



## Face to Face

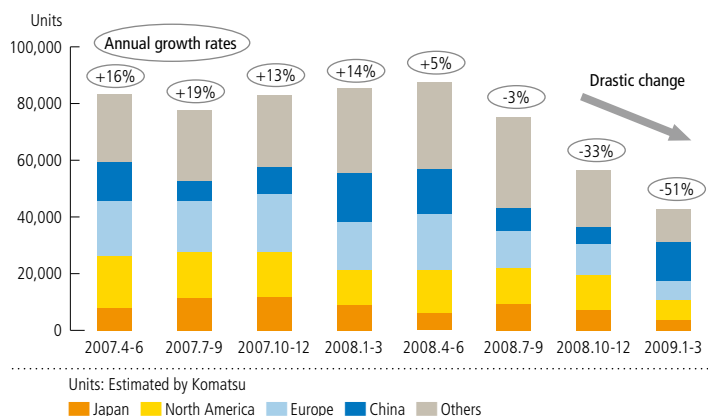
Kunio Noji, President and CEO

**Q** At the start of this interview, please summarize business results for the fiscal year ended March 31, 2009.

**Noji:** World economies sharply downturned, as affected by drastic deterioration of economic conditions around the world after the so-called “Lehman Shock.” In this environment, we recorded a drop in both sales and profits after six straight years of their growth, which included four consecutive years of renewing record-high profits.

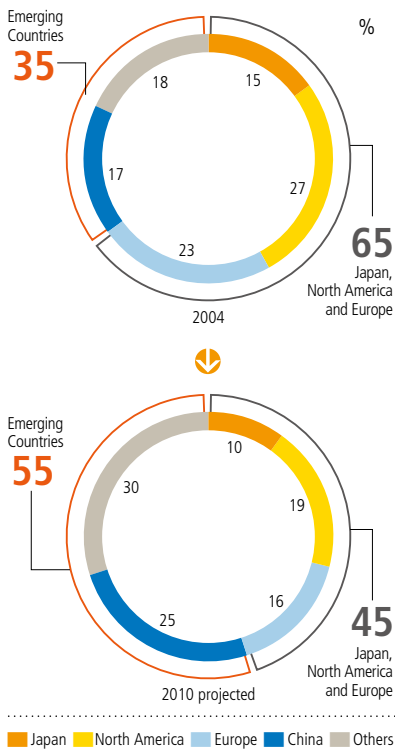
For the fiscal year under review, consolidated net sales declined by 9.9% to 2,021.7 billion yen, operating income, down 54.3% to 151.9 billion yen, net income to 78.7 billion yen, a decline of 62.3%. Major factors for the worsened results were further deterioration of demand for construction equipment in Japan, North America and Europe, the drastic drop in demand in emerging economies, our self-restrained sales to distributors in order to reduce their inventories, and effects of the Japanese yen’s appreciation. Our profits dropped considerably more than sales did. In response to the worsened market conditions, we reorganized production in Japan and North America, as well as sales in Japan and carried out other structural reform initiatives, for which we recorded expenses of 32.3 billion yen. In addition, we also incurred loss costs at plants resulting from reduced production, an inventory valuation loss, and an increased allowance for doubtful receivables. All together, we recorded extraordinary expenses of 54.7 billion yen for the fourth quarter.

Quarterly Demand for Construction and Mining Equipment by Region



**Q** Could you share your views on the construction and mining equipment market, on which projected business results for the current fiscal year, ending March 31, 2010, are based?

Percentage Share of Demand for Construction and Mining Equipment by Region



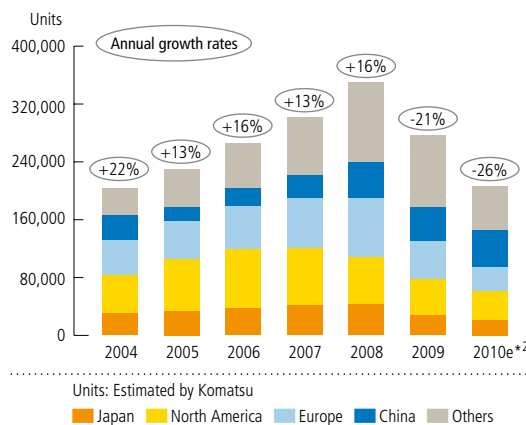
**Noji:** Global demand for construction and mining equipment had grown by about 15% year to year since fiscal 2004, mainly driven by expanded demand in emerging economies. However, as impacted by the drastically worsened market conditions, demand downturned to a decline of about 20% in fiscal 2009. We are predicting that demand will keep declining further to about 26% in the current fiscal year from the fiscal year under review. Consequently, we are projecting that global demand for construction and mining equipment in the current fiscal year will drop to the level of fiscal 2004.

Looking at demand by region in the current fiscal year, we are anticipating that demand will increase in China where some positive effects have begun to emerge from the Chinese government's economic stimulus package and in India with recovery of infrastructure development projected in the second half period. In other regions of the world, demand will continue to decline from fiscal 2009. Let us compare the proportions of demand by region in fiscal 2004 and the current fiscal year. In fiscal 2004, combined demand in Japan, North America and Europe represented about 65% of global demand, and we are projecting that combined demand in the same regions will decline substantially to about 45% in the current fiscal year, while the proportion of demand in emerging economies will grow. We have concerted our efforts to further enhance our market position in emerging economies centering on Greater Asia,\* and I believe our strategy has proven right.

In particular, demand for mining equipment grew again in fiscal 2009. As we are projecting demand will decline by about 20% in the current fiscal year, this indicates a firmer demand than that for construction equipment. Furthermore, if production activities at mines are generally good and mining equipment keeps running, we can look forward to demand for wear-out parts, such as buckets and teeth, as well as the emerging need for overhauling engines, transmissions, axles and other components after three to four years of use. As we can expect renewal demand for these parts and components, I believe demand for mining equipment is firm.

\* 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).

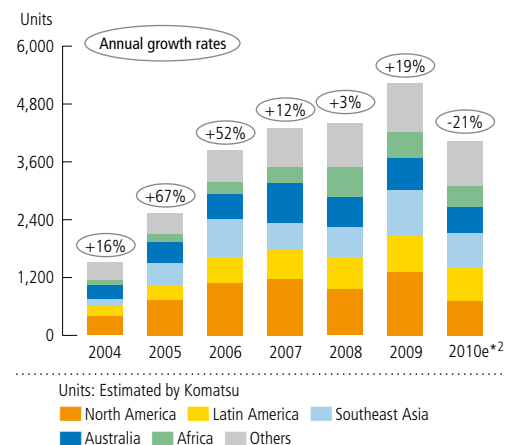
Demand for Construction and Mining Equipment by Region  
Years ended March 31



Units: Estimated by Komatsu  
 Japan North America Europe China Others

- Applicable Models: Seven Major Products (Excl. Mini Equipment)
- 1) Crawler-type hydraulic excavators
  - 2) Wheel-type hydraulic excavators
  - 3) Bulldozers
  - 4) Wheel loaders
  - 5) Dump trucks
  - 6) Articulated dump trucks
  - 7) Motor graders

Demand for Mining Equipment by Region\*1  
Years ended March 31



Units: Estimated by Komatsu  
 North America Latin America Southeast Asia Australia Africa Others

- Applicable Models:
- 1) Dump trucks: 75-ton (HD785) or larger
  - 2) Bulldozers: 525 HP (D375) or larger
  - 3) Hydraulic excavators: 150-ton (PC1600) or larger
  - 4) Wheel loaders: 500HP (WA700) or larger
  - 5) Motor graders: 280HP (GD825) or larger

\*1 Included in the left graph.

\*2 Projection as of April 27, 2009, when Komatsu disclosed business results for fiscal 2009

## Q Please elaborate on the projected business results for the current fiscal year.

**Noji:** As we announced our projections on April 27 this year, we are predicting that consolidated sales will decline by 24%, operating income by 53%, and net income by 56%. So, we will register a decline in both sales and profits, following the previous fiscal year ended March this year. For these projections, we are assuming the foreign exchange rates of 95 yen per US dollar and 125 yen per euro. These rates show the Japanese yen's appreciations of 6 yen against the US dollar and 18 yen against the euro from those used for the previous fiscal year.

Projection of 2010 Results (Announced on April 27, 2009) Billions of yen

U.S. GAAP	Projection ¥95/USD and ¥125/EUR	Change (2010/2009)
Net sales	1,530	Down 24.3%
Construction, Mining and Utility Equipment	1,360	Down 22.3%
Industrial Machinery and Others	190	Down 37.4%
Elimination of inter-segment transactions	(20)	—
Segment profit	86	Down 54.4%
Construction, Mining and Utility Equipment	89	Down 50.7%
Industrial Machinery and Others	1	Down 92.2%
Elimination and corporate	(4)	—
Other operating income (expenses)	(14)	—
Operating income	72	Down 52.6%
Operating income ratio (%)	4.7	-2.8 pts
Income before income taxes	62	Down 51.9%
Net income (Net income attributable to shareholders of Komatsu Ltd.)	35	Down 55.6%

In the construction, mining and utility equipment business, we are expecting that global demand will remain sluggish except for China. Sales will amount to 1,360 billion yen, down 22% from the previous fiscal year. We are also estimating that segment profit will drop by half to 89 billion yen. In the industrial machinery and others business, we are predicting that the automobile manufacturing industry, in particular, will continue to hold back their capital investment for a while. In this light, our industrial machinery business will face a more challenging environment than our construction, mining and utility equipment business and thus will register sales of 190 billion yen, down 37% and segment profit of 1 billion yen, down 92%.

Under such an environment, we are working to cut down distributors' inventories of construction and mining equipment and our fixed costs, while enhancing production efficiency by promoting structural reforms. In relation to production reorganization and other initiatives which we announced last fiscal year, we are planning to record structural reform expenses of 10 billion yen as other operating expenses for the current fiscal year.

With respect to our projections for the current fiscal year, I would like to add the fact that there are factors, such as demand for construction and mining equipment and foreign exchange fluctuations, which will work for or against our business results.

## Q What are your urgent management tasks in light of the challenging environment today?

**Noji:** In the short term, there are two: inventory reduction and advancement of structural reforms, which we began last fiscal year. Concerning the inventory reduction task, we are using our global inventory database for all construction and mining equipment located in every plant, subsidiary, and distributor. We had some 18,000 units as of December 31, 2008, and we are working to cut down the inventory to an appropriate level of about 10,000 units by the end of September this year. To accomplish this task, we obtain unit-based retail sales data daily, while holding monthly meetings of

sales and production people to exchange information and review their plans.

With respect to structural reforms, we are ensuring that production reorganization in Japan, North America and Europe advance as planned, while working to improve production efficiency by 30% by integrating more production on new lines and enhancing manufacturing technologies and skills. We are also continuing our efforts to further reduce fixed costs, by working to cut 25 billion yen for the current fiscal year compared to the previous fiscal year.

In the mid- to long-term, we will continue to concert efforts for seven activities of importance which are spelled out in our "Global Teamwork for 15" mid-range management plan and clear problems one by one.

### [Seven Activities of Importance]

1. Development of DANTOTSU Products
2. Further Enhancement of Market Position in Greater Asia
3. Business Expansion in the Entire Value Chain
4. Establishment of Flexible Manufacturing Operation
5. Expansion of Utility Equipment Business
6. Reinforcement of Industrial Machinery Business
7. Reduction of Fixed Costs

### Q Could you describe some specific activities of importance?

**Noji:** Let me tell you three activities of special importance.

First, it concerns the development of DANTOTSU products. With respect to product development which is the most important matter as a manufacturer, we will continue our efforts to develop DANTOTSU products by addressing the three key concepts of Environment, Safety and IT, including the reduction of CO<sub>2</sub> emissions, as we have done before. Particularly in the current fiscal year, we are going to expand sales of hybrid hydraulic excavators. Last year, we introduced a limited number of 30 units of the PC200-8 Hybrid on the Japanese market. They have been highly evaluated by owners for their capability to reduce fuel consumption by 25% on average and 35% at maximum. One owner has told us that he was able to cut annual fuel expenses by about 1.1 million yen [based on 95 yen per liter] on average. We are going to begin commercial production of the PC200-8 Hybrid in October this year. We are planning to sell a total of 700 units, including 500 in China and 180 in Japan during the current fiscal year. Our target in next fiscal year is set for 3,000 units. With respect to forklift trucks, we also launched 1-ton class hybrid electric models in May 2007 and introduced 2-ton class models last year, working to broaden our hybrid model range. Compared to conventional electric models, our 1-ton and 2-ton class hybrid models have been well received by customers for their performance of reducing both CO<sub>2</sub> emissions and power consumption by 20% and 30% at maximum, respectively. Looking ahead, we are developing next-generation hybrid models designed to deliver traveling and handling performance on par with internal-combustion models. As we expand sales and a product mix of eco-friendly hybrid equipment, we are going to build up our reputation for hybrid equipment.

Second is the further enhancement of our market position in Greater Asia. To this end, it's important for us to lead competitors in the launching of new products, thereby creating new markets, and to promote the growth of our



PC200-8 Hybrid



Komatsu Human Resource Development Center opened in the Philippines

distributors while further strengthening our product support capability. As we have increased the amount of our products sold in emerging economies centering on Greater Asia, the training of service engineers has become our urgent task. In the past we have conventionally placed efforts on the training of distributors' service engineers by dispatching our instructors and sponsoring in-house training programs. Last year, we opened the Komatsu Human Resource Development Center (Philippines) in Manila and began construction of the KC Techno Center equipped with machine demonstration and comprehensive training facilities in China. The KC Techno Center is scheduled to open in 2010.

Third, it's the business expansion in the entire value chain. While sales of parts accounted for about 17% of total sales of the construction, mining and utility equipment business for fiscal 2009, we are planning to increase the percentage to 19% for the current fiscal year. From fiscal 2006 through fiscal 2009, we invested about 10 billion yen to expand our production capacity of GET (ground-engaging tools), such as undercarriages, buckets and teeth, as well as Reman (re-manufacturing). In addition to those products, we are also doubling our efforts to expand production and sales of oil, filters, hydraulic hoses and other parts as strategic products. At the same time, we are going to enhance our cost competitive position by consolidating Reman operations in Indonesia and Chile where they boast superior QCD (quality, cost and delivery).

**Q** I understand that you are also emphasizing environment friendliness and IT applications in the development of DANTOTSU products. Please tell us some specific efforts.

**Noji:** Sure. We equip small and medium-sized construction equipment with the KOMTRAX (Komatsu Machine Tracking System), which is an IT-deployed remote machine management system, and mining equipment with the VHMS (Vehicle Health Monitoring System). With these systems, our customers can monitor real-time operating conditions of their equipment, such as cumulative operating hours, record of mechanical problems and amount of fuel consumed, all from their desk in the office.

We have led the industry with the KOMTRAX by equipping it as a standard feature in 2001. Since then, we have been utilizing information gained from the KOMTRAX in a variety of ways, including recommendation for parts replacement, proposals for higher-efficiency machine operations, credit management, and optimized planning of production with understanding of real-time market conditions. In addition to Japan, North America, Europe, China, Latin America, Oceania and the Middle East [Turkey], during the previous fiscal year, we launched the KOMTRAX in Korea, Kazakhstan and Indonesia, and in April this year, in Singapore. As of June 30 this year, there were more than 140,000 KOMTRAX-equipped machines operating in 57 countries.



Driverless 930E dump truck in operation at an iron ore mine in Australia



We have also led the world by commercializing the AHS (Autonomous Haulage System) for driverless dump trucks by deploying leading-edge radar, GPS (Ground Positioning System) and other technologies. The AHS is in operation at mines in Chile and Australia today. In addition to eliminating the manpower, that is, four to five drivers are conventionally required per truck, the AHS has proven to offer a number of significant merits to mining contractors, such as reduced fuel and maintenance expenses thanks to optimal driving performance as well as improved productivity and safety. Today, we have received many inquiries and we are going to steadily increase the introduction of the AHS to more mines.

All in all, I would like to facilitate our differentiation from competitors with these IT-intensive products and systems.

**Q** You have already mentioned the “Global Teamwork for 15” mid-range management plan, but could you summarize or update the progress made in the plan?

**Targets of the “Global Teamwork for 15” Mid-Range Management Plan**

- Operating income ratio…………… 15% or above
- ROE…………… 20% level
- Net debt-to-equity ratio…………… 0.2 or below
- Consolidated payout ratio…………… 20% or above

**Noji:** We developed this ongoing plan toward the goal year, ending March 31, 2010 by assuming that demand for seven major products of construction and mining equipment will increase from about 280,000 units to 330,000 units at an average annual growth rate of 6% for three years. Based on this assumption, we have also defined the preconditions of consolidated sales of 2,400 billion yen with plus or minus 100 billion yen and the foreign exchange rates of 110 yen per U.S. dollar and 145 yen per euro for fiscal 2010.

In fiscal 2008, ended March 31, 2008, global demand totaled 330,000 units, and we achieved an operating income ratio of 14.8% and secured an ROE of 25.1%. Also for the first half period of fiscal 2009, we practically achieved the plan, attaining a high-profitability organizational strength. Although our business environment has changed drastically since then, thanks to the high-profitability organizational strength, we were able to post profits for fiscal 2009.

Today we are placed in a business environment with total uncertainty. Therefore I believe it's very important for top management to improve organizational strength for higher profitability, thereby flexibly meeting changing demand. In order for us to improve our operating income ratio when sales growth is not expected, we are continuing our efforts on the seven activities of importance and are going to generate positive results and further enhance the organizational strength of the Komatsu Group.

**Q** Let me ask you something about the balance sheets. At March 31, 2009, interest-bearing debt totaled about 600 billion yen, an increase of some 150 billion yen from one year ago. Please tell us about the reasons and fund-raising activities.

**Noji:** As you have pointed out, our interest-bearing debt was 599.8 billion yen at the fiscal year-end, up 147.7 billion yen. The major factors were increased working capital and investment in facilities and equipment, implementation of stock buy-back and growth of the retail finance business.

In response to growing capital needs, we issued the fifth 30 billion-yen unsecured bond, increased the amount of commercial papers and obtained long-term loans.

We sustain the diversification of fund-raising activities by utilizing both direct and indirect methods. Under the direct method, we obtain funds from corporate bonds, the Euro Medium-Term Note Program and commercial papers, while borrowing funds from financial institutions such as banks and life insurance companies under the indirect method. At the same time, we also ensure the maintenance of a good balance between short- and long-term debt by dispersing maturity timing and leveling the amounts.

We also utilize a global cash management system mainly in Japan, North America, Europe and Asia. This system enables us to respond to excess or lack of funds among regions, thus improving our efficiency in the use of funds on a global basis and diversifying fund-raising activities.

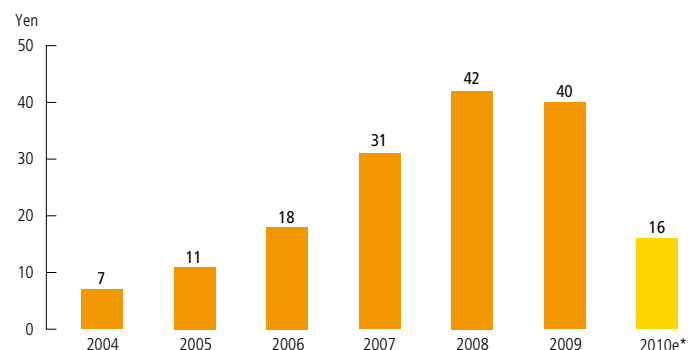
**Q** Before finishing this interview, please tell us about Komatsu's stance on redistribution of profits to shareholders and future plans.

**Noji:** We maintain the policy of redistributing profits by considering consolidated business results and continuing stable dividends. Specifically, we will not decrease cash dividends, while we keep a consolidated payout ratio of 20% or higher before extraordinary income or loss, as long as a consolidated payout ratio does not surpass 40%. We have stated this policy in our announcement of business results dated April 27, 2009.

According to this policy, we are going to pay annual dividends of 40 yen per share for fiscal 2009, ended March 31, 2009, which translates into a consolidated payout ratio of 40% based on net income before structural reform expenses. Concerning annual cash dividends for the current fiscal year, according to the same policy, we are planning to pay 16 yen per share, which should represent a consolidated payout ratio of 40%, based on net income before structural reform expenses of about 10 billion yen.

To enhance capital efficiency and promote stable redistribution of profits to our shareholders, from November to December 2008, we repurchased some 27.1 million shares for about 30 billion yen. As we move forward, we would like to continue the redistribution of profits to our shareholders in an effective manner.

Annual Cash Dividends per Share  
Years ended March 31



\*Projection as of April 27, 2009, when Komatsu announced business results for fiscal 2009