
Financial Section

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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, 2008 continued to renew the record-high figures in both net sales and profits, registering the sixth consecutive year of improvements in the two figures.

| | Results for the Year | Increase (Decrease) |
|--|----------------------|---------------------|
| Sales | 2,243.0 billion yen | 18.5% |
| Operating income | 332.8 billion yen | 36.0% |
| Income from continuing operations before income taxes, minority interests and equity in earnings of affiliated companies | 322.2 billion yen | 36.2% |
| Income from discontinued operations (*1) | 4.9 billion yen | (56.3)% |
| Net income | 208.7 billion yen | 26.8% |

Note *1: In April 2007, Komatsu Zenoah Co. had Zenoah Co., a subsidiary, take over its outdoor power equipment business through the split and takeover procedure. In the same month, Komatsu Utility Co., Ltd., which had taken over Komatsu Zenoah Co., sold all of its shares of Zenoah Co. to HUSQVARNA JAPAN LTD. (currently, Husqvarna Zenoah Co., Ltd.). In accordance with the Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," income from the sale of the outdoor power equipment business of Komatsu Zenoah Co. is presented as one line, "income from discontinued operations," in the consolidated statements of income.

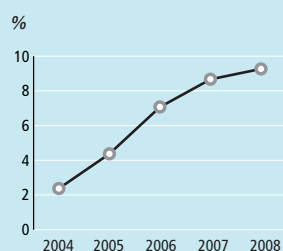
Consolidated net sales increased 18.5% over the previous year, to ¥2,243,023 million (US\$22,430 million, at US\$1=¥100). In the construction and mining equipment segment, Komatsu continued to increase sales for the year by effectively capitalizing on expanded market demand resulting from buoyant developments of commodities and infrastructure around the world. In the industrial machinery, vehicles and others segment, Komatsu recorded good performance and advanced sales.

Operating income advanced to ¥332,850 million (US\$3,329 million), a 36.0% increase from the previous year, and operating income ratio improved by 1.9 percentage points to 14.8%. 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 ¥322,210million (US\$3,222 million), a 36.2% increase from the previous year, reflecting a substantial increase in operating profit. Net income for the year, the sum of income from continuing and discontinued operations, totaled ¥208,793million (US\$2,088 million), a 26.8% increase from the previous year.

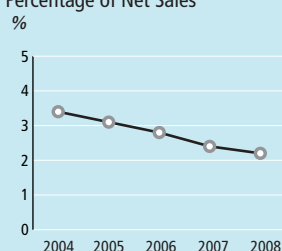
(2) Impact of Foreign Exchange Rate

In comparison to the previous year, Japanese yen was strong against US dollar and weak against Euro during the current year. Due to such currency fluctuations, segment profit in the construction and mining equipment segment for the year increased by approximately ¥2.5billion 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.

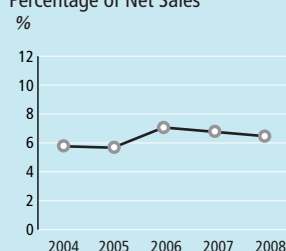
Return on Net Sales



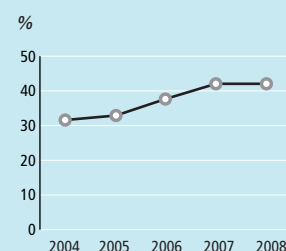
R&D Expenses as a Percentage of Net Sales



Capital Investment as a Percentage of Net Sales



Shareholders' Equity Ratio



(3) Sales

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

Consolidated net sales expanded 18.5% over the previous year, to ¥2,243,023 million (US\$22,430 million), replacing the record-high figure renewed in the previous year. Sales in Japan increased 3.7% over the previous year, to ¥505,185 million (US\$5,052 million). Sales in overseas countries increased 23.6% over the previous year, to ¥1,737,838 million (US\$17,378 million).

Construction and Mining Equipment

Consolidated net sales of construction and mining equipment for the fiscal year under review accelerated 21.0% over the previous year, to ¥1,897,620 million (US\$18,976 million). As demand for our equipment continued to expand, we not only introduced and stepped up sales of DANTOTSU models which feature unrivaled performance in fuel consumption and other areas, but also worked to realize higher prices and strengthen our product support capability. In response to thriving demand for our equipment, we further expanded our production capacities, including new Japanese facilities for key components and assembly plants, particularly in Asia, in concert with supplier partners. In preparation for further growth in demand, we began construction of new plants: one to produce super-large hydraulic excavators adjacent to the Port of Kanazawa in Ishikawa Prefecture, Japan; one for medium-sized hydraulic excavators, forklift trucks and other equipment in Yaroslavl, northeast of Moscow, Russia; and one for crawlers for construction equipment in Jining, Shandong, China.

<Japan>

While public-sector investments remained slack, demand for equipment renewal supported the Japanese market, reflecting strong exports of used equipment from Japan. However, demand for new equipment declined around the middle of the fiscal year resulting from a drop in housing starts when Japan's Building Code was revised. We worked to expand sales of new

equipment centering on DANTOTSU models, realize higher prices, and reinforce the used equipment business. As a result, sales increased 2.1% from the previous year. As a measure to further build up the rental and used equipment business, we decided to unify the management of Komatsu Rental Japan Ltd. and BIGRENTAL CO., LTD.

<The Americas>

North American demand, which had begun declining since the second half period of 2006, reflecting a drop in U.S. housing starts, remained slack as affected by an economic slowdown which was triggered by the subprime mortgage problem. Meanwhile, Latin American demand continued to increase, centering on mining equipment. In this environment, we continued our efforts to normalize our distributors' inventories in North America. In both regions, we worked to reinforce our sales and product support capabilities for the mining industry. We also worked to expand sales of DANTOTSU models such as the D51 bulldozer, which offers unrivaled front visibility for operators, and to strengthen our competitiveness through such measures as price realization. As a result, sales in the Americas remained flat (up 0.2%) from the previous year.

<Europe & CIS>

European demand expanded, reflecting good market conditions in Germany, the largest market in Europe, and Central and Eastern Europe. In addition to shortening our production lead-time, we focused efforts to accelerate sales of DANTOTSU models and realize higher prices through our distributors who are more in number and stronger. In CIS, demand sharply expanded for use in infrastructure development in urban areas in addition to use in natural resource and energy developments. Under the leadership of Komatsu CIS, LLC, our regional headquarters, we worked to increase the number of distributors and strengthen their capabilities and reinforce our sales and product support capabilities for the mining industry. As a result, sales in Europe & CIS increased 32.9% over the previous year.

<China>

In addition to expanded demand for use in infrastructure development nationwide, demand continued to climb, supported mainly by exploration of new mines and progress in mechanization. While launching the medium-sized PC200 renewed hydraulic excavator model which offers better fuel economy, we concerted efforts to sharpen our competitiveness by expanding sales of new equipment based on IT-capitalized information concerning business negotiations and equipment operations, improving operational efficiency of sales and production and reinforcing our capability to manage customers' equipment. As a result, sales in China advanced 62.3% over the previous year.

<Asia & Oceania>

In Indonesia, the largest market of Southeast Asia, demand continued to expand in civil engineering, agricultural and forestry sectors, in addition to surging demand for mining equipment. In India, demand for equipment advanced steadily for uses in infrastructure development and mining, driven by powerful economic growth. In Oceania, demand was strong, centering on mining equipment. In this environment, we focused our efforts to expand production capacity and sales and product support capabilities for the mining industry. As a result, sales in Asia & Oceania recorded an increase of 37.8%.

<Middle East & Africa>

Against the backdrop of skyrocketing prices of crude oil and other commodities, demand remained strong in infrastructure development in the Middle East and resource and infrastructure developments in Africa. In this environment, we concerted efforts to strengthen our aggressive sales and product support capabilities by teaming up with our distributors. As a result, sales in the Middle East & Africa improved 42.6% over the previous year.

Industrial Machinery, Vehicles and Others

Consolidated net sales of industrial machinery, vehicles and other operations increased 6.1% over the previous year, to ¥345,403 million (US\$3,454 million) for the fiscal year under review. Reflecting strong capital investments in Japan and overseas, the forklift truck business and the industrial machinery business continued to improve sales. In the forklift truck business, Komatsu Utility Co., Ltd. worked to expand sales of new models and strengthen its sales and service capabilities, mainly in Greater Asia which includes Asia, CIS and the Middle East. The company also concerted efforts to step up sales of electric forklift trucks in Japan, including the market introduction of the industry's first hybrid electric forklift truck. Our

industrial machinery business effectively took advantage of capital investments centering on the automobile industry in Japan and overseas, enjoying good sales of large presses, sheet metal and press machines of Komatsu Industries Corporation, and machine tools of Komatsu Machinery Corporation. To further reinforce the industrial machinery sector, the Company had acquired 29.3% of the equity of NIPPEI TOYAMA CORPORATION (hereinafter NIPPEI TOYAMA) back in December 2006. In January 2008 the Company launched the tender offer to obtain all issued shares of NIPPEI TOYAMA, resulting in an equity-holding ratio of 93.7% as of March 31, 2008. The Company plans to make NIPPEI TOYAMA a wholly owned subsidiary through share exchange in August 2008.

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

Accompanying the rise in sales, costs of sales rose by 17.3% over the previous year to ¥1,590,963 million (US\$15,910 million). Komatsu's efforts at reducing manufacturing costs contributed to a 0.7 point improvement in the cost of sales to sales ratio to 70.9% from the previous year. Selling, general and administrative expenses (SG&A) rose by 10.6% over the previous year to ¥317,474 million (US\$ 3,175 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 1.0 points from the previous year to 14.2%. Moreover, research and development expenses, which are included in cost of sales and SG&A, rose by 7.3% year over year to ¥49,673 million (US\$497 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 determined in a manner that is consistent with Japanese accounting principles by subtracting the cost of sales and selling, general and administrative expenses from net sales attributed to the operating segment)

Segment profit in the construction and mining equipment segment increased by ¥83,779 million over the previous year to ¥304,385 million (US\$ 3,044 million). This increase was primarily due to positive factors such as expanded gross margin as a result of increased sales volume, beneficial changes in foreign

exchange rates, 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 Industries Corp., Komatsu Machinery Corp., Komatsu Logistics Corp., and other subsidiaries also experienced an increase in profits by ¥1,032 million to ¥33,727 million (US\$337 million).

Consequently overall consolidated segment profit improved further by ¥84,840 million from the previous year to ¥334,586 million (US\$3,346 million).

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

Impairment loss on long-lived assets held for use of ¥2,447 million (US\$24 million) for the current year increased by ¥2,366 million as compared to ¥81 million for the previous year.

(7) Impairment Loss on Goodwill

Impairment loss on goodwill for the current year was ¥2,870 million (US\$29 million) while it didn't occur in the previous year.

(8) Other Operating Income (Expenses)

Other operating income of ¥3,581 million (US\$36 million) for the current year increased by ¥8,505 million as compared to expenses of ¥4,924 million for the previous year.

(9) Operating Income

As a result, operating income rose by ¥88,109 million to ¥332,850 million (US\$3,329 million) in the current year from the ¥244,741 million recorded during the previous year.

(10) Other Income (Expense)

Interest and dividend income of ¥10,265 million (US\$103 million) was up ¥1,733 million compared with ¥8,532 million in the previous year. Interest expense of ¥16,699 million (US\$167 million) was up ¥1,214 million compared with ¥15,485 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 ¥85,719 million to ¥322,210 million (US\$3,222 million) in the current year from the ¥236,491 million recorded during the previous year.

(12) Income Taxes

Corporate income taxes increased by ¥36,049 million to ¥115,794 million (US\$ 1,158 million) from an income tax expense of ¥79,745 million for the previous year. The actual effective tax rate was 35.9% from 33.7% for the previous year. The difference between the Japanese statutory tax rate of 40.8% and the actual effective tax rate of 35.9% was caused by income of foreign subsidiaries taxed at a rate lower than the Japanese statutory tax rate and a realization of previously reserved tax benefits on operating losses of subsidiaries 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 ¥9,435 million (US\$94 million) from ¥6,580 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 ¥3,098 million in profit in the previous year to ¥6,845 million (US\$68 million) profit in the current year.

(15) Income from Continuing Operations

Income from continuing operations rose by ¥50,562 million to ¥203,826 million (US\$2,038 million) in the current year from the ¥153,264 million recorded during the previous year.

(16) Income from Discontinued Operations less applicable income taxes

Income from discontinued operations less applicable income taxes for the current year decreased ¥6,407 million to ¥4,967million(US\$50 million) as compared to ¥11,374 million for the previous year.

(17) Net Income

Net income for the current year, the sum of income from continuing operations and discontinued operations, grew by 26.8% to ¥208,793 million (US\$2,088 million) from the previous year's level of ¥164,638 million. Similarly net income per share rose to ¥209.87 from ¥165.70 in the previous year. (The earnings per share diluted is ¥209.59 and ¥165.40 respectively for the current 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. This approach is supplemented with group-wide cash management system. Komatsu's interest-bearing debt, including its capital lease obligations, as of March 31, 2008 totaled ¥452,095 million (US\$4,521 million), which increased by ¥103,021 million in fiscal year ended March 31, 2008 as compared to fiscal year ended March 31, 2007. Net interest-bearing debt after deducting cash and deposits also increased by ¥93,167 million to ¥349,988 million (US\$3,500 million) in fiscal year ended March 31, 2008. As a result, Komatsu's net debt-to equity ratio as of March 31, 2008 was 0.39, compared to 0.33 March 31, 2007.

Komatsu's short-term debt as of March 31, 2008 increased by ¥6,642 million to ¥108,890 million (US\$1,089 million) from March 31, 2007. Komatsu's long-term debt, including debt that was scheduled to mature as of March 31, 2009, increased by ¥96,379 million to ¥343,205 million (US\$3,432 million) in fiscal year ended March 31, 2008 as compared to fiscal year ended March 31, 2007. Komatsu's short-term debt primarily consists of short-term bank loans and is used as working capital. As of March 31, 2008, Komatsu's long-term debt excluding market value adjustment consisted of ¥154,870 million in loans from banks, insurance companies and other financial institutions and so on, ¥75,644 million in Euro Medium Term Notes (EMTN), ¥30,815 million in unsecured bonds and ¥81,876 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\$1,000 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 bonds issued under the program were ¥20,000 million (US\$200 million) and outstanding borrowings under these EMTN programs were ¥75,644 million (US\$756 million) as of March 31, 2008.

The Company and certain 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, 2008, the balance of such off-balance sheet securitized receivables was ¥166,256 million (US\$1,663 million).

As of March 31, 2008, current assets increased by ¥129,932 million to ¥1,273,677 million (US\$12,737 million), while current liability increased by ¥76,352 million to ¥861,532 million (US\$8,615 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, 2008 was 147.8%, which reflected an increase of 2.1 percentage points from fiscal year ended March 31, 2007. 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. Certain consolidated subsidiaries maintain committed credit line agreements totaling ¥10,846 million (US\$108 million) with financial institutions to secure liquidity. As of March 31, 2008, approximately ¥2,087 million (US\$21 million) is available to be used under such credit line agreements. The Company holds ¥80,000 million (US\$800 million) commercial paper program and had ¥68,000 million (US\$680 million) unused amount as of March 31, 2008.

The Company obtains credit ratings from three rating agencies; Standard and Poor's Rating Services ("S&P"), Moody's Investors Services, Inc. ("Moody's") and Rating and Investment Information, Inc. ("R&I"). As of March 31, 2008, the Company's long-term debt ratings were: S&P: A; Moody's: A2; and R&I: AA-.

(2) Cash Flows

Net cash provided by operating activities for the fiscal year ended March 31, 2008 decreased by ¥1,139 million to ¥160,985 million (US\$1,610 million) as compared to fiscal year ended March 31, 2007, because working capital increase offset an increase in net income resulting from good business performance.

Net cash used in investing activities for the fiscal year ended March 31, 2008 increased by ¥28,562 million to ¥128,182 million (US\$1,282 million) as compared to fiscal year ended March 31, 2007. Aggressive capital investments in Japan and overseas to expand production capacity and improve productivity as well as acquisition of the shares of NIPPEI TOYAMA and BIGRENTAL offset income from the sale of the outdoor power equipment business.

Net cash used in financing activities in fiscal year ended March 31, 2008 decreased by ¥23,967 million to ¥17,422 million (US\$174 million) as compared to fiscal year ended March 31, 2007.

As a result of the above, cash and cash equivalents as of March 31, 2008 totaled ¥102,010 million (US\$1,020 million), an increase of ¥9,811 million compared to the fiscal year ended March 31, 2007.

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 and ¥24,823 million for the fiscal years ended March 31, 2007 and 2006, respectively. Net cash used in investing activities of the discontinued operations were ¥18,295 million and ¥21,665 million for the fiscal years ended March 31, 2007 and 2006, respectively. Net cash provided by financing activities of the discontinued operations was ¥1,870 million for the fiscal year ended March 31, 2007 and net cash used in financing activities of the discontinued operations was ¥4,090 million for the fiscal years ended March 31, 2006.

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.

(3) Capital Investment

With a prime focus on the Construction and Mining Equipment Business, in order to responding to a rising level of demand, Komatsu bolstered Komatsu's production capacity for main components of Komatsu's equipment, such as transmissions, axles, final drives, hydraulics and engines, by building a new transmission plant. In addition, Komatsu invested for the DANTOTSU (Unique and Unrivaled) products and the latest emission regulations. In the Industrial Machinery, Vehicles and Other Business, particularly in the large-size industrial machinery business, Komatsu invested for the purpose of improving productivity.

As a result, Komatsu's capital investment, on a consolidated basis, for the fiscal year ended March 31, 2008 were ¥145,730 million (US\$1,457 million), an increase of ¥16,050 million from the previous fiscal year.

(4) Contractual Obligations

The following table sets forth Komatsu's contractual obligations as of March 31, 2008.

| | 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 | 108,782 | 108,782 | — | — | — |
| Long-term debt obligations (excluding Capital lease obligations) | 253,578 | 80,838 | 87,574 | 83,694 | 1,472 |
| Capital (Finance) lease obligations | 81,876 | 27,206 | 33,157 | 19,353 | 2,160 |
| Operating lease obligations | 12,523 | 3,845 | 4,521 | 1,563 | 2,594 |
| Interest on interest-bearing debt | 20,826 | 11,942 | 6,691 | 2,010 | 183 |
| Pension and other postretirement obligations | 4,963 | 4,963 | — | — | — |
| Total | 482,548 | 237,576 | 131,943 | 106,620 | 6,409 |

| | 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 | 1,088 | 1,088 | — | — | — |
| Long-term debt obligations (excluding Capital lease obligations) | 2,536 | 808 | 876 | 837 | 15 |
| Capital (Finance) lease obligations | 819 | 272 | 332 | 194 | 21 |
| Operating lease obligations | 125 | 38 | 45 | 16 | 26 |
| Interest on interest-bearing debt | 208 | 119 | 67 | 20 | 2 |
| Pension and other postretirement obligations | 49 | 49 | — | — | — |
| Total | 4,825 | 2,374 | 1,320 | 1,067 | 64 |

1. Short-term and long-term debt obligations exclude SFAS No. 133 market value adjustments of ¥108 million (US\$1 million) and ¥7,751 million (US\$78 million), respectively.
2. Interest on interest-bearing debt is based on rates in effect at March 31, 2008.
3. Pension and other postretirement obligations reflect contributions expected to be made in the year ending March 31, 2009 only as the amount of funding obligations beyond the next year are not yet determinable.
4. Obligations related to derivative activities are summarized in Foreign Exchange Risk and Interest Rate Risk.

Commitments for capital investment outstanding at March 31, 2008 aggregated approximately ¥24,700 million (US\$247 million).

Business Risks

Given the business environment in which Komatsu operates, Komatsu is exposed to a variety of risks. 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, Komatsu's business 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.

In addition, in recent years, Komatsu's business has been expanding in newly-developing markets such as China, India, Russia, the Middle East and Africa. Komatsu has been making capital investments in line with such expansion of business. Economic conditions in such newly-developing markets, however, are dependent on the price of natural resources and the level of exports to economically-advanced regions, and are subject to numerous uncertainties. While Komatsu regularly monitors demand trends, demand in such newly-developing markets may be much lower than anticipated.

Such changes in the business environment in which Komatsu operates may lead to inefficient inventory levels and/or production capacities, thereby causing Komatsu to record lower profitability and incur additional expenses. Accordingly, Komatsu's results of operations may be adversely affected.

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 ¥450 billion as of March 31, 2008. 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 investments 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 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 are leaked or misused by a third party, or Komatsu's intellectual properties are infringed upon by a third party, or a third party claims 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, supply 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 supply 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, 2008,

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, 2008. As of March 31, 2008, the notional amount of option contracts is ¥9,080 million (US\$90,800 thousand).

| Millions of yen (except average contractual rates) | | | | | | | |
|--|---------------|---------------|----------------|----------------|--------------|----------|----------|
| Forwards to sell foreign currencies: | US\$/Yen | EUR/Yen | Yen/US\$ | EUR/SEK | US\$/EUR | Others | Total |
| Contract amounts | ¥ 51,269 | ¥ 22,871 | ¥ 3,400 | ¥ 3,235 | ¥ 2,619 | ¥ 6,137 | ¥ 89,531 |
| Average contractual rates | 96.71Yen/US\$ | 152.52Yen/EUR | 0.0094US\$/Yen | 9.43SEK/EUR | 0.66EUR/US\$ | — | — |
| Forwards to buy foreign currencies: | GBP/EUR | Yen/ZAR | Yen/Yuan | US\$/CLP | Yen/A\$ | Others | Total |
| Contract amounts | ¥ 17,490 | ¥ 14,781 | ¥ 12,256 | ¥ 5,268 | ¥ 3,267 | ¥ 15,398 | ¥ 68,460 |
| Average contractual rates | 0.78GBP/EUR | 13.92Yen/ZAR | 14.77Yen/Yuan | 0.0023US\$/CLP | 94.59Yen/A\$ | — | — |

| Thousands of U.S. dollars | | | | | | | |
|--------------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Forwards to sell foreign currencies: | US\$/Yen | EUR/Yen | Yen/US\$ | EUR/SEK | US\$/EUR | Others | Total |
| Contract amounts | \$512,690 | \$228,710 | \$ 34,000 | \$ 32,350 | \$ 26,190 | \$ 61,370 | \$895,310 |
| Forwards to buy foreign currencies: | GBP/EUR | Yen/ZAR | Yen/Yuan | US\$/CLP | Yen/A\$ | Others | Total |
| Contract amounts | \$174,900 | \$147,810 | \$122,560 | \$ 52,680 | \$ 32,670 | \$153,980 | \$684,600 |

Interest Rate Risk

To reduce interest rate risk, 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 | | | | | |
|--|-----------------------|------------------|------------------|-----------------|------------------------|-----------------|-----------------|-----------------|----------------|------------|
| | | | | | 2009 | 2010 | 2011 | 2012 | 2013 | Thereafter |
| | 2009 | 2010 | | | 2011 | 2012 | 2013 | Thereafter | | |
| Japanese yen bonds | 1.39% | ¥ 30,473 | ¥ 30,815 | ¥ 145 | ¥ 10,345 | ¥ 295 | ¥ 30 | ¥ 20,000 | ¥ — | |
| Euro medium-term notes (relating to variable interest rate) | 3.55% | 75,644 | 67,893 | 14,792 | 17,771 | 15,827 | 18,594 | 909 | — | |
| Loans, principally from banks (relating to variable interest rate) | 3.27% | 51,577 | 51,577 | 17,839 | 8,221 | 7,414 | 6,392 | 11,711 | — | |
| Loans, principally from banks (relating to fixed interest rate) | 2.14% | 101,594 | 103,293 | 48,062 | 18,659 | 9,042 | 24,662 | 1,396 | 1,472 | |
| Total | | ¥ 259,288 | ¥ 253,578 | ¥ 80,838 | ¥ 54,996 | ¥ 32,578 | ¥ 49,678 | ¥ 34,016 | ¥ 1,472 | |

Annual maturities of long-term debt exclude market value adjustments for balances subject to qualifying fair value hedges of ¥7,751 million.

Interest rate swaps, cross-currency swaps and interest caps

Millions of yen

| | Average interest rate | | Fair value | Total | Expected maturity date | | | | | |
|--------------------------------|-----------------------|-------|----------------|------------------|------------------------|-----------------|-----------------|-----------------|----------------|------------|
| | Receive | Pay | | | 2009 | 2010 | 2011 | 2012 | 2013 | Thereafter |
| | | | | | 2009 | 2010 | 2011 | 2012 | 2013 | Thereafter |
| U.S. dollar interest rate swap | 2.66% | 4.44% | ¥ (3,709) | ¥ 138,858 | ¥ 71,288 | ¥ 45,127 | ¥ 18,270 | ¥ 4,172 | ¥ — | ¥ — |
| Yen/US\$ cross-currency swap | 1.06% | 3.54% | 8,916 | 61,955 | 12,651 | 19,101 | 8,500 | 19,901 | 1,802 | — |
| Euro interest rate swap | 4.61% | 4.20% | (153) | 28,139 | 7,911 | 8,262 | 7,603 | 3,035 | 1,329 | — |
| Euro interest cap | — | 4.42% | 83 | 19,506 | 5,964 | 5,632 | 7,910 | — | — | — |
| Yen/Euro cross-currency swap | 1.04% | 4.70% | (692) | 15,000 | 9,000 | 4,000 | — | 2,000 | — | — |
| Total | | | ¥ 4,445 | ¥ 263,458 | ¥ 106,814 | ¥ 82,122 | ¥ 42,283 | ¥ 29,108 | ¥ 3,131 | ¥ — |

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 | | | | | |
|--|-----------------------|--------------------|---------------------|-------------------|------------------------|-------------------|-------------------|-------------------|------------------|------------|
| | | | | | 2009 | 2010 | 2011 | 2012 | 2013 | Thereafter |
| | 2009 | 2010 | | | 2011 | 2012 | 2013 | Thereafter | | |
| Japanese yen bonds | 1.39% | \$ 304,730 | \$ 308,150 | \$ 1,450 | \$ 103,450 | \$ 2,950 | \$ 300 | \$ 200,000 | \$ — | |
| Euro medium-term notes (relating to variable interest rate) | 3.55% | 756,440 | 678,930 | 147,920 | 177,710 | 158,270 | 185,940 | 9,090 | — | |
| Loans, principally from banks (relating to variable interest rate) | 3.27% | 515,770 | 515,770 | 178,390 | 82,210 | 74,140 | 63,920 | 117,110 | — | |
| Loans, principally from banks (relating to fixed interest rate) | 2.14% | 1,015,940 | 1,032,930 | 480,620 | 186,590 | 90,420 | 246,620 | 13,960 | 14,720 | |
| Total | | \$2,592,880 | \$ 2,535,780 | \$ 808,380 | \$ 549,960 | \$ 325,780 | \$ 496,780 | \$ 340,160 | \$ 14,720 | |

Annual maturities of long-term debt exclude market value adjustments for balances subject to qualifying fair value hedges of US\$77,510 thousand.

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 | | | 2009 | 2010 | 2011 | 2012 | 2013 | Thereafter |
| | | | | | 2009 | 2010 | 2011 | 2012 | 2013 | Thereafter |
| U.S. dollar interest rate swap | 2.66% | 4.44% | \$ (37,090) | \$ 1,388,580 | \$ 712,880 | \$ 451,270 | \$ 182,700 | \$ 41,720 | \$ — | \$ — |
| Yen/US\$ cross-currency swap | 1.06% | 3.54% | 89,160 | 619,550 | 126,510 | 191,010 | 85,000 | 199,010 | 18,020 | — |
| Euro interest rate swap | 4.61% | 4.20% | (1,530) | 281,390 | 79,110 | 82,620 | 76,030 | 30,350 | 13,290 | — |
| Euro interest cap | — | 4.42% | 830 | 195,060 | 59,640 | 56,320 | 79,100 | — | — | — |
| Yen/Euro cross-currency swap | 1.04% | 4.70% | (6,920) | 150,000 | 90,000 | 40,000 | — | 20,000 | — | — |
| Total | | | \$ 44,450 | \$ 2,634,580 | \$ 1,068,140 | \$ 821,220 | \$ 422,830 | \$ 291,080 | \$ 31,310 | \$ — |

Five-Year Summary

Komatsu Ltd. and Consolidated Subsidiaries
Years ended March 31

| | Millions of yen (except per share amounts) | |
|---|---|------------|
| | 2008 | 2007 |
| For the fiscal period | | |
| Net sales | ¥2,243,023 | ¥1,893,343 |
| Cost of sales | 1,590,963 | 1,356,511 |
| Income from continuing operations before income taxes, minority interests and equity in earnings of affiliated companies | 322,210 | 236,491 |
| Net income | 208,793 | 164,638 |
| As percentage of sales | 9.3% | 8.7% |
| Capital investment | 145,730 | 129,680 |
| At fiscal period-end | | |
| Total assets | ¥2,105,146 | ¥1,843,982 |
| Working capital | 412,145 | 358,565 |
| Property, plant and equipment | 491,146 | 388,393 |
| Long-term debt—less current maturities | 235,277 | 174,340 |
| Shareholders' equity | 887,126 | 776,717 |
| As percentage of total assets | 42.1% | 42.1% |
| Per share data | | |
| Net income per share: | | |
| Basic | ¥209.87 | ¥165.70 |
| Diluted | 209.59 | 165.40 |
| Cash dividends per share | 38.00 | 23.00 |
| Shareholders' equity per share | 891.49 | 781.57 |
| | Yen per U.S. dollar | |
| | 2008 | 2007 |
| Other information | | |
| Exchange rate into U.S. dollars (per the Federal Reserve Bank of New York): | | |
| At fiscal period-end | ¥ 100 | ¥ 118 |
| Average for the fiscal period | 114 | 117 |
| Range for the fiscal period: | | |
| High | 123 | 121 |
| Low | 100 | 112 |

Millions of yen
(except per share amounts)

| 2006 | 2005 | 2004 |
|------------|------------|------------|
| ¥1,612,140 | ¥1,356,071 | ¥1,127,300 |
| 1,185,240 | 1,009,859 | 830,897 |
| 155,779 | 91,869 | 22,503 |
| 114,290 | 59,010 | 26,963 |
| 7.1% | 4.4% | 2.4% |
| 113,934 | 76,907 | 65,235 |
| ¥1,652,125 | ¥1,449,068 | ¥1,348,645 |
| 259,058 | 172,998 | 191,680 |
| 400,667 | 366,660 | 367,361 |
| 195,203 | 217,714 | 307,143 |
| 622,997 | 477,144 | 425,507 |
| 37.7% | 32.9% | 31.6% |
| ¥115.13 | ¥ 59.51 | ¥ 27.17 |
| 114.93 | 59.47 | 27.16 |
| 14.00 | 9.00 | 6.00 |
| 626.98 | 481.27 | 428.73 |

Yen per U.S. dollar

| 2006 | 2005 | 2004 |
|-------|-------|-------|
| ¥ 117 | ¥ 107 | ¥ 104 |
| 114 | 107 | 113 |
| 120 | 111 | 120 |
| 105 | 103 | 104 |

Consolidated Balance Sheets

Komatsu Ltd. and Consolidated Subsidiaries
March 31, 2008 and 2007

| Assets | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|--|-------------------|-------------------|--|
| | 2008 | 2007 | 2008 |
| Current assets | | | |
| Cash and cash equivalents (Note 10) | ¥ 102,010 | ¥ 92,199 | \$ 1,020,100 |
| Time deposits | 97 | 54 | 970 |
| Trade notes and accounts receivable, less allowance for doubtful receivables of ¥11,470 million (\$114,700 thousand) in 2008 and ¥11,808 million in 2007 (Notes 1, 5, 10 and 25) | 523,624 | 478,063 | 5,236,240 |
| Inventories (Notes 1 and 6) | 518,441 | 437,894 | 5,184,410 |
| Assets held for sale (Note 4) | — | 16,321 | — |
| Deferred income taxes and other current assets (Notes 1, 7, 16, 20, 21, 23 and 25) | 129,505 | 119,214 | 1,295,050 |
| Total current assets | 1,273,677 | 1,143,745 | 12,736,770 |
| Long-term trade receivables (Note 5) | 89,695 | 73,669 | 896,950 |
| Investments | | | |
| Investments in and advances to affiliated companies (Notes 1 and 8) | 22,884 | 36,688 | 228,840 |
| Investment securities (Notes 1, 7 and 21) | 79,479 | 108,173 | 794,790 |
| Other | 11,575 | 10,285 | 115,750 |
| Total investments | 113,938 | 155,146 | 1,139,380 |
| Property, plant and equipment —less accumulated depreciation (Notes 1, 9, 10 and 17) | 491,146 | 388,393 | 4,911,460 |
| Goodwill (Notes 1 and 11) | 31,833 | 20,594 | 318,330 |
| Other intangible assets (Notes 1 and 11) | 61,916 | 25,243 | 619,160 |
| Deferred income taxes and other assets (Notes 1, 16, 20, 21 and 25) | 42,941 | 37,192 | 429,410 |
| | ¥2,105,146 | ¥1,843,982 | \$21,051,460 |

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) |
|---|-------------------|-------------------|------------------------------------|
| | 2008 | 2007 | 2008 |
| Current liabilities | | | |
| Short-term debt (Notes 10, 12) | ¥ 108,890 | ¥ 102,248 | \$ 1,088,900 |
| Current maturities of long-term debt (Notes 10, 12, 17 and 21) | 107,928 | 72,486 | 1,079,280 |
| Trade notes, accounts payable and bills payable | 387,104 | 365,065 | 3,871,040 |
| Income taxes payable (Note 16) | 52,453 | 54,933 | 524,530 |
| Liabilities held for sale (Note 4) | — | 7,919 | — |
| Deferred income taxes and other current liabilities (Notes 1, 16, 20, 21 and 23) | 205,157 | 182,529 | 2,051,570 |
| Total current liabilities | 861,532 | 785,180 | 8,615,320 |
| Long-term liabilities | | | |
| Long-term debt (Notes 10, 12, 17 and 21) | 235,277 | 174,340 | 2,352,770 |
| Liability for pension and retirement benefits (Notes 1 and 13) | 38,910 | 37,783 | 389,100 |
| Deferred income taxes and other liabilities (Notes 1, 16, 20 and 21) | 52,062 | 50,188 | 520,620 |
| Total long-term liabilities | 326,249 | 262,311 | 3,262,490 |
| Minority interests | 30,239 | 19,774 | 302,390 |
| Commitments and contingent liabilities (Note 19) | — | — | — |
| Shareholders' equity (Notes 1 and 14) | | | |
| Common stock: | | | |
| Authorized 3,955,000,000 shares in 2008 and 2007 | | | |
| Issued 998,744,060 shares in 2008 and 2007 | | | |
| Outstanding 995,103,847 shares in 2008 and 993,786,759 shares in 2007 | 67,870 | 67,870 | 678,700 |
| Capital surplus | 138,170 | 137,155 | 1,381,700 |
| Retained earnings: | | | |
| Appropriated for legal reserve | 26,714 | 24,267 | 267,140 |
| Unappropriated | 685,986 | 517,450 | 6,859,860 |
| Accumulated other comprehensive income (loss) (Notes 1, 7, 13 and 15) | (28,779) | 33,501 | (287,790) |
| Treasury stock at cost, 3,640,213 shares in 2008 and 4,957,301 shares in 2007 (Note 14) | (2,835) | (3,526) | (28,350) |
| Total shareholders' equity | 887,126 | 776,717 | 8,871,260 |
| | ¥2,105,146 | ¥1,843,982 | \$21,051,460 |

Consolidated Statements of Income

Komatsu Ltd. and Consolidated Subsidiaries
Years ended March 31, 2008, 2007 and 2006

| | Millions of yen | | | Thousands of U.S. dollars (Note 1) |
|---|-------------------|------------|------------|------------------------------------|
| | 2008 | 2007 | 2006 | 2008 |
| Net sales (Notes 1 and 8) | ¥2,243,023 | ¥1,893,343 | ¥1,612,140 | \$22,430,230 |
| Cost of sales (Notes 17 and 24) | 1,590,963 | 1,356,511 | 1,185,240 | 15,909,630 |
| Selling, general and administrative expenses (Notes 17 and 24) | 317,474 | 287,086 | 262,399 | 3,174,740 |
| Impairment loss on long-lived assets held for use (Note 1) | 2,447 | 81 | 4,791 | 24,470 |
| Impairment loss on goodwill (Note 1 and 11) | 2,870 | — | 3,041 | 28,700 |
| Other operating income (expenses) (Note 24) | 3,581 | (4,924) | 6,759 | 35,810 |
| Operating income | 332,850 | 244,741 | 163,428 | 3,328,500 |
| Other income (expenses) (Note 24) | (10,640) | (8,250) | (7,649) | (106,400) |
| Interest and dividend income | 10,265 | 8,532 | 6,824 | 102,650 |
| Interest expense | (16,699) | (15,485) | (12,208) | (166,990) |
| Other—net | (4,206) | (1,297) | (2,265) | (42,060) |
| Income from continuing operations before income taxes, minority interests and equity in earnings of affiliated companies | 322,210 | 236,491 | 155,779 | 3,222,100 |
| Income taxes (Notes 1 and 16) | | | | |
| Current | 104,142 | 76,102 | 45,751 | 1,041,420 |
| Deferred | 11,652 | 3,643 | (1,781) | 116,520 |
| Total | 115,794 | 79,745 | 43,970 | 1,157,940 |
| Income from continuing operations before minority interests and equity in earnings of affiliated companies | 206,416 | 156,746 | 111,809 | 2,064,160 |
| Minority interests in income of consolidated subsidiaries | (9,435) | (6,580) | (5,335) | (94,350) |
| Equity in earnings of affiliated companies | 6,845 | 3,098 | 2,667 | 68,450 |
| Income from continuing operations | 203,826 | 153,264 | 109,141 | 2,038,260 |
| Income from discontinued operations less applicable income taxes (Note 4) | 4,967 | 11,374 | 5,149 | 49,670 |
| Net income | ¥ 208,793 | ¥ 164,638 | ¥ 114,290 | \$ 2,087,930 |
| | | | | |
| Per share data (Notes 1 and 18): | | | | |
| Income from continuing operations: | | | | |
| Basic | ¥ 204.88 | ¥ 154.25 | ¥ 109.94 | ¢ 204.88 |
| Diluted | 204.61 | 153.97 | 109.75 | 204.61 |
| Income from discontinued operations: | | | | |
| Basic | 4.99 | 11.45 | 5.19 | 4.99 |
| Diluted | 4.98 | 11.43 | 5.18 | 4.98 |
| Net income: | | | | |
| Basic | 209.87 | 165.70 | 115.13 | 209.87 |
| Diluted | 209.59 | 165.40 | 114.93 | 209.59 |
| Cash dividends per share (Note 1) | 38.00 | 23.00 | 14.00 | 38.00 |

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, 2008, 2007 and 2006

| | Millions of yen | | | Thousands of U.S. dollars (Note 1) |
|--|-----------------|-----------------|-----------------|------------------------------------|
| | 2008 | 2007 | 2006 | 2008 |
| Common stock | | | | |
| Balance, beginning of year | ¥ 67,870 | ¥ 67,870 | ¥ 67,870 | \$ 678,700 |
| Balance, end of year | ¥ 67,870 | ¥ 67,870 | ¥ 67,870 | \$ 678,700 |
| Capital surplus | | | | |
| Balance, beginning of year | ¥137,155 | ¥136,137 | ¥135,792 | \$1,371,550 |
| Sales of treasury stock | 417 | 394 | 345 | 4,170 |
| Issuance and exercise of stock acquisition rights (Notes 1 and 14) | 598 | 663 | — | 5,980 |
| Others | — | (39) | — | — |
| Balance, end of year | ¥138,170 | ¥137,155 | ¥136,137 | \$1,381,700 |
| Retained earnings, appropriated for legal reserve | | | | |
| Balance, beginning of year | ¥ 24,267 | ¥ 23,416 | ¥ 22,341 | \$ 242,670 |
| Transfer from unappropriated retained earnings | 2,447 | 851 | 1,075 | 24,470 |
| Balance, end of year | ¥ 26,714 | ¥ 24,267 | ¥ 23,416 | \$ 267,140 |
| Unappropriated retained earnings | | | | |
| Balance, beginning of year | ¥517,450 | ¥376,522 | ¥277,196 | \$5,174,500 |
| Net income | 208,793 | 164,638 | 114,290 | 2,087,930 |
| Cash dividends paid | (37,810) | (22,859) | (13,889) | (378,100) |
| Transfer to retained earnings appropriated for legal reserve | (2,447) | (851) | (1,075) | (24,470) |
| Balance, end of year | ¥685,986 | ¥517,450 | ¥376,522 | \$6,859,860 |
| Accumulated other comprehensive income (loss) | | | | |
| Balance, beginning of year | ¥ 33,501 | ¥ 23,095 | ¥ (21,485) | \$ 335,010 |
| Other comprehensive income (loss) for the year, net of tax (Note 15) | (62,280) | 20,263 | 44,580 | (622,800) |
| Adjustment to initially apply SFAS No. 158, net of tax (Note 13) | — | (9,857) | — | — |
| Balance, end of year | ¥ (28,779) | ¥ 33,501 | ¥ 23,095 | \$ (287,790) |
| Treasury stock | | | | |
| Balance, beginning of year | ¥ (3,526) | ¥ (4,043) | ¥ (4,570) | \$ (35,260) |
| Purchase of treasury stock | (340) | (632) | (2,027) | (3,400) |
| Sales of treasury stock | 1,031 | 1,149 | 2,554 | 10,310 |
| Balance, end of year | ¥ (2,835) | ¥ (3,526) | ¥ (4,043) | \$ (28,350) |
| Total shareholders' equity | ¥887,126 | ¥776,717 | ¥622,997 | \$8,871,260 |
| Disclosure of comprehensive income | | | | |
| Net income for the year | ¥208,793 | ¥164,638 | ¥114,290 | \$2,087,930 |
| Other comprehensive income (loss) for the year, net of tax (Note 15) | (62,280) | 20,263 | 44,580 | (622,800) |
| Comprehensive income for the year | ¥146,513 | ¥184,901 | ¥158,870 | \$1,465,130 |

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, 2008, 2007 and 2006

| | Millions of yen | | | Thousands of U.S. dollars (Note 1) |
|---|------------------|-----------|-----------|--|
| | 2008 | 2007 | 2006 | 2008 |
| Operating activities | | | | |
| Net income | ¥ 208,793 | ¥ 164,638 | ¥ 114,290 | \$ 2,087,930 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | |
| Depreciation and amortization | 75,664 | 72,709 | 72,640 | 756,640 |
| Deferred income taxes | 15,016 | 4,334 | (747) | 150,160 |
| Net gain from sale of investment securities and subsidiaries | (8,045) | (19,101) | (20,989) | (80,450) |
| Net gain on sale of property | (3,169) | (13) | (132) | (31,690) |
| Loss on disposal of fixed assets | 3,313 | 2,121 | 8,284 | 33,130 |
| Impairment loss on long-lived assets held for use | 2,447 | 81 | 4,899 | 24,470 |
| Impairment loss on goodwill | 2,870 | — | 3,581 | 28,700 |
| Pension and retirement benefits, net | (10,782) | 1,078 | 5,123 | (107,820) |
| Changes in assets and liabilities: | | | | |
| Increase in trade receivables | (83,855) | (93,141) | (58,821) | (838,550) |
| Increase in inventories | (65,884) | (73,448) | (52,228) | (658,840) |
| Increase in trade payables | 12,586 | 70,693 | 32,360 | 125,860 |
| Increase (decrease) in income taxes payable | (2,913) | 19,680 | 24,532 | (29,130) |
| Other, net | 14,944 | 12,493 | 3,315 | 149,440 |
| Net cash provided by operating activities | 160,985 | 162,124 | 136,107 | 1,609,850 |
| Investing activities | | | | |
| Capital expenditures | (117,571) | (122,860) | (112,915) | (1,175,710) |
| Proceeds from sale of property | 19,425 | 17,626 | 12,915 | 194,250 |
| Proceeds from sale of available for sale investment securities | 601 | 1,844 | 4,112 | 6,010 |
| Purchases of available for sale investment securities | (4,663) | (6,737) | (5,681) | (46,630) |
| Proceeds from sale of subsidiaries, net of cash disposed | 16,372 | 35,368 | 26,610 | 163,720 |
| Acquisition of subsidiaries and equity investees, net of cash acquired | (42,717) | (24,621) | (10,464) | (427,170) |
| Collection of loan receivables | 7,778 | 5,736 | 12,874 | 77,780 |
| Disbursement of loan receivables | (6,315) | (5,974) | (9,244) | (63,150) |
| Decrease (increase) in time deposits | (1,092) | (2) | 1 | (10,920) |
| Net cash used in investing activities | (128,182) | (99,620) | (81,792) | (1,281,820) |
| Financing activities | | | | |
| Proceeds from long-term debt | 82,791 | 44,781 | 51,432 | 827,910 |
| Repayments on long-term debt | (48,868) | (74,943) | (118,165) | (488,680) |
| Increase (decrease) in short-term debt, net | 634 | 22,526 | 7,108 | 6,340 |
| Repayments of capital lease obligations | (15,168) | (11,411) | (10,473) | (151,680) |
| Sale (purchase) of treasury stock, net | 691 | 517 | 527 | 6,910 |
| Dividends paid | (37,810) | (22,859) | (13,889) | (378,100) |
| Other, net | 308 | — | — | 3,080 |
| Net cash used in financing activities | (17,422) | (41,389) | (83,460) | (174,220) |
| Effect of exchange rate change on cash and cash equivalents | (5,570) | 1,087 | 1,632 | (55,700) |
| Net increase (decrease) in cash and cash equivalents | 9,811 | 22,202 | (27,513) | 98,110 |
| Cash and cash equivalents, beginning of year | 92,199 | 69,997 | 97,510 | 921,990 |
| Cash and cash equivalents, end of year | ¥ 102,010 | ¥ 92,199 | ¥ 69,997 | \$ 1,020,100 |

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.

The consolidated net sales of Komatsu for the year ended March 31, 2008, consisted of the following: Construction and mining equipment – 84.6%, Industrial Machinery, Vehicles and Others – 15.4%.

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, 2008, 77.5% were generated outside Japan, with 24.1% in the Americas, 19.1% in Europe and CIS, 8.5% in China, 15.5% in Asia (excluding Japan and China) and Oceania, and 10.3% 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, 2008, is included solely for the convenience of readers and has been made at the rate of ¥100 to \$1, the approximate rate of exchange prevailing at the Federal Reserve Bank of New York on March 31, 2008. 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.

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 ("FIN") 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 where by 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, Komatsu 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, less accumulated depreciation. 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 25 years for buildings and 8 years for machinery and equipment. Effective rates of depreciation for buildings, machinery and equipment for the years ended March 31, 2008, 2007 and 2006, were as follows:

| | 2008 | 2007 | 2006 |
|-------------------------|------|------|------|
| Buildings | 9% | 8% | 8% |
| Machinery and equipment | 26% | 27% | 26% |

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, 2008 and 2007 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|--------------------------|-----------------|---------|---------------------------|
| | 2008 | 2007 | 2008 |
| Aggregate cost | ¥112,083 | ¥81,618 | \$1,120,830 |
| Accumulated depreciation | 30,982 | 26,145 | 309,820 |

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. In addition, taxes collected from customers and remitted to governmental authorities on revenue-producing transactions are accounted for on a net basis and therefore are excluded from revenues in the consolidated statements of income.

(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.

Beginning on April 1, 2007, in accordance with FIN No. 48, "Accounting for Uncertainty in Income Taxes—an interpretation of SFAS No. 109," if a tax position meets the more-likely-than-not recognition threshold based on the technical merits of the position, Komatsu recognizes the effect of such position in the financial statements. The benefit of the tax position is measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement with appropriate taxing authority. Income tax positions for periods prior to April 1, 2007, were recognized based on a higher, "should level", probability threshold. Komatsu recognizes interest and penalties accrued related to unrecognized tax benefits in income taxes in the consolidated statements of income.

(10) Product Warranties

Komatsu establishes a liability for estimated product warranty cost at the time of sale. 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, "Employers' 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 Komatsu'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) Share-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 share-based compensation expense using the fair value method. Compensation expense is measured at grant-date fair value of the share-based award and charged to expense over the vesting period.

For the year ended March 31, 2006, Komatsu 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 of outstanding stock options was at least equal to the market price of the underlying shares on the date of grant.

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

| | | Millions of yen |
|-------------------------|--|-----------------|
| | | 2006 |
| Net income, as reported | | ¥114,290 |
| Compensation expense | | 699 |
| Pro forma net income | | 113,591 |

| | | Yen |
|--|-------------|---------|
| Net income per share, basic and diluted: | | 2006 |
| Basic earnings per share | As reported | ¥115.13 |
| | Pro forma | 114.42 |
| Diluted earnings per share | As reported | 114.93 |
| | Pro forma | 114.23 |

(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 which qualify 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 has made a number of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses presented in consolidated financial statements prepared in conformity with U.S. GAAP. 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 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. In February 2008, the FASB issued FASB Staff Position No. FAS157-1, "Application of SFAS No. 157 to SFAS No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13" and No. FAS157-2, "Effective Date of SFAS No. 157" which partially delay the effective date of SFAS No. 157 for one year for certain non-financial assets and liabilities and remove certain leasing transactions from its scope. 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 liabilities 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. The adoption of SFAS No. 159 will not have a material impact on its consolidated results of operations and financial condition.

In December 2007, the FASB issued SFAS No. 141 (revised 2007) ("SFAS No. 141R"), "Business Combinations." SFAS No. 141R establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any non-controlling interest in the acquiree and the goodwill acquired or gain from a bargain purchase. SFAS No. 141R also establishes disclosure requirements to enable the evaluation of the nature

and financial effects of the business combination. SFAS No. 141R is effective for the fiscal periods beginning on or after December 15, 2008 and is required to be adopted by Komatsu in the fiscal year beginning April 1, 2009. Komatsu is currently evaluating the effect that the adoption of SFAS No. 141R will have on its consolidated results of operations and financial condition.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51." SFAS No. 160 establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS No. 160 also establishes disclosure requirements that clearly

identify and distinguish between the controlling and noncontrolling interests and requires the separate disclosure of income attributable to controlling and noncontrolling interests. SFAS No. 160 is effective for the fiscal periods beginning on or after December 15, 2008 and is required to be adopted by Komatsu in the fiscal year beginning April 1, 2009.

(19) Discontinued Operation

Throughout the notes to consolidated financial statements, the amounts of discontinued operations related to consolidated statements of income have been excluded from disclosures applicable to 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, 2008, 2007 and 2006, are as follows:

| | Millions of yen | | | Thousands of U.S. dollars |
|--|-----------------|---------|---------|---------------------------|
| | 2008 | 2007 | 2006 | 2008 |
| Additional cash flow information: | | | | |
| Interest paid | ¥ 16,639 | ¥15,513 | ¥12,963 | \$ 166,390 |
| Income taxes paid | 110,674 | 75,058 | 26,929 | 1,106,740 |
| Noncash investing and financing activities: | | | | |
| Capital lease obligations incurred | ¥ 28,159 | ¥23,584 | ¥23,713 | \$281,590 |

3. Acquisition and Divestiture

(1) NIPPEI TOYAMA CORPORATION

On January 16, 2008, the Company decided to purchase additional shares of NIPPEI TOYAMA CORPORATION ("NTC") through a tender offer at ¥1,250 per share with the purpose of making NTC a wholly owned subsidiary of the Company. The purchase price was determined by comprehensively taking into consideration the market price of NTC common stock, NTC's financial condition and future earnings prospects. As a result, the Company purchased 32,594,444 shares for ¥40,743 million (\$407,430 thousand) in cash tendered in the period from January 22, 2008 through March 17, 2008. Prior to the acquisition, the Company held a 29.3% equity interest in NTC and accounted for the investment by the equity method. As a result of the additional investment, the Company's ownership increased to 93.7% and NTC became a consolidated subsidiary of the Company effective March 25, 2008.

NTC is a manufacturer of transfer machines and various kinds of grinding machines used for manufacturing automobile engines in the machine tools market as well as laser machines and wire-saws for semiconductor and solar cell industries in the industrial machinery market. The Company has concluded that the partnership with NTC in business development on a global scale, collaboration in R&D, and joint development of new business domains would lead to the reinforcement of its industrial machinery business.

Following is a summary of the assets acquired and liabilities assumed adjusted to reflect purchase price allocation as of the date of acquisition:

| | Millions of yen | Thousands of U.S. dollars |
|----------------------------------|-----------------|---------------------------|
| Current assets | ¥ 59,831 | \$ 598,310 |
| Property, plant and equipment | 22,861 | 228,610 |
| Intangible assets | 29,219 | 292,190 |
| Goodwill | 12,815 | 128,150 |
| Other assets | 5,123 | 51,230 |
| Total assets acquired | 129,849 | 1,298,490 |
| Current liabilities | 53,882 | 538,820 |
| Long-term liabilities | 17,291 | 172,910 |
| Minority interest | 2,479 | 24,790 |
| Total liabilities assumed | 73,652 | 736,520 |
| Net assets acquired | 56,197 | 561,970 |

Intangible assets of ¥29,219 million (\$292,190 thousand) consist of intangible assets subject to amortization of ¥21,852 million (\$218,520 thousand) and intangible assets not subject to amortization of ¥7,367 million (\$73,670 thousand). The intangible assets subject to amortization mainly include customer relationships of ¥14,000 million (\$140,000 thousand), technology assets of ¥4,475 million (\$44,750 thousand) and software of ¥2,194 million (\$21,940 thousand). The amortization

periods are 17, 17 and 5 years, respectively. The intangible assets not subject to amortization are trademarks of ¥7,367 million (\$73,670 thousand).

The goodwill of ¥12,815 million (\$128,150 thousand) was assigned to the industrial machinery, vehicles and others segment. The goodwill is not deductible for tax purpose.

The differences between the fair value of net assets of ¥56,197 million (\$561,970 thousand) and purchase consideration including direct costs of ¥41,234 million (\$412,340 thousand) represents the portion of the net assets previously held and accounted for under the equity method in period prior to the acquisition of a controlling interest.

The business results of NTC are included as equity in earnings in the consolidated statements of income for the fiscal year ended March 31, 2008.

The following table presents unaudited pro forma consolidated operating results for Komatsu as if the acquisition of NTC had occurred on April 1, 2006 and 2007, respectively. The unaudited pro forma consolidated operating results are for information purposes only and are not intended to represent what Komatsu's consolidated results of operation would have been if the acquisition had actually occurred on those dates.

| | Millions of yen | | Thousands of U.S. dollars |
|------------|-----------------|------------|---------------------------|
| | 2008 | 2007 | 2008 |
| Sales | ¥2,317,784 | ¥1,961,202 | \$23,177,840 |
| Net income | ¥211,975 | ¥168,740 | \$2,119,750 |

| | Yen | | U.S. cents |
|----------------------------|---------|---------|------------|
| | 2008 | 2007 | 2008 |
| Basic earnings per share | ¥213.07 | ¥169.83 | ¢213.07 |
| Diluted earnings per share | ¥212.79 | ¥169.52 | ¢212.79 |

(2) BIGRENTAL Co., Ltd.

During February 2008 the company acquired 57.9% of the shares in BIGRENTAL Co., Ltd ("BR"). The acquisition cost of the shares was ¥8,564 million (\$85,640 thousand) and was paid in cash.

BR is a construction equipment rental company with a business presence in Tohoku and northern Kanto regions of Japan.

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), which was, 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 April 2, 2007, the outdoor power equipment (OPE) business of Komatsu Zenoah Co., which was, allocated to a reporting unit in the industrial

The company expects the acquisition will strengthen its rental business and to expand its rental and used equipment business on a global scale.

In addition, a synergy from integration is expected to arise from the effective use of resources, such as personnel, assets and offices.

Following is a summary of the assets acquired and liabilities assumed adjusted to reflect purchase price allocation as of the date of acquisition:

| | Millions of yen | Thousands of U.S. dollars |
|-------------------------------|-----------------|---------------------------|
| Current assets | ¥ 9,423 | \$ 94,230 |
| Property, plant and equipment | 39,260 | 392,600 |
| Intangible assets | 3,133 | 31,330 |
| Goodwill | 1,533 | 15,330 |
| Other assets | 922 | 9,220 |
| Total assets acquired | 54,271 | 542,710 |
| Current liabilities | 12,191 | 121,910 |
| Long-term liabilities | 31,807 | 318,070 |
| Minority interest | 1,709 | 17,090 |
| Total liabilities assumed | 45,707 | 457,070 |
| Net assets acquired | 8,564 | 85,640 |

Total intangible assets of ¥3,133 million (\$31,330 thousand) consist primarily of customer relationships of ¥1,182 million (\$11,820 thousand), business model of ¥ 1,182 million (\$11,820 thousand) and software of ¥667 million (\$6,670 thousand). The amortization periods are 7, 10 and 5 years, respectively.

The goodwill of ¥1,533 million (\$15,330 thousand) was assigned to the construction and mining equipment segment. The goodwill is not deductible for tax purposes.

The business results of BR are not included in the consolidated statements of income for the fiscal year ended March 31, 2008.

On an unaudited pro forma basis, net sales, net income and the per share information of Komatsu, with assumed acquisition dates for BR of April 1, 2006 and 2007 would not differ materially from the amounts reported in the consolidated financial statements for the fiscal years ended March 31, 2007 and 2008.

machinery, vehicles and others segment was sold 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. In accordance with SFAS No. 144, the gain on sale of KEM's shares and operating results less applicable income taxes, related to KEM and its subsidiaries as well as the gain on sale of the OPE business of Komatsu Zenoah Co. and 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" 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, 2008, 2007 and 2006 are as follows:

| | Millions of yen | | | Thousands of U.S. dollars |
|--|-----------------|---------|---------|---------------------------|
| | 2008 | 2007 | 2006 | 2008 |
| Net sales | ¥ — | ¥63,416 | ¥89,829 | \$ — |
| Income before income taxes, minority interests and equity in earnings of affiliated companies (including gain on sale of the OPE business of Komatsu Zenoah Co. of ¥8,331 million in 2008 and gain on sale of KEM's shares of ¥18,769 million in 2007) | 8,331 | 29,544 | 13,294 | 83,310 |
| Income taxes | 3,364 | 14,566 | 3,051 | 33,640 |
| Minority interests in income of consolidated subsidiaries | — | (3,613) | (5,132) | — |
| Equity in earnings of affiliated companies | — | 9 | 38 | — |
| Income from discontinued operations less applicable income taxes | ¥4,967 | ¥11,374 | ¥ 5,149 | \$49,670 |

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

| Millions of yen | | Millions of yen | |
|-------------------------------------|---------|----------------------------------|---------|
| | 2007 | | 2007 |
| Assets held for sale | | Liabilities held for sale | |
| Trade notes and accounts receivable | ¥ 9,088 | Short-term debt | ¥ 1,294 |
| Inventories | 3,567 | Trade notes and accounts payable | 4,242 |
| Property, plant and equipment | 1,874 | Other Liabilities | 2,383 |
| Other assets | 1,792 | Total | ¥ 7,919 |
| Total | ¥16,321 | | |

5. Trade Notes and Accounts Receivable

Receivables at March 31, 2008 and 2007 are summarized as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|-----------------------------|-----------------|----------|---------------------------|
| | 2008 | 2007 | 2008 |
| Trade notes | ¥101,724 | ¥136,837 | \$1,017,240 |
| Accounts receivable | 433,370 | 353,034 | 4,333,700 |
| Total | 535,094 | 489,871 | 5,350,940 |
| Less: allowance | (11,470) | (11,808) | (114,700) |
| Trade receivables-current | ¥523,624 | ¥478,063 | \$5,236,240 |
| Long-term trade receivables | ¥ 89,695 | ¥ 73,669 | \$ 896,950 |

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 Utility 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, 2008 and 2007, lease receivables comprised the following:

| | Millions of yen | | Thousands of U.S. dollars |
|-----------------------------------|-----------------|---------|---------------------------|
| | 2008 | 2007 | 2008 |
| Minimum lease payments receivable | ¥24,492 | ¥22,935 | \$244,920 |
| Unearned income | (2,569) | (2,212) | (25,690) |
| Net lease receivables | ¥21,923 | ¥20,723 | \$219,230 |

Cash flows received from the sale of trade notes and accounts receivable for the years ended March 31, 2008, 2007 and 2006 were ¥343,457 million (\$3,434,570 thousand), ¥355,627 million and ¥382,669 million.

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 certain 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 certain 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, 2008 and 2007 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|--|------------------|-----------|---------------------------|
| | 2008 | 2007 | 2008 |
| Total amount of trade receivables that are managed and securitized | ¥791,045 | ¥748,478 | \$7,910,450 |
| Assets transferred | (166,256) | (184,938) | (1,662,560) |
| Total amount of trade receivable on balance sheet | ¥624,789 | ¥563,540 | \$6,247,890 |

6. Inventories

At March 31, 2008 and 2007, inventories comprised the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|-----------------|----------|---------------------------|
| | 2008 | 2007 | 2008 |
| Finished products, including finished parts held for sale | ¥341,363 | ¥294,154 | \$3,413,630 |
| Work in process | 123,001 | 85,687 | 1,230,010 |
| Materials and supplies | 54,077 | 58,053 | 540,770 |
| Total | ¥518,441 | ¥437,894 | \$5,184,410 |

7. Investment Securities

Investment securities at March 31, 2008 and 2007, 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.

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, 2008 and 2007 were as follows:

| | 2008 | 2007 |
|--------------------------------------|------------------|-----------|
| Weighted-average life | 29 months | 30 months |
| Prepayment speed over the life | 0.5% | 0.7% |
| Expected credit losses over the life | 0.9% | 1.0% |

The carrying amount of retained interest was ¥3,015 million (\$30,150 thousand) asset and ¥202 million liability as of March 31, 2008 and 2007, respectively. The impacts of 10% and 20% changes to the key assumptions on the fair value of retained interest as of March 31, 2008 are immaterial.

The cost, gross unrealized holding gains and losses, and fair value for such investment securities by major security types at March 31, 2008 and 2007, are as follows:

| | Millions of yen | | | |
|--|-----------------|--------------------------|----------------|-----------------|
| | Cost | Gross unrealized holding | | Fair value |
| | | Gains | Losses | |
| At March 31, 2008 | | | | |
| Investment securities available for sale: | | | | |
| Marketable equity securities | ¥ 27,648 | ¥ 40,557 | ¥ 1,477 | ¥ 66,728 |
| Other investment securities at cost | 12,751 | — | — | 12,751 |
| Current portion of other investment securities at cost | 103 | — | — | 103 |
| | ¥ 40,502 | ¥ 40,557 | ¥ 1,477 | ¥ 79,582 |
| 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 |

| | Thousands of U.S. dollars | | | Fair value |
|--|---------------------------|--------------------------|-----------------|------------------|
| | Cost | Gross unrealized holding | | |
| | | Gains | Losses | |
| At March 31, 2008 | | | | |
| Investment securities available for sale: | | | | |
| Marketable equity securities | \$276,480 | \$405,570 | \$14,770 | \$667,280 |
| Other investment securities at cost | 127,510 | — | — | 127,510 |
| Current portion of other investment securities at cost | 1,030 | — | — | 1,030 |
| | \$405,020 | \$405,570 | \$14,770 | \$795,820 |

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 ¥601 million (\$6,010 thousand), ¥1,844 million and ¥4,112 million for the years ended March 31, 2008, 2007 and 2006, respectively.

Net realized gains on sale of investment securities available for sale during the years ended March 31, 2008, 2007 and 2006, amounted to losses of ¥289 million (\$2,890 thousand), gains of ¥344 million and gains of ¥18 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, 2008 and 2007, investments in and advances to affiliated companies comprised the following:

| | Millions of yen | | Thousands of U.S. dollars |
|------------------------------|-----------------|---------|---------------------------|
| | 2008 | 2007 | 2008 |
| Investments in capital stock | ¥19,293 | ¥32,647 | \$192,930 |
| Advances | 3,591 | 4,041 | 35,910 |
| Total | ¥22,884 | ¥36,688 | \$228,840 |

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 ¥286 million (\$2,860 thousand), ¥679 million and ¥130 million during the years ended March 31, 2008, 2007 and 2006, respectively.

Trade notes and accounts receivable from affiliated companies at March 31, 2008 and 2007, were ¥29,284 million (\$29,284 thousand) and ¥30,919 million, respectively.

Short-term loans receivable from affiliated companies at March 31, 2008 and 2007, were ¥4,314 million (\$43,140 thousand) and ¥2,764 million, respectively.

Trade notes and accounts payable to affiliated companies at March 31, 2008 and 2007, were ¥12,356 million (\$123,560 thousand) and ¥9,164 million, respectively.

Net sales for the years ended March 31, 2008, 2007 and 2006, included net sales to affiliated companies in the amounts of ¥61,128 million (\$611,280 thousand), ¥54,731 million and ¥56,916 million, respectively.

Intercompany profits (losses) have been eliminated in the

consolidated financial statements.

As of March 31, 2008 and 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 ¥10,646 million (\$106,460 thousand) and ¥6,068 million, respectively.

The difference between the carrying value of the investments in affiliated companies and Komatsu's equity in the underlying net assets of such associated companies is insignificant as of March 31, 2008.

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 of the equity securities at March 31, 2008 and 2007 were ¥318 million and ¥13,288 million, respectively. The quoted market value of the equity securities at March 31, 2008 and 2007 were ¥513 million and ¥20,294 million, respectively.

Summarized financial information for affiliated companies at March 31, 2008 and 2007, and for the years ended March 31, 2008, 2007 and 2006, is as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|-----------------|-----------------|---------------------------|
| | 2008 | 2007 | 2008 |
| Current assets | ¥187,691 | ¥163,411 | \$1,876,910 |
| Net property, plant and equipment—less accumulated depreciation | 39,338 | 64,245 | 393,380 |
| Investments and other assets | 17,439 | 18,785 | 174,390 |
| Total assets | ¥244,468 | ¥246,441 | \$2,444,680 |
| Current liabilities | ¥156,493 | ¥139,661 | \$1,564,930 |
| Noncurrent liabilities | 28,712 | 33,515 | 287,120 |
| Shareholders' equity | 59,263 | 73,265 | 592,630 |
| Total liabilities and shareholders' equity | ¥244,468 | ¥246,441 | \$2,444,680 |

| | Millions of yen | | | Thousands of U.S. dollars |
|-------------------|-----------------|----------------|----------------|---------------------------|
| | 2008 | 2007 | 2006 | 2008 |
| Net sales | ¥333,505 | ¥197,434 | ¥176,250 | \$3,335,050 |
| Net income | ¥ 16,731 | ¥ 6,486 | ¥ 4,700 | \$ 167,310 |

9. Property, Plant and Equipment

The major classes of property, plant and equipment at March 31, 2008 and 2007, are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|--|------------------|------------------|---------------------------|
| | 2008 | 2007 | 2008 |
| Land | ¥ 94,724 | ¥ 78,437 | \$ 947,240 |
| Buildings | 309,945 | 278,214 | 3,099,450 |
| Machinery and equipment | 655,035 | 561,416 | 6,550,350 |
| Construction in progress | 10,645 | 8,250 | 106,450 |
| Total | 1,070,349 | 926,317 | 10,703,490 |
| Less: accumulated depreciation | (579,203) | (537,924) | (5,792,030) |
| Net property, plant and equipment | ¥ 491,146 | ¥ 388,393 | \$ 4,911,460 |

10. Pledged Assets

At March 31, 2008, assets pledged as collateral for short-term debt, long-term debt and guarantees for debt are as follows:

| | Millions of yen | Thousands of U.S. dollars |
|---|-----------------|---------------------------|
| Cash and cash equivalents | ¥1,296 | \$12,960 |
| Trade notes and accounts receivable | 50 | 500 |
| Property, plant and equipment—less accumulated depreciation | 5,497 | 54,970 |
| Total | ¥6,843 | \$68,430 |

The above assets were pledged against the following liabilities:

| | Millions of yen | Thousands of U.S. dollars |
|--|-----------------|---------------------------|
| Appearing in the consolidated balance sheets as: | | |
| Short-term debt | ¥ 50 | \$ 500 |
| Long-term debt | 5,497 | 54,970 |
| Guarantees for debt | 1,296 | 12,960 |
| Total | ¥6,843 | \$68,430 |

11. Goodwill and Other Intangible Assets

The information for intangible assets other than goodwill at March 31, 2008 and 2007 are as follows:

| | Millions of yen | | | | | | Thousands of U.S. dollars | | |
|---|-----------------------|--------------------------|---------------------|-----------------------|--------------------------|---------------------|---------------------------|--------------------------|---------------------|
| | 2008 | | | 2007 | | | 2008 | | |
| | Gross carrying amount | Accumulated amortization | Net carrying amount | Gross carrying amount | Accumulated amortization | Net carrying amount | Gross carrying amount | Accumulated amortization | Net carrying amount |
| Other intangible assets subject to amortization: | | | | | | | | | |
| Software | ¥25,081 | ¥ (9,777) | ¥15,304 | ¥ 23,541 | ¥ (11,553) | ¥ 11,988 | \$250,810 | \$ (97,770) | \$153,040 |
| Other | 39,788 | (6,039) | 33,749 | 11,776 | (3,714) | 8,062 | 397,880 | (60,390) | 337,490 |
| Total | 64,869 | (15,816) | 49,053 | 35,317 | (15,267) | 20,050 | 648,690 | (158,160) | 490,530 |
| Other intangible assets not subject to amortization | | | 12,863 | | | 5,193 | | | 128,630 |
| Total other intangible assets | | | ¥61,916 | | | ¥ 25,243 | | | \$619,160 |

For the fiscal year ended March 31, 2008, increase of other in other intangible assets subject to amortization and other intangible assets not subject to amortization principally resulted from the acquisition of additional shares of NTC and the acquisition of shares of BR.

The aggregate amortization expense of other intangible assets subject to amortization for the year ended March 31, 2008, 2007 and 2006 were ¥5,487 million (\$54,870 thousand),

¥5,656 million and ¥5,665 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, 2008, 2007 and 2006.) 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 |
|----------------------|-----------------|---------------------------|
| 2009 | ¥8,428 | \$84,280 |
| 2010 | 6,984 | 69,840 |
| 2011 | 5,859 | 58,590 |
| 2012 | 4,801 | 48,010 |
| 2013 | 3,739 | 37,390 |

The changes in carrying amounts of goodwill for the year ended March 31, 2008 and 2007 were as follow:

| | Millions of yen | | Thousands of U.S. dollars |
|--------------------------------------|-----------------|---------|---------------------------|
| | 2008 | 2007 | 2008 |
| Balance at beginning of the year | ¥20,594 | ¥22,000 | \$205,940 |
| Goodwill acquired during the year | 14,588 | 124 | 145,880 |
| Impairment loss | (2,870) | — | (28,700) |
| Recognition of deferred income taxes | (719) | (1,387) | (7,190) |
| Foreign exchange impact | 240 | 57 | 2,400 |
| Other | — | (200) | — |
| Balance at end of the year | ¥31,833 | ¥20,594 | \$318,330 |

At March 31, 2008, the amounts of goodwill allocated to the construction and mining equipment segment and the industrial machinery, vehicles and others segment were ¥18,993 million (\$189,930 thousand) and ¥12,840 million (\$128,400 thousand), respectively.

For the fiscal year ended March 31, 2008 and 2007, Komatsu recognized ¥482 million (\$4,820 thousand) and ¥1,387 million 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, 2008, Komatsu recognized an impairment loss of ¥2,870 million (\$28,700 thousand), on goodwill allocated to a North America's reporting unit of forestry equipment business in the construction and mining equipment segment, due to unfavorable business circumstance

where the reporting unit was located. The impairment loss was recognized based on the difference by which the net book value of the goodwill of the reporting unit to which the goodwill was assigned exceeded the estimated fair value of the goodwill of the same reporting unit as determined based on estimated future discounted cash flows.

12. Short-Term and Long-Term Debt

Short-term debt at March 31, 2008 and 2007, consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|-----------------|----------|---------------------------|
| | 2008 | 2007 | 2008 |
| Banks, insurance companies and other financial institutions | ¥ 96,890 | ¥102,248 | \$ 968,900 |
| Commercial paper | 12,000 | — | 120,000 |
| Short-term debt | ¥108,890 | ¥102,248 | \$ 1,088,900 |

The weighted-average annual interest rates applicable to short-term debt outstanding at March 31, 2008 and 2007, were 4.3% and 5.0%, respectively. Certain consolidated subsidiaries have entered into contracts for committed credit lines totaling ¥10,846 million (\$108,460 thousand) and have unused committed lines of credit amounting to ¥2,087 million (\$20,870 thousand) with certain financial institutions at March 31, 2008, which are available for full and immediate borrowings. The

Goodwill acquired during the fiscal year ended March 31, 2008 principally resulted from the acquisition of additional shares of NTC and the acquisition of shares of BR, and was allocated to the construction and mining equipment segment and the industrial machinery, vehicles and others segment.

Company is party to a committed ¥80,000 million (\$800,000 thousand) commercial paper program and unused committed commercial paper program amounting to ¥68,000 million (\$680,000 thousand) at March 31, 2008, is available upon the satisfaction of certain customary procedural requirements. Long-term debt at March 31, 2008 and 2007, consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|--|-----------------|----------|---------------------------|
| | 2008 | 2007 | 2008 |
| Long-term debt with collateral (Note 10): | | | |
| Banks, insurance companies and other financial institutions, maturing serially through 2008–2013, weighted-average rate 7.2% | ¥ 1,777 | ¥ 339 | \$ 17,770 |
| Long-term debt without collateral: | | | |
| Banks, insurance companies and other financial institutions, maturing serially through 2008–2025, weighted-average rate 2.8% | 142,006 | 86,914 | 1,420,060 |
| Euro Medium-Term Notes maturing serially through 2008–2012, weighted-average rate 3.6% | 75,644 | 64,486 | 756,440 |
| 1.07% Unsecured Bonds due 2007 | — | 20,000 | — |
| 1.45% Unsecured Bonds due 2009 | 10,000 | 10,000 | 100,000 |
| 0.80% Unsecured Bonds due 2010 | 200 | — | 2,000 |
| 0.85% Unsecured Bonds due 2010 | 200 | — | 2,000 |
| 0.62% Unsecured Bonds due 2010 | 250 | — | 2,500 |
| 0.91% Unsecured Bonds due 2012 | 165 | — | 1,650 |
| 1.66% Unsecured Bonds due 2012 | 20,000 | — | 200,000 |
| Capital lease obligations (Note 17) | 81,876 | 55,882 | 818,760 |
| Other | 11,087 | 9,205 | 110,870 |
| Total | 343,205 | 246,826 | 3,432,050 |
| Less: current maturities | (107,928) | (72,486) | (1,079,280) |
| Long-term debt | ¥235,277 | ¥174,340 | \$ 2,352,770 |

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, 2008, 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. The issuers under the Program issued ¥23,500 million (\$235,000 thousand) during fiscal year ended March 31, 2008, and ¥40,000 million during fiscal year ended March 31, 2007 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 (\$1,000,000 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. Komatsu has never received such a request.

Annual maturities of long-term debt subsequent to March 31, 2008, excluding market value adjustments for balances subject to qualifying fair value hedges of ¥7,751 million (\$77,510 thousand) are as follows:

| Year ending March 31 | Millions of yen | Thousands of U.S. dollars |
|----------------------|-----------------|---------------------------|
| 2009 | ¥108,044 | \$1,080,440 |
| 2010 | 73,160 | 731,600 |
| 2011 | 47,571 | 475,710 |
| 2012 | 61,382 | 613,820 |
| 2013 | 41,665 | 416,650 |
| 2014 and thereafter | 3,632 | 36,320 |
| Total | ¥335,454 | \$3,354,540 |

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 requires 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 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 adopted the measurement date provisions in the year ended March 31, 2008 for those plans that had not previously used a March 31 measurement date. The change in the measurement date of defined benefit pension and other postretirement benefit plans was not material to Komatsu's consolidated results of operations and financial condition.

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 |
|--|-----------------|------------|------------------------------|
| | 2008 | 2007 | 2008 |
| Change in benefit obligation: | | | |
| Benefit obligation, beginning of year | ¥146,759 | ¥150,897 | \$1,467,590 |
| Service cost | 6,390 | 7,081 | 63,900 |
| Interest cost | 3,776 | 3,770 | 37,760 |
| Actuarial loss (gain) | 918 | (1,661) | 9,180 |
| Plan amendment | — | 434 | — |
| Acquisition | 4,179 | — | 41,790 |
| Divestiture | (1,974) | (4,937) | (19,740) |
| Benefits paid | (12,897) | (10,102) | (128,970) |
| Foreign currency exchange rate change | (3,937) | 1,277 | (39,370) |
| Benefit obligation, end of year | ¥143,214 | ¥146,759 | \$1,432,140 |
| Change in plan assets: | | | |
| Fair value of plan assets, beginning of year | ¥120,193 | ¥115,630 | \$1,201,930 |
| Actual return on plan assets | (7,940) | 5,249 | (79,400) |
| Employer contribution | 3,403 | 5,039 | 34,030 |
| Acquisition | 4,227 | — | 42,270 |
| Divestiture | (1,228) | — | (12,280) |
| Benefits paid | (7,755) | (6,449) | (77,550) |
| Foreign currency exchange rate change | (3,717) | 724 | (37,170) |
| Fair value of plan assets, end of year | ¥107,183 | ¥120,193 | \$1,071,830 |
| Funded status, end of year | ¥ (36,031) | ¥ (26,566) | \$ (360,310) |
| Prepaid benefit cost | ¥ 736 | ¥ 624 | \$ 7,360 |
| Other current liability | (248) | (196) | (2,480) |
| Accrued benefit liability | (36,519) | (26,994) | (365,190) |
| | ¥ (36,031) | ¥ (26,566) | \$ (360,310) |
| Amounts recognized in accumulated other comprehensive income (loss): | | | |
| Actuarial loss | ¥ 27,419 | ¥ 17,218 | \$ 274,190 |
| Prior service cost | 1,947 | 2,713 | 19,470 |
| | ¥ 29,366 | ¥ 19,931 | \$ 293,660 |

The accumulated benefit obligations for all defined benefit plans were ¥136,624 million (\$1,366,240 thousand) and ¥138,085 million, respectively, at March 31, 2008 and 2007.

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 |
|--|-----------------|----------|------------------------------|
| | 2008 | 2007 | 2008 |
| Plans with accumulated benefit obligations in excess of plan assets: | | | |
| Accumulated benefit obligations | ¥120,875 | ¥118,701 | \$1,208,750 |
| Plan assets | 88,011 | 97,092 | 880,110 |
| Plans with projected benefit obligations in excess of plan assets: | | | |
| Projected benefit obligations | ¥133,541 | ¥133,583 | \$1,335,410 |
| Plan assets | 96,883 | 106,637 | 968,830 |

Components of net periodic pension cost

Net periodic cost of the companies' defined benefit plans for the years ended March 31, 2008, 2007 and 2006, consisted of the following components:

| | Millions of yen | | | Thousands of U.S. dollars |
|---|-----------------|---------|----------|---------------------------|
| | 2008 | 2007 | 2006 | 2008 |
| Service cost—Benefits earned during the year | ¥ 6,390 | ¥ 7,081 | ¥ 7,454 | \$ 63,900 |
| Interest cost on projected benefit obligation | 3,776 | 3,770 | 3,565 | 37,760 |
| Expected return on plan assets | (3,210) | (3,339) | (2,947) | (32,100) |
| Net amortization | 1,395 | 1,187 | 2,951 | 13,950 |
| Net periodic cost | ¥ 8,351 | ¥ 8,699 | ¥ 11,023 | \$ 83,510 |

Other changes in plan assets and benefit obligations recognized in other comprehensive income (loss) for the year ended March 31, 2008 are summarized as follows:

| | Millions of yen | Thousands of U.S. dollars |
|------------------------------------|-----------------|---------------------------|
| | | |
| Current year actuarial loss | ¥11,927 | \$119,270 |
| Amortization of actuarial loss | (570) | (5,700) |
| Current year prior service cost | 141 | 1,410 |
| Amortization of prior service cost | (825) | (8,250) |
| | ¥10,673 | \$106,730 |

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 | ¥1,559 | \$15,590 |
| Prior service cost | 536 | 5,360 |

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

Assumptions

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

| | Domestic plans | | Foreign plans | |
|---|----------------|------|---------------|------|
| | 2008 | 2007 | 2008 | 2007 |
| Discount rate | 2.0% | 1.9% | 6.7% | 5.6% |
| Assumed rate of increase in future compensation levels (Point-based benefit system) | 3.9% | 3.7% | — | — |
| Assumed rate of increase in future compensation levels | 2.0% | 2.3% | 4.4% | 4.1% |

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

| | Domestic plans | | | Foreign plans | | |
|---|----------------|------|------|---------------|------|------|
| | 2008 | 2007 | 2006 | 2008 | 2007 | 2006 |
| Discount rate | 1.9% | 2.0% | 2.0% | 5.6% | 5.3% | 5.9% |
| Assumed rate of increase in future compensation levels (Point-based benefit system) | 3.7% | 3.7% | 3.9% | — | — | — |
| Assumed rate of increase in future compensation levels | 2.3% | 2.4% | 2.4% | 4.1% | 4.3% | 4.4% |
| Expected long-term rate of return on plan assets | 1.9% | 2.0% | 1.9% | 7.6% | 7.6% | 7.7% |

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.

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.

Plan assets

The benefit plan weighted-average asset allocations at March 31, 2008 and 2007 were as follows:

| | 2008 | 2007 |
|---|--------|--------|
| Equity securities | 31.3% | 46.3% |
| Debt securities | 47.9% | 36.3% |
| Life insurance company general accounts | 19.6% | 15.4% |
| Others | 1.2% | 2.0% |
| 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 principally invested in equity securities, debt securities and life insurance company general accounts 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 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 ¥48 million (0.07% of the Company's total plan assets) and ¥13 million (0.02% of the Company's total plan assets) at March 31, 2008 and 2007, respectively.

Cash flows**(1) Contributions**

The Company and certain subsidiaries expect to contribute ¥4,930 million (\$49,300 thousand) to their benefit plans in the year ending March 31, 2009.

(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 |
|----------------------|-----------------|---------------------------|
| 2009 | ¥12,854 | \$128,540 |
| 2010 | 13,410 | 134,100 |
| 2011 | 12,650 | 126,500 |
| 2012 | 13,544 | 135,440 |
| 2013 | 11,438 | 114,380 |
| Through 2014-2018 | ¥41,689 | \$416,890 |

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. In the fiscal year ended March

31, 2008 certain U.S. subsidiaries established a Voluntary Employees' Beneficiary Association ("VEBA") trust to hold assets and pay substantially all of these subsidiaries' self-funded post employment benefit plan obligations. The VEBA trust arrangement provides for segregation and legal restriction of the plan assets to satisfy plan obligations, and tax deductibility for contributions to the trust, subject to certain tax code limitations.

The reconciliation of beginning and ending balances of the accumulated postretirement benefit obligations and the fair value of the plan assets of the U.S. subsidiaries' plans are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|--|-----------------|-----------|---------------------------|
| | 2008 | 2007 | 2008 |
| Change in accumulated postretirement benefit obligation: | | | |
| Accumulated postretirement benefit obligation, beginning of year | ¥ 11,614 | ¥ 12,224 | \$ 116,140 |
| Service cost | 340 | 329 | 3,400 |
| Interest cost | 597 | 608 | 5,970 |
| Actuarial loss(gain) | (636) | (793) | (6,360) |
| Plan amendment | — | (80) | — |
| Medicare Part D | 81 | 80 | 810 |
| Benefits paid | (829) | (820) | (8,290) |
| Foreign currency exchange rate change | (1,612) | 66 | (16,120) |
| Accumulated postretirement benefit obligation, end of year | ¥ 9,555 | ¥ 11,614 | \$ 95,550 |
| Change in plan assets: | | | |
| Fair value of plan assets, beginning of year | ¥ — | ¥ — | \$ — |
| Actual return on plan assets | (213) | — | (2,130) |
| Employer contribution | 9,584 | 820 | 95,840 |
| Benefits paid | (829) | (820) | (8,290) |
| Foreign currency exchange rate change | (1,021) | — | (10,210) |
| Fair value of plan assets, end of year | ¥ 7,521 | ¥ — | \$ 75,210 |
| Funded status, end of year | ¥ (2,034) | ¥(11,614) | \$ (20,340) |
| Prepaid benefit cost | ¥ 1,105 | ¥ — | \$ 11,050 |
| Other current liabilities | (33) | (756) | (330) |
| Accrued benefit liability | (3,106) | (10,858) | (31,060) |
| | ¥ (2,034) | ¥(11,614) | \$ (20,340) |
| Amounts recognized in accumulated other comprehensive income (loss): | | | |
| Actuarial loss | ¥ 2,775 | ¥ 3,659 | \$ 27,750 |
| Prior service cost | 1,207 | 1,608 | 12,070 |
| | ¥ 3,982 | ¥ 5,267 | \$ 39,820 |

Accumulated postretirement benefit obligations exceed plan assets for the U.S. subsidiaries' plans.

Components of net periodic postretirement benefit cost

Net periodic postretirement benefit cost of the U.S. subsidiaries' plans for the years ended March 31, 2008, 2007 and 2006, included the following components:

| | Millions of yen | | | Thousands of U.S. dollars |
|--|-----------------|--------|--------|---------------------------|
| | 2008 | 2007 | 2006 | 2008 |
| Service cost | ¥ 340 | ¥ 329 | ¥ 266 | \$ 3,400 |
| Interest cost | 597 | 608 | 625 | 5,970 |
| Expected return on plan assets | (232) | — | — | (2,320) |
| Net amortization | 304 | 419 | 369 | 3,040 |
| Net periodic postretirement benefit cost | ¥1,009 | ¥1,356 | ¥1,260 | \$10,090 |

Other changes in plan assets and accumulated postretirement benefit obligations recognized in other comprehensive income (loss) for the year ended March 31, 2008 are summarized as follows:

| | Millions of yen | Thousands of U.S. dollars |
|------------------------------------|-----------------|---------------------------|
| Current year actuarial (gain) loss | ¥(155) | \$ (1,550) |
| Amortization of actuarial loss | (160) | (1,600) |
| Current year prior service cost | (36) | (360) |
| Amortization of prior service cost | (144) | (1,440) |
| | ¥(495) | \$ (4,950) |

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 | ¥204 | \$2,040 |
| Prior service cost | 144 | 1,440 |

Information with respect to the plans is as follows:

Measurement date

The U.S. subsidiaries use March 31 and December 31 as a measurement date for their post retirement benefit plan for the fiscal years ended March 31, 2008 and 2007, respectively.

Assumptions

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

| | 2008 | 2007 |
|--|------|------|
| Discount rate | 5.9% | 5.5% |
| Assumed rate of increase in future compensation levels | 4.0% | 4.0% |
| Current healthcare cost trend rate | 8.0% | 9.0% |
| Ultimate healthcare cost trend rate | 5.0% | 5.0% |
| Number of years to ultimate healthcare cost trend rate | 7 | 4 |

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

| | 2008 | 2007 |
|--|------|-------|
| Discount rate | 5.5% | 5.3% |
| Assumed rate of increase in future compensation levels | 4.0% | 4.0% |
| Expected long-term rate of return on plan assets | 5.5% | — |
| Current healthcare cost trend rate | 9.0% | 10.0% |
| Ultimate healthcare cost trend rate | 5.0% | 5.0% |
| Number of years to ultimate healthcare cost trend rate | 5 | 5 |

At March 31, 2008 and 2007, 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.

Plan assets

The postretirement benefit plan weighted-average asset allocations at March 31, 2008 were follows:

| | VEBA-Non Union | VEBA-Union |
|-------------------|----------------|------------|
| Equity securities | 32.1% | 32.0% |
| Debt securities | 38.9% | 58.2% |
| Others | 29.0% | 9.8% |
| Total | 100.0% | 100.0% |

Cash flows

(1) Contributions

The U.S. subsidiaries expect to contribute ¥33 million (\$330 thousand) to their post retirement benefit plans in the year ending March 31, 2009.

(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 |
|----------------------|-----------------|---------------------------|
| 2009 | ¥ 830 | \$ 8,300 |
| 2010 | 864 | 8,640 |
| 2011 | 891 | 8,910 |
| 2012 | 917 | 9,170 |
| 2013 | 943 | 9,430 |
| 2014-2018 | ¥5,210 | \$52,100 |

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, 2008, 2007 and 2006, 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, 2008,

2007 and 2006, 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 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, 2008, would have been increased by ¥103,189 million (\$1,031,890 thousand) with a corresponding decrease in unappropriated retained earnings. At March 31, 2008 and 2007, affiliated companies owned 850,100 and 1,010,200 shares which represent 0.09% and 0.10% 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 ¥365,676 million (\$3,656,760 thousand), included in the Company's general books of account as of March 31, 2008 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 24, 2008, payment of a cash dividend totaling ¥21,904 million (\$219,040 thousand) to shareholders of record on March 31, 2008. In accordance with the Act, the approved dividend has not been reflected in the consolidated financial statements as of March 31, 2008. 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

The Company intends to transfer 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 22, 2007, June 23, 2006 and June 24, 2005 and the Board of Directors on July 10, 2007 and on July 11, 2006, the Company issued 562 rights, 833 rights and 1,610 rights of its share acquisition rights during the years ended March 31, 2008, 2007 and 2006, respectively (The number of shares subject to be issued to one stock acquisition right shall be 1,000 shares.). The options vest 100% on each of the grant dates

and are exercisable from September 1 and 3, 2008, August 1, 2007 and August 1, 2006, 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 using the fair value method. Compensation expenses during the years ended March 31, 2008 and 2007, were ¥711 million (\$7,110 thousand) and ¥663 million, respectively, and were recoded in selling, general and administrative expenses. Compensation expenses after tax during the years ended March 31, 2008 and 2007, were ¥423 million (\$4,230 thousand) and ¥394 million, respectively.

The following table summarizes information about stock option activity for the years ended March 31, 2008, 2007 and 2006:

| | 2008 | | | 2007 | | 2006 | |
|----------------------------------|------------------|---------------------------------|--------------|------------------|---------------------------------|------------------|---------------------------------|
| | Number of shares | Weighted average exercise price | | Number of shares | Weighted average exercise price | Number of shares | Weighted average exercise price |
| | | Yen | U.S. dollars | | | | |
| Outstanding at beginning of year | 3,648,000 | ¥1,182 | \$11.82 | 3,665,000 | ¥ 848 | 6,409,000 | ¥ 665 |
| Granted | 562,000 | 3,661 | 36.61 | 833,000 | 2,325 | 1,610,000 | 1,126 |
| Exercised | (1,366,000) | 947 | 9.47 | (845,000) | 855 | (4,254,000) | 678 |
| Cancelled or Expired | — | — | — | (5,000) | 2,325 | (100,000) | 820 |
| Outstanding at end of year | 2,844,000 | 1,784 | 17.84 | 3,648,000 | 1,182 | 3,665,000 | 848 |
| Exercisable at end of year | 2,282,000 | 1,322 | 13.22 | 2,820,000 | 846 | 2,055,000 | 630 |

The intrinsic values of options exercised were ¥3,023 million (\$30,230 thousand), ¥1,180 million and ¥2,093 million for the years ended March 31, 2008, 2007 and 2006.

The information for options outstanding and options exercisable at March 31, 2008 are as follows.

| Exercise Prices | Outstanding | | | | | | Options Exercisable | | | | | |
|-----------------|------------------|---------------------------------|--------------|-----------------|---------------------------|---|---------------------|---------------------------------|---------|-----------------|-----------------|---|
| | Number of shares | Weighted average exercise price | | Intrinsic value | | Weighted average remaining contractual life | Number of shares | Weighted average exercise price | | Intrinsic value | | Weighted average remaining contractual life |
| | | Yen | U.S. dollars | Millions of yen | Thousands of U.S. dollars | | | years | Yen | U.S. dollars | Millions of yen | |
| ¥ 445 - 650 | 370,000 | ¥ 563 | \$ 5.63 | ¥ 815 | \$ 8,150 | 1.1 | 370,000 | ¥ 563 | \$ 5.63 | ¥ 815 | \$ 8,150 | 1.1 |
| ¥ 651 - 900 | 370,000 | 673 | 6.73 | 774 | 7,740 | 4.3 | 370,000 | 673 | 6.73 | 774 | 7,740 | 4.3 |
| ¥ 901 - 1,350 | 855,000 | 1,126 | 11.26 | 1,401 | 14,010 | 5.3 | 855,000 | 1,126 | 11.26 | 1,401 | 14,010 | 5.3 |
| ¥1,351 - 2,325 | 687,000 | 2,325 | 23.25 | 302 | 3,020 | 6.3 | 687,000 | 2,325 | 23.25 | 302 | 3,020 | 6.3 |
| ¥2,326 - 3,700 | 562,000 | 3,661 | 36.61 | — | — | 7.4 | — | — | — | — | — | — |
| ¥ 445 - 3,700 | 2,844,000 | 1,784 | 17.84 | 3,293 | 32,930 | 5.3 | 2,282,000 | 1,322 | 13.22 | 3,293 | 32,930 | 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, 2008 and 2007 and the Black-Sholes option pricing model for the years ended on or before March 31, 2006 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.

| | 2008 | 2007 | 2006 |
|-------------------------|-------------------------|--------------|---------|
| Grant-date fair value | ¥1,266 (\$12.66) | ¥801 | ¥434 |
| Expected term | 7 years | 6 years | — |
| Expected life | — | — | 8 years |
| Risk-free rate | 0.76%–1.66%* | 0.52%–2.00%* | 1.12% |
| Expected volatility | 38.00% | 39.00% | 40.00% |
| Expected dividend yield | 1.36% | 1.27% | 1.24% |

* Interest rate corresponding to discount periods is applied to risk-free rate, that is as follows:

| | 1 year | 2 years | 3 years | 4 years | 5 years | 6 years | 7 years | 8 years | 9 years | 10 years |
|------|--------|---------|---------|---------|---------|---------|---------|---------|---------|----------|
| 2007 | 0.52% | 0.79% | 1.03% | 1.26% | 1.44% | 1.60% | 1.72% | 1.83% | 1.94% | 2.00% |
| 2008 | 0.76% | 0.87% | 0.98% | 1.08% | 1.19% | 1.29% | 1.39% | 1.48% | 1.57% | 1.66% |

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, 2008, 2007 and 2006, is as follows:

| | Millions of yen | | | Thousands of U.S. dollars |
|---|------------------|-----------|-----------|---------------------------|
| | 2008 | 2007 | 2006 | 2008 |
| Foreign currency translation adjustments: | | | | |
| Balance, beginning of year | ¥ 9,204 | ¥ (2,240) | ¥(22,161) | \$ 92,040 |
| Aggregate adjustment for the year resulting from translation of foreign currency financial statements | (43,661) | 11,444 | 19,921 | (436,610) |
| Balance, end of year | ¥(34,457) | ¥ 9,204 | ¥ (2,240) | \$(344,570) |
| Net unrealized holding gains on securities available for sale: | | | | |
| Balance, beginning of year | ¥ 39,807 | ¥ 36,910 | ¥ 18,605 | \$ 398,070 |
| Net increase (decrease) | (15,071) | 2,897 | 18,305 | (150,710) |
| Balance, end of year | ¥ 24,736 | ¥ 39,807 | ¥ 36,910 | \$ 247,360 |
| Pension liability adjustments: | | | | |
| Balance, beginning of year | ¥ — | ¥(11,299) | ¥(17,340) | \$ — |
| Adjustment for the year | — | 5,856 | 6,041 | — |
| Adjustment to initially apply SFAS No. 158 | — | 5,443 | — | — |
| Balance, end of year | ¥ — | ¥ — | ¥(11,299) | \$ — |
| Pension liability adjustments—After application of SFAS No. 158: | | | | |
| Balance, beginning of year | ¥(15,300) | ¥ — | ¥ — | \$(153,000) |
| Adjustment for the year | (3,908) | — | — | (39,080) |
| Adjustment to initially apply SFAS No. 158 | — | (15,300) | — | — |
| Balance, end of year | ¥(19,208) | ¥(15,300) | ¥ — | \$(192,080) |
| Net unrealized holding gains (losses) on derivative instruments: | | | | |
| Balance, beginning of year | ¥ (210) | ¥ (276) | ¥ (589) | \$ (2,100) |
| Net increase | 360 | 66 | 313 | 3,600 |
| Balance, end of year | ¥ 150 | ¥ (210) | ¥ (276) | \$ 1,500 |
| Total accumulated other comprehensive income (loss) | | | | |
| Balance, beginning of year | ¥ 33,501 | ¥ 23,095 | ¥(21,485) | \$ 335,010 |
| Other comprehensive income for the year | (62,280) | 20,263 | 44,580 | (622,800) |
| Adjustment to initially apply SFAS No. 158 | — | (9,857) | — | — |
| Balance, end of year | ¥(28,779) | ¥ 33,501 | ¥ 23,095 | \$(287,790) |

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 |
| 2008: | | | |
| Foreign currency translation adjustments | ¥(43,661) | ¥ — | ¥(43,661) |
| Net unrealized holding gains on securities available for sale: | | | |
| Unrealized holding gains or (losses) arising during the year | (30,182) | 15,098 | (15,084) |
| Less: reclassification adjustment for (gains) or losses included in net income | 22 | (9) | 13 |
| Net unrealized gains (losses) | (30,160) | 15,089 | (15,071) |
| Pension liability adjustments | | | |
| Unrealized holding gains or (losses) arising during the year | (8,254) | 3,337 | (4,917) |
| Less: reclassification adjustment for (gains) or losses included in net income | 1,699 | (690) | 1,009 |
| Net unrealized gains (losses) | (6,555) | 2,647 | (3,908) |
| Net unrealized holding gains (losses) on derivative instruments: | | | |
| Changes in fair value of derivatives | 1,726 | (704) | 1,022 |
| Net (gains) or losses reclassified into earnings | (1,118) | 456 | (662) |
| Net unrealized gains (losses) | 608 | (248) | 360 |
| Other comprehensive income (loss) | ¥(79,768) | ¥ 17,488 | ¥(62,280) |
| 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 |

| | Thousands of U.S. dollars | | |
|--|---------------------------|--------------------------|--------------------|
| | Pretax amount | Tax (expense) or benefit | Net of tax amount |
| 2008: | | | |
| Foreign currency translation adjustments | \$(436,610) | \$ — | \$(436,610) |
| Net unrealized holding gains on securities available for sale: | | | |
| Unrealized holding gains or (losses) arising during the year | (301,820) | 150,980 | (150,840) |
| Less: reclassification adjustment for (gains) or losses included in net income | 220 | (90) | 130 |
| Net unrealized gains (losses) | (301,600) | 150,890 | (150,710) |
| Pension liability adjustments | | | |
| Unrealized holding gains or (losses) arising during the year | (82,540) | 33,370 | (49,170) |
| Less: reclassification adjustment for (gains) or losses included in net income | 16,990 | (6,900) | 10,090 |
| Net unrealized gains (losses) | (65,550) | 26,470 | (39,080) |
| Net unrealized holding gains (losses) on derivative instruments: | | | |
| Changes in fair value of derivatives | 17,260 | (7,040) | 10,220 |
| Net (gains) or losses reclassified into earnings | (11,180) | 4,560 | (6,620) |
| Net unrealized gains (losses) | 6,080 | (2,480) | 3,600 |
| Other comprehensive income (loss) | \$(797,680) | \$174,880 | \$(622,800) |

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, 2008, 2007 and 2006, were as follows:

| | Millions of yen | | | Thousands of U.S. dollars |
|---|-----------------|----------|----------|---------------------------|
| | 2008 | 2007 | 2006 | 2008 |
| Income from continuing operations before income taxes, minority interests and equity in earnings of affiliated companies: | | | | |
| Domestic | ¥151,878 | ¥111,220 | ¥ 56,082 | \$1,518,780 |
| Foreign | 170,332 | 125,271 | 99,697 | 1,703,320 |
| | ¥322,210 | ¥236,491 | ¥155,779 | \$3,222,100 |
| Income taxes: | | | | |
| Current— | | | | |
| Domestic | ¥ 53,954 | ¥ 44,295 | ¥ 29,740 | \$ 539,540 |
| Foreign | 50,188 | 31,807 | 16,011 | 501,880 |
| | 104,142 | 76,102 | 45,751 | 1,041,420 |
| Deferred— | | | | |
| Domestic | 7,779 | 681 | 2,287 | 77,790 |
| Foreign | 3,873 | 2,962 | (4,068) | 38,730 |
| | 11,652 | 3,643 | (1,781) | 116,520 |
| Total | ¥115,794 | ¥ 79,745 | ¥ 43,970 | \$1,157,940 |

Total income taxes recognized for the years ended March 31, 2008, 2007 and 2006 were applicable to the following:

| | Millions of yen | | | Thousands of U.S. dollars |
|---|-----------------|----------|----------|---------------------------|
| | 2008 | 2007 | 2006 | 2008 |
| Income from continuing operations | ¥115,794 | ¥ 79,745 | ¥ 43,970 | \$1,157,940 |
| Income from discontinued operations | 3,364 | 14,566 | 3,051 | 33,640 |
| Other comprehensive income (loss): | | | | |
| Net unrealized holding gains on securities available for sale | (15,089) | 1,918 | 12,500 | (150,890) |
| Pension liability adjustments | (2,647) | 4,044 | 5,490 | (26,470) |
| Net unrealized holding gains (losses) on derivative instruments | 248 | 45 | 215 | 2,480 |
| Amount credited directly to accumulated other comprehensive income (loss) upon adoption of SFAS No. 158 | — | (5,560) | — | — |
| Total income taxes | ¥101,670 | ¥ 94,758 | ¥ 65,226 | \$1,016,700 |

Temporary differences and tax loss carryforwards which gave rise to deferred tax assets and liabilities at March 31, 2008 and 2007, are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|--|-----------------|----------|------------------------------|
| | 2008 | 2007 | 2008 |
| Deferred tax assets: | | | |
| Allowances provided, not yet recognized for tax | ¥ 3,399 | ¥ 4,044 | \$ 33,990 |
| Accrued expenses | 49,662 | 47,855 | 496,620 |
| Property, plant and equipment | 2,798 | 9,561 | 27,980 |
| Inventories | 7,685 | 9,388 | 76,850 |
| Net operating loss carryforwards | 8,047 | 20,926 | 80,470 |
| Research and development expenses | 309 | 386 | 3,090 |
| Other | 23,432 | 18,659 | 234,320 |
| Total gross deferred tax assets | 95,332 | 110,819 | 953,320 |
| Less valuation allowance | (22,435) | (30,879) | (224,350) |
| Total deferred tax assets | ¥ 72,897 | ¥ 79,940 | \$ 728,970 |
| Deferred tax liabilities: | | | |
| Unrealized holding gains on securities available for sale | ¥ 13,172 | ¥ 27,944 | \$ 131,720 |
| Deferral of profit from installment sales | 240 | 315 | 2,400 |
| Property, plant and equipment | 11,734 | 11,645 | 117,340 |
| Intangible assets | 16,153 | — | 161,530 |
| Undistributed earnings of foreign subsidiaries and affiliated companies accounted for by the equity method | 5,280 | 3,633 | 52,800 |
| Total deferred tax liabilities | ¥ 46,579 | ¥ 43,537 | \$ 465,790 |
| Net deferred tax assets | ¥ 26,318 | ¥ 36,403 | \$ 263,180 |

Net deferred tax assets and liabilities as of March 31, 2008 and 2007 are reflected on the consolidated balance sheets under the following captions:

| | Millions of yen | | Thousands of U.S. dollars |
|---|-----------------|----------|------------------------------|
| | 2008 | 2007 | 2008 |
| Deferred income taxes and other current assets | ¥ 40,141 | ¥ 49,717 | \$ 401,410 |
| Deferred income taxes and other assets | 16,483 | 20,335 | 164,830 |
| Deferred income taxes and other current liabilities | (133) | (24) | (1,330) |
| Deferred income taxes and other liabilities | (30,173) | (33,625) | (301,730) |
| | ¥ 26,318 | ¥ 36,403 | \$ 263,180 |

The valuation allowance was ¥56,608 million as of March 31, 2005. The net changes in the total valuation allowance for the years ended March 31, 2008, 2007 and 2006 were a decrease of ¥8,444 million (\$84,440 thousand), a decrease of ¥4,611 million and a decrease of ¥21,118 million, respectively.

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, projected 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, 2008 and 2007. 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 carry-forward 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 Japanese statutory income tax rate of approximately 40.8%. The inhabitant tax rate and Enterprise tax rate vary by local jurisdiction.

The differences between the Japanese statutory tax rates and the effective tax rates for the years ended March 31, 2008, 2007 and 2006, are summarized as follows:

| | 2008 | 2007 | 2006 |
|---|--------------|-------|--------|
| Japanese statutory tax rate | 40.8% | 40.8% | 40.8% |
| Increase (decrease) in tax rates resulting from: | | | |
| Increase in valuation allowance | 0.8 | 0.7 | 5.5 |
| Expenses not deductible for tax purposes | 2.0 | 2.4 | 3.5 |
| Realization of tax benefits on operating losses of subsidiaries | (1.5) | (2.2) | (14.0) |
| Income of foreign subsidiaries taxed at lower than Japanese normal rate | (5.1) | (6.2) | (5.5) |
| Tax credit for research and development expenses | (0.8) | (1.5) | (2.2) |
| Other, net | (0.3) | (0.3) | 0.1 |
| Effective tax rate | 35.9% | 33.7% | 28.2% |

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, 2008 and 2007, undistributed earnings of foreign subsidiaries aggregated ¥332,451 million (\$3,324,510 thousand) and ¥239,400 million, respectively. At March 31, 2006, no deferred tax liabilities were recognized because the Company considered those earnings to be indefinitely reinvested. In the year ended March 31, 2007, the Company changed its policy to distribute a certain portion of undistributed earnings of foreign subsidiaries. As of March 31, 2008 and 2007, Komatsu recognized deferred tax liabilities of ¥1,140 million (\$11,400 thousand) and ¥913 million, respectively, associated with those earnings. As of March 31, 2008 and 2007, Komatsu has not recognized deferred tax liabilities of ¥28,331 million (\$283,310 thousand) and ¥16,785 million, respectively, for such portion of undistributed earnings of foreign subsidiaries that the Company intends to reinvest indefinitely. At March 31, 2008, the Company and certain subsidiaries had net operating loss carryforwards aggregating approximately ¥18,721 million (\$187,210 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 | ¥ 4,039 | \$ 40,390 |
| 6 to 20 years | 6,881 | 68,810 |
| Indefinite periods | 7,801 | 78,010 |
| Total | ¥18,721 | \$187,210 |

On April 1, 2007, Komatsu adopted FASB Interpretation No. 48 ("FIN48"), "Accounting for Uncertainty in Income Taxes – an interpretation of SFAS No. 109, Accounting for Income Taxes." As of April 1, 2007 and for the 12-month ended March 31, 2008, Komatsu did not have a material impact on consolidated results of operations and financial condition.

Although Komatsu believes its estimates of unrecognized tax benefits are reasonable, uncertainties regarding the final determination of income tax audit settlements and any related litigation could affect the total amount of unrecognized tax benefits in the future periods. Based on the information available as of March 31, 2008, Komatsu does not expect significant changes to the unrecognized tax benefits within the next twelve months.

Komatsu files income tax returns in Japan and various foreign tax jurisdictions. In Japan, the Company is no longer subject to regular income tax examinations by the tax authority for years before 2004. In other foreign tax jurisdictions, major subsidiaries are no longer subject to income tax examinations by tax authorities for years before 2004 with few exceptions.

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 ¥15,911 million (\$159,110 thousand), ¥15,035 million and ¥13,856 million, respectively, for the years ended

March 31, 2008, 2007 and 2006. Lease contracts for equipment that qualify as capital leases in conformity with SFAS No. 13 have been capitalized. At March 31, 2008, 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 |
| 2009 | ¥ 30,858 | ¥ 3,845 | ¥ 34,703 | \$ 308,580 | \$ 38,450 | \$ 347,030 |
| 2010 | 19,922 | 2,853 | 22,775 | 199,220 | 28,530 | 227,750 |
| 2011 | 16,289 | 1,668 | 17,957 | 162,890 | 16,680 | 179,570 |
| 2012 | 12,288 | 948 | 13,236 | 122,880 | 9,480 | 132,360 |
| 2013 | 7,853 | 615 | 8,468 | 78,530 | 6,150 | 84,680 |
| Thereafter | 2,337 | 2,594 | 4,931 | 23,370 | 25,940 | 49,310 |
| Total minimum lease payments | ¥ 89,547 | ¥ 12,523 | ¥102,070 | \$ 895,470 | \$ 125,230 | \$1,020,700 |
| Less: amounts representing interest | (7,671) | | | (76,710) | | |
| Present value of net minimum capital lease payments | ¥ 81,876 | | | \$ 818,760 | | |

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 |
|--|-----------------|----------|----------|---------------------------|
| | 2008 | 2007 | 2006 | 2008 |
| Income from continuing operations | ¥203,826 | ¥153,264 | ¥109,141 | \$2,038,260 |
| Income from discontinued operations less applicable income taxes | 4,967 | 11,374 | 5,149 | 49,670 |
| Net income | ¥208,793 | ¥164,638 | ¥114,290 | \$2,087,930 |

| | Number of shares | | |
|---|------------------|-------------|-------------|
| | 2008 | 2007 | 2006 |
| Weighted average common shares outstanding, less treasury stock | 994,844,955 | 993,597,436 | 992,733,616 |
| Dilutive effect of: | | | |
| Stock options | 1,335,586 | 1,788,951 | 1,697,534 |
| Weighted average diluted common shares outstanding | 996,180,541 | 995,386,387 | 994,431,150 |

| | Yen | | | U.S. cents |
|--------------------------------------|---------|---------|---------|------------|
| | 2008 | 2007 | 2006 | 2008 |
| Income from continuing operations: | | | | |
| Basic | ¥204.88 | ¥154.25 | ¥109.94 | ¢204.88 |
| Diluted | 204.61 | 153.97 | 109.75 | 204.61 |
| Income from discontinued operations: | | | | |
| Basic | ¥ 4.99 | ¥ 11.45 | ¥ 5.19 | ¢ 4.99 |
| Diluted | 4.98 | 11.43 | 5.18 | 4.98 |
| Net income: | | | | |
| Basic | ¥209.87 | ¥165.70 | ¥115.13 | ¢209.87 |
| Diluted | 209.59 | 165.40 | 114.93 | 209.59 |

19. Commitments and Contingent Liabilities

At March 31, 2008, Komatsu was contingently liable for discounted and transferred receivables on a recourse basis with the financial institutions of ¥9,746 million (\$97,460 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 8 years in the case of loans relating to the affiliat-

ed companies and other companies. The maximum amount of undiscounted payments Komatsu would have had to make in the event of default is ¥65,050 million (\$650,500 thousand) at March 31, 2008. The fair value of the liabilities recognized for Komatsu's obligations as guarantors under those guarantees at March 31, 2008 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, 2008, aggregated approximately ¥24,700 million (\$247,000 thousand).

Komatsu is involved in certain legal actions and claims arising in the ordinary course of its business. It is the opinion of man-

agement 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

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 income (expenses). For the years ended March 31, 2008, 2007 and 2006, 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

in accrued product warranty cost for the years ended March 31, 2008 and 2007 is summarized as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|------------------------------|-----------------|----------|---------------------------|
| | 2008 | 2007 | 2008 |
| Balance at beginning of year | ¥ 28,999 | ¥ 26,582 | \$ 289,990 |
| Addition | 27,879 | 39,756 | 278,790 |
| Utilization | (22,933) | (37,862) | (229,330) |
| Other | (2,055) | 523 | (20,550) |
| Balance at end of year | ¥ 31,890 | ¥ 28,999 | \$ 318,900 |

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 ¥318 million (\$3,180 thousand) of existing income included in accumulated other comprehensive income (loss) at March 31, 2008 will be reclassified into earnings within twelve months from that date. No cash flow hedges were discontinued during the years ended March 31, 2008 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, 2008 and 2007 are as follows.

| | Millions of yen | | Thousands of U.S. dollars |
|--|-----------------|----------|---------------------------|
| | 2008 | 2007 | 2008 |
| Forwards and options: | | | |
| Sale of foreign currencies | ¥ 89,531 | ¥ 82,015 | \$ 895,310 |
| Purchase of foreign currencies | 68,460 | 41,778 | 684,600 |
| Option contracts (purchased) | 6,071 | 2,532 | 60,710 |
| Option contracts (sold) | 3,009 | — | 30,090 |
| Interest rate swap, cross-currency swap and interest rate cap agreements | 263,458 | 253,372 | 2,634,580 |

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, 2008 and 2007, are summarized as follows:

| | Millions of yen | | | | Thousands of U.S. dollars | |
|--|-----------------|----------------------|-----------------|----------------------|---------------------------|----------------------|
| | 2008 | | 2007 | | 2008 | |
| | Carrying amount | Estimated fair value | Carrying amount | Estimated fair value | Carrying amount | Estimated fair value |
| Investment securities | ¥ 79,582 | ¥ 79,582 | ¥108,590 | ¥108,590 | \$ 795,820 | \$ 795,820 |
| Long-term debt, including current portion | 343,205 | 342,195 | 246,826 | 244,921 | 3,432,050 | 3,421,950 |
| Derivatives: | | | | | | |
| Forwards and options | | | | | | |
| Assets | 7,314 | 7,314 | 614 | 614 | 73,140 | 73,140 |
| Liabilities | 1,295 | 1,295 | 1,079 | 1,079 | 12,950 | 12,950 |
| Interest rate swap, cross-currency swap and interest rate cap agreements | | | | | | |
| Assets | 9,064 | 9,064 | 285 | 285 | 90,640 | 90,640 |
| Liabilities | 4,619 | 4,619 | 2,192 | 2,192 | 46,190 | 46,190 |

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 two operating segments: 1) Construction and mining equipment, 2) Industrial Machinery, Vehicles and Others.

From the fiscal year ended March 31, 2008, Komatsu changed its form of operating segments from three operating segments: 1) Construction and mining equipment, 2) Industrial Machinery, Vehicles and Others, 3) Electronics to current two operating segments due to the shift in its business structures. The business segment information as of March 31, 2007 and

2006, and for the fiscal years then ended have been reclassified according to the presentation as of March 31, 2008, and for the fiscal year then ended.

Segment profit is determined in a manner that is consistent with Japanese accounting principles by subtracting the cost of sales and selling, general and administrative expenses from net sales attributed to the operating segment. Segment profit is used by the chief operating decision maker in deciding how to

allocate resources and in assessing performance, and excludes certain general corporate administration and finance expenses, such as costs of executive management, corporate development, corporate finance, human resources, internal audit, investor relations, legal and public relations. Segment profit also excludes certain non-recurring charges which may otherwise relate to operating segments, including impairments of long lived assets and goodwill.

The following tables present certain information regarding Komatsu's operating segments and geographic information at March 31, 2008, 2007 and 2006, and for the years then ended:

Operating segments:

| | Millions of yen | | | Thousands of U.S. dollars |
|--|-----------------|------------|------------|---------------------------|
| | 2008 | 2007 | 2006 | 2008 |
| Net sales: | | | | |
| Construction and Mining Equipment— | | | | |
| Customers | ¥1,897,620 | ¥1,567,723 | ¥1,291,223 | \$18,976,200 |
| Intersegment | 26,285 | 20,253 | 21,203 | 262,850 |
| Total | 1,923,905 | 1,587,976 | 1,312,426 | 19,239,050 |
| Industrial Machinery, Vehicles and Others— | | | | |
| Customers | 345,403 | 325,620 | 320,917 | 3,454,030 |
| Intersegment | 110,240 | 97,743 | 81,033 | 1,102,400 |
| Total | 455,643 | 423,363 | 401,950 | 4,556,430 |
| Elimination | (136,525) | (117,996) | (102,236) | (1,365,250) |
| Consolidated | ¥2,243,023 | ¥1,893,343 | ¥1,612,140 | \$22,430,230 |
| Segment profit: | | | | |
| Construction and Mining Equipment | ¥ 304,385 | ¥ 220,606 | ¥ 142,904 | \$ 3,043,850 |
| Industrial Machinery, Vehicles and Others | 33,727 | 32,695 | 25,078 | 337,270 |
| Total | 338,112 | 253,301 | 167,982 | 3,381,120 |
| Corporate expenses and elimination | (3,526) | (3,555) | (3,481) | (35,260) |
| Consolidated segment profit | 334,586 | 249,746 | 164,501 | 3,345,860 |
| Impairment loss on long-lived assets held for use | 2,447 | 81 | 4,791 | 24,470 |
| Impairment loss on goodwill | 2,870 | — | 3,041 | 28,700 |
| Other operating income (expenses) | 3,581 | (4,924) | 6,759 | 35,810 |
| Operating income | 332,850 | 244,741 | 163,428 | 3,328,500 |
| Interest and dividend income | 10,265 | 8,532 | 6,824 | 102,650 |
| Interest expense | (16,699) | (15,485) | (12,208) | (166,990) |
| Other—net | (4,206) | (1,297) | (2,265) | (42,060) |
| Consolidated income from continuing operations before income taxes | ¥ 322,210 | ¥ 236,491 | ¥ 155,779 | \$ 3,222,100 |
| Identifiable assets: | | | | |
| Construction and Mining Equipment | ¥1,612,214 | ¥1,423,744 | ¥1,167,336 | \$16,122,140 |
| Industrial Machinery, Vehicles and Others | 427,508 | 317,462 | 378,224 | 4,275,080 |
| Corporate assets and elimination | 65,424 | 102,776 | 106,565 | 654,240 |
| Consolidated | ¥2,105,146 | ¥1,843,982 | ¥1,652,125 | \$21,051,460 |
| Depreciation and amortization: | | | | |
| Construction and Mining Equipment | ¥ 65,712 | ¥ 57,444 | ¥ 50,399 | \$ 657,120 |
| Industrial Machinery, Vehicles and Others | 8,916 | 7,977 | 7,003 | 89,160 |
| Consolidated | ¥ 74,628 | ¥ 65,421 | ¥ 57,402 | \$ 746,280 |
| Capital investment: | | | | |
| Construction and Mining Equipment | ¥ 133,356 | ¥ 111,003 | ¥ 99,622 | \$ 1,333,560 |
| Industrial Machinery, Vehicles and Others | 12,374 | 18,677 | 14,312 | 123,740 |
| Consolidated | ¥ 145,730 | ¥ 129,680 | ¥ 113,934 | \$ 1,457,300 |

Transfers between segments are made at estimated arm's-length prices. 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. Amortization for the years ended March 31, 2008, 2007 and 2006 do not include amortization of long-term prepaid expenses of ¥1,036 million (\$10,360 thousand), ¥913 million and ¥1,225 million. Further depreciation and amortization for the

years ended March 31, 2007 and 2006 do not include those for discontinued operations of ¥6,375 million and ¥14,013 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.

Geographic information:

Net sales to customers recognized by sales destination for the years ended March 31, 2008, 2007 and 2006 are as follows:

| | Millions of yen | | | Thousands of U.S. dollars |
|---|-----------------|------------|------------|---------------------------|
| | 2008 | 2007 | 2006 | 2008 |
| Net sales: | | | | |
| Japan | ¥ 505,185 | ¥ 487,103 | ¥ 482,825 | \$ 5,051,850 |
| The Americas | 541,160 | 537,836 | 477,718 | 5,411,600 |
| Europe and CIS | 427,679 | 324,071 | 232,329 | 4,276,790 |
| China | 189,902 | 129,443 | 89,667 | 1,899,020 |
| Asia (excluding Japan, China) and Oceania | 348,462 | 252,768 | 213,719 | 3,484,620 |
| Middle East and Africa | 230,635 | 162,122 | 115,882 | 2,306,350 |
| Consolidated net sales | ¥2,243,023 | ¥1,893,343 | ¥1,612,140 | \$22,430,230 |

Net sales recognized by geographic origin and property, plant and equipment at March 31, 2008, 2007 and 2006, and for the years then ended are as follows:

| | Millions of yen | | | Thousands of U.S. dollars |
|---------------------------------------|-----------------|------------|------------|---------------------------|
| | 2008 | 2007 | 2006 | 2008 |
| Net sales: | | | | |
| Japan | ¥ 813,198 | ¥ 739,206 | ¥ 682,260 | \$ 8,131,980 |
| U.S.A. | 526,821 | 527,680 | 465,726 | 5,268,210 |
| Europe and CIS | 420,778 | 298,509 | 212,844 | 4,207,780 |
| Others | 482,226 | 327,948 | 251,310 | 4,822,260 |
| Total | ¥2,243,023 | ¥1,893,343 | ¥1,612,140 | \$22,430,230 |
| Property, plant and equipment: | | | | |
| Japan | ¥ 363,646 | ¥ 282,050 | ¥ 298,807 | \$ 3,636,460 |
| U.S.A. | 65,225 | 60,609 | 48,871 | 652,250 |
| Europe and CIS | 36,664 | 25,808 | 19,563 | 366,640 |
| Others | 25,611 | 19,926 | 33,426 | 256,110 |
| Total | ¥ 491,146 | ¥ 388,393 | ¥ 400,667 | \$ 4,911,460 |

No individual country within Europe and CIS 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, 2008, 2007 and 2006.

The geographic name of Eurpe is changed to Europe and CIS.

The following information shows net sales and segment profit recognized by geographic origin for the years ended March 31, 2008, 2007 and 2006. 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 Financial Instruments and Exchange Law, which a Japanese public company is subject to:

| | Millions of yen | | | Thousands of U.S. dollars |
|----------------------------------|-----------------|------------|------------|---------------------------|
| | 2008 | 2007 | 2006 | 2008 |
| Net sales: | | | | |
| Japan— | | | | |
| Customers | ¥ 813,198 | ¥ 739,206 | ¥ 682,260 | \$ 8,131,980 |
| Intersegment | 479,116 | 396,361 | 297,784 | 4,791,160 |
| Total | 1,292,314 | 1,135,567 | 980,044 | 12,923,140 |
| The Americas— | | | | |
| Customers | 526,821 | 527,792 | 466,049 | 5,268,210 |
| Intersegment | 40,422 | 38,221 | 22,596 | 404,220 |
| Total | 567,243 | 566,013 | 488,645 | 5,672,430 |
| Europe and CIS— | | | | |
| Customers | 420,778 | 298,509 | 212,844 | 4,207,780 |
| Intersegment | 31,444 | 34,450 | 29,760 | 314,440 |
| Total | 452,222 | 332,959 | 242,604 | 4,522,220 |
| Others— | | | | |
| Customers | 482,226 | 327,836 | 250,987 | 4,822,260 |
| Intersegment | 35,661 | 20,678 | 19,250 | 356,610 |
| Total | 517,887 | 348,514 | 270,237 | 5,178,870 |
| Elimination | (586,643) | (489,710) | (369,390) | (5,866,430) |
| Consolidated | ¥2,243,023 | ¥1,893,343 | ¥1,612,140 | \$22,430,230 |
| Segment profit: | | | | |
| Japan | ¥ 173,063 | ¥ 140,193 | ¥ 89,913 | \$ 1,730,630 |
| The Americas | 56,667 | 51,842 | 38,966 | 566,670 |
| Europe and CIS | 44,088 | 32,104 | 20,315 | 440,880 |
| Others | 68,204 | 38,033 | 22,539 | 682,040 |
| Corporate and elimination | (7,436) | (12,426) | (7,232) | (74,360) |
| Consolidated | ¥ 334,586 | ¥ 249,746 | ¥ 164,501 | \$ 3,345,860 |
| Identifiable assets: | | | | |
| Japan | ¥1,282,182 | ¥1,065,487 | ¥1,046,024 | \$12,821,820 |
| The Americas | 441,499 | 481,144 | 411,091 | 4,414,990 |
| Europe and CIS | 290,008 | 221,012 | 151,664 | 2,900,080 |
| Others | 328,741 | 237,839 | 201,168 | 3,287,410 |
| Corporate assets and elimination | (237,284) | (161,500) | (157,822) | (2,372,840) |
| Consolidated | ¥2,105,146 | ¥1,843,982 | ¥1,652,125 | \$21,051,460 |
| Overseas sales: | | | | |
| The Americas | ¥ 541,160 | ¥ 537,836 | ¥ 477,718 | \$ 5,411,600 |
| Europe and CIS | 427,679 | 324,071 | 232,329 | 4,276,790 |
| Others | 768,999 | 544,333 | 419,268 | 7,689,990 |
| Total | ¥1,737,838 | ¥1,406,240 | ¥1,129,315 | \$17,378,380 |

Transfers between segments are made at estimated arm's-length prices. 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.

The geographic name of Eurpe is changed to Europe and CIS.

23. Supplementary Information to Balance Sheets

At March 31, 2008 and 2007, deferred income taxes and other current assets were comprised of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|------------------------------|-----------------|-----------------|---------------------------|
| | 2008 | 2007 | 2008 |
| Prepaid expenses | ¥ 4,444 | ¥ 3,663 | \$ 44,440 |
| Short-term loans receivable: | | | |
| Affiliated companies | 4,314 | 2,764 | 43,140 |
| Other | 1,198 | 2,220 | 11,980 |
| Total | ¥ 5,512 | ¥ 4,984 | \$ 55,120 |
| Deferred income taxes | 40,141 | 49,717 | 401,410 |
| Other | 79,408 | 60,850 | 794,080 |
| Total | ¥129,505 | ¥119,214 | \$1,295,050 |

At March 31, 2008 and 2007, deferred income taxes and other current liabilities were comprised of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|-----------------------|-----------------|-----------------|---------------------------|
| | 2008 | 2007 | 2008 |
| Accrued expenses | ¥ 91,624 | ¥ 86,395 | \$ 916,240 |
| Deferred income taxes | 133 | 24 | 1,330 |
| Other | 113,400 | 96,110 | 1,134,000 |
| Total | ¥205,157 | ¥182,529 | \$2,051,570 |

24. Supplementary Information to Statements of Income

The following information shows research and development expenses and advertising costs, for the years ended March 31, 2008, 2007 and 2006. 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 |
|-----------------------------------|-----------------|----------|----------|---------------------------|
| | 2008 | 2007 | 2006 | 2008 |
| Research and development expenses | ¥ 49,673 | ¥ 46,306 | ¥ 44,560 | \$496,730 |
| Advertising costs | 4,410 | 4,482 | 3,978 | 44,100 |

Shipping and handling costs included in selling, general and administrative expenses for the years ended March 31, 2008, 2007 and 2006, were as follows:

| | Millions of yen | | | Thousands of U.S. dollars |
|-----------------------------|-----------------|----------|----------|---------------------------|
| | 2008 | 2007 | 2006 | 2008 |
| Shipping and handling costs | ¥ 51,827 | ¥ 44,065 | ¥ 35,735 | \$518,270 |

For the fiscal year ended March 31, 2008, Komatsu recognized an impairment loss of ¥2,447 million (\$24,470 thousand), related to property, plant and equipment and intangible assets subject to amortization at certain domestic and foreign

subsidiaries, as profitability of the assets of each subsidiary was expected to be low in the future and Komatsu estimated the carrying amounts would not be recovered by the future cash flows.

Other operating income (expense) for the years ended March 31, 2008, 2007 and 2006, were comprised of the following:

| | Millions of yen | | | Thousands of U.S. dollars |
|--|-----------------|------------------|----------------|---------------------------|
| | 2008 | 2007 | 2006 | 2008 |
| Gain from sale of subsidiaries | ¥ — | ¥ — | ¥ 18,484 | \$ — |
| Gain on sale of property | 3,169 | — | — | 31,690 |
| Loss on disposal or sale of fixed assets | (3,313) | (2,015) | (8,176) | (33,130) |
| Other | 3,725 | (2,909) | (3,549) | 37,250 |
| Total | ¥ 3,581 | ¥ (4,924) | ¥ 6,759 | \$ 35,810 |

Other income (expenses) for the years ended March 31, 2008, 2007 and 2006, were comprised of the following:

| | Millions of yen | | | Thousands of U.S. dollars |
|--|-------------------|------------------|------------------|---------------------------|
| | 2008 | 2007 | 2006 | 2008 |
| Interest income— | | | | |
| Installment receivables | ¥ 2,107 | ¥ 945 | ¥ 1,112 | \$ 21,070 |
| Other | 6,659 | 6,729 | 5,028 | 66,590 |
| Dividends | 1,499 | 858 | 684 | 14,990 |
| Interest expense | (16,699) | (15,485) | (12,208) | (166,990) |
| Net gain (loss) from sale of investment securities | (289) | 344 | 18 | (2,890) |
| Exchange loss, net | (3,467) | (903) | (1,941) | (34,670) |
| Other | (450) | (738) | (342) | (4,500) |
| Total | ¥ (10,640) | ¥ (8,250) | ¥ (7,649) | \$ (106,400) |

25. Valuation and Qualifying Accounts

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

| | Millions of yen | | | Thousands of U.S. dollars |
|--|-----------------|-----------------|-----------------|---------------------------|
| | 2008 | 2007 | 2006 | 2008 |
| Allowance for doubtful receivables | | | | |
| Balance at beginning of fiscal period | ¥ 11,808 | ¥ 11,786 | ¥ 14,664 | \$ 118,080 |
| Additions | | | | |
| Charged to costs and expenses | 3,003 | 2,653 | 160 | 30,030 |
| Charged to other accounts | 208 | — | — | 2,080 |
| Deductions | 3,549 | 2,631 | 3,038 | 35,490 |
| Balance at end of fiscal period | ¥ 11,470 | ¥ 11,808 | ¥ 11,786 | \$ 114,700 |

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

| | Millions of yen | | | Thousands of U.S. dollars |
|---|-----------------|-----------------|-----------------|---------------------------|
| | 2008 | 2007 | 2006 | 2008 |
| Valuation allowance for deferred tax assets | | | | |
| Balance at beginning of fiscal period | ¥ 30,879 | ¥ 35,490 | ¥ 56,608 | \$ 308,790 |
| Additions | | | | |
| Charged to costs and expenses | 2,743 | 1,715 | 8,546 | 27,430 |
| Charged to other accounts | 945 | 341 | 3,129 | 9,450 |
| Deductions | 12,132 | 6,667 | 32,793 | 121,320 |
| Balance at end of fiscal period | ¥ 22,435 | ¥ 30,879 | ¥ 35,490 | \$ 224,350 |

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

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 (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of Komatsu, (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 Komatsu are being made only in accordance with authorizations of management and directors of Komatsu and (3) 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, 2008. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control — Integrated Framework.

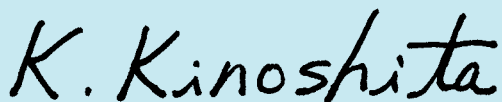
Based on its assessment, management concluded that, as of March 31, 2008, Komatsu's internal control over financial reporting was effective.

Komatsu acquired NIPPEI TOYAMA CORPORATION (NTC) and BIGRENTAL Co., Ltd. (BR) during the fiscal year ended March 31, 2008, and management excluded from its assessment of the effectiveness of the internal control over financial reporting of Komatsu as of March 31, 2008, the internal control over financial reporting of NTC and BR associated with total assets of 179,412 million yen and total revenues of nil yen included in the consolidated financial statements of Komatsu as of and for the fiscal year ended March 31, 2008.

KPMG AZSA & Co., an independent registered public accounting firm, has issued an audit report on the internal control over financial reporting of Komatsu as of March 31, 2008. The audit of internal control over financial reporting of Komatsu by KPMG AZSA & Co., also excluded an evaluation of the internal control over financial reporting of NTC and BR.



Kunio Noji
President and CEO



Kenji Kinoshita
Director and Senior Executive Officer
CFO

June 30, 2008

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, 2008 and 2007, 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, 2008 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, 2008 and 2007, and the results of their operations and their cash flows for each of the years in the three-year period ended March 31, 2008, 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 Company's internal control over financial reporting as of March 31, 2008, 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 30, 2008 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

The accompanying consolidated financial statements as of and for the year ended March 31, 2008 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 30, 2008

The Board of Directors and Shareholders
Komatsu Ltd.:

We have audited the internal control over financial reporting of Komatsu Ltd. and subsidiaries as of March 31, 2008, 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, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on 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, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included 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, Komatsu Ltd. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of March 31, 2008, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

The Company acquired NIPPEI TOYAMA CORPORATION (NTC) and BIGRENTAL Co., Ltd. (BR) during the year ended March 31, 2008, and the Company's management excluded from its assessment of the effectiveness of the internal control over financial reporting of Komatsu Ltd. and subsidiaries as of March 31, 2008, the internal control over financial reporting of NTC and BR associated with total assets of 179,412 million yen and total revenues of nil yen included in the consolidated financial statements of Komatsu Ltd. and subsidiaries as of and for the year ended March 31, 2008. Our audit of internal control over financial reporting of Komatsu Ltd. and subsidiaries also excluded an evaluation of the internal control over financial reporting of NTC and BR.

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, 2008 and 2007, 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, 2008, expressed in Japanese yen, and our report dated June 30, 2008 expressed an unqualified opinion on those consolidated financial statements.

KPMG AZSA & Co.

Tokyo, Japan
June 30, 2008