, we have reinforced our capacities, including an additional facility for hydraulic equipment and additional lines for engines at the Oyama Plant.

Ibaraki Plant Begins Production of Large Equipment for Mining Use

In January 2007, we launched the production of large wheel-type equipment, such as dump trucks and wheel loaders for mining use, at the Ibaraki Plant. Over 90% of its factory shipment is destined for exports to North America, Europe, Asia, Oceania, Africa and Latin America. By taking advantage of its next-door proximity to the Port of Hitachinaka for loading for exports, we are reducing CO₂ emissions required for land transportation. Concerning certain equipment made at the Ibaraki Plant and destined for exports from the Port of Tokyo/Yokohama, we have made a modal shift from land to ocean transport from Hitachinaka to Tokyo/Yokohama by chartering a vessel for large equipment, thus further reducing CO₂ emissions. As a result, we are expecting to cut back CO₂ emissions by 2,300 tons annually.

The Plant also features a simple-structure assembly line, and its production management system extensively incorporates IT advantages, such as IC tags. As a result, the Plant is designed to flexibly meet unexpected changes in production volume and product specifications. It is also a model manufacturing plant for energy-saving features, including a solar panel roof.



▲ Ibaraki Plant

[Profile]

Location: Hitachinaka City, Ibaraki Prefecture, Japan
 Site area: Approx. 190,000 square meters
 Floor area: Approx. 26,000 square meters for Plant No. 1 and approx. 14,000 square meters for Plant No. 2
 Invested: Approx. ¥22 billion (incl. land, buildings and manufacturing equipment)
 Products: Large dump trucks and large wheel loaders
 Production capacity: 130 units per month for dump trucks and wheel loaders combined

Komatsu India, Our Second Production Base, Begins Operation

In India, whose economy has gained a growth momentum in the 21st century, domestic resource development projects are buoyant, including coal for power generation and steel production, iron ore, copper and non-ferrous metals. This is driven by expanding demand for energy and investments in infrastructure development. In this environment, the modernization of mine development has been underway in the form of mechanization, sharply expanding the demand for large equipment for mining use.

We established Komatsu India Private Limited in Chennai, India, and in January 2007, Komatsu India launched the production of large dump trucks for the local market. Sharing the basic design concept with the Ibaraki Plant, Komatsu India also incorporates a simple-structure assembly line and an assembly instruction system with display panels. By making the production process “visible” in these ways, Komatsu India has built an operational system to supply high-quality products.

[Profile]

Location: Chennai (formerly Madras), India
 Site area: Approx. 240,000 square meters
 Floor area: Approx. 10,000 square meters (incl. office space)
 Invested: Approx. ¥1.4 billion as initial investment (incl. land, buildings and manufacturing equipment)
 Products: Large dump trucks
 Production capacity: 200 units per year



▲ Assembly of Komatsu India

Global Manufacturing Operation for Construction and Mining Equipment

Assembly

* Mother plants are factories with development capabilities for respective product categories.

			HE	W-HE	WL	Bull	RDT	ADT	MG	Mini HE	SSL	BHL	TH	Mini WL	Mobil Crushers	Forestry
The Americas	U.S.A.	Komatsu America Chattanooga	•					•								
		Peoria *					•									
	Canada	Newberry										•	•			
		Komatsu Forest *														
Europe and CIS	Brazil	Komatsu America Candiac			•											
	U.K.	Komatsu do Brasil	•		•	•										
		Komatsu UK	•													
	Germany	Komatsu Hanomag *		•	•										•	
		Komatsu Mining Germany *	•													
Italy	Komatsu Utility Europe *									•	•	•	•			
Asia	Indonesia	Komatsu Forest *														•
		Komatsu Indonesia	•				•									
	Thailand	Bangkok Komatsu	•						•							
	India	L&T-Komatsu	•													
China	Komatsu (Changzhou) Construction Machinery	Komatsu India						•								
		Komatsu Shantui Construction Machinery	•		•		•									
		Komatsu Utility Machine	•													
Japan	Komatsu	Awazu *	•		•	•										
		Osaka *	•													
	Rokko	•														
	Mooka *	•														
	Ibaraki			•			•									
	Komatsu Utility Kowagoe *										•					

HE : Hydraulic excavators W-HE : Wheel-type hydraulic excavators WL : Wheel loaders Bull : Bulldozers RDT : Rigid-type 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



▲ Peoria Manufacturing Operation of Komatsu America Corp.



▲ Komatsu Hanomag GmbH

Components, parts and applied products

			Engines	Hydraulic component	GET* attachments	Under-carriages	Sheet metal parts	Casting parts	Cabs	Generators
The Americas	U.S.A.	Cummins Komatsu Engine	•							
		Hensley Industries								
	Mexico	Komatsu Mexicana			•					
Europe and CIS	Brazil	Atommix Industria								
		Czech	Stavmek					•		
	Norway	Komatsu KVX								
Asia	Russia	KRANEKS International					•			
		Indonesia	Komatsu Undercarriage Indonesia							
	Thailand	Pandu Dayatama Patria		•						
		Komatsu Forging Industry								
		CABTEC THAI								
China	Bangkok Komatsu Industries							•		
Japan	Komatsu	Komatsu (Changzhou) Foundry								
		Hensley Lingfeng								
	Komatsu Power Generation Systems (Shanghai)									
	Oyama	Komatsu Oyama	•	•						
Komatsu Cummins Engine	•									
Komatsu Castex										
Komatsu Cabtec										

*GET : Ground-engaging tools



▲ PT Komatsu Indonesia



▲ Komatsu Shantui Construction Machinery Co., Ltd.

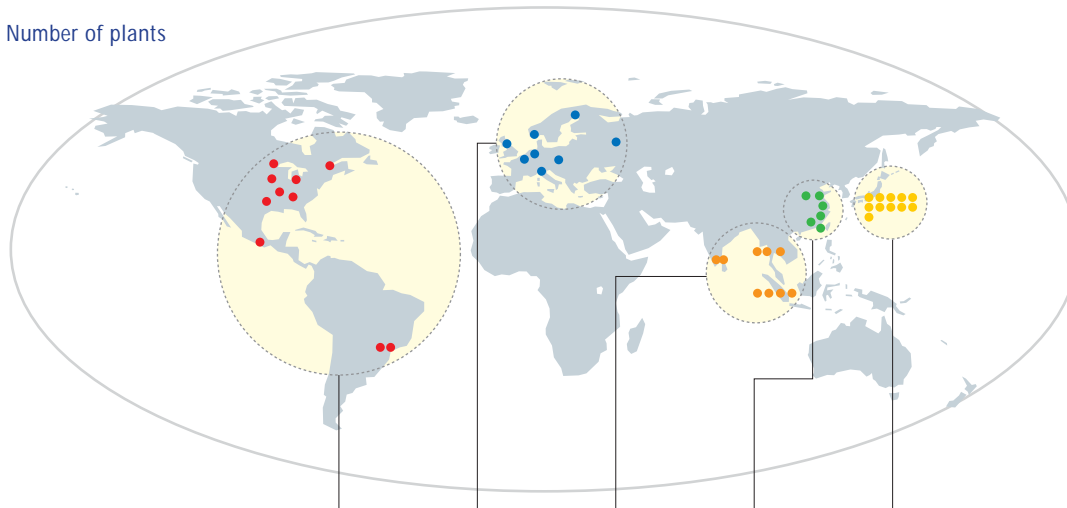


▲ Kawagoe Plant of Komatsu Utility Co., Ltd.



▲ Oyama Plant of Komatsu Ltd.

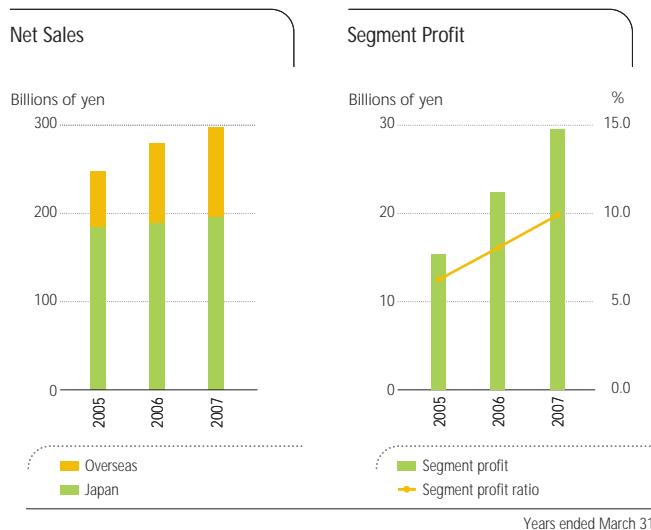
Number of plants



	The Americas	Europe and CIS	Asia	China	Japan	Total
Assembly	6	5	4	3	6	24
Components, parts and applied products	4	3	5	3	5	20
Total	10	8	9	6	11	44

* March 31, 2007

Industrial Machinery, Vehicles and Others



Consolidated net sales*¹ of industrial machinery, vehicles and other operations reached ¥298.0 billion (US\$2,526 million), up 6.6% over the previous year, reflecting strong sales recorded by main subsidiaries, such as Komatsu Forklift Co., Ltd. and Komatsu Industries Corporation.

Segment profit of the industrial machinery, vehicle and other operations business advanced 31.5% over the previous year, to ¥29.5 billion (US\$250 million), improving segment profit ratio to 9.9%, up 1.9 points from the previous year.

Komatsu Ltd. signed a definitive agreement to sell the outdoor power equipment of Komatsu Zenoah Co. to a Japanese subsidiary of Husqvarna AB of Sweden. The sale was completed in April 2007.*²

*¹ Sales made to external customers after elimination of internal sales

*² As a result of the definitive agreement having been reached, the outdoor power equipment (OPE) business of Komatsu Zenoah and its subsidiaries engaging in the OPE business will no longer be consolidated in Komatsu's results. Therefore, operating results related to the OPE business are excluded from sales and segment profit of the industrial machinery, vehicles and others business. The changes in percentage from the previous years were obtained after reclassifying the previously reported amounts accordingly.

Forklift Truck Business

Komatsu Forklift Co., Ltd. expanded sales for the year by boosting overseas sales, particularly in the Middle East and Asia, and by launching sales of full-update battery-powered models. In August 2006, Komatsu Ltd. bought the 35.0% of Komatsu Forklift's equity from Linde AG of Germany, making Komatsu Forklift a wholly owned subsidiary.

In April 2007, Komatsu Forklift merged with Komatsu Zenoah and changed its corporate name to Komatsu Utility

Co., Ltd. By unifying the forklift truck business and the mini-construction equipment business of Komatsu Zenoah as the utility equipment business, Komatsu Utility is well positioned to take comprehensive and effective advantage of management resources of the two and accelerate synergy in the production and development in order to enhance product competitiveness and improve earnings.

Launching New Battery-Powered ARION Forklift Trucks

The portion of battery-powered models is growing in the total market of forklift trucks today. About half of new forklift trucks are battery powered in Japan, while more than 60% of forklift trucks is battery-powered in Europe.

Under such an environment, Komatsu Utility Co., Ltd. has launched the new battery-powered ARION forklift truck series with four-wheel and three-wheel models after full model



▲ FB15HB battery-powered hybrid model produced by Komatsu Utility

change. These are the first updates of four-wheel and three-wheel models in 8 and 11 years, respectively. In addition to powerful traveling and controllability on rough and wet surfaces comparable to engine-powered counterparts, the new ARION series features comfortable operability designed to minimize operator's fatigue and thorough safety.

Komatsu Utility launched the world's first* battery hybrid model, which features excellent energy efficiency. Hybrid forklift trucks are equipped with two power systems, the capacitor which collects and stores electricity generated while the motor is in operation, and the battery. By efficiently alternating the use of the two power systems according to the energy needs, hybrid models can reduce power consumption by 20% at maximum compared to standard battery-powered models.

With these new models, Komatsu Utility is working to further enhance its market position.

* The world's first hybrid forklift truck equipped with a hybrid mechanism as of May 2007

Industrial Machinery Business

In the industrial machinery sector, Komatsu Industries Corporation achieved good sales of sheet metal and press machinery. With respect to large presses, Komatsu has enjoyed a growing number of orders for AC Servo motor-driven products. In January 2007, Komatsu built the new Kanazawa Plant in Kanazawa City, Ishikawa Prefecture, expanding its production capacity for large presses. Komatsu has also invested in NIPPEI TOYAMA CORPORATION which enjoys a large market share in transfer machines and lathes for the machining of automobile engines. We are currently building an alliance relationship in the areas of sheet metal and press machinery as well as machine tools.



▲ Komatsu has received Toyota Motor's Technology & Development Award for this AC Servo motor-driven large press.

Kanazawa Plant: New Production Facility for Large Presses

To expand its production capacity for large presses for use in manufacturing automotive bodies, Komatsu has built the new Kanazawa Plant adjacent to the Port of Kanazawa in Ishikawa Prefecture. In January 2007, the new plant began operation. The Kanazawa Plant integrates sheet metal forming, machining and assembling key components of large presses. Thanks to an enhanced process through integrated production as well as new technologies which have been introduced, the new plant is capable of further improvement of product quality and substantial reduction of delivery lead-time. The Kanazawa Plant is also an environment-friendly facility, reducing its environmental impact by cutting down the volume of CO₂ emissions by over 1,900 tons per year. It also provides a comfortable work environment with advanced air conditioning and dust collector systems. Furthermore, the new plant is effectively positioned to reduce on-land transport costs because of its proximity to the port facilities.



▲ Kanazawa Plant

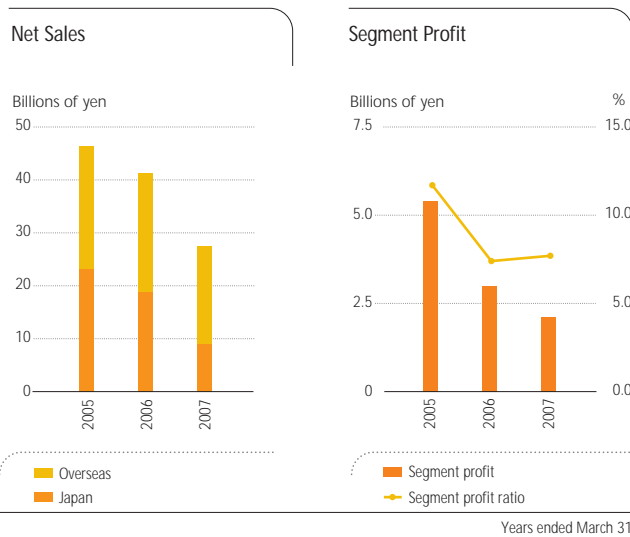
[Profile]

Location: Kanazawa City, Ishikawa Prefecture, Japan
 Site area: Approx. 115,000 square meters
 Floor area: Approx. 15,000 square meters
 Invested: Approx. ¥8.5 billion
 (incl. land, buildings and manufacturing equipment)
 Products: Key components of large presses (slides and beds)
 Production capacity: 210 units per year for key components

Alliance with NIPPEI TOYAMA

In December 2006 we acquired 29.3% of the shares of NIPPEI TOYAMA CORPORATION, a top manufacturer of transfer machines used in the processing of automobile engines, various grinding machines, wire saws used in the semiconductor and solar application industries, and laser cutting machines. The major customers for both NIPPEI TOYAMA and our industrial machinery business are the industries related to automobiles and semiconductors, and the product mix of the two is highly complementary. In addition, they each have manufacturing bases in the same region of Japan. Under this alliance, we are going to produce collaborative effects in the manufacturing area as well as in the research, development, sales and service areas.

Electronics



Komatsu Electronics Inc., a wholly owned subsidiary engaging in the production and sale of temperature-control equipment for semiconductor manufacturing, expanded sales for the year. However, consolidated net sales from the electronics operation declined 33.4% from the previous year, to ¥27.5 billion (US\$234 million). The decline in sales reflects the sale of the polycrystalline silicon business executed last fiscal year. While segment profit of this operation declined 29.8% from the previous year, to ¥2.1 billion (US\$18 million), segment profit ratio increased to 7.7%, up 0.3 points from the previous year.

* Sales made to external customers after elimination of internal sales

Silicon Wafer Business Sold

We have positioned “industrial-use machinery” which includes construction and mining equipment as well as industrial machinery in the broad sense as our core business. Concerning the electronics business which included the silicon wafer business of Komatsu Electronic Metals Co., Ltd. (currently SUMCO TECHXIV CORPORATION), we worked to ensure independent management strength and promote business growth through alliance with a leading partner. Under this initiative, Komatsu Ltd. accepted SUMCO CORPORATION’s tender offer for 51.0% of Komatsu Electronic Metals Co., Ltd. stock in October 2006. The Company had held a total of 61.9%. Therefore, Komatsu Electronic Metals and its subsidiaries are no longer consolidated in our business results.

Notes: 1) Income from the sale and operating results related to the discontinued operations are excluded from sales and segment profit of the electronics business. The changes in percentage from the previous years were obtained after reclassifying the previously reported amounts accordingly.

2) Starting in the current fiscal year ending March 31, 2008, Komatsu is including the electronics business in the new Industrial Machinery, Vehicles and Others segment.



▲ Komatsu Electronics-made temperature-control equipment for dry etchers