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Results of Operations

(1) General

Consolidated business results of Komatsu Ltd. ("Company") and consolidated subsidiaries (together "Komatsu") for the fiscal year ended March 31, 2007 continued to renew the record-high figures in both net sales and profits, registering the fifth consecutive year of improvements in the two figures.

	Results for the Year	Increase
Sales	1,893.3 billion yen	17.4%
Operating income (*1)	244.7 billion yen	49.8%
Income from continuing operations before income taxes, minority interests and equity in earnings of affiliated companies (*2)	236.4 billion yen	51.8%
Income from discontinued operations (*3)	11.3 billion yen	120.9%
Net income	164.6 billion yen	44.1%

Note *1: Starting from the current year, Komatsu changed its form of consolidated statement of income from single- to multiple-step. To ensure accurate comparison of the change from the amounts of the previous year, the percentage was obtained after reclassifying the previously reported amounts.

Note *2: On October 18, 2006, the Company sold 51.0% of the shares of Komatsu Electronic Metals Co., Ltd. ("KEM", currently SUMCO TECHXIV CORPORATION) to SUMCO CORPORATION. Prior to this disposition, the Company held a 61.9% equity interest. Accordingly, KEM and its subsidiaries are no longer consolidated in Komatsu's results. On January 30, 2007, the Company's signed a definitive agreement to sell the outdoor power equipment (OPE) business of Komatsu Zenoah Co. to a Japanese subsidiary of Husqvarna AB of Sweden. Accordingly, the OPE business of Komatsu Zenoah Co. and its subsidiaries engaging in the OPE business are no longer consolidated in Komatsu's results. The concerned sale was completed on April 2, 2007. In accordance with Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," operating results after deducting those of such business are defined as continuing operations and those income before income taxes are presented as "income from continuing operations before income taxes, minority interests and equity earnings of affiliated companies" in the consolidated statements of income.

Note *3: In accordance with SFAS No. 144, gain on sale of KEM's shares and operating results, less applicable income taxes, related to KEM and its subsidiaries as well as the operating results, less applicable income taxes of the OPE business of Komatsu Zenoah Co. and its OPE business subsidiaries are presented as one line, "income from discontinued operations less applicable income taxes, minority interests and equity in earnings of affiliated companies" in the consolidated statements of income.

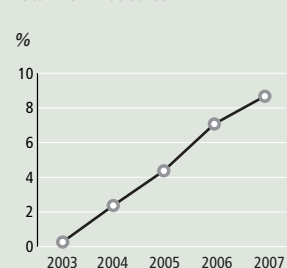
Consolidated net sales increased 17.4% over the previous year, to ¥1,893,343 million (US\$16,045 million, at US\$1=¥118). In the construction and mining equipment segment, Komatsu continued to increase sales for the year by effectively capitalizing on expanded market demand resulting from buoyant developments of commodities and infrastructure around the world. In the industrial machinery, vehicles and others segment, Komatsu recorded good performance and advanced sales. Sales of the electronics segment declined from the previous year, as primarily affected by the sales of the polycrystalline business which was executed in the previous year.

Operating income advanced to ¥244,741 million (US\$2,074 million), and operating income ratio improved by 2.8 percentage points to 12.9%. Profits further improved due not only to expanded sales, centering on construction and mining equipment, but also to the realization of prices for construction equipment both in Japan and abroad. Income from continuing operations before income taxes, minority interests and equity in earnings of affiliated companies reached ¥236,491 million (US\$2,004 million), reflecting a substantial increase in operating profit. Net income for the year, the sum of income from continuing and discontinued operations, totaled ¥164,638 million (US\$1,395 million).

(2) Impact of Foreign Exchange Rate

In comparison to the previous year, Japanese yen was weak against both US dollar and Euro during the current year. Due to such currency fluctuations, segment profit in the construction

Return on Net Sales



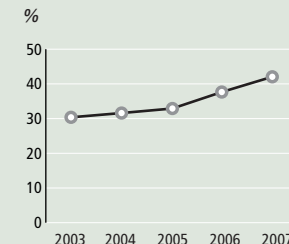
R&D Expenses as a Percentage of Net Sales



Capital Investment as a Percentage of Net Sales



Shareholders' Equity Ratio



and mining equipment segment for the year increased by approximately ¥16.1 billion from the previous year. The impact of currency fluctuations is determined as the sum of the amounts obtained by multiplying foreign currency transactions of each entity by the change in the applicable exchange rate. However, the effects of change of selling price due to currency fluctuations were not taken into account.

(3) Sales

(In this section, the amounts of sales represent sales to the customer in each region.)

Consolidated net sales expanded 17.4% over the previous year, to ¥1,893,343 million (US\$16,045 million), replacing the record-high figure renewed in the previous year. Sales in Japan increased 0.9% over the previous year, to ¥487,103 million (US\$4,128 million). Sales in overseas countries increased 24.5% over the previous year, to ¥1,406,240 million (US\$11,917 million).

Construction and Mining Equipment

Consolidated net sales of construction and mining equipment advanced 21.4% over the previous year, to ¥1,567,723 million (US\$13,286 million). As the markets for the construction and mining equipment continued to grow worldwide, the Company expanded its production capacity in cooperation with suppliers, worked jointly with distributors to launch renewed models, which are compliant with new emission gas regulations in Japan, North America and Europe, and reinforced sales and service operations in Greater Asia in particular.

With respect to production, the Company proactively expanded its capacity for key components, such as engines and hydraulic equipment. In January 2007, the Company opened the Ibaraki Plant in Hitachinaka City, Ibaraki Prefecture, where the Company started the production of large dump trucks and wheel loaders. In India where the economy has been growing rapidly, the Company established Komatsu India Private Limited and also embarked on the production of large dump trucks for which demand is expected to accelerate into the future.

<Japan>

While public-sector investments remained slack, private-sector capital outlays increased. Exports of used equipment facilitated market stock adjustment, expanding demand for new equipment, especially in the rental industry. Sales in Japan improved from the previous year, supported by not only expanded sales

of new equipment, which is compliant with the new emission gas regulations, and price realization, but also increased sales of used equipment. Komatsu also worked to further improve management efficiency, including the merger of 10 affiliated rental companies in October 2006.

<The Americas>

In North America, while demand declined for small equipment in particular, as affected by the slowing housing starts in the United States, demand for other equipment remained brisk in non-resident construction works, highway-related works and resource development. In Latin America, demand, primarily for mining equipment, increased. Under such an environment, Komatsu promoted efforts to expand sales of Tier 3-compliant models and to realize prices in North America. Komatsu also worked to reinforce sales and product support capabilities for the mining industry in both regions. As a result, sales in both North and Latin Americas increased from the previous year.

<Europe & CIS>

In Europe, market demand improved in Germany, the largest European market, and in Eastern Europe, continuing to expand the markets. In addition, Komatsu 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), sales expanded driven by strong demand in resource development-related sectors and infrastructure development in metropolitan areas.

<China>

The Chinese market continued to generate a high rate of growth in demand for construction equipment for 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. Komatsu focused efforts to streamline the production and sales operations based on business negotiation and machine operation information obtained through IT deployment. Komatsu also expanded sales of mining equipment centering on large dump trucks. As a result, sales in China accelerated from the previous year.

<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 from the previous year.

<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, Komatsu carried out aggressive sales activities and worked to reinforce product support capabilities. As a result, sales in the Middle East and Africa accelerated from the previous year.

Industrial Machinery, Vehicles and Others

Consolidated net sales of industrial machinery, vehicles and other operations reached ¥298,022 million (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 Corp.. Komatsu Forklift Co., Ltd. stepped up sales by not only expanding sales in the Middle East, Asia and other overseas markets, but also launching fully renewed, battery-powered models. In August 2006, the Company bought the 35.0% of Komatsu Forklift's equity held by Linde AG of Germany, making Komatsu Forklift Co., Ltd. a wholly owned subsidiary. In the industrial machinery business, sales of Komatsu Industries' sheet metal and press machines were brisk. With respect to large presses, the Company launched production at the new plant in Kanazawa City, Ishikawa Prefecture in January 2007, expanding its production capacity to meet growing orders for AC Servo technology-incorporated presses. The Company also acquired 29.3% of the equity of NIPPEI TOYAMA CORPORATION, which enjoys a large market share of transfer machines and lathes for use in machining automobile engines, building a collaborative relationship in the areas of sheet metal and press machines as well as machine tools. Concerning the outdoor power equipment business of Komatsu Zenoah Co., the Company signed a definitive agreement to sell it to a Japanese subsidiary of Husqvarna AB of Sweden. The sale was completed in April 2007.

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, sales from the electronics operation declined 33.4% from the previous year, to ¥27,598 million (US\$234 million), as affected mainly by declined sales resulting from the sale of the polycrystalline silicon business executed previous year. In

October 2006, the Company accepted SUMCO CORPORATION's tender offer for KEM and sold 51.0% of the shares of KEM. The Company had held a total of 61.9%.

(4) Cost of Sales, Selling, General and Administrative Expenses

Accompanying the rise in sales, costs of sales rose by 14.5% over the previous year to ¥1,356,511 million (US\$11,496 million). Komatsu's efforts at reducing manufacturing costs by improvement activity of purchase price and efficiency of production contributed to a 1.9 point improvement in the cost of sales to sales ratio to 71.6% from the previous year. Selling, general and administrative expenses (SG&A) rose by 9.4% over the previous year to ¥287,086 million (US\$ 2,433 million), primarily due to higher direct selling expenses, which is in line with the increase in sales volume during the current year. Although the expenses for research and development, reinforcement of sales and product support organization and management of safety, environment and compliance increased, the ratio of SG&A to sales fell by 1.1 points from the previous year to 15.2% due to the reduction in fixed cost as part of Reform of Business structure project. Moreover, research and development expenses, which are included in cost of sales and SG&A, rose by 3.9% year over year to ¥46,306 million (US\$ 392 million). Among the main factors responsible for this increase are the development of new Unique and Unrivaled products, development of next generation engines that comply with new emissions regulations, and aggressive development of products in the construction and mining equipment division.

(5) Segment Profit

(Segment profit is obtained by subtracting cost of sales and selling, general and administrative expenses, from net sales in conformity with Japanese accounting principles.)

Segment profit in the construction and mining equipment segment increased by ¥77,702 million over the previous year to ¥220,606 million (US\$ 1,870 million). This increase was primarily due to positive factors such as expanded gross margin as a result of increased sales volume, gain from foreign exchange rate, price raise and cost reduction which outweighed negative factors such as soaring prices of parts purchased including steel materials, increase of fixed cost for research and development for renewed models which are compliant with new emission gas regulations, and reinforcement of sales and product support organization.

With regards to industrial machinery, vehicle and others segment, the expansion in the business of Komatsu Forklift Co., Ltd., Komatsu Industries Corp., Komatsu Machinery Corp., Komatsu Logistics Corp., and other subsidiaries also experienced an increase in profits by ¥7,085 million to ¥29,555 million (US\$250 million).

In the electronics segment, while Komatsu Electronics Inc., a

wholly owned subsidiary engaging in the production and sale of temperature-control equipment for semiconductor manufacturing, increased profits of the electronic segment, the sale of polycrystalline silicon business reduced segment profits to ¥2,137 million (US\$18 million) by ¥908 million over the previous year. Consequently overall consolidated segment profit improved further by ¥85,245 million from the previous year to ¥249,746 million (US\$2,116 million).

(6) Impairment Loss on Long-lived Assets Held for Use

Impairment loss on long-lived assets held for use for the fiscal year ended March 31, 2007 decreased by ¥4,710 million, to ¥81 million (US\$0.69 million) as compared to ¥4,791 million for the fiscal year ended March 31, 2006.

(7) Impairment Loss on Goodwill

While impairment loss on goodwill for the fiscal year ended March 31, 2006 was ¥3,041 million, it didn't occur for the fiscal year ended March 31, 2007.

(8) Other Operating Income (Expenses)

Other operating expenses of ¥4,924 million (US\$42 million) for the fiscal year ended March 31, 2007 decreased by ¥11,683 million as compared to income of ¥6,759 million for the fiscal year ended March 31, 2006. This decrease was primarily due to the gain recognized on the sale of the Company's ownership interest in the polycrystalline silicon business in the fiscal year ended March 31, 2006.

(9) Operating Income

As a result, operating income rose by ¥81,313 million to ¥244,741 million (US\$2,074 million) in the current year from the ¥163,428 million recorded during the previous year.

(10) Other Income (Expense)

Interest and dividend income of ¥8,532 million (US\$72 million) was up ¥1,708 million compared with ¥6,824 million in the previous year. Due to an increase in interest rates, interest expense of ¥15,485 million (US\$131 million) was up ¥3,277 million compared with ¥12,208 million in the previous year.

(11) Income from Continuing Operations before Income Taxes, Minority Interests and Equity in Earnings of Affiliated Companies

Income from continuing operations before income taxes rose by ¥80,712 million to ¥236,491 million (US\$2,004 million) in the current year from the ¥155,779 million recorded during the previous year.

(12) Income Taxes

Corporate income taxes increased by ¥35,775 million to ¥79,745 million (US\$ 676 million) from an income tax expense

of ¥43,970 million for the previous year. The actual effective tax rate was 33.7% from 28.2% for the previous year. The difference between the combined statutory tax rate of 40.8% and the actual effective tax rate of 33.7% was caused by a realization of tax benefits on operating losses of subsidiaries, income of foreign subsidiaries taxed at a rate lower than the Japanese statutory rate offset in part by non deductible expenses.

(13) Minority Interests in Income of Subsidiaries

Komatsu Australia Pty Ltd., Komatsu Shantui Construction Machinery Co., Ltd. and other subsidiaries increased earnings as a result of their favorable business performances. Consequently, minority interests in income of subsidiaries increased to ¥6,580 million (US\$56 million) from ¥5,335 million in the last year.

(14) Equity in Earnings of Affiliated Companies

Thanks to the improvement in earnings of affiliated companies held under the equity accounting method, their contributions improved from ¥2,667 million in profit in the previous year to ¥3,098 million (US\$26 million) profit in the current year.

(15) Income from Continuing Operations

Income from continuing operations rose by ¥44,123 million to ¥153,264 million (US\$1,299 million) in the current year from the ¥109,141 million recorded during the last year.

(16) Income from Discontinued Operations, less applicable income taxes, minority interests and equity in earnings of affiliated companies

Income from discontinued operations less applicable income taxes, minority interests and equity in earnings of affiliated companies for the fiscal year ended March 31, 2007 increased by 120.9%, or ¥6,225 million, to ¥11,374 million (US\$96 million) as compared to ¥5,149 million for the fiscal year ended March 31, 2006. Income from discontinued operations less applicable income taxes, minority interests and equity in earnings of affiliated companies for the fiscal year ended March 31, 2007 includes gain on sale of KEM's shares, approximately ¥7.5 billion (US\$64 million).

(17) Net Income

Net income for the year, the sum of income from continuing operations and discontinued operations, grew by 44.1% to ¥164,638 million (US\$1,395 million) from the previous year's level of ¥114,290 million. Similarly net income per share rose to ¥165.70 from ¥115.13 in the previous year. (The earnings per share diluted is ¥165.40 and ¥114.93 respectively for the year and previous year.)

Liquidity and Capital Resources

(1) Funding and Liquidity Management

Komatsu's principal capital resources policy is to maintain sufficient capital resources in order to be prepared to respond promptly to future capital needs in its operations and to maintain an appropriate level of liquidity.

Komatsu expects to fund its future capital expenditures and working capital needs with cash generated by its operations and capital raising activities. Komatsu's interest-bearing debt, including its capital lease obligations, as of March 31, 2007 totaled ¥349,074 million (US\$2,958 million), which decreased by ¥28,839 million in fiscal year ended March 31, 2007 as compared to fiscal year ended March 31, 2006. Net interest-bearing debt after deducting cash and deposits also decreased by ¥51,041 million to ¥256,821 million (US\$2,176 million) in fiscal year ended March 31, 2007. As a result, Komatsu's net debt-to-equity ratio as of March 31, 2007 was 0.33, which reflected an improvement of 0.16 points as compared to March 31, 2006.

Komatsu's short-term debt as of March 31, 2007 increased by ¥4,118 million to ¥102,248 million (US\$867 million) from March 31, 2006. Komatsu's long-term debt, including debt that was scheduled to mature as of March 31, 2008, decreased by ¥32,957 million to ¥246,826 million (US\$2,092 million) in fiscal year ended March 31, 2007 as compared to fiscal year ended March 31, 2006. Komatsu's short-term debt primarily consists of short-term bank loans and is used as working capital. As of March 31, 2007, Komatsu's long-term debt excluding market value adjustment consisted of ¥96,458 million in loans from banks, insurance companies and other financial institutions and so on, ¥64,486 million in Euro Medium Term Notes (EMTN), ¥20,000 million in unsecured bonds due 2007, ¥10,000 million in unsecured bonds due 2009 and ¥55,882 million in capital lease obligations, most of which are used primarily for capital expenditures and long-term working capital.

Komatsu has established a program to issue up to ¥100,000 million (US\$847 million) of variable-term bonds, and the Company, Komatsu Finance America Inc. and Komatsu Europe Coordination Center N.V. have established a 1.2 billion US Dollar EMTN program to fulfill Komatsu's medium- to long-term funding needs. Outstanding borrowings under these programs were ¥64,486 million (US\$546 million) as of March 31, 2007.

The Company and certain of its consolidated subsidiaries have also established programs to securitize trade notes and accounts receivables for the purpose of accelerating the receipt of cash related to its finance receivables and diversifying their sources of funding. As of March 31, 2007, the balance of such off-balance sheet securitized receivables was ¥184,938 million (US\$1,567 million).

As of March 31, 2007, current assets increased by ¥195,844 million to ¥1,143,745 million (US\$9,693 million), while current liability increased by ¥96,337 million to ¥785,180 million (US\$6,654 million). As the increase of current liability was

lower than it of current assets, the current ratio, which is calculated by dividing current assets by current liabilities, as of March 31, 2007 was 145.7%, which reflected an increase of 8.1 percentage points from fiscal year ended March 31, 2006. Judging from the current levels in working capital and the current ratio, Komatsu believes that it maintains an adequate level of liquidity. Short-term funding needs are met mainly by cash flows from operating activities, as well as by bank loans, securitized receivables and commercial paper. Komatsu and certain consolidated subsidiaries maintain committed credit line agreements totaling ¥43,192 million (US\$366 million) with financial institutions to secure liquidity. As of March 31, 2007, approximately ¥36,438 million (US\$309 million) is available to be used under such credit line agreements. The Company holds ¥80,000 million (US\$678 million) commercial paper program and had ¥80,000 million unused amount as of March 31, 2007.

(2) Cash Flows

Net cash provided by operating activities for the fiscal year ended March 31, 2007 increased by ¥26,017 million to ¥162,124 million (US\$1,374 million) as compared to fiscal year ended March 31, 2006. While Komatsu required a greater amount of working capital due to increased demand for Komatsu's products for the fiscal year ended March 31, 2007, improvements in Komatsu's business performance more than offset such increase in working capital needs.

Net cash used in investing activities for the fiscal year ended March 31, 2007 increased by ¥17,828 million to ¥99,620 million (US\$844 million) as compared to fiscal year ended March 31, 2006. Such increase was primarily attributable to the continued capital investments to enhance its production capabilities and productivity in Japan and overseas. The Proceeds from the sale of the shares of KEM to SUMCO in an amount of ¥35,368 million (US\$300 million) were used to invest on one of our core business, Industrial Machinery, Vehicles and Others Business, through the acquisition of the equity of NIPPEI TOYAMA CORPORATION and so on.

Net cash used in financing activities in fiscal year ended March 31, 2007 decreased by ¥42,071 million to ¥41,389 million (US\$351 million) as compared to fiscal year ended March 31, 2006.

As a result of the above, cash and cash equivalents as of March 31, 2007 totaled ¥92,199 million (US\$781 million), an increase of ¥22,202 million compared to the fiscal year ended March 31, 2006.

The cash flows attributable to the operating, investing and financing activities of the discontinued operations are not presented separately from the cash flows attributable to activities of the continuing operations. Net cash provided by operating activities of the discontinued operations were ¥14,805 million (US\$125 million), ¥24,823 million and ¥17,166 million. Net

cash used in investing activities of the discontinued operations were ¥18,295 million (US\$155 million), ¥21,665 million and ¥10,683 million for the fiscal years ended March 31, 2007, 2006 and 2005, respectively. Net cash provided by financing activities of the discontinued operations was ¥1,870 million (US\$16 million) for the fiscal year ended March 31, 2007 and net cash used in financing activities of the discontinued operations were ¥4,090 million and ¥5,519 million for the fiscal years ended March 31, 2006 and 2005, respectively.

Cash flows used in investing activities of its discontinued operations have been provided mainly by cash flows from their operating activities. In addition, Komatsu's discontinued operations did not have any material effect on cash flows from its financing activities. Accordingly, Komatsu does not expect that the absence of cash flows from its discontinued operations has any material impact on Komatsu's future liquidity and capital resources.

(4) Contractual Obligations

The following table sets forth Komatsu's contractual obligations as of March 31, 2007.

	Millions of yen				
	Cash payments due by period				
	Total	Less than 1 year	1-3years	3-5 years	More than 5 years
Short-term debt obligations	102,406	102,406	—	—	—
Long-term debt obligations (excluding Capital lease obligations)	192,525	54,340	108,496	29,281	408
Capital (Finance) lease obligations	55,882	19,188	25,289	9,187	2,218
Operating lease obligations	11,629	3,220	3,850	1,706	2,853
Interest on interest-bearing debt	14,841	9,720	3,869	972	280
Pension and other postretirement obligations	5,096	5,096	—	—	—
Total	382,379	193,970	141,504	41,146	5,759

	Millions of U.S. dollars				
	Cash payments due by period				
	Total	Less than 1 year	1-3years	3-5 years	More than 5 years
Short-term debt obligations	868	868	—	—	—
Long-term debt obligations (excluding Capital lease obligations)	1,632	461	919	248	4
Capital (Finance) lease obligations	474	163	214	78	19
Operating lease obligations	98	27	33	14	24
Interest on interest-bearing debt	125	82	33	8	2
Pension and other postretirement obligations	43	43	—	—	—
Total	3,240	1,644	1,199	348	49

1. Short-term and long-term debt obligations exclude SFAS No.133 market value adjustments of ¥158 million (US\$1 million) and ¥1,581 million (US\$13 million), respectively.
2. Interest on interest-bearing debt is based on rates in effect at March 31, 2007.
3. Pension and other postretirement obligations reflect contributions expected to be made in the year ending March 31, 2008. only as the amount of funding obligations beyond the next year are not yet determinable.

Commitments for capital investment outstanding at March 31, 2007 aggregated approximately ¥12,900 million (US\$109 million).

(3) Capital Investment

With a prime focus on the Construction and Mining Equipment Business, Komatsu responded to a rising level of demand by bolstering Komatsu's production capacity for large mining equipment etc., and by bolstering Komatsu's production capacity for main components of Komatsu's equipment, such as transmissions, axles, final drives, hydraulics and engines. In addition, Komatsu invested for the DANTOTSU (Unique and Unrivaled) products and the latest emission regulations. In the Industrial Machinery, Vehicles and Other Business, Komatsu invested for the purpose of improving productivity. In the Electronic Business, Komatsu invested in improving productivity and in shifting to higher-quality products.

As a result, Komatsu's capital investment, on a consolidated basis, for the fiscal year ended March 31, 2007 were ¥129,680 million (US\$1,099 million), an increase of ¥15,746 million from the previous fiscal year.

Business Risks

Given the business environment in which Komatsu operates, Komatsu is exposed to a variety of risks and uncertainties. Komatsu has identified the following risks as its primary risks based on information currently available to it.

1 Economic and market conditions

As Komatsu is engaged in business on a global scale, the economic and market conditions and competitive environment in which Komatsu operates differ from region to region. In addition, demand for Komatsu's products as well as the business environment in which Komatsu operates may change substantially as a result of changes in the economic and market conditions of each such region.

In economically-advanced regions in which Komatsu operates, demand for Komatsu's products in both the Construction and Mining Equipment operating segment and the Industrial Machinery, Vehicles and Others operating segment is generally affected by cyclical changes in the economies. Therefore, factors which are beyond Komatsu's control, such as levels of housing starts, industrial production, public investments in infrastructure development and private-sector capital outlays, may affect demand for Komatsu's products, which may lead to inefficient inventory levels and/or production capacities, thereby exerting a downward pressure on the sales prices of Komatsu's products. Such changes in the business environment in which Komatsu operates may result in Komatsu recording lower profitability and incurring additional expenses in the Construction and Mining Equipment operating segment and the Industrial Machinery, Vehicles and Others operating segment, and may adversely affect Komatsu's results of operations.

2 Foreign currency exchange rate fluctuations

Approximately 70% of Komatsu's total sales are derived from sales outside of Japan, and a substantial portion of its overseas sales are affected by foreign currency exchange rate fluctuations. In general, an appreciation of the Japanese yen against another currency would adversely affect Komatsu's results of operations, while a depreciation of the Japanese yen against another currency would have a favorable impact thereon. In addition, foreign currency exchange rate fluctuations may also affect the comparative prices between products sold by

Komatsu and products sold by its foreign competitors in the same market, as well as the cost of materials used in the production of such products. Komatsu strives to alleviate the effect of such foreign currency exchange rate fluctuations by locating its production bases globally and placing such bases closer to the respective markets in which the products manufactured by such bases are sold. Komatsu also engages in hedging activities to minimize the effects of short-term foreign currency exchange rate fluctuations. Despite Komatsu's efforts, if the foreign currency exchange rate fluctuates beyond Komatsu's projected fluctuation range, Komatsu's results of operations may be adversely affected.

3 Fluctuations in financial markets

While Komatsu is currently working on improving the efficiency of its assets to reduce its interest-bearing debt, its aggregate short- and long-term interest-bearing debt was approximately ¥350 billion as of March 31, 2007. Although Komatsu has strived to reduce the effect of interest rate fluctuations by procuring funds at fixed interest rates, an increase in interest rates may increase Komatsu's interest expenses with respect to its interest-bearing debt subject to floating interest rates, thereby adversely affecting Komatsu's results of operations. In addition, fluctuations in the financial markets, such as fluctuations in the fair value of marketable securities and interest rates, may also increase the unfunded obligation portion of Komatsu's pension plans or pension liabilities, which may result in an increase in pension expenses. Such an increase in interest expenses and pension expenses may adversely affect Komatsu's results of operations and financial condition.

4 Laws and regulations of different countries

Komatsu is subject to various governmental regulations and approval procedures in the countries in which it operates. If the government of a given country enacts new laws and regulations, such as laws and regulations relating to import/export duties, quotas, currency restrictions and taxation, which are unfavorable to Komatsu, Komatsu may be required to bear increased expenses in order to comply with such regulations. Such increased expenses may adversely affect Komatsu's results of operations.

5 Environmental laws and regulations

Komatsu's products and business operations are required to comply with increasingly stringent environmental laws and regulations in the numerous countries in which Komatsu operates. Komatsu expends a significant share of its management resources, such as research and development expenses, to comply with regulations concerning air and wastewater emission levels of its manufacturing facilities and products. If the existing standards are amended, Komatsu may be required to bear increased costs and to make further capital expenditures to comply with such new standards. Incurrence of such additional environmental compliance costs may adversely affect Komatsu's results of operations.

6 Product liability

While Komatsu endeavors to sustain and ensure the quality and reliability of its operations and products based on stringent standards established internally by Komatsu, it may face product liability claims or become exposed to other liabilities if unexpected defects in its products result in accidents. If the costs for addressing such claims or other liabilities are not covered by Komatsu's existing insurance policies, Komatsu may be required to bear the cost thereto, which may adversely affect its financial condition.

7 Alliances and collaborative relationships

Komatsu has entered into various alliances and collaborative relationships with distributors, suppliers and other companies in its industry to reinforce its international competitiveness. Through such arrangements, Komatsu is working to improve its product development, production, supply and service capabilities. While Komatsu expects its alliances and collaborative relationships to be successful, Komatsu's failure to attain expected results or the termination of such alliances or collaborative relationships may adversely affect Komatsu's results of operations.

8 Procurement, production and other matters

Komatsu's procurement of parts and materials for its products is exposed to the fluctuations in commodity prices, mainly in the price of steel metal. Price increases in our commodities may increase the costs of materials as well as production costs of Komatsu's products. In addition, an increase in commodity prices may result in a shortage of product parts and materials, making it difficult for Komatsu to engage in the timely procurement of parts and materials and manufacture of its products, thereby lowering Komatsu's production efficiency. In an effort to reduce any adverse effect to its business as a result of an

increase in material costs, Komatsu plans to reduce other costs and pass on the increase in material costs to its customers through its product prices. Komatsu plans to minimize the effects of a shortage in product parts or materials by promoting closer collaboration among all of its related business divisions. However, if the increase in commodity prices exceeds Komatsu's expectations or a prolonged shortage of materials and parts occurs, Komatsu's results of operations may be adversely affected.

9 Information security, intellectual property and other matters

Komatsu may obtain confidential information concerning its customers and individuals in the normal course of its business. Komatsu also holds confidential business and technological information. Komatsu maintains such confidential information with the utmost care. To safeguard such confidential information from unauthorized access, tampering, destruction, leakage, losses and other damages, Komatsu employs appropriate safety measures, including implementing technological safety measures and strengthening its information management capabilities. If a leak of confidential information concerning customers and individuals were to occur, Komatsu may become liable for damages, or its reputation and its customers' confidence in Komatsu may be adversely affected. In addition, if Komatsu's confidential business and technological information were leaked or misused by a third party, or Komatsu's intellectual properties were infringed upon by a third party, or a third party were to claim that Komatsu is liable for infringing on such third party's intellectual property rights, Komatsu's results of operations may be adversely affected.

10 Natural calamities, wars, terrorism, accidents and other matters

Komatsu conducts its business operations on a global scale and operates and maintains development, production, sales and other business facilities in many countries. If natural disasters, such as earthquakes and floods, wars, terrorist acts, accidents, unforeseeable criticism or interference by third parties or any malfunction of information and telecommunication systems in regions in which Komatsu operates occurs that causes extensive damage to one or more of its facilities that cannot become fully operational within a short period of time, delays or disruption in the procurement of materials and parts or the production and sales of Komatsu's products and other service activities may result. Such delays or disruptions may adversely affect Komatsu's results of operations.

Market Risk Exposure

Komatsu is exposed to market risk primarily from changes in foreign currency exchange rates and interest rates with respect to international operations and foreign currency denominated credits and debts. In order to manage these risks that arise in the normal course of business, Komatsu enters into various derivative financial transactions pursuant to their policies and procedures. Komatsu does not enter into derivative financial

transactions for trading or speculative purposes.

Komatsu is exposed to credit-related losses in the event of nonperformance by counterparties to derivative financial instruments. However, because of the counterparties' satisfactory credit ratings, none are expected to fail to meet their obligations.

Foreign Exchange Risk

To reduce foreign exchange risks against foreign currency denominated assets and liabilities, Komatsu executes forward exchange contracts and option contracts in a range of 50% to 100% based on their projected cash flow in foreign currencies.

The following table provides information concerning derivative financial instruments of Komatsu in relation to foreign currency exchange transactions existing as of March 31, 2007,

which are translated into yen at the rate used on that date, together with the related weighted average contractual exchange rates as of March 31, 2007. As of March 31, 2007, the notional amount of option contracts is ¥2,532 million (US\$21,458 thousand).

Millions of yen (except average contractual rates)							
Forwards to sell foreign currencies:	US\$/Yen	EUR/Yen	EUR/SEK	US\$/SEK	US\$/EUR	Others	Total
Contract amounts	¥ 48,887	¥ 20,074	¥ 2,799	¥ 2,474	¥ 2,101	¥ 5,680	¥ 82,015
Average contractual rates	117.23Yen/US\$	151.30Yen/EUR	9.27SEK/EUR	6.97SEK/US\$	0.75EUR/US\$	—	—
Forwards to buy foreign currencies:	GBP/EUR	Yen/Yuan	Yen/A\$	Yen/GBP	US\$/ZAR	Others	Total
Contract amounts	¥ 13,597	¥ 6,886	¥ 4,582	¥ 3,453	¥ 2,503	¥10,757	¥ 41,778
Average contractual rates	0.68GBP/EUR	15.29Yen/Yuan	92.81Yen/A\$	228.09Yen/GBP	0.14US\$/ZAR	—	—

Thousands of U.S. dollars							
Forwards to sell foreign currencies:	US\$/Yen	EUR/Yen	EUR/SEK	US\$/SEK	US\$/EUR	Others	Total
Contract amounts	\$414,297	\$170,119	\$ 23,720	\$20,966	\$17,805	\$48,135	\$695,042
Forwards to buy foreign currencies:	GBP/EUR	Yen/Yuan	Yen/A\$	Yen/GBP	US\$/ZAR	Others	Total
Contract amounts	\$115,229	\$ 58,356	\$ 38,831	\$29,263	\$21,212	\$91,160	\$354,051

Interest Rate Risk

To reduce risks and hedge variability of cash flow, Komatsu engages in certain interest rate swaps, cross-currency swaps and cap option transactions for interest payment and interest receipt. Certain interest rate swap contracts are not qualified as hedges for financial reporting purposes and are recorded at the fair value and the resultant gains and losses are recognized as income and expenses.

The following tables provide information concerning debt obligations excluding capital lease obligations (including due

within one year), interest rate swaps, cross-currency swaps and interest caps. For debt obligations, the tables present fair value, principal cash flows and related weighted average interest rates by expected maturity dates. For interest rate and cross-currency swaps, the following tables present fair value, notional amounts and weighted average receive and pay interest rates. For interest caps, the following tables present fair value, notional amounts and its average strike rate.

Long-term debt excluding capital lease obligations (including due within one year)

Millions of yen

	Average interest rate		Fair value	Total	Expected maturity date												
					2008	2009	2010	2011	2012	Thereafter							
Japanese yen bonds	1.20%	¥	29,688	¥	30,000	¥	20,000	¥	—	¥	10,000	¥	—	¥	—	¥	—
Euro medium-term notes (relating to variable interest rate)	5.10%		64,486		66,067		13,259		16,300		12,853		7,026		16,629		—
Loans, principally from banks (relating to variable interest rate)	2.23%		19,254		19,254		8,088		8,078		3,056		17		15		—
Loans, principally from banks (relating to fixed interest rate)	2.18%		75,611		77,204		12,993		45,172		13,037		3,831		1,763		408
Total			¥ 189,039		¥ 192,525		¥ 54,340		¥ 69,550		¥ 38,946		¥ 10,874		¥ 18,407		¥ 408

Interest rate swaps, cross-currency swaps and interest caps

Millions of yen

	Average interest rate		Fair value	Total	Expected maturity date													
	Receive	Pay			2008	2009	2010	2011	2012	Thereafter								
U.S. dollar interest rate swap	5.01%	4.62%	¥	193	¥	145,687	¥	69,556	¥	48,242	¥	22,641	¥	5,248	¥	—	¥	—
Yen/US\$ cross-currency swap	1.09%	5.48%		(899)		63,500		12,000		7,000		20,500		7,000		17,000		—
Yen/EUR cross-currency swap	0.88%	3.98%		(1,173)		18,500		10,500		2,000		2,000		2,000		2,000		—
Euro interest cap	—	4.01%		33		17,778		6,246		5,931		5,601		—		—		—
Others				(61)		7,907		826		885		2,419		2,360		472		945
Total			¥ (1,907)	¥ 253,372		¥ 99,128		¥ 64,058		¥ 53,161		¥ 16,608		¥ 19,472		¥ 945		¥ 945

Long-term debt excluding capital lease obligations (including due within one year)

Thousands of U.S. dollars

	Average interest rate		Fair value	Total	Expected maturity date													
					2008	2009	2010	2011	2012	Thereafter								
Japanese yen bonds	1.20%		\$	251,593	\$	254,238	\$	169,492	\$	—	\$	84,746	\$	—	\$	—	\$	—
Euro medium-term notes (relating to variable interest rate)	5.10%			546,492		559,890		112,364		138,136		108,924		59,542		140,924		—
Loans, principally from banks (relating to variable interest rate)	2.23%			163,169		163,169		68,542		68,458		25,898		144		127		—
Loans, principally from banks (relating to fixed interest rate)	2.18%			640,771		654,271		110,110		382,813		110,483		32,466		14,941		3,458
Total			\$1,602,025	\$1,631,568		\$460,508		\$589,407		\$330,051		\$ 92,152		\$155,992		\$ 3,458		\$ 3,458

Interest rate swaps, cross-currency swaps and interest caps

Thousands of U.S. dollars

	Average interest rate		Fair value	Total	Expected maturity date													
	Receive	Pay			2008	2009	2010	2011	2012	Thereafter								
U.S. dollar interest rate swap	5.01%	4.62%	\$	1,636	\$	1,234,636	\$	589,458	\$	408,831	\$	191,873	\$	44,474	\$	—	\$	—
Yen/US\$ cross-currency swap	1.09%	5.48%		(7,619)		538,136		101,695		59,322		173,729		59,322		144,068		—
Yen/EUR cross-currency swap	0.88%	3.98%		(9,941)		156,780		88,984		16,949		16,949		16,949		16,949		—
Euro interest cap	—	4.01%		280		150,661		52,932		50,263		47,466		—		—		—
Others				(517)		67,007		7,000		7,500		20,500		20,000		4,000		8,007
Total			\$ (16,161)	\$2,147,220		\$840,069		\$542,865		\$450,517		\$140,745		\$165,017		\$ 8,007		\$ 8,007

Five-Year Summary

Komatsu Ltd. and Consolidated Subsidiaries
Years ended March 31

	Millions of yen (except per share amounts)	
	2007	2006
For the fiscal period		
Net sales	¥1,893,343	¥1,612,140
Cost of sales	1,356,511	1,185,240
Income from continuing operations before income taxes, minority interests and equity in earnings of affiliated companies	236,491	155,779
Net income	164,638	114,290
As percentage of sales	8.7%	7.1%
Capital investment	129,680	113,934
At fiscal period-end		
Total assets	¥1,843,982	¥1,652,125
Working capital	358,565	259,058
Property, plant and equipment	388,393	400,667
Long-term debt—less current maturities	174,340	195,203
Shareholders' equity	776,717	622,997
As percentage of total assets	42.1%	37.7%
Per share data		
Net income per share:		
Basic	¥165.70	¥115.13
Diluted	165.40	114.93
Cash dividends per share	23.00	14.00
Shareholders' equity per share	781.57	626.98
	Yen per U.S. dollar	
	2007	2006
Other information		
Exchange rate into U.S. dollars (per the Federal Reserve Bank of New York):		
At fiscal period-end	¥ 118	¥ 117
Average for the fiscal period	117	114
Range for the fiscal period:		
High	121	120
Low	112	105

1. Net income in 2003 includes a charge of ¥265 million for the cumulative effect of accounting changes for goodwill and other intangible assets.

2. In accordance with SFAS No. 144, the consolidated statements of income in the prior years have been retrospectively reclassified for discontinued operations.

Millions of yen
(except per share amounts)

2005	2004	2003
¥1,356,071	¥1,127,300	¥1,027,290
1,009,859	830,897	770,515
91,869	22,503	9,853
59,010	26,963	3,009
4.4%	2.4%	0.3%
76,907	65,235	60,163
¥1,449,068	¥1,348,645	¥1,306,354
172,998	191,680	175,764
366,660	367,361	400,087
217,714	307,143	310,717
477,144	425,507	395,366
32.9%	31.6%	30.3%
¥ 59.51	¥ 27.17	¥ 3.09
59.47	27.16	3.09
9.00	6.00	6.00
481.27	428.73	398.34

Yen per U.S. dollar

2005	2004	2003
¥ 107	¥ 104	¥ 118
107	113	121
111	120	128
103	104	118

Consolidated Balance Sheets

Komatsu Ltd. and Consolidated Subsidiaries
March 31, 2007 and 2006

Assets	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
Current assets			
Cash and cash equivalents (Note 10)	¥ 92,199	¥ 69,997	\$ 781,347
Time deposits	54	54	458
Trade notes and accounts receivable, less allowance for doubtful receivables of ¥11,808 million (\$100,068 thousand) in 2007 and ¥11,786 million in 2006 (Notes 1, 5 and 25)	478,063	397,998	4,051,381
Inventories (Notes 1 and 6)	437,894	370,074	3,710,966
Assets held for sale (Note 4)	16,321	—	138,314
Deferred income taxes and other current assets (Notes 1, 7, 16, 20, 21, 23 and 25)	119,214	109,778	1,010,288
Total current assets	1,143,745	947,901	9,692,754
Long-term trade receivables (Note 5)	73,669	72,844	624,314
Investments			
Investments in and advances to affiliated companies (Notes 1 and 8)	36,688	21,726	310,915
Investment securities (Notes 1, 7 and 21)	108,173	94,744	916,720
Other	10,285	9,047	87,162
Total investments	155,146	125,517	1,314,797
Property, plant and equipment —less accumulated depreciation (Notes 1, 9, 10 and 17)	388,393	400,667	3,291,466
Goodwill (Notes 1 and 11)	20,594	22,000	174,525
Other intangible assets (Notes 1 and 11)	25,243	25,418	213,924
Deferred income taxes and other assets (Notes 1, 16, 20, 21 and 25)	37,192	57,778	315,186
	¥1,843,982	¥1,652,125	\$15,626,966

The accompanying Notes to Consolidated Financial Statements are an integral part of these balance sheets.

Liabilities and Shareholders' Equity	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
Current liabilities			
Short-term debt (Note 12)	¥ 102,248	¥ 98,130	\$ 866,508
Current maturities of long-term debt (Notes 10, 12, 17 and 21)	72,486	84,580	614,288
Trade notes and accounts payable	365,065	304,776	3,093,771
Income taxes payable (Note 16)	54,933	37,004	465,534
Liabilities held for sale (Note 4)	7,919	—	67,110
Deferred income taxes and other current liabilities (Notes 1, 16, 20 and 21)	182,529	164,353	1,546,857
Total current liabilities	785,180	688,843	6,654,068
Long-term liabilities			
Long-term debt (Notes 10, 12, 17 and 21)	174,340	195,203	1,477,458
Liability for pension and retirement benefits (Notes 1 and 13)	37,783	45,148	320,195
Deferred income taxes and other liabilities (Notes 1, 16, 20 and 21)	50,188	52,065	425,322
Total long-term liabilities	262,311	292,416	2,222,975
Minority interests	19,774	47,869	167,576
Commitments and contingent liabilities (Note 19)			
Shareholders' equity (Notes 1 and 14)			
Common stock:			
Authorized 3,955,000,000 shares in 2007 and 2006			
Issued 998,744,060 shares in 2007 and 2006			
Outstanding 993,786,759 shares in 2007 and 993,645,492 shares in 2006	67,870	67,870	575,169
Capital surplus	137,155	136,137	1,162,331
Retained earnings:			
Appropriated for legal reserve	24,267	23,416	205,653
Unappropriated	517,450	376,522	4,385,169
Accumulated other comprehensive income (loss) (Notes 1, 7, 13 and 15)	33,501	23,095	283,907
Treasury stock at cost, 4,957,301 shares in 2007 and 5,098,568 shares in 2006 (Note 14)	(3,526)	(4,043)	(29,882)
Total shareholders' equity	776,717	622,997	6,582,347
	¥1,843,982	¥1,652,125	\$15,626,966

Consolidated Statements of Income

Komatsu Ltd. and Consolidated Subsidiaries
Years ended March 31, 2007, 2006 and 2005

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2007	2006 (Note 1)	2005 (Note 1)	2007
Net sales (Notes 1 and 8)	¥1,893,343	¥1,612,140	¥1,356,071	\$16,045,280
Cost of sales (Notes 17 and 24)	1,356,511	1,185,240	1,009,859	11,495,856
Selling, general and administrative expenses (Notes 17 and 24)	287,086	262,399	252,011	2,432,933
Impairment loss on long-lived assets held for use (Note 1)	81	4,791	4,200	686
Impairment loss on goodwill (Note 1 and 11)	—	3,041	—	—
Other operating income (expenses) (Note 24)	(4,924)	6,759	5,861	(41,729)
Operating income	244,741	163,428	95,862	2,074,076
Other income (expenses) (Note 24)	(8,250)	(7,649)	(3,993)	(69,915)
Interest and dividend income	8,532	6,824	5,138	72,305
Interest expense	(15,485)	(12,208)	(10,611)	(131,229)
Other—net	(1,297)	(2,265)	1,480	(10,991)
Income from continuing operations before income taxes, minority interests and equity in earnings of affiliated companies	236,491	155,779	91,869	2,004,161
Income taxes (Notes 1 and 16)				
Current	76,102	45,751	16,056	644,932
Deferred	3,643	(1,781)	18,229	30,873
Total	79,745	43,970	34,285	675,805
Income from continuing operations before minority interests and equity in earnings of affiliated companies	156,746	111,809	57,584	1,328,356
Minority interests in income of consolidated subsidiaries	(6,580)	(5,335)	(2,603)	(55,763)
Equity in earnings of affiliated companies	3,098	2,667	887	26,254
Income from continuing operations	153,264	109,141	55,868	1,298,847
Income from discontinued operations less applicable income taxes, minority interests and equity in earnings of affiliated companies (Note 4)	11,374	5,149	3,142	96,390
Net income	¥ 164,638	¥ 114,290	¥ 59,010	\$ 1,395,237
Per share data (Notes 1 and 18):				
Income from continuing operations:				
Basic	¥ 154.25	¥ 109.94	¥ 56.34	¢ 130.72
Diluted	153.97	109.75	56.30	130.48
Income from discontinued operations:				
Basic	11.45	5.19	3.17	9.70
Diluted	11.43	5.18	3.17	9.69
Net income:				
Basic	165.70	115.13	59.51	140.42
Diluted	165.40	114.93	59.47	140.17
Cash dividends per share (Note 1)	23.00	14.00	9.00	19.49

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Consolidated Statements of Shareholders' Equity

Komatsu Ltd. and Consolidated Subsidiaries
Years ended March 31, 2007, 2006 and 2005

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2007	2006	2005	2007
Common stock				
Balance, beginning of year	¥ 67,870	¥ 67,870	¥ 67,870	\$ 575,169
Balance, end of year	¥ 67,870	¥ 67,870	¥ 67,870	\$ 575,169
Capital surplus				
Balance, beginning of year	¥136,137	¥135,792	¥135,675	\$1,153,703
Sales of treasury stock	394	345	117	3,339
Issuance of stock acquisition rights (Notes 1 and 14)	663	—	—	5,619
Others	(39)	—	—	(330)
Balance, end of year	¥137,155	¥136,137	¥135,792	\$1,162,331
Retained earnings, appropriated for legal reserve				
Balance, beginning of year	¥ 23,416	¥ 22,341	¥ 21,629	\$ 198,441
Transfer from unappropriated retained earnings	851	1,075	712	7,212
Balance, end of year	¥ 24,267	¥ 23,416	¥ 22,341	\$ 205,653
Unappropriated retained earnings				
Balance, beginning of year	¥376,522	¥277,196	¥227,825	\$3,190,864
Net income	164,638	114,290	59,010	1,395,237
Cash dividends paid	(22,859)	(13,889)	(8,927)	(193,720)
Transfer to retained earnings appropriated for legal reserve	(851)	(1,075)	(712)	(7,212)
Balance, end of year	¥517,450	¥376,522	¥277,196	\$4,385,169
Accumulated other comprehensive income (loss)				
Balance, beginning of year	¥ 23,095	¥ (21,485)	¥ (23,794)	\$ 195,720
Other comprehensive income for the year, net of tax (Note 15)	20,263	44,580	2,309	171,721
Adjustment to initially apply SFAS No. 158, net of tax (Note 13)	(9,857)	—	—	(83,534)
Balance, end of year	¥ 33,501	¥ 23,095	¥ (21,485)	\$ 283,907
Treasury stock				
Balance, beginning of year	¥ (4,043)	¥ (4,570)	¥ (3,698)	\$ (34,263)
Purchase of treasury stock	(632)	(2,027)	(1,624)	(5,356)
Sales of treasury stock	1,149	2,554	752	9,737
Balance, end of year	¥ (3,526)	¥ (4,043)	¥ (4,570)	\$ (29,882)
Total shareholders' equity	¥776,717	¥622,997	¥477,144	\$6,582,347
Disclosure of comprehensive income				
Net income for the year	¥164,638	¥114,290	¥ 59,010	\$1,395,237
Other comprehensive income for the year, net of tax (Note 15)	20,263	44,580	2,309	171,721
Comprehensive income for the year	¥184,901	¥158,870	¥ 61,319	\$1,566,958

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Consolidated Statements of Cash Flows

Komatsu Ltd. and Consolidated Subsidiaries
Years ended March 31, 2007, 2006 and 2005

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2007	2006	2005	2007
Operating activities				
Net income	¥164,638	¥114,290	¥ 59,010	\$ 1,395,237
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	72,709	72,640	69,020	616,178
Deferred income taxes	4,334	(747)	19,409	36,729
Net gain from sale of investment securities and subsidiaries	(19,101)	(20,989)	(162)	(161,873)
Net gain on sale of property	(13)	(132)	(11,269)	(110)
Loss on disposal of fixed assets	2,121	8,284	4,311	17,975
Impairment loss on long-lived assets held for use	81	4,899	4,200	686
Pension and retirement benefits, net	1,078	5,123	3,662	9,136
Changes in assets and liabilities:				
Increase in trade receivables	(93,141)	(58,821)	(33,266)	(789,331)
Increase in inventories	(73,448)	(52,228)	(42,418)	(622,441)
Increase in trade payables	70,693	32,360	39,261	599,093
Increase (decrease) in income taxes payable	19,680	24,532	(721)	166,780
Other, net	12,493	6,896	10,332	105,873
Net cash provided by operating activities	162,124	136,107	121,369	1,373,932
Investing activities				
Capital expenditures	(122,860)	(112,915)	(72,873)	(1,041,187)
Proceeds from sale of property	17,626	12,915	31,780	149,373
Proceeds from sale of available for sale investment securities	1,844	4,112	2,593	15,627
Purchases of available for sale investment securities	(6,737)	(5,681)	(4,690)	(57,093)
Proceeds from sale of subsidiaries, net of cash disposed	35,368	26,610	—	299,729
Acquisition of subsidiaries and equity investees, net of cash acquired	(24,621)	(10,464)	(148)	(208,652)
Collection of loan receivables	5,736	12,874	17,485	48,610
Disbursement of loan receivables	(5,974)	(9,244)	(12,375)	(50,627)
Decrease (increase) in time deposits	(2)	1	497	(17)
Net cash used in investing activities	(99,620)	(81,792)	(37,731)	(844,237)
Financing activities				
Proceeds from long-term debt	44,781	51,432	29,331	379,500
Repayments on long-term debt	(74,943)	(118,165)	(47,489)	(635,110)
Increase (decrease) in short-term debt, net	22,526	7,108	(19,924)	190,898
Repayments of capital lease obligations	(11,411)	(10,473)	(9,954)	(96,703)
Sale (purchase) of treasury stock, net	517	527	(872)	4,381
Dividends paid	(22,859)	(13,889)	(8,927)	(193,720)
Net cash used in financing activities	(41,389)	(83,460)	(57,835)	(350,754)
Effect of exchange rate change on cash and cash equivalents	1,087	1,632	301	9,211
Net increase (decrease) in cash and cash equivalents	22,202	(27,513)	26,104	188,152
Cash and cash equivalents, beginning of year	69,997	97,510	71,406	593,195
Cash and cash equivalents, end of year	¥ 92,199	¥ 69,997	¥ 97,510	\$ 781,347

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

1. Description of Business, Basis of Financial Statements and Summary of Significant Accounting Policies

Description of Business

Komatsu Ltd. ("Company") and consolidated subsidiaries (together "Komatsu") primarily manufacture and market various types of construction and mining equipment throughout the world. Komatsu is also engaged in the manufacture and sale of industrial machinery, and vehicles and electronics products including temperature-control equipments.

The consolidated net sales of Komatsu for the year ended March 31, 2007, consisted of the following: Construction and mining equipment – 82.8%, Industrial Machinery, Vehicles and Others – 15.7%, Electronics – 1.5%.

Sales are made principally under the Komatsu brand name, and are almost entirely through sales subsidiaries and sales distributors. These subsidiaries and distributors are responsible for marketing and distribution and primarily sell to retail dealers in their geographical area. Of consolidated net sales for the year ended March 31, 2007, 74.3% were generated outside Japan, with 28.4% in the Americas, 17.1% in Europe and CIS, 6.8% in China, 13.4% in Asia (excluding Japan and China) and Oceania, and 8.6% in the Middle East and Africa.

The manufacturing operations of Komatsu are conducted primarily at plants in Japan, United States, Germany, United Kingdom, Sweden, Indonesia, Brazil, Italy, and China.

Basis of Financial Statements

The accompanying consolidated financial statements are stated in Japanese yen, the functional currency of the country in which the Company is incorporated and principally operates. The translation of Japanese yen amounts into United States dollar amounts for the year ended March 31, 2007, is included solely for the convenience of readers and has been made at the rate of ¥118 to \$1, the approximate rate of exchange prevailing at the Federal Reserve Bank of New York on March 30, 2007. Such translation should not be construed as a representation that Japanese yen amounts could be converted into United States dollars at the above or any other rate.

The Company and its domestic subsidiaries maintain their books of account in conformity with accounting principles generally accepted in Japan, and its foreign subsidiaries generally maintain their books of account in conformity with those in the country of their domicile. The accompanying consolidated financial statements reflect certain adjustments, not recorded in Komatsu's books, to present them in conformity with U.S. generally accepted accounting principles. These adjustments are made mainly in connection with accounting for liability for pension and other retirement benefits, leases, derivative financial instruments, and recognition of certain accrued expenses. Certain reclassifications have been made to prior year amounts to conform with current year presentation.

Summary of Significant Accounting Policies

(1) Consolidation and Investments in Affiliated Companies

The consolidated financial statements include the accounts of the Company and all of its majority-owned domestic and foreign subsidiaries, except for certain immaterial subsidiaries.

The accounts of any variable interest entities that must be consolidated under Financial Accounting Standards Board ("FASB") Interpretation No. 46 (revised December 2003), "Consolidation of Variable Interest Entities" ("FIN 46R") because the Company has been determined to be the primary beneficiary, are included in the consolidated financial statements.

Investments in 20 to 50% owned affiliated companies whereby Komatsu has the ability to exercise significant influence over the operational and financial policies of a company are accounted for by the equity method.

(2) Translation of Foreign Currency Accounts

Under the provisions of Statement of Financial Accounting Standards ("SFAS") No. 52, "Foreign Currency Translation," assets and liabilities are translated at the exchange rates in effect at each fiscal year-end, and income and expenses are translated at the average rates of exchange prevailing during each fiscal year in consolidating the financial statements of overseas subsidiaries. The resulting translation adjustments are included as a separate component of accumulated other comprehensive income (loss) in the accompanying consolidated financial statements. All foreign currency transaction gains and losses are included in other income (expenses) in the period incurred.

(3) Allowance for Doubtful Trade Receivables

Komatsu records allowance for doubtful receivables as the best estimate of the amount of probable credit losses in Komatsu's existing receivables. The amount is determined based on historical experience, credit information of individual customers, and assessment of overdue receivables. An additional reserve for individual receivable is recorded when Komatsu becomes aware of a customer's inability to meet its financial obligations, such as in the case of bankruptcy filings or deterioration of the customer's business performance. The amount of estimated credit losses is further adjusted to reflect changes in customer circumstances.

(4) Inventories

Inventories are stated at the lower of cost or market. Komatsu determines cost of work in process and finished products using the specific identification method based on actual costs accumulated under a job-order cost system. The cost of finished parts is determined principally using the first-in first-out method, with certain immaterial amounts using the last-in first-out method. Cost of materials and supplies is stated at average cost.

(5) Investment Securities

In compliance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," Komatsu's investments in debt and marketable equity securities are categorized as available-for-sale securities which are stated at fair value. Changes in fair values are included as a separate component of accumulated other comprehensive income (loss) in the accompanying consolidated financial statements.

Unrealized losses on marketable securities are charged against net earnings when a decline in market value below cost is determined to be other than temporary based primarily on the financial condition and near term prospects of the issuer and the extent and length of the time of the decline. Investments with unrealized losses that continue for six months or more are written down to fair value.

In assessing other-than-temporary impairment of investment securities which are stated at cost, the Company considers the financial condition and prospects of each investee company and other relevant factors. Impairment to be recognized is measured based on the amount by which the carrying amount of the investment securities exceeds its estimated fair value which is determined using discounted cash flows or other valuation techniques considered appropriate.

(6) Property, Plant and Equipment, and Related Depreciation

Property, plant and equipment are stated at cost. Depreciation is computed principally using the declining-balance method at rates based on the estimated useful lives of the assets. The average depreciation periods are 26 years for buildings and 7 years for machinery and equipment. Effective rates of depreciation for buildings, machinery and equipment for the years ended March 31, 2007, 2006 and 2005, were as follows:

	2007	2006	2005
Buildings	8%	8%	8%
Machinery and equipment	27%	26%	25%

Certain leased machinery and equipment are accounted for as capital leases in conformity with SFAS No. 13, "Accounting for Leases." The aggregate cost included in property, plant and equipment and related accumulated depreciation as of March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Aggregate cost	¥81,618	¥72,700	\$691,678
Accumulated depreciation	26,145	26,864	221,568

Ordinary maintenance and repairs are charged to expense as incurred. Major replacements and improvements are capitalized. When properties are retired or otherwise disposed of, the costs of those properties and the related accumulated depreciation

are relieved from the consolidated balance sheets and the differences between the costs of those properties and the related accumulated depreciation are recognized in other operating income (expenses) of the consolidated statements of income.

(7) Goodwill and Other Intangible Assets

Komatsu applies the provisions of SFAS No.141 "Business Combinations" and SFAS No.142 "Goodwill and Other Intangible Assets." SFAS No. 141 requires the use of the purchase method of accounting for business combinations and establishes a basis for the determination of intangible assets acquired in a purchase business combination. SFAS No. 142 precludes the amortization of goodwill and instead requires annual impairment testing thereof. SFAS No. 142 also requires recognized intangible assets with a definite useful life to be amortized over their respective estimated useful lives and reviewed for impairment in accordance with SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets." An impairment loss would be recognized when the carrying amount of an asset exceeds the estimated undiscounted cash flows expected to be generated by the assets. The amount of the impairment loss to be recorded is determined by the difference between the fair value of the asset using a discounted cash flow valuation model and carrying value. Any recognized intangible asset determined to have an indefinite useful life is not to be amortized, but instead tested for impairment annually based on its fair value until its life is determined to no longer be indefinite.

(8) Revenue Recognition

Komatsu recognizes revenue when (1) persuasive evidence of an arrangement exists, (2) delivery has occurred or services have been rendered for customers or dealers, (3) sales price is fixed or determinable, and (4) collectibility is reasonably assured.

Revenue from sales of products including construction and mining equipment, industrial machinery, and vehicles is recognized when title and risk of ownership is transferred to independently owned and operated customers or dealers, which occurs upon the attainment of customer acceptance or when installation is completed. The conditions of acceptance are governed by the terms of the contract or arrangement. For arrangements with multiple elements, which may include any combination of products, installation and maintenance, Komatsu allocates revenue to each element based on its relative fair value if such elements meet the criteria for treatment as a separate unit of accounting as prescribed in the Emerging Issues Task Force ("EITF") Issue No. 00-21, "Revenue Arrangements with Multiple Deliverables." When Komatsu enters into a separate contract to render transportation or technical advice, principally related to a sale of large-sized industrial machinery such as large presses, these service revenues are accounted for separately from the product sale and recognized at the completion of the service delivery specified in the contract.

Service revenues from repair and maintenance and from transportation are recognized at the completion of service delivery. Revenues from long-term fixed price maintenance contracts are recognized ratably over the contract period.

Certain of consolidated subsidiaries rent construction equipments to customers. Rent revenue is recognized on a straight-line basis over the rental period.

Revenues are recorded net of discounts.

(9) Income Taxes

In accordance with SFAS No. 109, "Accounting for Income Taxes," income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences and carryforwards are expected to be realized or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Komatsu uses a specific identification method to release the residual tax effects associated with components of accumulated other comprehensive income (loss) resulting from a change in tax law or rate.

(10) Product Warranties

Komatsu establishes a liability for estimated product warranty cost after sales. Estimates for accrued product warranty cost are primarily based on historical experience and are classified as other current liabilities.

(11) Pension and Retirement Benefits

The defined benefit plans are accounted for in accordance with SFAS No. 87, "Employers' Accounting for Pensions" and SFAS No. 158, "Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans-an amendment of SFAS No. 87, 88, 106 and 132(R)" except for certain subsidiaries' pension

plans which in the aggregate are not significant. Certain domestic subsidiaries also have local severance payment plans under which accrued severance liabilities are stated on a vested benefit obligation basis, which is the amount required to be paid if all eligible employees voluntarily terminated their employment as of the balance-sheet date.

Amortization of actuarial net gain or loss is included as a component of the Company's net periodic pension cost for a year if, as of the beginning of the year, that unrecognized net gain or loss exceeds 10 percent of the greater of (1) the projected benefit obligation or (2) the fair value of that plan's assets.

In such case, the amount of amortization recognized is the resulting excess divided by average remaining service period of active employees expected to receive benefits under the plan. The expected return on plan assets is determined based on the historical long-term rate of return on plan assets. The discount rate is determined based on the rates of return of high-quality fixed income investments currently available and expected to be available during the period to maturity of the pension benefits.

(12) Stock-Based Compensation

Effective April 1, 2006, Komatsu adopted SFAS No. 123 (revised 2004), "Share-Based Payment" ("SFAS No. 123R") for the year ended March 31, 2007 using the modified prospective method. In accordance with SFAS No. 123R, Komatsu recognizes compensation expense using the fair value method. Compensation expense is measured at grant-date fair value of the stock option and charged to expense over the vesting period.

For the years ended March 31, 2006 and 2005, Komatsu had applied the intrinsic value method under Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees". No compensation expense was recognized as the exercise price was at least equal to the market price on the date of grant.

The following table summarizes pro forma net income of Komatsu if compensation expense for stock options granted under the plan had been determined in accordance with the fair value based method prescribed by SFAS No. 123R for the years ended March 31, 2006 and 2005:

		Millions of yen	
		2006	2005
Net income, as reported		¥114,290	¥59,010
Compensation expense		699	256
Pro forma net income		113,591	58,754

		Yen	
		2006	2005
Net income per share, basic and diluted:			
Basic earnings per share	As reported	¥ 115.13	¥ 59.51
	Pro forma	114.42	59.25
Diluted earnings per share	As reported	114.93	59.47
	Pro forma	114.23	59.21

(13) Per Share Data

Basic net income per share has been computed by dividing net income by the weighted-average number of common shares outstanding during each fiscal year, after deducting treasury shares. Diluted net income per share reflects the potential dilution computed on the basis that all stock options were exercised (less the number of treasury shares assumed to be purchased from proceeds using the average market price of the Company's common shares) to the extent that each is not antidilutive.

Dividends per share shown in the accompanying consolidated statements of income are based on dividends approved and paid in each fiscal year.

(14) Consolidated Statements of Cash Flows

For the purpose of the consolidated statements of cash flows, cash and cash equivalents include highly liquid investments with an original maturity of three months or less at the date of purchase.

(15) Derivative Financial Instruments

Komatsu uses various derivative financial instruments to manage its interest rate and foreign exchange exposure.

Komatsu accounts for its investment in derivative financial instruments in accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" as amended. SFAS No. 133 as amended requires that all derivatives, including derivatives embedded in other financial instruments, be measured at fair value and recognized as either assets or liabilities on the consolidated balance sheet. Changes in the fair values of derivative instruments not designated or not qualifying as hedges under SFAS No. 133 and any ineffective portion of qualified hedges are recognized in earnings in the current period. Changes in the fair values of derivative instruments used effectively as fair value hedges are recognized in earnings, along with changes in the fair value of the hedged item. Changes in the fair value of the effective portions of cash flow hedges are reported in accumulated other comprehensive income (loss), and recognized in earnings when the hedged item is recognized in earnings.

(16) Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed of

In accordance with SFAS No. 144, long-lived assets and certain identifiable intangibles to be held and used by Komatsu are reviewed for impairment based on a cash flow analysis of related operations whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The assets to be held for use are considered to be impaired when estimated undiscounted cash flows expected to result from the use of the assets and their eventual disposition is less than their carrying amounts. The impairment losses are measured as the amount by which the carrying amount of the asset exceeds the fair value of the asset. Long-lived assets and

certain identifiable intangibles to be disposed of are reported at the lower of carrying amount or fair value less cost to sell.

(17) Use of Estimates

Komatsu's management has made a number of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses presented in these financial statements prepared in conformity with U.S. generally accepted accounting principles. Actual results could differ from the estimates and assumptions.

Komatsu has identified six areas where it believes assumptions and estimates are particularly critical to the financial statements. These are the determination of the allowance for doubtful receivables, impairment loss on long-lived assets and goodwill, pension liabilities and expenses, fair value of financial instruments, realization of deferred tax assets and securitization of trade notes and account receivable.

(18) New Accounting Standards

In February 2006, the FASB issued SFAS No.155, "Accounting for Certain Hybrid Financial Instruments – an amendment of SFAS No.133 and 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." SFAS No.155 permits fair value re-measurement for any hybrid financial instrument that contains an embedded derivative, and establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative. SFAS No.155 is effective for the fiscal periods beginning after September 15, 2006 and is required to be adopted by Komatsu in the fiscal year beginning April 1, 2007. Komatsu is currently evaluating the effect that the adoption of SFAS No.155 will have on its consolidated results of operations and financial condition but expects it will not have a material impact.

In March 2006, the FASB issued SFAS No.156, "Accounting for Servicing of Financial Assets – an amendment of FASB Statement No.140." SFAS No.156 amends SFAS No.140 to clarify the accounting for servicing assets and servicing liabilities. Among other provisions, the new accounting standard requires all separately recognized servicing assets and servicing liabilities to be initially measured at fair value, if practicable. SFAS No.156 is effective for the fiscal periods beginning after September 15, 2006 and is required to be adopted by Komatsu in the fiscal year beginning April 1, 2007. Komatsu is currently evaluating the effect that the adoption of SFAS No.156 will have on its consolidated results of operations and financial condition but expects it will not have a material impact.

In June 2006, the FASB issued Interpretation No.48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes – an interpretation of SFAS No.109, Accounting for Income Taxes."

FIN 48 clarifies the accounting for uncertainty in income taxes recognized in financial statements in accordance with SFAS No.109. This interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for the fiscal periods beginning after December 15, 2006 and is required to be adopted by Komatsu in the fiscal year beginning April 1, 2007. Komatsu is currently evaluating the effect that the adoption of FIN 48 will have on its consolidated results of operations and financial condition but expects it will not have a material impact.

In September 2006, the FASB issued SFAS No.157, "Fair Value Measurements." SFAS No.157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS No.157 is effective for the fiscal periods beginning after November 15, 2007 and is required to be adopted by Komatsu in the fiscal year beginning April 1, 2008. Komatsu is currently evaluating the effect that the adoption of SFAS No.157 will have on its consolidated results of operations and financial condition but expects it will not have a material impact.

In February 2007, the FASB issued SFAS No.159, "The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of SFAS No.115." SFAS No.159 permits entities to choose to measure certain financial assets and li-

abilities at fair value. The unrealized gains and losses on items for which the fair value option has been elected are required to be reported in earnings. SFAS No.159 is effective for the fiscal periods beginning after November 15, 2007 and is required to be adopted by Komatsu in the fiscal year beginning April 1, 2008. Komatsu is currently evaluating the effect that the adoption of SFAS No.159 will have on its consolidated results of operations and financial condition but expects it will not have a material impact.

(19) Reclassification

For the year ended March 31, 2007, Komatsu changed its form of consolidated statements of income from single- to multiple-step.

The consolidated statement of income for the years ended March 31, 2006 and 2005 have been reclassified to conform to the presentation for the year ended March 31, 2007.

This reclassification had no effect on the consolidated balance sheets or statements of cash flows.

(20) Discontinued Operation

Throughout the notes to consolidated financial statements, the amounts of discontinued operations related to consolidated statements of income have been excluded from past years, unless indicated otherwise.

2. Supplemental Cash Flow Information

Additional cash flow information and noncash investing and financing activities for the years ended March 31, 2007, 2006 and 2005, are as follows:

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	2007
Additional cash flow information:				
Interest paid	¥15,513	¥12,963	¥10,687	\$131,466
Income taxes paid	75,058	26,929	16,642	636,085
Noncash investing and financing activities:				
Capital lease obligations incurred	¥23,584	¥23,713	¥16,146	\$199,864

3. Acquisition and Divestiture

In July, 2005, the Company's wholly-owned subsidiary, Komatsu America Corp.(KAC), completed the sale of 75% of its ownership interest in Advanced Silicon Materials LLC (ASiMI) to Solar Grade Silicon Holdings Inc., a U.S. subsidiary of Renewable Energy Corporation AS, a Norwegian company and retained a 25% ownership interest. Simultaneously with the sale, the ownership interests in ASiMI were classified into Class A Units and Class B Units with the Class A Units having sole voting rights. Also simultaneously with the sale, Komatsu Electronic Metals Co., Ltd. entered into a long term materials

supply agreement with ASiMI. KAC's retained 25% ownership interest in ASiMI in the form of Class B Units which do not have voting rights but whose consent is required for certain matters, including a liquidation of ASiMI and certain actions relating to the long term materials supply agreement. Ownership of the Class B Units does not entitle KAC to share prospectively in the underlying profits and losses of ASiMI.

As a result of such sale, Komatsu recognized a gain of ¥18,340 million which is included in other operating income (expenses) in the accompanying consolidated statement of in-

come for the year ended March 31, 2006. The results of operations of ASIIMI were included in Electronics segment through the date of sale. The value ascribed to the retained 25% non-voting interest held is not material to the accompanying consolidated financial statements and is being accounted for on the cost basis.

Komatsu has evaluated the terms and conditions of its remaining 25% ownership interest and ongoing supply agreement in conjunction with the provisions of EITF Issue

No. 03-13, "Applying the Conditions in Paragraph 42 of SFAS No. 144 in Determining Whether to Report Discontinued Operations" and has concluded such interests represent significant continuing involvement in the business of ASIIMI as contemplated by EITF Issue No. 03-13 and, accordingly, has not presented the financial position and results of operations of ASIIMI as a discontinued operation in the accompanying consolidated financial statements.

4. Discontinued Operations

On October 18, 2006, the Company sold 51.0% of the shares of Komatsu Electronic Metals Co., Ltd. ("KEM", currently SUMCO TECHXIV CORPORATION) allocated to a reporting unit in the electronics segment to SUMCO CORPORATION. Prior to this disposition, the Company held a 61.9% equity interest. Accordingly, KEM and its subsidiaries are no longer consolidated in Komatsu's results. On January 30, 2007, the Company signed a definitive agreement to sell the outdoor power equipment (OPE) business of Komatsu Zenoah Co. allocated to a reporting unit in the industrial machinery, vehicles and others segment to a Japanese subsidiary of Husqvarna AB of Sweden. Accordingly, the OPE business of Komatsu Zenoah Co. and its subsidiaries engaging in the OPE business are no longer consolidated in Komatsu's results. The concerned sale was completed on April 2, 2007. In accordance with SFAS No. 144, the gain on

sale of KEM's shares and operating results, less applicable income taxes, minority interests and equity earnings of affiliated companies, related to KEM and its subsidiaries as well as the operating results, less applicable income taxes of the OPE business of Komatsu Zenoah Co. and its OPE business subsidiaries, are presented as one line, "income from discontinued operations less applicable income taxes, minority interests and equity in earnings of affiliated companies" in the consolidated statements of income. Assets and liabilities related to the OPE business of Komatsu Zenoah Co. and its OPE business subsidiaries are classified as held for sale on the consolidated balance sheet as of March 31, 2007. The cash flows attributable to the discontinued operations are not presented separately from the cash flows attributable to activities of the continuing operations in the consolidated statements of cash flows.

Selected financial information in connection with the discontinued operations for the years ended March 31, 2007, 2006 and 2005 are as follows:

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	2007
Net sales	¥63,416	¥89,829	¥78,717	\$537,424
Income before income taxes, minority interests and equity in earnings of affiliated companies (including gain on sale of KEM's shares of ¥18,769 million in 2007)	29,544	13,294	6,834	250,373
Income taxes	14,566	3,051	1,759	123,441
Minority interests in income of consolidated subsidiaries	(3,613)	(5,132)	(1,985)	(30,619)
Equity in earnings of affiliated companies	9	38	52	77
Income from discontinued operations less applicable income taxes, minority interests and equity in earnings of affiliated companies	¥11,374	¥ 5,149	¥ 3,142	\$ 96,390

Assets held for sale and liabilities held for sale at March 31, 2007 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars		Millions of yen		Thousands of U.S. dollars
	2007	2007	2007		2007	2007	2007
Assets held for sale				Liabilities held for sale			
Trade notes and accounts receivable	¥ 9,088	\$ 77,017		Short-term debt	¥1,294	\$10,966	
Inventories	3,567	30,229		Trade notes and accounts payable	4,242	35,949	
Property, plant and equipment	1,874	15,881		Other Liabilities	2,383	20,195	
Other assets	1,792	15,187		Total	¥7,919	\$67,110	
Total	¥16,321	\$138,314					

5. Trade Notes and Accounts Receivable

Receivables at March 31, 2007 and 2006 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Trade notes	¥136,837	¥ 98,085	\$1,159,636
Accounts receivable	353,034	311,699	2,991,813
Total	489,871	409,784	4,151,449
Less: allowance	(11,808)	(11,786)	(100,068)
Trade receivables-current	¥478,063	¥397,998	\$4,051,381
Long-term trade receivables	¥ 73,669	¥ 72,844	\$ 624,314

Installment and lease receivables (less unearned interest) are included in trade notes and accounts receivable and long-term trade receivables.

Lease receivables primarily represent receivables from customers for equipment leased by Komatsu Forklift Co., Ltd. These leases are accounted for as sales-type leases in conformity with SFAS No. 13. Equipment sales revenue from sales-type leases are recognized at the inception of the lease.

At March 31, 2007 and 2006, lease receivables comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Minimum lease payments receivable	¥22,935	¥20,298	\$194,365
Unearned income	(2,212)	(1,842)	(18,746)
Net lease receivables	¥20,723	¥18,456	\$175,619

Cash flows received from the sale of trade notes and accounts receivable for the years ended March 31, 2007, 2006 and 2005 were ¥355,627 million (\$3,013,788 thousand), ¥382,669 million and ¥339,469 million.

The Company and certain consolidated subsidiaries retain responsibility to service sold trade notes and accounts receivable that are sold pursuant to a securitization transaction, however contractual servicing fees are not received from the third parties separately. The investors and the trusts that hold the receivables have no or limited recourse rights to the Company and its consolidated subsidiaries' assets in case of debtors' default. Appropriate reserves have been established for potential losses relating to the limited recourse of the sold receivables. Also the Company and its consolidated subsidiaries, except for a certain U.S. subsidiary, as transferor do not retain any interest in the receivables sold.

The components of securitized trade receivables and other assets managed together at March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Total amount of trade receivables that are managed and securitized	¥748,478	¥ 654,638	\$6,343,034
Assets transferred	(184,938)	(172,010)	(1,567,271)
Total amount of trade receivable on balance sheet	¥563,540	¥ 482,628	\$4,775,763

A certain U.S. subsidiary's retained interests, which are included in the recourse provisions, are subordinate to investor's interests. Their values are estimated based on the present value of future expected cash flows, using certain key assumptions such as a weighted average life, prepayment speed over the life and expected credit losses over the life. Key assumptions used in measuring the fair value of retained interests related to securitization transactions completed during the year ended March 31, 2007 and 2006 were as follows:

	2007	2006
Weighted-average life	30 months	31 months
Prepayment speed over the life	0.7%	0.6%
Expected credit losses over the life	1.0%	1.6%

The carrying amount of retained interest was ¥202 million (\$1,712 thousand) liability and ¥817 million liability as of March 31, 2007 and 2006, respectively. The impacts of 10% and 20% changes to the key assumptions on the fair value of retained interest as of March 31, 2007 are immaterial.

6. Inventories

At March 31, 2007 and 2006, inventories comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Finished products, including finished parts held for sale	¥294,154	¥243,164	\$2,492,830
Work in process	85,687	78,869	726,161
Materials and supplies	58,053	48,041	491,975
Total	¥437,894	¥370,074	\$3,710,966

7. Investment Securities

Investment securities at March 31, 2007 and 2006, primarily consisted of securities available for sale. Komatsu does not have intentions to sell these securities within a year as of the balance sheet date.

The cost, gross unrealized holding gains and losses, and fair value for such investment securities by major security types at March 31, 2007 and 2006, are as follows:

	Millions of yen			
	Cost	Gross unrealized holding		Fair value
		Gains	Losses	
At March 31, 2007				
Investment securities available for sale:				
Marketable equity securities	¥ 24,589	¥ 68,167	¥ 57	¥ 92,699
Other investment securities at cost	15,474	—	—	15,474
Current portion of other investment securities at cost	417	—	—	417
	¥ 40,480	¥ 68,167	¥ 57	¥108,590

At March 31, 2006				
Investment securities available for sale:				
Marketable equity securities	¥ 18,341	¥ 63,514	¥111	¥ 81,744
Other investment securities at cost	13,000	—	—	13,000
Current portion of other investment securities at cost	415	—	—	415
	¥ 31,756	¥ 63,514	¥111	¥ 95,159

	Thousands of U.S. dollars			
	Cost	Gross unrealized holding		Fair value
		Gains	Losses	
At March 31, 2007				
Investment securities available for sale:				
Marketable equity securities	\$208,381	\$577,686	\$483	\$785,584
Other investment securities at cost	131,136	—	—	131,136
Current portion of other investment securities at cost	3,534	—	—	3,534
	\$343,051	\$577,686	\$483	\$920,254

Other investment securities primarily include non-marketable equity securities.

Unrealized holding gains and losses deemed to be temporary are included as a component of accumulated other comprehensive income (loss) until realized.

Proceeds from the sales of investment securities available for sale were ¥1,844 million (\$15,627 thousand), ¥4,112 million and ¥2,593 million for the years ended March 31, 2007, 2006 and 2005, respectively.

Net realized gains on sale of investment securities available for sale during the years ended March 31, 2007, 2006 and 2005, amounted to gains of ¥344 million (\$2,915 thousand), gains of ¥18 million and losses of ¥126 million, respectively. Such gains and losses were included in "other income (expenses)" in the accompanying consolidated statements of income. The cost of the marketable securities and investment securities sold was computed based on the average-cost method.

8. Investments in and Advances to Affiliated Companies

At March 31, 2007 and 2006, investments in and advances to affiliated companies comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Investments in capital stock	¥32,647	¥16,559	\$276,669
Advances	4,041	5,167	34,246
Total	¥36,688	¥21,726	\$310,915

The investments in and advances to affiliated companies relate to 20% to 50% owned companies whereby Komatsu has the ability to exercise significant influence over the operational and financial policies.

Dividends received from affiliated companies were ¥679 million (\$5,754 thousand), ¥130 million and ¥80 million during the years ended March 31, 2007, 2006 and 2005, respectively.

Trade notes and accounts receivable from affiliated companies at March 31, 2007 and 2006, were ¥30,919 million (\$262,025 thousand) and ¥27,763 million, respectively.

Short-term loans receivable from affiliated companies at March 31, 2007 and 2006, were ¥2,764 million (\$23,424 thousand) and ¥2,064 million, respectively.

Trade notes and accounts payable to affiliated companies at March 31, 2007 and 2006, were ¥9,164 million (\$77,661 thousand) and ¥7,560 million, respectively.

Net sales for the years ended March 31, 2007, 2006 and 2005, included net sales to affiliated companies in the amounts

of ¥54,731 million (\$463,822 thousand), ¥56,916 million and ¥54,446 million, respectively.

Intercompany profits (losses) have been eliminated in the consolidated financial statements.

As of March 31, 2007, consolidated unappropriated retained earnings included Komatsu's share of undistributed earnings of 50% or less owned companies accounted for by the equity method in the amount of ¥6,068 million (\$51,424 thousand).

The carrying value of the investments in affiliated companies exceeded Komatsu's equity in the underlying net assets of such associated companies by ¥5,487 million at March 31, 2007. The excess is attributed primarily to the goodwill at the time of the initial investments in those companies.

Investments in affiliated companies include certain equity securities which have been quoted on an established market. The carrying amount and the quoted market value of the equity securities at March 31, 2007 were ¥13,288 and ¥20,294 million, respectively.

Summarized financial information for affiliated companies at March 31, 2007 and 2006, and for the years ended March 31, 2007, 2006 and 2005, is as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Current assets	¥163,411	¥ 98,735	\$1,384,839
Net property, plant and equipment—less accumulated depreciation	64,245	35,992	544,449
Investments and other assets	18,785	7,272	159,195
Total assets	¥246,441	¥141,999	\$2,088,483
Current liabilities	¥139,661	¥ 77,376	\$1,183,568
Noncurrent liabilities	33,515	23,625	284,025
Shareholders' equity	73,265	40,998	620,890
Total liabilities and shareholders' equity	¥246,441	¥141,999	\$2,088,483

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	2007
Net sales	¥197,434	¥176,250	¥175,593	\$1,673,169
Net income	¥ 6,486	¥ 4,700	¥ 2,511	\$ 54,966

9. Property, Plant and Equipment

The major classes of property, plant and equipment at March 31, 2007 and 2006, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Land	¥ 78,437	¥ 83,119	\$ 664,720
Buildings	278,214	278,696	2,357,746
Machinery and equipment	561,416	611,725	4,757,763
Construction in progress	8,250	14,737	69,915
Total	926,317	988,277	7,850,144
Less: accumulated depreciation	(537,924)	(587,610)	(4,558,678)
Net property, plant and equipment	¥ 388,393	¥ 400,667	\$3,291,466

10. Pledged Assets

At March 31, 2007, assets pledged as collateral for long-term debt and guarantees for debt are as follows:

	Millions of yen	Thousands of U.S. dollars
Cash and cash equivalents	¥ 881	\$ 7,466
Property, plant and equipment—less accumulated depreciation	500	4,237
Total	¥1,381	\$11,703

The above assets were pledged against the following liabilities:

	Millions of yen	Thousands of U.S. dollars
Appearing in the consolidated balance sheets as:		
Long-term debt	¥ 500	\$ 4,237
Guarantees for debt	881	7,466
Total	¥1,381	\$11,703

11. Goodwill and Other Intangible Assets

The information for intangible assets other than goodwill at March 31, 2007 and 2006 are as follows:

	Millions of yen					
	2007			2006		
	Gross carrying amount	Accumulated amortization	Net carrying amount	Gross carrying amount	Accumulated amortization	Net carrying amount
Other intangible assets subject to amortization:						
Software	¥ 23,541	¥ (11,553)	¥ 11,988	¥ 26,941	¥ (16,751)	¥ 10,190
Other	11,776	(3,714)	8,062	10,476	(2,692)	7,784
Total	35,317	(15,267)	20,050	37,417	(19,443)	17,974
Other intangible assets not subject to amortization			5,193			7,444
Total other intangible assets			¥ 25,243			¥ 25,418

	Thousands of U.S. dollars		
	2007		
	Gross carrying amount	Accumulated amortization	Net carrying amount
Other intangible assets subject to amortization:			
Software	\$199,500	\$ (97,907)	\$101,593
Other	99,797	(31,475)	68,322
Total	299,297	(129,382)	169,915
Other intangible assets not subject to amortization			44,009
Total other intangible assets			\$213,924

The aggregate amortization expense of other intangible assets subject to amortization for the year ended March 31, 2007, 2006 and 2005 were ¥5,656 million (\$47,932 thousand), ¥5,665 million and ¥6,440 million, respectively. (In accordance with SFAS No. 144, the amortization expense in connection with the discontinued operations is not included in the aggregate amortization expense for the year ended March 31, 2007, 2006 and 2005.) The future estimated amortization expenses for each of five years relating to amounts currently recorded in the consolidated balance sheet are as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2008	¥ 4,517	\$ 38,280
2009	4,186	35,475
2010	3,567	30,229
2011	2,503	21,212
2012	1,513	12,822

The changes in carrying amounts of goodwill for the year ended March 31, 2007 and 2006 were as follow:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Balance at beginning of the year	¥22,000	¥21,277	\$186,441
Goodwill acquired during the year	124	3,904	1,051
Impairment loss	—	(3,581)	—
Recognition of deferred income taxes	(1,387)	—	(11,754)
Foreign exchange impact	57	400	482
Other	(200)	—	(1,695)
Balance at end of the year	¥20,594	¥22,000	\$174,525

At March 31, 2007, the amounts of goodwill allocated to the construction and mining equipment segment and the industrial machinery, vehicles and others segment were ¥20,569 million (\$174,314 thousand) and ¥25 million (\$211 thousand), respectively.

For the fiscal year ended March 31, 2007, Komatsu recognized ¥1,387 million (\$11,754 thousand) of deferred income taxes relating to preexisting net operating tax losses and temporary differences deductible in the future. In connection therewith, Komatsu reduced the related goodwill by the same amount.

For the fiscal year ended March 31, 2006, Komatsu recognized an impairment loss of ¥3,041 million, on goodwill allocated to a reporting unit in the construction and mining

equipment segment due to unfavorable business circumstance where the net assets of the reporting unit was located. In addition, an impairment loss of ¥540 million was recognized in the electronics segment. The impairment losses were recognized based on the difference by which the net book value of the reporting unit to which the goodwill was assigned exceeded the estimated fair value of the same reporting unit as determined based on estimated future discounted cash flows.

Goodwill acquired during the fiscal year ended March 31, 2006 principally resulted from the acquisition of additional shares of PT Komatsu Indonesia Tbk, and was allocated to the construction and mining equipment segment and the industrial machinery, vehicles and others segment.

12. Short-Term and Long-Term Debt

Short-term debt primarily consists of short-term bank loans. The weighted-average annual interest rates applicable to short-term debt outstanding at March 31, 2007 and 2006, were 5.0% and 3.8%, respectively. The Company and certain consolidated subsidiaries have entered into contracts for committed credit lines totaling ¥43,192 million (\$366,034 thousand) and have unused committed lines of credit amounting to ¥36,438 million (\$308,797 thousand) with certain financial institutions at March

31, 2007, which are available for full and immediate borrowings. The Company is party to a committed ¥80,000 million (\$677,966 thousand) commercial paper program of which the entire amount was unused as of March 31, 2007. Financing under this program is available upon the satisfaction of certain customary procedural requirements. Long-term debt at March 31, 2007 and 2006, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Long-term debt with collateral (Note 10):			
Banks, insurance companies and other financial institutions, maturing serially through 2007–2012, weighted-average rate 9.7%	¥ 339	¥ 417	\$ 2,873
Long-term debt without collateral:			
Banks, insurance companies and other financial institutions, maturing serially through 2007–2017, weighted-average rate 2.2%	86,914	137,226	736,559
Euro Medium-Term Notes maturing serially through 2007–2012, weighted-average rate 5.1%	64,486	57,071	546,492
1.07% Unsecured Bonds due 2007	20,000	20,000	169,492
1.45% Unsecured Bonds due 2009	10,000	10,000	84,746
Capital lease obligations (Note 17)	55,882	47,692	473,576
Other	9,205	7,377	78,008
Total	246,826	279,783	2,091,746
Less: current maturities	(72,486)	(84,580)	(614,288)
Long-term debt	¥174,340	¥195,203	\$1,477,458

In 1996, the Company, Komatsu Finance America Inc. and Komatsu Finance (Netherlands) B.V. registered the US\$1.0 billion Euro Medium-Term Note Program ("the Program") on the London Stock Exchange. On April 1, 1999, the registered amount of the Program was increased to US\$1.2 billion. On October 14, 2003, Komatsu Europe Coordination Center N.V. was added as an issuer under the Program. At March 31, 2007, the issuers under the Program were the Company, Komatsu Finance America Inc. and Komatsu Europe Coordination Center N.V. Under the Program, each of the issuers may from time to time issue notes denominated in any currency as may be agreed between the relevant issuers and dealers. Komatsu Finance America Inc. issued ¥26,500 million (\$224,576 thousand) during fiscal year ended March 31, 2007, and ¥12,000 million during fiscal year ended March 31, 2006 of Euro Medium-Term Notes with

various interest rates and maturity dates. Komatsu Europe Coordination Center N.V. issued ¥13,500 million (\$114,407 thousand) during fiscal year ended March 31, 2007, and ¥6,500 million during fiscal year ended March 31, 2006 of Euro Medium-Term Notes with various interest rates and maturity dates.

The Company has established a program to issue up to ¥100,000 million (\$847,458 thousand) of variable term bonds.

As is customary in Japan, substantially all bank loans are made under agreements which provide that the banks may require, under certain conditions, the borrower to provide collateral, additional collateral or guarantors for its loans.

Lending banks have a right to offset cash deposited with them against any debt or obligation that becomes due and, in the case of default and certain other specified events, against all other debt payable to the banks.

Under certain loan agreements, the lender may require the borrower to submit proposals for the payment of dividends and other appropriations of earnings for the lender's review and approval before presentation to the shareholders. The companies have never received such a request.

Annual maturities of long-term debt subsequent to March 31, 2007, excluding market value adjustments for balances subject to qualifying fair value hedges of ¥1,581 million (\$13,398 thousand) are as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2008	¥ 73,528	\$ 623,119
2009	83,191	705,008
2010	50,594	428,763
2011	17,450	147,881
2012	21,018	178,119
2013 and thereafter	2,626	22,254
Total	¥248,407	\$2,105,144

13. Liability for Pension and Other Retirement Benefits

The Company's employees, with certain minor exceptions, are covered by a severance payment and a defined benefit cash balance pension plan. The plan provides that approximately 60% of the employee benefits are payable as a pension payment, commencing upon retirement at age 60 (mandatory retirement age) and that the remaining benefits are payable as a lump-sum severance payment based on remuneration, years of service and certain other factors at the time of retirement. The plan also provides for lump-sum severance payments, payable upon earlier termination of employment.

Under the cash balance pension plan, each employee has an account which is credited yearly based on the current rate of pay and market-related interest rate.

Certain subsidiaries have various funded pension plans and/or unfunded severance payment plans for their employees, which are based on years of service and certain other factors. The Company and certain subsidiaries' funding policy is to contribute the amounts to provide not only for benefits attributed to service to date but also for those expected to be earned in the future.

At March 31, 2007, Komatsu adopted the recognition and disclosure provisions of SFAS No. 158, "Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of SFAS No. 87, 88, 106, and 132(R)" ("SFAS No. 158"). SFAS No. 158 required Komatsu to recognize the funded status (i.e. the difference between the projected benefit obligations and the fair value of plan assets) of their pension plans in the March 31, 2007 consolidated balance sheet, with a

corresponding adjustment to accumulated other comprehensive income, net of tax.

The adjustment to accumulated other comprehensive income (loss) at adoption represents the unrecognized actuarial net gain or loss and unrecognized prior service cost, both of which were previously netted against the plans' funded status in the consolidated balance sheet pursuant to the provisions of SFAS No. 87. These amounts will be subsequently recognized as net periodic benefit cost pursuant to Komatsu's historical accounting policy for amortizing such amounts. Further, actuarial gains and losses that arise in subsequent periods and are not recognized as net periodic benefit cost in the same periods will be recognized as a component of other comprehensive income (loss). Those amounts will be subsequently recognized as a component of net periodic benefit cost on the same basis as the amounts recognized in accumulated other comprehensive income (loss) at adoption of SFAS No. 158.

SFAS No. 158 also requires that the benefit obligations and the fair value of plan assets be measured as of the balance sheet date. Komatsu will adopt the provisions of measurement date in the year ending March 31, 2008. The change in the measurement date of defined benefit pension and other postretirement benefit plans is not expected to have a material impact on Komatsu's consolidated results of operations and financial condition as Komatsu already uses a measurement date of March 31 for substantially all of its plans.

The incremental effects of adopting the provisions of SFAS No. 158 on the accompanying consolidated balance sheet at March 31, 2007 are presented in the following table.

	Millions of yen			Thousands of U.S. dollars		
	Before Application of SFAS No. 158	Adjustments	After Application of SFAS No. 158	Before Application of SFAS No. 158	Adjustments	After Application of SFAS No. 158
Deferred income taxes and other assets	¥ 37,125	¥ 67	¥ 37,192	\$ 314,618	\$ 568	\$ 315,186
Deferred income taxes and other current liabilities	181,577	952	182,529	1,538,788	8,068	1,546,856
Liability for pension and retirement benefits	28,795	8,988	37,783	244,026	76,169	320,195
Minority interests	19,758	16	19,774	167,440	136	167,576
Accumulated other comprehensive income (loss)	(5,443)	(9,857)	(15,300)	(46,127)	(83,534)	(129,661)

Notes to Consolidated Financial Statements

Komatsu Ltd. and Consolidated Subsidiaries

The reconciliation of beginning and ending balances of the benefit obligations and the fair value of the plan assets of the defined benefit plans are as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Change in benefit obligation:			
Benefit obligation, beginning of year	¥150,897	¥146,617	\$1,278,788
Service cost	7,081	7,454	60,008
Interest cost	3,770	3,565	31,949
Actuarial loss (gain)	(1,661)	4,625	(14,076)
Plan amendment	434	—	3,678
Acquisition	—	66	—
Divestiture	(4,937)	(3,180)	(41,839)
Benefits paid	(10,102)	(9,975)	(85,610)
Foreign currency exchange rate change	1,277	1,725	10,822
Benefit obligation, end of year	¥146,759	¥150,897	\$1,243,720
Change in plan assets:			
Fair value of plan assets, beginning of year	¥115,630	¥ 97,959	\$ 979,915
Actual return on plan assets	5,249	16,294	44,483
Employer contribution	5,039	8,007	42,703
Divestiture	—	(1,583)	—
Benefits paid	(6,449)	(6,343)	(54,653)
Foreign currency exchange rate change	724	1,296	6,137
Fair value of plan assets, end of year	¥120,193	¥115,630	\$1,018,585
Funded status, end of year	¥ (26,566)	¥ (35,267)	\$ (225,135)
Prepaid benefit cost	¥ 624	—	\$ 5,288
Other current liability	(196)	—	(1,661)
Accrued benefit liability	(26,994)	—	(228,762)
	¥ (26,566)	—	\$ (225,135)
Amounts recognized in accumulated other comprehensive income (loss) at March 31, 2007:			
Actuarial loss	¥ 12,080	—	\$ 102,373
Prior service cost	7,851	—	66,534
	¥ 19,931	—	\$ 168,907
Funded status of the plans at March 31, 2006:			
Funded status	—	¥ (35,267)	—
Unrecognized net loss	—	21,749	—
Unrecognized prior service cost	—	2,018	—
Net amounts recognized	—	¥ (11,500)	—
Amounts recognized in the consolidated balance sheet at March 31, 2006 consists of:			
Prepaid benefit cost	—	¥ 6,967	—
Accrued benefit liability	—	(37,452)	—
Intangible assets included in other assets	—	2,018	—
Amounts included in accumulated other comprehensive income (loss), gross of tax	—	16,967	—
Net amounts recognized	—	¥ (11,500)	—

The accumulated benefit obligations for all defined benefit plans were ¥138,085 million (\$1,170,212 thousand) and ¥142,338 million, respectively, at March 31, 2007 and 2006.

Information for pension plans with accumulated benefit obligations in excess of plan assets and pension plans with projected benefit obligations in excess of plan assets is as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Plans with accumulated benefit obligations in excess of plan assets:			
Accumulated benefit obligations	¥118,701	¥136,491	\$1,005,941
Plan assets	97,092	108,104	822,814
Plans with projected benefit obligations in excess of plan assets:			
Projected benefit obligations	¥133,583	¥150,506	\$1,132,059
Plan assets	106,637	115,188	903,703

Components of net periodic pension cost

Net periodic cost of the companies' defined benefit plans for the years ended March 31, 2007, 2006 and 2005, consisted of the following components:

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	2007
Service cost—Benefits earned during the year	¥ 7,081	¥ 7,454	¥ 6,719	\$ 60,008
Interest cost on projected benefit obligation	3,770	3,565	3,866	31,949
Expected return on plan assets	(3,339)	(2,947)	(2,619)	(28,296)
Net amortization	1,187	2,951	3,171	10,059
Net periodic cost	¥ 8,699	¥11,023	¥11,137	\$ 73,720

The estimated actuarial loss and prior service cost for the defined benefit plans that will be amortized from accumulated other comprehensive income into net periodic cost over the next fiscal year are summarized as follows.

	Millions of yen	Thousands of U.S. dollars
Actuarial loss	¥1,577	\$13,364
Prior service cost	630	5,339

Information with respect to the defined benefit plans is as follows:

Measurement date

The Company and certain subsidiaries use a measurement date of March 31 for substantially all of its defined benefit plans.

Assumptions

Weighted-average assumptions used to determine benefit obligations at March 31:

	Domestic plans		Foreign plans	
	2007	2006	2007	2006
Discount rate	1.9%	2.0%	5.6%	5.3%
Assumed rate of increase in future compensation levels (Point-based benefit system)	3.7%	3.7%	—	—
Assumed rate of increase in future compensation levels	2.3%	2.4%	4.1%	4.3%

Weighted-average assumptions used to determine net periodic benefit cost for the years ended March 31:

	Domestic plans			Foreign plans		
	2007	2006	2005	2007	2006	2005
Discount rate	2.0%	2.0%	2.2%	5.3%	5.9%	6.2%
Assumed rate of increase in future compensation levels (Point-based benefit system)	3.7%	3.9%	3.9%	—	—	—
Assumed rate of increase in future compensation levels	2.4%	2.4%	2.3%	4.3%	4.4%	4.1%
Expected long-term rate of return on plan assets	2.0%	1.9%	1.9%	7.6%	7.7%	8.4%

The Company and a certain domestic subsidiary adopt defined benefit cash balance pension plans. These companies adopt the assumed rate of increase in future compensation levels under the point-based benefit system.

Plan assets

The benefit plan weighted-average asset allocations at March 31, 2007 and 2006 were as follows:

	2007	2006
Equity securities	46.3%	45.9%
Debt securities	36.3%	33.7%
Life insurance company general accounts	15.4%	18.2%
Others	2.0%	2.2%
Total	100.0%	100.0%

In order to secure long-term comprehensive earnings, the Company and certain subsidiaries' investment policies are designed to ensure adequate plan assets to provide future payments of pension benefits to eligible participants. Taking into account the expected long-term rate of return on plan assets, the Company and certain subsidiaries formulate a basic portfolio comprised of the judged optimum combination of equity and debt securities. Plan assets are invested in individual equity and debt securities in accordance with the guidelines of the basic portfolio in order to produce a total return that will match the expected return on a mid-term to long-term basis. The Company and certain subsidiaries evaluate the gap between expected return and actual return of invested plan assets on an annual basis to determine if

The Company and certain subsidiaries determine the expected long-term rate of return on plan assets based on the consideration of the current expectations for future returns and actual historical returns of each plan asset category.

such differences necessitate a revision in the formulation of the basic portfolio. The Company and certain subsidiaries revise the basic portfolio when and to the extent considered necessary to achieve the expected long-term rate of return on plan assets.

The "Pension and Retirement Benefit Committee" is organized in the Company in order to periodically monitor the employment of such plan assets.

Equity securities include common stock of the Company in the amount of ¥13 million (0.02% of the Company's total plan assets) at March 31, 2007. Equity securities include common stock of the Company and certain of its domestic listed subsidiaries in the amount of ¥41 million (0.05% of the Company's total plan assets) at March 31, 2006.

Cash flows

(1) Contributions

The Company and certain subsidiaries expect to contribute ¥4,347 million (\$36,839 thousand) to their benefit plans in the year ending March 31, 2008.

(2) Estimated future benefit payments

The benefits expected to be paid in each of the next five years, and in the aggregate for the five years thereafter which reflect estimated future employee service are as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2008	¥12,787	\$108,364
2009	12,535	106,229
2010	12,956	109,797
2011	12,088	102,441
2012	12,779	108,297
Through 2013-2017	¥42,966	\$364,119

Other postretirement benefit plan

Some U.S. subsidiaries provide certain postretirement health care and life insurance benefits for substantially all of their employees. The plans are contributory, with contributions indexed to salary levels. Employee contributions are adjusted to provide

for any costs of the plans in excess of those paid for by the subsidiaries. The policy is to fund the cost of these benefits as claims and premiums are paid. These benefits are currently unfunded.

Accumulated postretirement benefit obligation and funded status of the U.S. subsidiaries' plans at March 31, 2007 and 2006:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Accumulated postretirement benefit obligation	¥ 11,614	¥ 12,224	\$ 98,424
Funded status, end of year	¥(11,614)	¥(12,224)	\$(98,424)
Current liability	¥ (756)	—	\$ (6,407)
Accrued benefit liability	(10,858)	—	(92,017)
	¥(11,614)	—	\$(98,424)
Amounts recognized in accumulated other comprehensive income (loss) at March 31, 2007:			
Actuarial loss	¥ 1,733	—	\$ 14,686
Prior service cost	3,534	—	29,949
	¥ 5,267	—	\$ 44,635
Funded status of the postretirement benefit plan at March 31, 2006:			
Funded status	—	¥(12,224)	—
Unrecognized net loss	—	4,561	—
Unrecognized prior service cost	—	1,976	—
Accrued benefit liability	—	¥ (5,687)	—

Components of net periodic postretirement benefit cost

Net periodic postretirement benefit cost of the U.S. subsidiaries' plans for the years ended March 31, 2007, 2006 and 2005, included the following components:

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	2007
Service cost	¥ 329	¥ 266	¥ 253	\$ 2,788
Interest cost	608	625	663	5,153
Net amortization	419	369	353	3,551
Net periodic postretirement benefit cost	¥1,356	¥1,260	¥1,269	\$11,492

The estimated actuarial loss and prior service cost for the postretirement benefit plans that will be amortized from accumulated other comprehensive income into net periodic postretirement benefit cost over the next fiscal year are summarized as follows.

	Millions of yen	Thousands of U.S. dollars
Actuarial loss	¥226	\$ 1,915
Prior service cost	148	1,254

Information with respect to the plans is as follows:

Measurement date

The U.S. subsidiaries use December 31 as a measurement date for their post retirement benefit plan.

Assumptions

Weighted-average assumptions used to determine accumulated postretirement benefit obligations at March 31:

	2007	2006
Discount rate	5.5%	5.3%

Weighted average assumptions used to determine net periodic postretirement benefit cost for the years ended March 31:

	2007	2006	2005
Discount rate	5.3%	5.8%	6.3%

At March 31, 2007 and 2006, the impact of a one percentage point change in the assumed health care cost trend rates was not material to Komatsu's consolidated financial position or results of operations.

Cash flows

(1) Contributions

The U.S. subsidiaries expect to contribute ¥749 million (\$6,347 thousand) to their post retirement benefit plan participant in the year ending March 31, 2008.

(2) Estimated future benefit payments

The benefits expected to be paid in each of the next five years, and in the aggregate for the five years thereafter which reflect estimated future employee service are as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2008	¥ 749	\$ 6,347
2009	760	6,441
2010	781	6,619
2011	796	6,746
2012	811	6,873
2013-2017	¥4,322	\$36,627

In addition to the aforementioned plans, certain other subsidiaries provide retirement benefits to certain employees. These retirement benefit plans are generally not funded. At March 31, 2007, 2006 and 2005, these subsidiaries have fully provided for the benefits. Such amounts are not material to Komatsu's consolidated financial position or results of operations for any of the periods presented. Directors of the Company and domestic subsidiaries are primarily covered by unfunded retirement allowance plans. At March 31, 2007,

2006 and 2005, the amounts required if all directors covered by the plans had terminated their service have been fully accrued. Such amounts are not material to Komatsu's consolidated financial position or results of operations for any of the periods presented.

Certain foreign subsidiaries maintain various defined contribution plans covering certain employees. The amount of cost recognized for all periods presented is not material to Komatsu's consolidated financial position or results of operations.

14. Shareholders' Equity

(1) Common Stock and Capital Surplus

The Commercial Code of Japan ("the Code") permitted, upon approval of the Board of Directors, transfer of amounts from capital surplus to common stock. Prior to October 2001, the Company from time to time made free share distributions that were accounted for by a transfer from capital surplus to common stock of the aggregate par value of shares issued. Effective on October 2001, the Code requires no accounting recognition for such free share distribution. Publicly owned corporations in the United States issuing shares in similar transactions would be required to account for them as stock dividends as of the shareholders' record date by reducing retained earnings and increasing appropriate capital accounts by an amount equal to the fair value of the shares issued.

If such United States practice had been applied to the cumulative free distributions made by the Company, capital surplus at March 31, 2007, would have been increased by ¥103,189 million (\$874,483 thousand) with a corresponding decrease in unappropriated retained earnings. At March 31, 2007 and 2006, affiliated companies owned 1,010,200 and 1,134,000 shares which represent 0.10% and 0.11% of the Company's common stock outstanding, respectively.

The Corporate Act, which has been in force since May 1, 2006 (the Act), requires a company to obtain the approval of shareholders for transferring an amount between common stock and capital surplus. Common stock and capital surplus also are available for being transferred to other capital surplus or being used to reduce a deficit mainly upon an approval of shareholders.

(2) Retained Earnings Appropriated for Legal Reserve

The Act provides that an amount equal to 10% of retained earnings distributed each fiscal period shall be appropriated as a capital surplus or a legal reserve until the total amount of capital surplus and legal reserve becomes equal to 25% of the amount of common stock.

Legal reserve is available for being transferred to other retained earnings or being used to reduce a deficit mainly upon an approval of shareholders.

(3) Retained Earnings and Dividends

The amount of retained earnings available for dividends under the Act is based on the amount recorded in the Company's general books of account maintained in accordance with accounting principles generally accepted in Japan. In addition to the Act provision requiring an appropriation for capital surplus or legal reserve as discussed above, the Act imposes certain

limitations on the amount of retained earnings available for dividends. Accordingly, total shareholders' equity of ¥305,568 million (\$2,589,559 thousand), included in the Company's general books of account as of March 31, 2007 is available for dividends under the Act.

The Board of Directors recommended to and approved by the shareholders, at the general meeting held on June 22, 2007, payment of a cash dividend totaling ¥17,898 million (\$151,678 thousand) to shareholders of record on March 31, 2007. In accordance with the Act, the approved dividend has not been reflected in the consolidated financial statements as of March 31, 2007. Dividends are reported in the consolidated statements of shareholders' equity when approved and paid.

The Act provides that a company can make dividends of earnings anytime with resolution of the shareholders. It also provides that a company can declare an interim dividend once a fiscal year according to its charter of corporation.

(4) Stock Option Plan

On June 24, 2005, the Board of Directors authorized the acquisition of 1,700,000 shares of the Company's common stock for the total consideration not exceeding ¥1,800 million by July 29, 2005. On June 25, 2004, the Board of Directors authorized the acquisition of 1,500,000 shares of the Company's common stock for the total consideration not exceeding ¥1,200 million by July 30, 2004. The Company intends to transfer such treasury shares to directors and certain employees and certain directors of subsidiaries under an agreement granting the right for them to request such transfers at a predetermined price. The purchase price is set to equal an amount obtained by multiplying by 1.05 an average of the closing prices applicable to ordinary transactions of shares of the Company on the Tokyo Stock Exchange on all days for a month immediately preceding the month in which the date of grant of the right falls, provided that the exercise price shall not be less than the closing price of the shares of the Company on the Tokyo Stock Exchange on the date of the grant. Based on the resolutions of the shareholders' meeting on June 23, 2006, June 24, 2005 and June 25, 2004 and the Board of Directors on July 11, 2006, the Company issued 833 rights, 1,610 rights and 1,430 rights of its share acquisition rights during the years ended March 31, 2007, 2006 and 2005, respectively. The options vest 100% on each of the grant dates and are exercisable from August 1, 2007, August 1, 2006 and August 1, 2005, respectively.

For periods prior to April 1, 2006, Komatsu accounted for stock options using the intrinsic value method prescribed by

APB opinion No. 25. Effective April 1, 2006, Komatsu adopted SFAS No. 123R for the year ended March 31, 2007 using the modified prospective method. In accordance with SFAS No. 123R, Komatsu recognizes compensation expense of ¥663 million (\$5,619 thousand). As a result, income from continuing operations before income taxes, minority interests and equity in earnings of affiliated companies, and net income are decreased by ¥663 million (\$5,619 thousand) and ¥394 million (\$3,339

thousand) respectively for the year ended March 31, 2007. The impact on the net income per share is immaterial.

For the years ended March 31, 2006 and 2005, no compensation expense was recognized using the intrinsic value method as the exercise price was at least equal to the market price on the date of grant.

The Company transfers treasury stock without issuance of new stock when the share acquisition rights are exercised.

The following table summarizes information about stock option activity for the years ended March 31, 2007, 2006 and 2005:

	2007			2006		2005	
	Number of shares	Weighted average exercise price		Number of shares	Weighted average exercise price Yen	Number of shares	Weighted average exercise price Yen
		Yen	U.S. dollars				
Outstanding at beginning of year	3,665,000	¥ 848	\$ 7.19	6,409,000	¥ 665	6,460,000	¥659
Granted	833,000	2,325	19.70	1,610,000	1,126	1,430,000	673
Exercised	(845,000)	855	7.25	(4,254,000)	678	(491,000)	542
Cancelled or Expired	(5,000)	2,325	19.70	(100,000)	820	(990,000)	700
Outstanding at end of year	3,648,000	1,182	10.02	3,665,000	848	6,409,000	665
Exercisable at end of year	2,820,000	846	7.17	2,055,000	630	4,979,000	662

The intrinsic values were ¥1,180 million (\$10,000 thousand), ¥2,093 million and ¥83 million for the years ended March 31, 2007, 2006 and 2005, respectively.

The information for options outstanding and options exercisable at March 31, 2007 is as follows.

Exercise Prices	Outstanding						Options Exercisable					
	Number of shares	Weighted average exercise price		Intrinsic value		Weighted average remaining contractual life years	Number of shares	Weighted average exercise price		Intrinsic value		Weighted average remaining contractual life years
		Yen	U.S. dollars	Millions of yen	Thousands of U.S. dollars			Yen	U.S. dollars	Millions of yen	Thousands of U.S. dollars	
¥ 445 - 650	750,000	¥ 556	\$ 4.71	¥1,443	\$12,229	1.8	750,000	¥ 556	\$4.71	¥1,443	\$12,229	1.8
¥ 651 - 900	800,000	673	5.70	1,446	12,254	5.3	800,000	673	5.70	1,446	12,254	5.3
¥ 901 - 1,350	1,270,000	1,126	9.54	1,719	14,568	6.3	1,270,000	1,126	9.54	1,719	14,568	6.3
¥1,351 - 2,325	828,000	2,325	19.70	129	1,093	7.3	—	—	—	—	—	—
¥ 445 - 2,325	3,648,000	1,182	10.02	4,737	40,144	5.4	2,820,000	846	7.17	4,608	39,051	4.8

The fair value of each share option award is estimated on the date of grant using a discrete-time model (a binomial model) for the year ended March 31, 2007 and the Black-Scholes option pricing model for the years ended March 31, 2006 and 2005 based on the assumptions noted in the following table. Because a discrete-time model incorporates ranges of assumptions for inputs, those ranges are disclosed. Expected volatilities are based on implied volatilities from historical volatility of the Company's shares.

The Company uses historical data to estimate share option exercise and employee departure behavior used in the discrete-time model. The expected term of share options granted is derived from the output of the option pricing model and represents the period of time that share options granted are expected to be outstanding. The risk-free rate for periods within the contractual term of the share option is based on the Japanese government bond yield curve in effect at the time of grant.

	2007	2006	2005
Grant-date fair value	¥801 (\$6.79)	¥434	¥179
Expected term	6 years	—	—
Expected life	—	8 years	8 years
Risk-free rate	0.52%–2.00%*	1.12%	1.65%
Expected volatility	39.00%	40.00%	30.00%
Expected dividend yield	1.27%	1.24%	1.56%

* Interest rate corresponding to discount periods is applied to risk-free rate, that is 0.52% in 1 year, 0.79% in 2 years, 1.03% in 3 years, 1.26% in 4 years, 1.44% in 5 years, 1.60% in 6 years, 1.72% in 7 years, 1.83% in 8 years, 1.94% in 9 years and 2.00% in 10 years.

At the shareholders' meeting held on June 22, 2007, the resolution on the stock acquisition right to be issued as stock options was approved as follows:

The maximum number of stock acquisition rights to be issued shall be 562. The number of shares subject to be issued to one stock acquisition right shall be 1,000 shares, and the maximum number of ordinary shares of the Company shall be 562,000 shares.

15. Other Comprehensive Income (Loss)

Other comprehensive income (loss) consists of changes in foreign currency translation adjustments, net unrealized holding gains (losses) on securities available for sale, pension liability adjustments and net unrealized holding gains (losses) on certain derivative instruments, and is included in the consolidated statements of shareholders' equity.

Accumulated other comprehensive income (loss) at March 31, 2007, 2006 and 2005, is as follows:

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	2007
Foreign currency translation adjustments:				
Balance, beginning of year	¥ (2,240)	¥(22,161)	¥(26,825)	\$ (18,983)
Aggregate adjustment for the year resulting from translation of foreign currency financial statements	11,444	19,921	4,664	96,983
Balance, end of year	¥ 9,204	¥ (2,240)	¥(22,161)	\$ 78,000
Net unrealized holding gains on securities available for sale:				
Balance, beginning of year	¥ 36,910	¥ 18,605	¥ 15,491	\$ 312,796
Net increase	2,897	18,305	3,114	24,552
Balance, end of year	¥ 39,807	¥ 36,910	¥ 18,605	\$ 337,348
Pension liability adjustments:				
Balance, beginning of year	¥(11,299)	¥(17,340)	¥(11,861)	\$ (95,754)
Adjustment for the year	5,856	6,041	(5,479)	49,627
Adjustment to initially apply SFAS No. 158	5,443	—	—	46,127
Balance, end of year	¥ —	¥(11,299)	¥(17,340)	\$ —
Pension liability adjustments—After application of SFAS No. 158:				
Adjustment to initially apply SFAS No. 158	¥(15,300)	¥ —	¥ —	\$(129,661)
Balance, end of year	¥(15,300)	¥ —	¥ —	\$(129,661)
Net unrealized holding gains (losses) on derivative instruments:				
Balance, beginning of year	¥ (276)	¥ (589)	¥ (599)	\$ (2,339)
Net increase	66	313	10	559
Balance, end of year	¥ (210)	¥ (276)	¥ (589)	\$ (1,780)
Total accumulated other comprehensive income (loss)				
Balance, beginning of year	¥ 23,095	¥(21,485)	¥(23,794)	\$ 195,720
Other comprehensive income for the year	20,263	44,580	2,309	171,721
Adjustment to initially apply SFAS No. 158	(9,857)	—	—	(83,534)
Balance, end of year	¥ 33,501	¥ 23,095	¥(21,485)	\$ 283,907

Tax effects allocated to each component of other comprehensive income (loss) and adjustments are as follows:

	Millions of yen		
	Pretax amount	Tax (expense) or benefit	Net of tax amount
2007:			
Foreign currency translation adjustments	¥11,444	¥ —	¥11,444
Net unrealized holding gains on securities available for sale:			
Unrealized holding gains or (losses) arising during the year	5,014	(2,000)	3,014
Less: reclassification adjustment for (gains) or losses included in net income	(199)	82	(117)
Net unrealized gains (losses)	4,815	(1,918)	2,897
Pension liability adjustments	9,900	(4,044)	5,856
Net unrealized holding gains (losses) on derivative instruments:			
Changes in fair value of derivatives	(826)	337	(489)
Net (gains) or losses reclassified into earnings	937	(382)	555
Net unrealized gains (losses)	111	(45)	66
Other comprehensive income (loss)	¥26,270	¥ (6,007)	¥20,263
2006:			
Foreign currency translation adjustments	¥19,921	¥ —	¥19,921
Net unrealized holding gains on securities available for sale:			
Unrealized holding gains or (losses) arising during the year	31,038	(12,660)	18,378
Less: reclassification adjustment for (gains) or losses included in net income	(233)	160	(73)
Net unrealized gains (losses)	30,805	(12,500)	18,305
Pension liability adjustments	11,531	(5,490)	6,041
Net unrealized holding gains (losses) on derivative instruments:			
Changes in fair value of derivatives	(1,951)	796	(1,155)
Net (gains) or losses reclassified into earnings	2,479	(1,011)	1,468
Net unrealized gains (losses)	528	(215)	313
Other comprehensive income (loss)	¥62,785	¥(18,205)	¥44,580
2005:			
Foreign currency translation adjustments	¥ 4,664	¥ —	¥ 4,664
Net unrealized holding gains on securities available for sale:			
Unrealized holding gains or (losses) arising during the year	5,635	(2,299)	3,336
Less: reclassification adjustment for (gains) or losses included in net income	(342)	120	(222)
Net unrealized gains (losses)	5,293	(2,179)	3,114
Pension liability adjustments	(9,139)	3,660	(5,479)
Net unrealized holding gains (losses) on derivative instruments:			
Changes in fair value of derivatives	(480)	196	(284)
Net (gains) or losses reclassified into earnings	497	(203)	294
Net unrealized gains (losses)	17	(7)	10
Other comprehensive income (loss)	¥ 835	¥ 1,474	¥ 2,309

	Thousands of U.S. dollars		
	Pretax amount	Tax (expense) or benefit	Net of tax amount
2007:			
Foreign currency translation adjustments	\$ 96,983	\$ —	\$ 96,983
Net unrealized holding gains on securities available for sale:			
Unrealized holding gains or (losses) arising during the year	42,492	(16,949)	25,543
Less: reclassification adjustment for (gains) or losses included in net income	(1,686)	695	(991)
Net unrealized gains (losses)	40,806	(16,254)	24,552
Pension liability adjustments	83,898	(34,271)	49,627
Net unrealized holding gains (losses) on derivative instruments:			
Changes in fair value of derivatives	(7,000)	2,856	(4,144)
Net (gains) or losses reclassified into earnings	7,940	(3,237)	4,703
Net unrealized gains (losses)	940	(381)	559
Other comprehensive income (loss)	\$222,627	\$(50,906)	\$171,721

16. Income Taxes

Income from continuing operations before income taxes, minority interests and equity in earnings of affiliated companies and income taxes for the years ended March 31, 2007, 2006 and 2005, were as follows:

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	2007
Income from continuing operations before income taxes, minority interests and equity in earnings of affiliated companies:				
Domestic	¥111,220	¥ 56,082	¥ 46,340	\$ 942,542
Foreign	125,271	99,697	45,529	1,061,619
	¥236,491	¥155,779	¥ 91,869	\$2,004,161
Income taxes:				
Current—				
Domestic	¥ 44,295	¥ 29,740	¥ 7,343	\$ 375,381
Foreign	31,807	16,011	8,713	269,551
	76,102	45,751	16,056	644,932
Deferred—				
Domestic	681	2,287	15,109	5,771
Foreign	2,962	(4,068)	3,120	25,102
	3,643	(1,781)	18,229	30,873
Total	¥ 79,745	¥ 43,970	¥ 34,285	\$ 675,805

Total income taxes recognized for the years ended March 31, 2007, 2006 and 2005 were applicable to the following:

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	2007
Income from continuing operations	¥ 79,745	¥ 43,970	¥ 34,285	\$675,805
Income from discontinued operations	14,566	3,051	1,759	123,441
Other comprehensive income (loss):				
Net unrealized holding gains on securities available for sale	1,918	12,500	2,179	16,254
Pension liability adjustments	4,044	5,490	(3,660)	34,271
Net unrealized holding gains (losses) on derivative instruments	45	215	7	381
Amount credited directly to accumulated other comprehensive income (loss) upon adoption of SFAS No. 158	(5,560)	—	—	(47,119)
Total income taxes	¥ 94,758	¥ 65,226	¥ 34,570	\$803,033

Temporary differences and tax loss carryforwards which gave rise to deferred tax assets and liabilities at March 31, 2007 and 2006, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Deferred tax assets:			
Allowances provided, not yet recognized for tax	¥ 4,044	¥ 5,139	\$ 34,271
Accrued expenses	47,855	40,983	405,551
Property, plant and equipment	9,561	8,194	81,025
Inventories	9,388	10,752	79,559
Net operating loss carryforwards	20,926	31,310	177,339
Research and development expenses	386	4,903	3,271
Other	18,659	20,018	158,128
Total gross deferred tax assets	110,819	121,299	939,144
Less valuation allowance	(30,879)	(35,490)	(261,686)
Total deferred tax assets	¥ 79,940	¥ 85,809	\$ 677,458
Deferred tax liabilities:			
Unrealized holding gains on securities available for sale	¥ 27,944	¥ 26,034	\$ 236,814
Deferral of profit from installment sales	315	398	2,669
Property, plant and equipment	11,645	12,262	98,686
Undistributed earnings of foreign subsidiaries and affiliated companies accounted for by the equity method	3,633	3,557	30,789
Total deferred tax liabilities	¥ 43,537	¥ 42,251	\$ 368,958
Net deferred tax assets	¥ 36,403	¥ 43,558	\$ 308,500

Net deferred tax assets and liabilities as of March 31, 2007 and 2006 are reflected on the consolidated balance sheets under the following captions:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Deferred income taxes and other current assets	¥ 49,717	¥ 48,750	\$ 421,331
Deferred income taxes and other assets	20,335	30,298	172,331
Deferred income taxes and other current liabilities	(24)	(16)	(204)
Deferred income taxes and other liabilities	(33,625)	(35,474)	(284,958)
	¥ 36,403	¥ 43,558	\$ 308,500

The valuation allowance was ¥50,273 million as of March 31, 2004. The net changes in the total valuation allowance for the years ended March 31, 2007, 2006 and 2005 were a decrease of ¥4,611 million (\$39,076 thousand), a decrease of ¥21,118 million and an increase of ¥6,335 million, respectively.

Subsequently recognized tax benefits relating to the valuation allowance for deferred tax assets in the amount of ¥719 million (\$6,093 thousand) as of March 31, 2007 will be allocated to goodwill and other intangible assets.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible and net operating losses available to be utilized. Management considers the scheduled reversal of deferred tax liabilities, pro-

jected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods which the deferred tax assets are deductible, management believes it is more likely than not the companies will realize the benefits of these deductible differences and net operating loss carryforwards, net of the existing valuation allowances at March 31, 2007 and 2006. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced.

The Company and its domestic subsidiaries are subject to a National Corporate tax rate of 30%, an inhabitant tax of approximately 6% and a deductible Enterprise tax of approximately 8%, which in the aggregate resulted in a combined statutory income tax rate of approximately 40.8%. The inhabitant tax rate and Enterprise tax rate vary by local jurisdiction.

The differences between the combined statutory tax rates and the effective tax rates for the years ended March 31, 2007, 2006 and 2005, are summarized as follows:

	2007	2006	2005
Combined statutory tax rate	40.8%	40.8%	40.8%
Increase (decrease) in tax rates resulting from:			
Increase in valuation allowance	0.7	5.5	7.4
Expenses not deductible for tax purposes	2.4	3.5	3.4
Realization of tax benefits on operating losses of subsidiaries	(2.2)	(14.0)	(5.6)
Income of foreign subsidiaries taxed at lower than Japanese normal rate	(6.2)	(5.5)	(7.1)
Tax credit for research and development expenses	(1.5)	(2.2)	—
Other, net	(0.3)	0.1	(1.6)
Effective tax rate	33.7%	28.2%	37.3%

Realization of tax benefits on operating losses of subsidiaries during the year ended March 31, 2006, which represented 14.0% of the difference between the statutory and effective tax rate, related to the tax benefits recognized by Komatsu America Corp. amounting to ¥18,357 million on net operating loss carryforwards of its subsidiaries.

Foreign subsidiaries are subject to income taxes of the countries in which they operate. At March 31, 2007 and 2006, undistributed earnings of foreign subsidiaries aggregated ¥239,400 million (\$2,028,814 thousand) and ¥171,391 million, respectively. At March 31, 2005, no deferred tax liabilities were recognized because the Company considered those earnings to be indefinitely reinvested. In the year ended March 31, 2006, the Company changed its policy to distribute a certain portion of undistributed earnings of a foreign subsidiary. As of March 31, 2007 and 2006, Komatsu recognized deferred tax liabilities of ¥913 million (\$7,738 thousand) and ¥1,090 million, respec-

tively, associated with those earnings. As of March 31, 2007 and 2006, Komatsu has not recognized deferred tax liabilities of ¥16,785 million (\$142,246 thousand) and ¥11,551 million, respectively, for such portion of undistributed earnings of foreign subsidiaries that the Company intends to reinvest indefinitely. At March 31, 2007, the Company and certain subsidiaries had net operating loss carryforwards aggregating approximately ¥49,810 million (\$422,119 thousand), which may be used as a deduction in determining taxable income in future periods. The period available to offset future taxable income varies in each tax jurisdiction as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
Within 5 years	¥ 6,155	\$ 52,161
6 to 20 years	34,691	293,992
Indefinite periods	8,964	75,966
Total	¥49,810	\$422,119

17. Rent Expenses

Komatsu leases office space and equipment and employee housing under cancelable and non-cancelable lease agreements. Rent expenses under cancelable and non-cancelable operating leases amounted to ¥6,740 million (\$57,119 thousand), ¥6,370 million and ¥5,588 million, respectively, for the years ended March 31,

2007, 2006 and 2005. Lease contracts for equipment that qualify as capital leases in conformity with SFAS No. 13 have been capitalized. At March 31, 2007, the future minimum lease payments under non-cancelable operating leases and capital leases are as follows:

Year ending March 31	Millions of yen			Thousands of U.S. dollars		
	Capital leases	Operating lease commitments	Total	Capital leases	Operating lease commitments	Total
2008	¥21,931	¥ 3,220	¥25,151	\$185,856	\$ 27,288	\$213,144
2009	14,631	2,247	16,878	123,992	19,042	143,034
2010	12,326	1,603	13,929	104,457	13,585	118,042
2011	7,029	1,005	8,034	59,568	8,517	68,085
2012	2,745	701	3,446	23,262	5,941	29,203
Thereafter	2,494	2,853	5,347	21,136	24,178	45,314
Total minimum lease payments	¥61,156	¥11,629	¥72,785	\$518,271	\$ 98,551	\$616,822
Less: amounts representing interest	(5,274)			(44,695)		
Present value of net minimum capital lease payments	¥55,882			\$473,576		

18. Net Income per Share

A reconciliation of the numerators and denominators of the basic and diluted net income per share computations is as follows:

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	2007
Income from continuing operations	¥153,264	¥109,141	¥55,868	\$1,298,847
Income from discontinued operations less applicable income taxes, minority interests and equity in earnings of affiliated companies	11,374	5,149	3,142	96,390
Net income	¥164,638	¥114,290	¥59,010	\$1,395,237

	Number of shares		
	2007	2006	2005
Weighted average common shares outstanding, less treasury stock	993,597,436	992,733,616	991,662,555
Dilutive effect of:			
Stock options	1,788,951	1,697,534	660,966
Weighted average diluted common shares outstanding	995,386,387	994,431,150	992,323,521

	Yen			U.S. cents
	2007	2006	2005	2007
Income from continuing operations:				
Basic	¥154.25	¥109.94	¥56.34	¢130.72
Diluted	153.97	109.75	56.30	130.48
Income from discontinued operations:				
Basic	¥ 11.45	¥ 5.19	¥ 3.17	¢ 9.70
Diluted	11.43	5.18	3.17	9.69
Net income:				
Basic	¥165.70	¥115.13	¥59.51	¢140.42
Diluted	165.40	114.93	59.47	140.17

19. Commitments and Contingent Liabilities

At March 31, 2007, Komatsu was contingently liable for discounted and transferred receivables on a recourse basis with the financial institutions of ¥11,671 million (\$98,907 thousand) (Note 5).

Komatsu provides guarantees to third parties of loans of the employees, affiliated companies and other companies. The guarantees relating to the employees are mainly made for their housing loans. The guarantees of loans relating to the affiliated companies and other companies are made to enhance the credit of those companies.

For each guarantee provided, Komatsu would have to perform under a guarantee, if the borrower defaults on a payment within the contract terms. The contract terms are from 10 years to 30 years in the case of employees with housing loans, and from 1 year to 5 years in the case of loans relating to the affiliated companies and other companies. The maximum amount of undiscounted payments Komatsu would have had to make in the event of default is ¥57,063 million (\$483,585 thousand) at March 31, 2007. The fair value of the liabilities recognized for Komatsu's obligations as guarantors under those guarantees at March 31, 2007 were insignificant. Certain of those guarantees were secured by collateral and insurance issued to the Company.

Management of Komatsu believes that losses from those contingent liabilities, if any, would not have a material effect on the consolidated financial statements.

Commitments for capital investment outstanding at March 31, 2007, aggregated approximately ¥12,900 million (\$109,322 thousand).

Komatsu is involved in certain legal actions and claims arising in the ordinary course of its business. It is the opinion of management and legal counsel that such litigation and claims will be resolved without material effect on Komatsu's financial position.

Komatsu has business activities with customers, dealers and associates around the world and its trade receivables from such parties are well diversified to minimize concentrations of credit risks. Management does not anticipate incurring losses on its trade receivables in excess of established allowances.

Komatsu also issues contractual product warranties under which it generally guarantee the performance of products delivered and services rendered for a certain period or term. Change in accrued product warranty cost for the years ended March 31, 2007 and 2006 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Balance at beginning of year	¥ 26,582	¥ 21,251	\$ 225,271
Addition	39,756	22,051	336,915
Utilization	(37,862)	(17,575)	(320,864)
Other	523	855	4,432
Balance at end of year	¥ 28,999	¥ 26,582	\$ 245,754

20. Derivative Financial Instruments

Risk Management Policy

Komatsu is exposed to market risk primarily from changes in foreign currency exchange and interest rates with respect to debt obligations, international operations and foreign currency denominated credits and debts. In order to manage these risks that arise in the normal course of business, Komatsu enters into various derivative transactions for hedging pursuant to its policies and procedures. Komatsu does not enter into derivative financial transactions for trading or speculative purposes.

Komatsu has entered into interest rate swap and cap agreements, partly concurrent with currency swap agreements for the purpose of managing the risk resulting from changes in cash flow or fair value that arise in their interest rate and foreign currency exposure with respect to certain short-term and long-term debts.

Komatsu operates internationally which expose Komatsu to the foreign exchange risk against existing assets and liabilities and transactions denominated in foreign currencies (principally the U.S. dollar and the Euro). In order to reduce these risks, Komatsu executes forward exchange contracts and option contracts based on its projected cash flow in foreign currencies.

Komatsu is exposed to credit-related losses in the event of nonperformance by counterparties to derivative financial instruments, but Komatsu does not expect any counterparties to fail to meet their obligations because of the high credit rating of the counterparties.

Fair Value Hedges

Komatsu uses derivative financial instruments designated as fair value hedges to manage primarily interest rate and foreign exchange risks associated with debt obligations. Principally interest rate swaps and cross-currency swaps are used to hedge such risk for debt obligations. Changes in fair value of the hedged debt obligations and derivative instruments designated as fair value hedge are offset and recognized in other expense. For the years ended March 31, 2007, 2006 and 2005, hedge ineffectiveness resulting from fair value hedging activities was not material to Komatsu's result of operations. During the same period, no fair value hedges were discontinued.

Cash Flow Hedges

Komatsu uses derivative financial instruments designated as cash flow hedges to manage Komatsu's foreign exchange risks associated with forecasted transactions and Komatsu's interest risks associated with debt obligations. For transactions denominated in foreign currencies, Komatsu typically hedges forecasted and firm commitment exposures to the variability in cash flow basically up to one year. For the variable rate debt obligations, Komatsu enters into interest rate swap contracts to manage the changes in cash flows. Komatsu records the changes in fair value of derivative instruments designated as cash flow hedges in other comprehensive income (loss). These amounts are reclassified into earnings through other income (expenses) when the hedged items impact earnings. Approximately ¥189 million (\$1,602 thousand) of existing loss included in accumulated other comprehensive income (loss) at March 31, 2007 will be reclassified into earnings within twelve months from that date. No cash flow hedges were discontinued during the years ended March 31, 2007 as a result of anticipated transactions that are no longer probable of occurring.

Undesignated Derivative Instruments

Komatsu has entered into interest rate swap contracts not designated as hedging instruments under SFAS No. 133 as a means of managing Komatsu's interest rate exposures for short-term and long-term debts. Forward contracts and option contracts not designated as hedging instruments under SFAS No. 133 are also used to hedge certain foreign currency exposures. The changes in fair value of such instruments are recognized currently in earnings.

Notional Principal Amounts of Derivative Financial Instruments

Notional principal amounts of derivative financial instruments outstanding at March 31, 2007 and 2006 are as follows.

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Forwards and options:			
Sale of foreign currencies	¥ 82,015	¥ 69,675	\$ 695,042
Purchase of foreign currencies	41,778	35,656	354,051
Option contracts (purchased)	2,532	2,128	21,458
Interest rate swap, cross-currency swap and interest rate cap agreements	253,372	212,882	2,147,220

21. The Fair Value of Financial Instruments

(1) Cash and Cash Equivalents, Time Deposits, Trade Notes and Accounts Receivables, Other Current Assets, Short-Term Debt, Trade Notes and Accounts Payables, and Other Current Liabilities

The carrying amount approximates fair value because of the short maturity of these instruments.

(2) Investment Securities

The fair values of investment securities available for sale for which it is practicable to estimate fair value are based on quoted market prices.

(3) Installment Receivables

The fair values of installment receivables are based on the present value of future cash flows through maturity, discounted using estimated current interest rates. The fair values computed on such a basis approximate the carrying amounts (Note 5).

(4) Long-Term Debt

The fair values of each of the long-term debts are based on the quoted price in the most active market or the present value of future cash flows associated with each instrument discounted using the current borrowing rate for similar debt of comparable maturity.

(5) Derivative Financial Instruments

The fair values of derivative financial instruments, consisting principally of foreign currency contracts and interest swap agreements, are estimated by obtaining quotes from brokers.

The carrying amounts and the estimated fair values of the financial instruments, including financial instruments not qualifying as hedge, as of March 31, 2007 and 2006, are summarized as follows:

	Millions of yen				Thousands of U.S. dollars	
	2007		2006		2007	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Investment securities	¥108,590	¥108,590	¥ 95,159	¥ 95,159	\$ 920,254	\$ 920,254
Long-term debt, including current portion	246,826	244,921	279,783	276,630	2,091,746	2,075,602
Derivatives:						
Forwards and options						
Assets	614	614	367	367	5,203	5,203
Liabilities	1,079	1,079	1,446	1,446	9,144	9,144
Interest rate swap, cross-currency swap and interest rate cap agreements						
Assets	285	285	1,511	1,511	2,415	2,415
Liabilities	2,192	2,192	3,041	3,041	18,576	18,576

Limitations

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and

involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could affect the estimates.

22. Business Segment Information

Under SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, in deciding how to allocate resources and in assessing performance. The operating

segments are managed separately because each operating segment represents a strategic business unit that offers different products and services.

Komatsu operates on a worldwide basis with three operating segments: 1) Construction and mining equipment, 2) Industrial Machinery, Vehicles and Others, 3) Electronics.

The following tables present certain information regarding Komatsu's operating segments and geographic information at March 31, 2007, 2006 and 2005, and for the years then ended:

Operating segments:

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	2007
Net sales:				
Construction and Mining Equipment—				
Customers	¥1,567,723	¥1,291,223	¥1,061,161	\$13,285,788
Intersegment	20,253	21,203	15,199	171,636
Total	1,587,976	1,312,426	1,076,360	13,457,424
Industrial Machinery, Vehicles and Others—				
Customers	298,022	279,497	248,487	2,525,610
Intersegment	99,229	82,196	62,155	840,924
Total	397,251	361,693	310,642	3,366,534
Electronics—				
Customers	27,598	41,420	46,423	233,882
Intersegment	13	15	26	110
Total	27,611	41,435	46,449	233,992
Elimination	(119,495)	(103,414)	(77,380)	(1,012,670)
Consolidated	¥1,893,343	¥1,612,140	¥1,356,071	\$16,045,280
Segment profit:				
Construction and Mining Equipment	¥ 220,606	¥ 142,904	¥ 78,427	\$ 1,869,542
Industrial Machinery, Vehicles and Others	29,555	22,470	15,440	250,466
Electronics	2,137	3,045	5,414	18,110
Total	252,298	168,419	99,281	2,138,118
Corporate expenses and elimination	(2,552)	(3,918)	(5,080)	(21,627)
Consolidated segment profit	249,746	164,501	94,201	2,116,491
Impairment loss on long-lived assets held for use	81	4,791	4,200	686
Impairment loss on goodwill	—	3,041	—	—
Other operating income (expenses)	(4,924)	6,759	5,861	(41,729)
Operating income	244,741	163,428	95,862	2,074,076
Interest and dividend income	8,532	6,824	5,138	72,305
Interest expense	(15,485)	(12,208)	(10,611)	(131,229)
Other—net	(1,297)	(2,265)	1,480	(10,991)
Consolidated income from continuing operations before income taxes	¥ 236,491	¥ 155,779	¥ 91,869	\$ 2,004,161
Identifiable assets:				
Construction and Mining Equipment	¥1,423,744	¥1,167,336	¥ 979,087	\$12,065,627
Industrial Machinery, Vehicles and Others	302,314	259,951	215,679	2,561,983
Electronics	15,266	120,984	142,679	129,373
Corporate assets and elimination	102,658	103,854	111,623	869,983
Consolidated	¥1,843,982	¥1,652,125	¥1,449,068	\$15,626,966
Depreciation and amortization:				
Construction and Mining Equipment	¥ 57,444	¥ 50,399	¥ 46,630	\$ 486,814
Industrial Machinery, Vehicles and Others	7,751	6,742	7,304	65,686
Electronics	226	261	1,748	1,915
Consolidated	¥ 65,421	¥ 57,402	¥ 55,682	\$ 554,415
Capital investment:				
Construction and Mining Equipment	¥ 111,003	¥ 99,622	¥ 64,547	\$ 940,703
Industrial Machinery, Vehicles and Others	18,541	14,155	10,585	157,127
Electronics	136	157	1,775	1,153
Consolidated	¥ 129,680	¥ 113,934	¥ 76,907	\$ 1,098,983

Transfers between segments are made at estimated arm's-length prices. Segment profit represents net sales less cost of sales and selling, general and administrative expenses. Identifiable assets are those assets used in the operations of each segment. Unallocated corporate assets consist primarily of cash and cash equivalents and marketable investment securities maintained for general corporate purposes. Depreciation and amortization for the years ended March 31, 2007, 2006 and 2005 do not include amortization of long-term prepaid expenses of ¥913 million (\$7,737 thousand), ¥1,225 million and ¥1,416 million, and do not include those for discontinued operations of ¥6,375 million (\$54,026 thousand), ¥14,013 million and ¥11,922 million. The term "Capital investment" should be distinguished from the term "Capital expenditures" as used in the consolidated statements of cash flows. The term "Capital investment" is defined to refer to the acquisition of property, plant and equipment including properties under capital leases on an accrual basis which reflects the effects of timing differences between

acquisition dates and payment dates.

Certain amounts in the segment information do not reflect discontinued operations. Accordingly, segment information for the years ended March 31, 2006 and 2005 has been reclassified to conform to the presentation for the year ended March 31, 2007. Industrial Machinery, Vehicles and Others segment does not include net sales to customers of discontinued operations amounting to ¥22,067 million (\$187,008 thousand), ¥20,663 million and ¥17,968 million and segment profit amounting to ¥1,730 million (\$14,661 thousand), ¥1,753 million and ¥1,417 million for the years ended March 31, 2007, 2006 and 2005, respectively. Electronics segment does not include net sales to customers of discontinued operations amounting to ¥41,349 million (\$350,415 thousand), ¥69,166 million and ¥60,749 million and segment profit amounting to ¥9,288 million (\$78,712 thousand), ¥10,199 million and ¥6,305 million for the years ended March 31, 2007, 2006 and 2005, respectively.

Geographic information:

Net sales to customers recognized by sales destination for the years ended March 31, 2007, 2006 and 2005 are as follows:

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	2007
Net sales:				
Japan	¥ 487,103	¥ 482,825	¥ 479,007	\$ 4,127,992
The Americas	537,836	477,718	355,561	4,557,932
Europe and CIS	324,071	232,329	195,281	2,746,364
China	129,443	89,667	51,987	1,096,975
Asia (excluding Japan, China) and Oceania	252,768	213,719	190,458	2,142,102
Middle East and Africa	162,122	115,882	83,777	1,373,915
Consolidated net sales	¥1,893,343	¥1,612,140	¥1,356,071	\$16,045,280

Net sales recognized by geographic origin and property, plant and equipment at March 31, 2007, 2006 and 2005, and for the years then ended are as follows:

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	2007
Net sales:				
Japan	¥ 739,206	¥ 682,260	¥ 628,304	\$ 6,264,458
U.S.A.	527,680	465,726	356,063	4,471,864
Europe	298,509	212,844	175,678	2,529,737
Others	327,948	251,310	196,026	2,779,221
Total	¥1,893,343	¥1,612,140	¥1,356,071	\$16,045,280
Property, plant and equipment:				
Japan	¥ 282,050	¥ 298,807	¥ 275,065	\$ 2,390,254
U.S.A.	60,609	48,871	50,451	513,636
Europe	25,808	19,563	17,660	218,712
Others	19,926	33,426	23,484	168,864
Total	¥ 388,393	¥ 400,667	¥ 366,660	\$ 3,291,466

No individual country within Europe or other areas had a material impact on net sales or property, plant and equipment. There were no sales to a single major external customer for the years ended March 31, 2007, 2006 and 2005.

The following information shows net sales and segment profit recognized by geographic origin for the years ended March 31, 2007, 2006 and 2005. In addition to the disclosure requirements under SFAS No. 131, Komatsu discloses this information

as supplemental information in light of the disclosure requirements of the Japanese Securities and Exchange Law, which a Japanese public company is subject to:

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	2007
Net sales:				
Japan—				
Customers	¥ 739,206	¥ 682,260	¥ 628,304	\$ 6,264,458
Intersegment	396,361	297,784	231,812	3,358,991
Total	1,135,567	980,044	860,116	9,623,449
The Americas—				
Customers	527,792	466,049	356,284	4,472,814
Intersegment	38,221	22,596	19,015	323,906
Total	566,013	488,645	375,299	4,796,720
Europe—				
Customers	298,509	212,844	175,678	2,529,737
Intersegment	34,450	29,760	21,787	291,949
Total	332,959	242,604	197,465	2,821,686
Others—				
Customers	327,836	250,987	195,805	2,778,271
Intersegment	20,678	19,250	9,404	175,237
Total	348,514	270,237	205,209	2,953,508
Elimination	(489,710)	(369,390)	(282,018)	(4,150,083)
Consolidated	¥1,893,343	¥1,612,140	¥1,356,071	\$16,045,280
Segment profit:				
Japan	¥ 140,193	¥ 89,913	¥ 51,734	\$ 1,188,076
The Americas	51,842	38,966	24,652	439,339
Europe	32,104	20,315	11,943	272,068
Others	38,033	22,539	11,807	322,313
Corporate and elimination	(12,426)	(7,232)	(5,935)	(105,305)
Consolidated	¥ 249,746	¥ 164,501	¥ 94,201	\$ 2,116,491
Identifiable assets:				
Japan	¥1,065,487	¥1,046,024	¥1,014,317	\$ 9,029,551
The Americas	481,144	411,091	340,270	4,077,492
Europe	221,012	151,664	125,891	1,872,983
Others	237,839	201,168	142,897	2,015,585
Corporate assets and elimination	(161,500)	(157,822)	(174,307)	(1,368,645)
Consolidated	¥1,843,982	¥1,652,125	¥1,449,068	\$15,626,966
Overseas sales:				
The Americas	¥ 537,836	¥ 477,718	¥ 355,561	\$ 4,557,932
Europe	324,071	232,329	195,281	2,746,364
Others	544,333	419,268	326,222	4,612,992
Total	¥1,406,240	¥1,129,315	¥ 877,064	\$11,917,288

Transfers between segments are made at estimated arm's-length prices. Segment profit represents net sales less cost of sales and selling, general and administrative expenses. Identifiable assets are those assets used in the operations of

each segment. Unallocated corporate assets consist primarily of cash and cash equivalents and investment securities maintained for general corporate purposes.

23. Supplementary Information to Balance Sheets

At March 31, 2007 and 2006, deferred income taxes and other current assets were comprised of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Prepaid expenses	¥ 3,663	¥ 4,282	\$ 31,042
Short-term loans receivable:			
Affiliated companies	2,764	2,064	23,424
Other	2,220	2,106	18,813
Total	¥ 4,984	¥ 4,170	\$ 42,237
Deferred income taxes	49,717	48,750	421,331
Other	60,850	52,576	515,678
Total	¥119,214	¥109,778	\$1,010,288

24. Supplementary Information to Statements of Income

The following information shows research and development expenses and advertising costs, for the years ended March 31, 2007, 2006 and 2005. Research and development expenses, and advertising costs are charged to expense as incurred and are included in cost of sales and selling, general and administrative expenses in consolidated statements of income.

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	2007
Research and development expenses	¥ 46,306	¥ 44,560	¥ 41,123	\$392,424
Advertising costs	4,482	3,978	3,697	37,983

Shipping and handling costs included in selling, general and administrative expenses for the years ended March 31, 2007, 2006 and 2005, were as follows:

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	2007
Shipping and handling costs	¥ 44,065	¥ 35,735	¥ 30,941	\$373,432

Other operating income (expense) for the years ended March 31, 2007, 2006 and 2005, were comprised of the following:

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	2007
Gain from sale of subsidiaries	¥ —	¥ 18,484	¥ —	\$ —
Gain on sale of property	—	—	11,942	—
Loss on disposal or sale of fixed assets	(2,015)	(8,176)	(3,966)	(17,076)
Other	(2,909)	(3,549)	(2,115)	(24,653)
Total	¥ (4,924)	¥ 6,759	¥ 5,861	\$ (41,729)

Other income (expenses) for the years ended March 31, 2007, 2006 and 2005, were comprised of the following:

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	2007
Interest income—				
Installment receivables	¥ 945	¥ 1,112	¥ 1,511	\$ 8,008
Other	6,729	5,028	3,142	57,026
Dividends	858	684	485	7,271
Interest expense	(15,485)	(12,208)	(10,611)	(131,229)
Net gain (loss) from sale of investment securities	344	18	(126)	2,915
Exchange gain or loss, net	(903)	(1,941)	2,318	(7,653)
Other	(738)	(342)	(712)	(6,253)
Total	¥ (8,250)	¥ (7,649)	¥ (3,993)	\$ (69,915)

25. Valuation and Qualifying Accounts

Valuation and qualifying accounts deducted from assets to which they apply:

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	2007
Allowance for doubtful receivables				
Balance at beginning of fiscal period	¥11,786	¥14,664	¥15,222	\$ 99,881
Additions				
Charged to costs and expenses	2,653	160	3,175	22,483
Deductions	2,631	3,038	3,733	22,296
Balance at end of fiscal period	¥11,808	¥11,786	¥14,664	\$100,068

Deductions were principally uncollectible accounts and notes charged to the allowance.

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	2007
Valuation allowance for deferred tax assets				
Balance at beginning of fiscal period	¥35,490	¥56,608	¥50,273	\$300,763
Additions				
Charged to costs and expenses	1,715	8,546	6,829	14,534
Charged to other accounts	341	3,129	4,649	2,889
Deductions	6,667	32,793	5,143	56,500
Balance at end of fiscal period	¥30,879	¥35,490	¥56,608	\$261,686

Deductions were principally realization or expiration of net operating loss carryforwards.

26. Subsequent Event

Komatsu Zenoah Co., a subsidiary of the Company, split off its outdoor power equipment (OPE) business, and Zenoah Co., Ltd., a subsidiary of Komatsu Zenoah Co., took over the OPE business. All shares of Zenoah Co., Ltd. were sold to a Japanese subsidiary of Husqvarna AB of Sweden on April 2, 2007. After the sale of the OPE business which has few synergy effects with the construction and mining equipment business, Komatsu is better positioned to further improve management efficiency.

Name and Line of Business of the Sub-Subsidiary Sold

Name: Zenoah Co., Ltd.
Line of Business: Manufacture and sale of outdoor power equipment

Name of the Acquisition Company

Name: Husqvarna Japan Ltd.

Sale Price

Sale Price: ¥18,250 million

Gain on sale

Gain on sale (Pre-Tax): Approximately ¥8.4 billion

Management's Report on Internal Control over Financial Reporting


The management of Komatsu is responsible for establishing and maintaining adequate internal control over financial reporting. Komatsu's internal control over financial reporting is a process designed to provide reasonable assurances regarding the reliability of its financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. Komatsu's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of Komatsu, (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of Komatsu are being made only in accordance with authorizations of management and directors of Komatsu and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of Komatsu's assets that could have a material effect on its financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

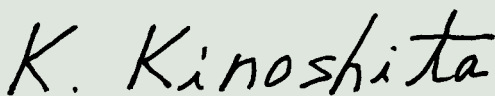
Management assessed the effectiveness of the Komatsu's internal control over financial reporting as of March 31, 2007. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control — Integrated Framework.

Based on its assessment Komatsu concluded that, as of March 31, 2007, Komatsu's internal control over financial reporting was effective based on those criteria.

KPMG AZSA & Co., an independent registered public accounting firm, has issued an audit report on Komatsu's assessment of the effectiveness of its internal control over financial reporting as of March 31, 2007.



Kunio Noji
President and CEO



Kenji Kinoshita
Director and Senior Executive Officer
CFO

June 29, 2007

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Komatsu Ltd.:

We have audited the accompanying consolidated balance sheets of Komatsu Ltd. and subsidiaries as of March 31, 2007 and 2006, and the related consolidated statements of income, shareholders' equity and cash flows for each of the years in the three-year period ended March 31, 2007, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Komatsu Ltd. and subsidiaries as of March 31, 2007 and 2006, and the results of their operations and their cash flows for each of the years in the three-year period ended March 31, 2007, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of March 31, 2007, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated June 29, 2007 expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.

The accompanying consolidated financial statements as of and for the year ended March 31, 2007 have been translated into United States dollars solely for convenience of the reader. We have audited the translation and, in our opinion, the consolidated financial statements, expressed in yen, have been translated into dollars on the basis set forth in Note 1 to the consolidated financial statements.

KPMG AZSA & Co.

Tokyo, Japan
June 29, 2007

The Board of Directors and Shareholders
Komatsu Ltd.:

We have audited management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting, that Komatsu Ltd. and subsidiaries maintained effective internal control over financial reporting as of March 31, 2007, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

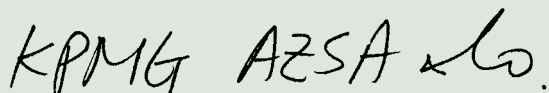
We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that Komatsu Ltd. and subsidiaries maintained effective internal control over financial reporting as of March 31, 2007, is fairly stated, in all material respects, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also, in our opinion, Komatsu Ltd. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of March 31, 2007, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Komatsu Ltd. and subsidiaries as of March 31, 2007 and 2006, and the related consolidated statements of income, shareholders' equity and cash flows for each of the years in the three-year period ended March 31, 2007, expressed in Japanese yen, and our report dated June 29, 2007 expressed an unqualified opinion on those consolidated financial statements.



Tokyo, Japan
June 29, 2007