



Masahiro Sakane, Chairman of the Board

Kunio Noji, President and CEO

In the roof-top garden of  
Komatsu Head Office Building

## Business Results

In the fiscal year, ended March 31, 2009, while economies in Japan, the United States and Europe slowed down, those in emerging countries sustained sound growth through the first half period. In the second half, however, effects of the financial crisis, triggered in the United States, spread to other regions of the world. This included emerging and commodity-exporting countries, while commodity prices sharply plunged. With a global economic recession, the business environment for the Komatsu Group became extremely challenging, a previously unknown situation. Affected by such a drastic change in the business environment, the Komatsu Group recorded business results for the year, below the level of the previous fiscal year, as shown in the following table.

### Consolidated Results for the Year

U.S. GAAP	Results for the Year	Change (2009/2008)
Net sales	¥ 2,021.7 billion	Down 9.9%
Operating income	¥ 151.9 billion	Down 54.3%
Operating income ratio	7.5%	- 7.3 pts
Income before income taxes, minority interests in equity in earnings of affiliate companies	¥ 128.7 billion	Down 60.0%*
Net income	¥ 78.7 billion	Down 62.3%

\* Change in percentage of income before income taxes, minority interests and equity in earnings of affiliated companies for fiscal 2009 is compared with income from continuing operations before income taxes, minority interests and equity in earnings of affiliated companies for fiscal 2008.

In the construction, mining and utility equipment business, our market environment changed drastically, becoming very challenging in the second half period of the fiscal year. Down-turning demand in emerging economies and in commodity-exporting countries, where it had steadily expanded earlier, resulted in sluggish demand worldwide. In the industrial machinery and others business, a wide range of client industries, including the automobile manufacturing industry, rapidly restrained their capital investment, also creating a challenging environment in the second half period. In addition, the Japanese yen appreciated compared to the previous fiscal year. As a result, consolidated net sales for the fiscal year ended March 31, 2009 declined 9.9% from the previous fiscal year, to ¥2,021.7 billion (US\$20,422 million, at US\$1=¥99).

With respect to profits, we worked to absorb increased prices for raw materials with efforts to leverage the situation internally, such as increasing selling prices and reducing production costs, in the first half of the fiscal year. In response to the sharp drop in demand in the second half, we made substantial adjustments to production in order to reduce inventories to an appropriate level as quickly as possible. In addition, we recorded expenses associated with production, sales and other structural reforms. The Japanese yen's appreciation also worked against our profitability. Reflecting these factors, operating income decreased 54.3% from the previous fiscal year, to ¥151.9 billion (US\$1,535 million). This translated into an operating income ratio (return on sales) of 7.5%, down 7.3 percentage points from the previous fiscal year. Income before income taxes, minority interests and equity in earnings of affiliated companies totaled ¥128.7 billion (US\$1,301 million) for the fiscal year. Net income for the year amounted to ¥78.7 billion (US\$796 million).

## Cash Dividends

Komatsu is building a sound financial position as well as flexible and agile corporate strengths to increase its corporate value. Concerning cash dividends to shareholders, Komatsu Ltd. (hereinafter the "Company") maintains the policy of redistributing profits by considering consolidated business results and continuing stable dividends. Specifically, the Company has set the goal of a consolidated payout ratio of 20% or higher. Further, it maintains the policy of not decreasing dividends, as long as the consolidated payout ratio does not surpass 40%.

After reviewing the business results for fiscal 2009 and current and future business prospects, we have set the fiscal 2009 year-end dividends at ¥18 per share, a decrease of ¥4 from a year ago. Together with the interim dividends of ¥22 per share, annual dividends per share totaled ¥40, a decline of ¥2 from the previous fiscal year. This amount translates into a consolidated payout ratio of 40% based on profits before the reform associated expenses.

## Mid-Range Management Strategies, Goals and Tasks Ahead

The worsening of the real economies, triggered by the financial crisis in the United States, not only has affected the United States and Europe but has also extended to emerging economies which had continued to steadily expand earlier. It made the global economy drop drastically and placed it in a very difficult and previously unknown situation. In response to this economic recession, concerned governments have announced economic stimulus packages with increased public spending and other efforts to stabilize the financial market. However, it is difficult to expect rapid recovery of the global construction and mining equipment market. Thus, we are anticipating that a challenging environment will continue for some time. Our industrial machinery business is closely and substantially affected by capital investment by the automobile manufacturing industry. Here, orders are nose-diving in all domains, such as large presses, small and medium-sized press machines, sheet metal machines and machine tools.

To meet this drastic change in the business environment, we have focused our efforts on a diverse range of operations. Such efforts include dynamic production adjustment designed for the speedy rationalization of inventories worldwide, consolidation of production at new lines with higher productivity in Japan, and elimination of plants and production lines. This is being done while pinning down the model range of production in North America and Europe and while making group-wide efforts in fixed cost reduction. In addition, after reassessing Japanese production, we have also decided to shut down the Mooka Plant, where articulated dump trucks and other equipment are produced, and the Komatsu Plant, where large presses are built. We will transfer their production to the Ibaraki and Kanazawa plants. Similar products are produced at the Ibaraki and Mooka plants and at the Kanazawa and Komatsu plants, respectively. Since both the Ibaraki and Kanazawa plants opened in 2007 with the latest facilities, we can expect higher yields at these new plants. As they are both situated adjacent to ports, we also expect to reduce both transportation costs and CO<sub>2</sub> emissions.

While the business environment has changed drastically, the mid-range tasks that we have to work on remain the same. We are resolutely determined to produce positive results, as we work on the following seven activities of importance defined in the "Global Teamwork for 15" mid-range management plan which will end on March 31, 2010.

### **1) Development of DANTOTSU Products**

We are getting ready for commercial production of the PC200-8 Hybrid hydraulic excavator, which we launched on the Japanese market during the year under review. In addition to working to expand its sales in Japan, we will introduce it to China and other overseas markets. We are also expanding its model range. At the same time, we are working to develop more DANTOTSU products. By capitalizing on our group-wide strengths, including in-house manufacturing technologies for key components, such as engines and transmissions, we can substantially cut down fuel consumption and CO<sub>2</sub> emissions. Another strength is our leading-edge technical know-how in IT-intensive jobsite operations, such as KOMTRAX (Komatsu Machine Tracking System) for remote monitoring of operating conditions of construction equipment and the Autonomous Haulage System for mining trucks.

### **2) Further Enhancement of Market Position in Greater Asia\***

We are going to further enhance our market position in Greater Asia which is projected for mid- to long-range growth. Our specific measures include product launchings before competitors, expansion of local production and further reinforcement of sales and product support operations.

\* We define Greater Asia in the broader sense of the term as the region which consists of China, Southeast Asia, India, the Middle East and CIS (former Soviet republics including Russia).

### **3) Business Expansion in the Entire Value Chain\***

In addition to reinforcing our parts business, we are also working to expand peripheral businesses in relation to construction and mining equipment. These include (1) parts, services and remanufacturing, (2) retail finance, (3) rental and used equipment, and (4) working gears (attachments) and forestry equipment. To this end, we are capitalizing on our edge in group-wide areas of original technology and by facilitating collaboration among different business operations.

\* Values generated by business activities of the Komatsu Group with its partners, i.e., distributors and suppliers, and customers.

### **4) Establishment of Flexible Manufacturing Operations**

We are speeding up the reassessment of global production to meet the current market conditions. We are also going to further enhance production flexibility in tune with demand changes and foreign exchange fluctuations by taking effective advantage of our global sales and production system, global procurement and other operations. Sharing market information among plants, distributors and suppliers is another of our initiatives. In the short term, we are going to accurately incorporate such information into production, sales and inventory planning. In the medium term, we will effectively incorporate useful information into capital investment planning in order to ensure appropriate production capacity.

### **5) Expansion of Utility Equipment Business**

We are improving our position in the utility equipment industry through various means. One means is to enhance our product competitiveness through the broadening of our hybrid electric forklift truck model range and other measures. Another is to make further commitment to synergy generation in the production and development of forklift trucks and compact-construction equipment. And a third focus is to double our efforts in Greater Asia. At the same time, Komatsu Utility Co., Ltd., a wholly owned subsidiary, is working to improve earnings through the consolidation of production and the transfer of head office functions to its Tochigi Plant, which were carried out during the

fiscal year under review. Komatsu Utility is planning to integrate Japanese distributors\* in October 2009.

\*Applicable to nine consolidated subsidiaries (of all distributors in Japan).

### **6) Reinforcement of Industrial Machinery Business**

We are working to further expand the business primarily by achieving more synergy effects with Komatsu NTC Ltd., a new member of the Komatsu Group, strengthening overseas operations centering on Greater Asia, and reinforcing the parts and service business. We are also working to enhance competitiveness with improved production efficiency and profitability. For example, we are concentrating the production of large presses at the Kanazawa Plant, as they are currently being produced at both Komatsu and Kanazawa plants in Ishikawa Prefecture. To promote effective use of our management resources, Komatsu NTC Ltd. is going to concentrate the production of wire saws in the Toyama area (along the Sea of Japan) by shifting it from Kanagawa Prefecture (along the Pacific Ocean).

### **7) Reduction of Fixed Costs**

With respect to the reduction of fixed costs, which we have engaged in since the first-stage Reform of Business Structure project, we are going to generate benefits by applying IT to the continuing improvement of administrative operations. Similarly, Komatsu is reorganizing production in Japan, North America and Europe, as well as sales of construction equipment and forklift trucks in Japan, and integrating rental subsidiaries in Japan.

We are further strengthening our corporate governance to ensure sound and transparent management, while improving management efficiency. Being committed to promoting thorough compliance, we will also ensure that all employees share The KOMATSU Way. In addition to improving our business performance, we will facilitate the development of both corporate strength and social responsibility in a well balanced manner.

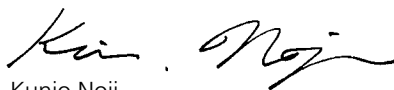
Centered on the "Spirit of Manufacturers" dedication, Komatsu Group's direction remains crystal clear: "We provide the products (both hardware and software), that customers are happy to own, and we will make profits and grow." In addition to top management officers, of course, all employees of the Komatsu Group in Japan and abroad are determined to fulfill this commitment with self-confidence and a sense of mission by converging their talents and knowledge.

On behalf of the members of the Board, we would like to extend our sincere appreciation to our valued shareholders, customers, business partners and employees around the world for their support.

July 2009



Masahiro Sakane  
Chairman of the Board



Kunio Noji  
President and CEO