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Results of Operations

(1) General

In the fiscal year (April 1, 2008 - 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, including emerging and commodity-exporting countries, and commodity prices sharply plunged. With a global economic recession, the business environment for Komatsu Ltd. and its consolidated subsidiaries (hereinafter "Komatsu") became extremely challenging, a previously unknown situation. Affected by such a drastic change in the business environment, Komatsu has recorded business results for the year, below the level of the previous fiscal year, as shown in the following table.

	Results for the Year	Increase (Decrease)
Net Sales	2,021,743 million yen	(9.9)%
Operating income	151,948 million yen	(54.3)%
Income from continuing operations before income taxes, minority interests and equity in earnings of affiliated companies	128,782 million yen	(60.0)%
Net income	78,797 million yen	(62.3)%

In the construction, mining and utility equipment business, the business environment changed drastically, becoming very challenging in the second half period of the fiscal year with demand down turning in emerging economies and commodity-exporting countries where it had steadily expanded earlier, and 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 ¥2,021,743 million (US\$20,422 million, at US\$1 = ¥99).

With respect to profits, Komatsu 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 addition to the sharp drop in demand in the second half, for which Komatsu made substantial adjustments of production in order to reduce inventories to an appropriate level as soon as possible, Komatsu also recorded expenses associated with production, sales and other structural reforms. The Japanese yen's appreciation also worked against Komatsu's profitability. Reflecting these factors, operating income decreased 54.3% from the previous fiscal year, to ¥151,948 million (US\$1,535 million), which translated into an operating income ratio (return on net sales) of 7.5%, down 7.3 percentage points from the previous fiscal year.

Income from continuing operations before income taxes, minority interests and equity in earnings of affiliated companies totaled ¥128,782 million (US\$1,301 million) for the fiscal year, down 60.0% from the previous fiscal year. Net income for the year declined 62.3% from the previous fiscal year, to ¥78,797 million (US\$796 million).

(2) Impact of Foreign Exchange Rate

In comparison to the previous year, Japanese yen was strong against US dollar and Euro during the current year. Due to such currency fluctuations, segment profit in the Construction, Mining and Utility Equipment segment for the year decreased by approximately ¥53.5 billion from the previous year.

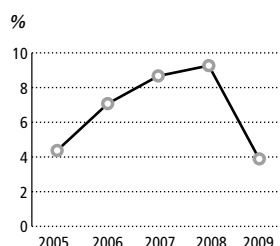
The impact of currency fluctuations is determined as the sum of the amounts obtained by multiplying other than yen currency transactions of each entity by the change in the applicable exchange rate. However, the effects of change of selling price due to currency fluctuations were not taken into account.

(3) Net Sales

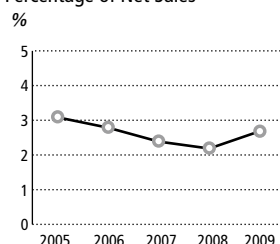
(In this section, the amounts of sales represent sales to the customer in each region.)

Consolidated net sales decreased 9.9% over the previous year, to ¥2,021,743 million (US\$20,422 million). Sales in Japan

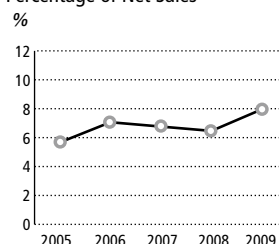
Return on Net Sales



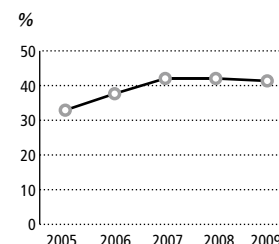
R&D Expenses as a Percentage of Net Sales



Capital Investment as a Percentage of Net Sales



Shareholders' Equity Ratio



decreased 10.5% over the previous year, to ¥452,172 million (US\$4,567 million). Net Sales in overseas countries decreased 9.7% over the previous year, to ¥1,569,571 million (US\$15,854 million).

Construction, Mining and Utility Equipment

Consolidated sales of construction, mining and utility equipment for the fiscal year declined 14.8% from the previous fiscal year, to ¥1,744,733 million (US\$17,624 million). Komatsu continued working to expand sales of new equipment, increase their selling prices, and reinforce its product support operation. However, in addition to the drastic drop in demand worldwide, Komatsu placed top priority on quick adjustment of inventories and thus made substantial adjustment of production both in Japan and overseas. As a result, sales declined from the previous fiscal year.

In June last year, Komatsu led the world by introducing the "PC200-8 Hybrid" hydraulic excavator in Japan. Compared with standard models of the same class, the PC200-8 Hybrid cuts down fuel consumption and CO₂ emissions by 25% on average (Komatsu's research). Therefore, Komatsu is planning to introduce it overseas as a machine capable of helping customers lower their operating costs and contributing to the reduction of environmental impact.

<Japan>

Public-sector investment remained slack and demand fell sharply, as affected by reduced private-sector investment against the backdrop of the worsened economy in the second half, sluggish housing starts and slowing exports of used equipment from Japan. In response to such market conditions, Komatsu worked to increase selling prices and expand the rental equipment business. As affected by plunging demand, however, sales in Japan declined from the previous fiscal year.

<Americas>

While demand for equipment for use in mines remained strong, North American demand for construction equipment decreased as affected by reduced U.S. housing starts and the slack economy resulting from the financial crisis. Under such an environment, Komatsu continued efforts to increase selling

prices and bring down distributors' inventories to an appropriate level in North America. In response to expanding market size in Latin America, Komatsu modified local operations in order to strengthen its marketing capability. Latin American sales increased but fell short of making up for the big drop in North American sales, resulting in a decline in sales in the Americas from the previous fiscal year.

<Europe & CIS>

Deterioration of European economies further progressed in the second half period, and demand for construction equipment slid markedly. In CIS, falling demand for equipment became clearer and more evident as affected by the financial crisis and plunging prices of commodities in the second half. In addition to reduced demand in both regions, sales in Europe & CIS decreased from the previous fiscal year, partly due to the efforts made proactively by Komatsu to ensure an appropriate level of inventories at its plants and distributors in Europe as well as the depreciation of Euro and the Russian ruble.

<China>

Demand for equipment also downturned as affected by the global financial crisis in the second half period. Supported by the Chinese government's economic stimulus package, public works have become active, such as the post-earthquake reconstruction project in Sichuan Province, and have begun to show signs of recovery in demand for equipment since February 2009. However, sales in China decreased slightly from the previous fiscal year.

Based on its projection that the Chinese market will continue to expand against the backdrop of population growth and progress of urbanization, Komatsu continued to carry out aggressive launchings of new products and reinforce product support operation. In addition, Komatsu secured land in Changzhou where Komatsu (Changzhou) Construction Machinery Corp., one of the main local production bases, is located. On this new site, with space about four times the size of the current site to relocate the company, Komatsu is planning to build a new plant and the KC Techno Center equipped with machine demonstration and operator training facilities.

<Asia & Oceania>

Slowing demand for equipment became more evident in both regions in the second half period, reflecting recessionary economies and a drastic plunge of commodity prices. While working to hike selling prices, Komatsu facilitated information sharing between local plants and distributors in Southeast Asia and pre-delivery installation of optional features, which Komatsu Australia Pty. Ltd. used to do at its shop, all to reduce delivery lead-time and inventories. However, sales in Asia & Oceania declined from the previous fiscal year, reflecting a drastic fall in demand and sharp depreciation of the Australian dollar in the second half.

<Middle East & Africa>

Demand for equipment also rapidly fell in both regions, as affected by the financial crisis and plunging prices of crude oil and other commodities. Komatsu concerted efforts to reinforce sales and product support capabilities, including the expansion of training programs for distributors. However, due largely to the drastic fall of demand and a sharp depreciation of the rand, the currency of South Africa which is one of the major markets in Africa, sales in the Middle East & Africa decreased from the previous fiscal year.

Industrial Machinery and Others

In the industrial machinery and others business, sales increased from the previous fiscal year, to ¥277,010 million (US\$2,798 million), supported by the addition of Komatsu NTC Ltd. as a consolidated subsidiary in March 2008.

While sales of large presses, such as AC Servo presses and high-speed transfer lines, remained strong, sales of sheet metal machines and small and medium-sized presses nose-dived as restraint for capital investments by the automobile manufacturing and other client industries became clearer and more evident in the second half period. Meanwhile, sales of wire saws made by Komatsu NTC steadily expanded against the backdrop of accelerating growth of the solar cell market.

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

In accordance with the decrease in net sales, cost of sales decreased by 5.1% from the previous year to ¥1,510,408 million (US\$15,257 million) for the current year. Its ratio to sales was

74.7% up by 3.8 percentage points from the previous year. Selling, general and administrative expenses (SG&A) rose by 1.6% over the previous year to ¥322,677 million (US\$3,259 million). This increase was primarily due to the increased consolidated subsidiaries such as Komatsu NTC Ltd. and BIGRENTAL Co., Ltd., as well as the increased expenses for research and development (R&D). R&D expenses, which are included in cost of sales and SG&A, rose by 8.2% from the previous year to ¥53,736 million (US\$543 million). This increase was mainly due to our proactive commitment to the development of new unique and unrivaled products and the development of next generation engines that comply with new emissions regulations.

(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, mining and utility equipment segment decreased by ¥137,440 million from the previous year to ¥180,455 million (US\$1,823 million). This decrease was primarily due to the increase in raw material prices, the decrease in sales, the appreciation of Japanese yen, and the increase in fixed cost such as R&D and depreciation, which fully offset our efforts such as the higher price realizations and cost reductions.

With regards to the industrial machinery and others segment, though the addition of Komatsu NTC Ltd. as a consolidated subsidiary in March 2008 supported to increase the profit, the segment profit decreased by ¥7,056 million from the previous year to ¥12,891 million (US\$130 million) mainly due to the decrease in profit of major companies such as Komatsu Ltd., Komatsu Industries Corp., and Komatsu Machinery Corp.

Consequently overall consolidated segment profit decreased by ¥145,928 million from the previous year to ¥188,658 million (US\$1,906 million).

(6) Impairment loss on long-lived assets

Impairment loss on long-lived assets was ¥16,414 million (US\$166 million) for the current year increased by ¥13,967 million as compared to ¥2,447 million for the previous year. This increase is mainly due to impairment loss for Mooka plant and Komatsu plant based on the decision to shut them down and transfer their production capacity to other plants.

(7) Impairment loss on goodwill

Impairment loss on goodwill was ¥2,003 million (US\$20 million) for the current year decreased by ¥867 million as compared to ¥2,870 million for the previous year.

(8) Other Operating Income (Expenses)

Other operating income (expenses) was ¥18,293 million (US\$185 million) of net other operating expense for the current year, a change by ¥21,874 million as compared to ¥3,581 million of net other operating income for the previous year.

(9) Operating Income

As a result of factors discussed above, operating income was ¥151,948 million (US\$1,535 million) for the current year decreased by ¥180,902 million as compared to ¥332,850 million for the previous year.

(10) Other Income (Expenses)

Interest and dividend income was ¥8,621 million (US\$87 million) decreased by ¥1,644 million for the current year as compared to ¥10,265 million for the previous year. Interest expense was ¥14,576 million (US\$147 million) for the current year decreased by ¥2,123 million as compared to ¥16,699 million for the previous year.

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

As a result of the above factors, income from continuing operations before income taxes, minority interests and equity in earnings of affiliated companies for the current year was ¥128,782 million (US\$1,301 million) decreased by ¥193,428 million as compared to ¥322,210 million for the previous year.

(12) Income Taxes

Income taxes was ¥42,293 million (US\$427 million) for the current year decreased by ¥73,501 million as compared to ¥115,794 million for the previous year. The actual effective tax rate for the current year decreased to 32.8% from 35.9% for the previous year. The difference between the Japanese statutory tax rate of 40.8% and the actual effective tax rate of 32.8% 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, which were offset in part by increase in valuation allowance and non-deductible expenses.

(13) Minority Interests in Income of Consolidated Subsidiaries

Minority interests in income of consolidated subsidiaries decreased to ¥8,088 million (US\$82 million) for the current year from ¥9,435 million for the previous year. This decrease was mainly due to the declined earnings recorded by Komatsu Shantui Construction Machinery Co., Ltd., Bangkok Komatsu Co., Ltd. and other subsidiaries.

(14) Equity in Earnings of Affiliated Companies

Equity in earnings of affiliated companies decreased to ¥396 million (US\$4 million) for the current year from ¥6,845 million for the previous year. This decrease was mainly due to the profit of Komatsu NTC Ltd. being excluded from equity in earnings of affiliated companies after the reclassification to a consolidated subsidiary, as well as decrease in earnings recorded by affiliated companies held under the equity accounting method, such as L&T-Komatsu Limited and Gigaphoton Inc.

(15) Income from Continuing Operations

Income from continuing operations was ¥78,797 million (US\$796 million) for the current year decreased by ¥125,029 million as compared to ¥203,826 million for the previous year.

(16) Income from Discontinued Operations Less Applicable Income Taxes

There was no income from discontinued operations less applicable income taxes for the current year, which was ¥4,967 million for the previous year.

(17) Net Income

Net income for the current year decreased by 62.3% to ¥78,797 million (US\$796 million). Accordingly, basic net income per share dropped to ¥79.95 for the current year from ¥209.87 for the previous year. Diluted net income per share dropped to ¥79.89 for the current year from ¥209.59 for the previous year.

Liquidity and Capital Resources

(1) Funding and Liquidity Management

Komatsu's principal capital resources policy is to maintain sufficient capital resources to be able to respond promptly to future capital needs in connection with its operations and to maintain an appropriate level of liquidity. Consistent with this policy, Komatsu has secured various sources of funding, such as loans, corporate bonds, notes, securitized receivables and lines of credit. Komatsu expects to use cash generated from its operations, and funds procured through such external sources to satisfy future capital expenditures and working capital needs. In addition, Komatsu manages funds held by it and its subsidiaries through a group-wide cash management system in order to improve the efficiency and effectiveness of its cash management.

Komatsu's short-term funding needs have been met mainly by cash flows from operating activities, as well as by bank loans and the issuance of commercial paper. As of March 31, 2009, certain consolidated subsidiaries of the Company maintained committed credit line agreements totaling ¥14,956 million (US\$151 million) with financial institutions to secure liquidity. As of March 31, 2009, approximately ¥861 million (US\$9 million) was available to be used under such credit line agreements. In addition, the Company had a ¥120,000 million (US\$1,212 million) commercial paper program, ¥25,000 million (US\$253 million) of which was unused as of March 31, 2009.

To fulfill Komatsu's medium - to long-term funding needs, the Company has established a bond program and Euro Medium Term Note ("EMTN") program. The Company has established a bond program for a period of two years under which it can issue up to ¥100,000 million (US\$1,010 million) of variable-term bonds in November 2008. The Company had not issued any bonds under the current bond program by March 31, 2009 and ¥100,000 million was unused as of March 31, 2009. The principal amount of bonds outstanding issued under the past bond programs was ¥60,000 million (US\$606 million) as of March 31, 2009. The Company, Komatsu Finance America Inc. and Komatsu Capital Europe S.A. have established a US\$1,200 million EMTN program under which 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. As of March 31, 2009, the principal amount of notes outstanding under the EMTN program was ¥63,332 million (US\$640 million).

Komatsu has 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 its sources of funding. As of March 31, 2009, the balance of such off-balance sheet securitized receivables was ¥103,768 million (US\$1,048 million).

Komatsu's short-term debt as of March 31, 2009, which primarily consisted of short-term bank loans and commercial paper, increased by ¥111,197 million to ¥220,087 million (US\$2,223

million) from March 31, 2008. Such short-term debt was used as working capital.

Komatsu's long-term debt, including debt that is scheduled to mature by March 31, 2010, increased by ¥36,563 million to ¥379,768 million (US\$3,836 million) in the fiscal year ended March 31, 2009 as compared to the fiscal year ended March 31, 2008. As of March 31, 2009, Komatsu's long-term debt excluding market value adjustment consisted of (1)¥169,837 million in loans from banks, insurance companies and other financial institutions, and so on, (2)¥63,332 million in EMTN, (3)¥60,200 million in unsecured bonds and (4)¥86,399 million in capital lease obligations. Such long-term debt was used primarily for capital expenditures and long-term working capital needs.

As a result, Komatsu's interest-bearing debt as of March 31, 2009, including its capital lease obligations, increased by ¥147,760 million to ¥599,855 million (US\$6,059 million) as compared to that of March 31, 2008. Net interest-bearing debt after deducting cash and deposits also increased by ¥159,260 million to ¥509,248 million (US\$5,144 million) in the fiscal year ended March 31, 2009. As a result, Komatsu's net debt-to-equity ratio* as of March 31, 2009 was 0.62, compared to 0.39 as of March 31, 2008.

As of March 31, 2009, total current assets decreased by ¥170,438 million to ¥1,103,239 million (US\$11,144 million), while total current liability decreased by ¥129,245 million to ¥732,287 million (US\$7,397 million). As a result, the current ratio, which is calculated by dividing current assets by current liabilities, as of March 31, 2009, was 150.7%, which reflected an increase of 2.9 percentage points from the fiscal year ended March 31, 2008.

Based on the cash flow from its operating activities, the available sources of funds and the current ratio, Komatsu believes that it has sufficient means to satisfy its liquidity needs and future obligations.

The Company obtains credit ratings from three rating agencies: Standard and Poor's services ("S&P"), Moody's Investors Service, Inc. ("Moody's") and Rating and Investment Information, Inc. ("R&I"). As of March 31, 2009, the Company's issuer ratings were:

S&P: A (long-term); Moody's: A2 (long-term) ; R&I:AA- (long-term), a-1+ (short-term).

* net debt-to-equity ratio = (interest-bearing debt – cash and cash equivalents – time deposits) / shareholders' equity

(2) Cash Flows

Net cash provided by operating activities for the fiscal year ended March 31, 2009 amounted to ¥78,775 million (US\$796 million), a decline of ¥82,210 million from the fiscal year ended March 31, 2008, mainly due to decreased net income.

Net cash used in investing activities for the fiscal year ended March 31, 2009 increased by ¥17,186 million from the fiscal year ended March 31, 2008, to ¥145,368 million (US\$1,468 million), mainly due to investments made to improve productivity of plants in Japan and overseas.

Net cash provided by financing activities for the fiscal year ended March 31, 2009 increased by ¥74,641 million from the fiscal year ended March 31, 2008, to ¥57,219 million (US\$578 million), reflecting proceeds from long-term debt and an increase in short-term debt.

As a result, cash and cash equivalents, as of March 31, 2009, decreased by ¥11,447 million, to ¥90,563 million (US\$915 million).

(3) Capital Investment

With a prime focus on the Construction, Mining and Utility Equipment Business, Komatsu bolstered Komatsu's production capacity mainly for mining equipment, which business is expected to expand. In addition, Komatsu invested for the development and production of new models and the latest emission regulations. In the Industrial Machinery and Others Business, capital investment increased due largely to the addition of Komatsu NTC Ltd. as a consolidated subsidiary in March 2008.

As a result, Komatsu's capital investment, on a consolidated basis, for the fiscal year ended March 31, 2009 were ¥162,512 million (US\$1,642 million), an increase of ¥16,782 million from the previous fiscal year.

(4) Contractual Obligations

The following table sets forth Komatsu's contractual obligations as of March 31, 2009.

	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	219,772	219,772	—	—	—
Long-term debt obligations (excluding Capital lease obligations)	286,055	60,549	142,754	81,192	1,560
Capital (Finance) lease obligations	86,399	24,486	44,393	16,414	1,106
Operating lease obligations	11,468	3,760	3,610	1,415	2,683
Interest on interest-bearing debt (including Capital lease obligations)	18,249	11,006	5,780	1,395	68
Pension and other postretirement obligations	4,694	4,694	—	—	—
Total	626,637	324,267	196,537	100,416	5,417

	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	2,220	2,220	—	—	—
Long-term debt obligations (excluding Capital lease obligations)	2,889	611	1,442	820	16
Capital (Finance) lease obligations	873	247	449	166	11
Operating lease obligations	116	38	37	14	27
Interest on interest-bearing debt (including Capital lease obligations)	184	111	58	14	1
Pension and other postretirement obligations	47	47	—	—	—
Total	6,329	3,274	1,986	1,014	55

1. Short-term and long-term debt obligations exclude SFAS No. 133 market value adjustments of ¥315 million (US\$3 million) and ¥7,314 million (US\$74 million), respectively.
2. Interest on interest-bearing debt is based on rates in effect at March 31, 2009.
3. Pension and other postretirement obligations reflect contributions expected to be made in the year ending March 31, 2010 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, 2009 aggregated approximately ¥24,000 million (US\$242 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.

With respect to newly-developing markets such as China, India, Russia, the Middle East and Africa, Komatsu has derived a greater percentage of its business from these markets in recent years. Accordingly, Komatsu has been making capital investments in line with such increase in 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.

Furthermore, when economic and/or market conditions change more drastically than forecasted by Komatsu, Komatsu may also experience fewer orders of its products, an increase in cancellation of orders by customers, a delay in the collection of receivables, etc.

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

2 Foreign currency exchange rate fluctuations

Komatsu conducts its business operations on a global scale, and a substantial portion of its overseas sales is 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, for example, locating its production bases globally and positioning 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 rates fluctuate 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 ¥600 billion as of March 31, 2009. 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 were to enact 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 were 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 improve 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 such costs 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, sales 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 materials. Price increases in commodities may increase the costs of materials and therefore the production cost of Komatsu's products. In addition, a shortage of product parts and materials, bankruptcies of suppliers or production discontinuation by suppliers of products used by Komatsu may make 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 any increase in material costs to its customers through price adjustments of its products. Komatsu plans to minimize the effects of possible procurement or manufacturing issues by securing new suppliers or promoting closer collaboration among all of its related business divisions. However, if the increase in commodity prices were to exceed Komatsu's expectations or a prolonged shortage of materials and parts were to occur, Komatsu's results of operations may be adversely affected.

9 Information security, intellectual property and other matters

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

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

Komatsu conducts its business operations on a global scale and operates and maintains development, production, sales and other business facilities in many countries. If natural disasters, such as earthquakes and floods, epidemics, 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 were to occur and cause extensive damage to one or more of its facilities that cannot become fully operational within a short period of time, delays or disruption in the procurement of materials and parts or the production and sales of Komatsu's products and services 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 receivables 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 its 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 non-performance by counterparties to derivative financial instruments. However, because of the counterparties' credit ratings, Komatsu does not expect any of its existing counterparties to default on their obligations.

Foreign Exchange Risk

To reduce foreign exchange risks against foreign currency denominated assets, liabilities and certain forecasted transactions, 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, 2009, 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, 2009. As of March 31, 2009, the notional amount of option contracts is ¥1,011 million (US\$10,212 thousand).

Millions of yen (except average contractual rates)					
Forwards to sell foreign currencies:	US\$/Yen	EUR/Yen	US\$/EUR	Others	Total
Contract amounts	¥ 19,265	¥ 3,026	¥ 2,112	¥ 6,465	¥ 30,868
Average contractual rates	95.88Yen/US\$	142.59Yen/EUR	0.73EUR/US\$	—	—
Forwards to buy foreign currencies:	Yen/Yuan	GBP/EUR	Yen/ZAR	Others	Total
Contract amounts	¥ 10,044	¥ 8,109	¥ 4,789	¥ 25,482	¥ 48,424
Average contractual rates	12.78Yen/Yuan	0.92GBP/EUR	10.29Yen/ZAR	—	—

Thousands of U.S. dollars					
Forwards to sell foreign currencies:	US\$/Yen	EUR/Yen	US\$/EUR	Others	Total
Contract amounts	\$194,596	\$30,566	\$21,333	\$ 65,303	\$311,798
Forwards to buy foreign currencies:	Yen/Yuan	GBP/EUR	YEN/ZAR	Others	Total
Contract amounts	\$101,455	\$81,909	\$48,374	\$257,393	\$489,131

Interest Rate Risk

To reduce interest rate risk, Komatsu engages in certain interest rate swaps, cross-currency swaps and interest cap option transactions for interest payments and interest receipts. Certain interest rate swap contracts are not qualified as hedges for financial reporting purposes and are recorded at the fair value with the gains and losses thereof recognized as income and expenses.

The following tables provide information concerning long-term debt 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 swaps 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 rates.

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

	Millions of yen									
	Average interest rate			Expected maturity date						
				2010	2011	2012	2013	2014	Thereafter	
Japanese yen bonds	1.55%	¥ 58,669	¥ 60,200	¥ 10,200	¥ —	¥ —	¥ 20,000	¥ 30,000	¥ —	¥ —
Euro medium-term notes (relating to variable interest rate)	1.81%	63,332	56,018	16,714	17,801	18,763	891	1,849	—	—
Loans, principally from banks (relating to variable interest rate)	3.46%	47,351	47,351	10,877	12,253	11,731	9,091	3,318	81	—
Loans, principally from banks (relating to fixed interest rate)	1.94%	119,142	122,486	22,758	39,214	42,992	3,040	13,003	1,479	—
Total		¥ 288,494	¥ 286,055	¥ 60,549	¥ 69,268	¥ 73,486	¥ 33,022	¥ 48,170	¥ 1,560	—

Annual maturities of long-term debt exclude market value adjustments for balances subject to qualifying fair value hedges of ¥7,314 million.

Interest rate swaps, cross-currency swaps and interest caps

	Millions of yen									
	Average interest rate			Expected maturity date						
				2010	2011	2012	2013	2014	Thereafter	
U.S. dollar interest rate swap	0.36%	3.54%	¥ (2,975)	¥ 114,580	¥ 61,763	¥ 33,308	¥ 15,819	¥ 3,690	¥ —	¥ —
Yen/US\$ cross-currency swap	1.20%	1.76%	8,314	49,072	19,089	8,500	19,795	1,688	—	—
Euro interest rate swap	3.88%	4.18%	(837)	31,066	10,766	10,936	5,981	2,781	602	—
Yen/Euro cross-currency swap	1.10%	3.18%	1,963	20,922	11,000	—	7,922	—	2,000	—
Euro interest cap	—	4.58%	27	11,114	4,622	6,492	—	—	—	—
Total			¥ 6,492	¥ 226,754	¥ 107,240	¥ 59,236	¥ 49,517	¥ 8,159	¥ 2,602	¥ —

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

	Thousands of U.S. dollars									
	Average interest rate			Expected maturity date						
				2010	2011	2012	2013	2014	Thereafter	
Japanese yen bonds	1.55%	\$ 592,616	\$ 608,081	\$ 103,030	\$ —	\$ —	\$ 202,021	\$ 303,030	\$ —	\$ —
Euro medium-term notes (relating to variable interest rate)	1.81%	639,717	565,838	168,828	179,808	189,525	9,000	18,677	—	—
Loans, principally from banks (relating to variable interest rate)	3.46%	478,293	478,293	109,869	123,768	118,495	91,828	33,515	818	—
Loans, principally from banks (relating to fixed interest rate)	1.94%	1,203,455	1,237,232	229,879	396,101	434,263	30,707	131,343	14,939	—
Total		\$ 2,914,081	\$ 2,889,444	\$ 611,606	\$ 699,677	\$ 742,283	\$ 333,556	\$ 486,565	\$ 15,757	—

Annual maturities of long-term debt exclude market value adjustments for balances subject to qualifying fair value hedges of US\$73,879 thousand.

Interest rate swaps, cross-currency swaps and interest caps

	Thousands of U.S. dollars									
	Average interest rate			Expected maturity date						
				2010	2011	2012	2013	2014	Thereafter	
U.S. dollar interest rate swap	0.36%	3.54%	\$ (30,050)	\$ 1,157,373	\$ 623,869	\$ 336,443	\$ 159,789	\$ 37,272	\$ —	\$ —
Yen/US\$ cross-currency swap	1.20%	1.76%	83,980	495,677	192,818	85,859	199,949	17,051	—	—
Euro interest rate swap	3.88%	4.18%	(8,454)	313,798	108,747	110,465	60,414	28,091	6,081	—
Yen/Euro cross-currency swap	1.10%	3.18%	19,828	211,333	111,111	—	80,020	—	20,202	—
Euro interest cap	—	4.58%	273	112,263	46,687	65,576	—	—	—	—
Total			\$ 65,577	\$ 2,290,444	\$ 1,083,232	\$ 598,343	\$ 500,172	\$ 82,414	\$ 26,283	\$ —

Five-Year Summary

Komatsu Ltd. and Consolidated Subsidiaries
Years ended March 31

Millions of yen
(except per share amounts)

	2009	2008
For the fiscal period		
Net sales	¥2,021,743	¥2,243,023
Cost of sales	1,510,408	1,590,963
Income from continuing operations before income taxes, minority interests and equity in earnings of affiliated companies	128,782	322,210
Net income	78,797	208,793
As percentage of sales	3.9%	9.3%
Capital investment	162,512	145,730
At fiscal period-end		
Total assets	¥1,969,059	¥2,105,146
Working capital	370,952	412,145
Property, plant and equipment	525,462	491,146
Long-term debt—less current maturities	292,106	235,277
Shareholders' equity	814,941	887,126
As percentage of total assets	41.4%	42.1%
Per share data		
Net income per share:		
Basic	¥ 79.95	¥209.87
Dilute	79.89	209.59
Cash dividends per share	44.00	38.00
Shareholders' equity per share	842.04	891.49

Yen per U.S. dollar

	2009	2008
Other information		
Exchange rate into U.S. dollars (per the Federal Reserve Bank of New York):		
At fiscal period-end	¥ 99	¥ 100
Average for the fiscal period	101	114
Range for the fiscal period:		
High	109	123
Low	90	100

Millions of yen
(except per share amounts)

2007	2006	2005
¥1,893,343	¥1,612,140	¥1,356,071
1,356,511	1,185,240	1,009,859
236,491	155,779	91,869
164,638	114,290	59,010
8.7%	7.1%	4.4%
129,680	113,934	76,907

¥1,843,982	¥1,652,125	¥1,449,068
358,565	259,058	172,998
388,393	400,667	366,660
174,340	195,203	217,714
776,717	622,997	477,144
42.1%	37.7%	32.9%

¥165.70	¥115.13	¥ 59.51
165.40	114.93	59.47
23.00	14.00	9.00
781.57	626.98	481.27

Yen per U.S. dollar

2007	2006	2005
¥ 118	¥ 117	¥ 107
117	114	107
121	120	111
112	105	103

Consolidated Balance Sheets

Komatsu Ltd. and Consolidated Subsidiaries
March 31, 2009 and 2008

Assets	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2008	2009
Current assets			
Cash and cash equivalents	¥ 90,563	¥ 102,010	\$ 914,778
Time deposits	44	97	444
Trade notes and accounts receivable, less allowance for doubtful receivables of ¥15,330 million (\$154,848 thousand) in 2009 and ¥11,470 million in 2008 (Notes 1, 5, 10 and 26)	373,901	523,624	3,776,778
Inventories (Notes 1 and 6)	507,357	518,441	5,124,818
Deferred income taxes and other current assets (Notes 1, 7, 10, 16, 20, 21, 22, 24 and 26)	131,374	129,505	1,327,010
Total current assets	1,103,239	1,273,677	11,143,828
Long-term trade receivables (Note 5)	102,969	89,695	1,040,091
Investments			
Investments in and advances to affiliated companies (Notes 1 and 8)	19,249	22,884	194,434
Investment securities (Notes 1, 7, 21 and 22)	53,854	79,479	543,980
Other	12,017	11,575	121,384
Total investments	85,120	113,938	859,798
Property, plant and equipment —less accumulated depreciation (Notes 1, 9, 10 and 17)	525,462	491,146	5,307,697
Goodwill (Notes 1 and 11)	28,661	31,833	289,505
Other intangible assets (Notes 1 and 11)	60,346	61,916	609,556
Deferred income taxes and other assets (Notes 1, 16, 20, 21, 22 and 26)	63,262	42,941	639,010
	¥1,969,059	¥2,105,146	\$19,889,485

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)
	2009	2008	2009
Current liabilities			
Short-term debt (Notes 10 and 12)	¥ 220,087	¥ 108,890	\$ 2,223,101
Current maturities of long-term debt (Notes 10, 12, 17 and 21)	87,662	107,928	885,475
Trade notes, bills and accounts payable	214,375	387,104	2,165,404
Income taxes payable (Note 16)	10,818	52,453	109,273
Deferred income taxes and other current liabilities (Notes 1, 16, 20, 21, 22 and 24)	199,345	205,157	2,013,586
Total current liabilities	732,287	861,532	7,396,839
Long-term liabilities			
Long-term debt (Notes 10, 12, 17 and 21)	292,106	235,277	2,950,566
Liability for pension and retirement benefits (Notes 1 and 13)	53,822	38,910	543,656
Deferred income taxes and other liabilities (Notes 1, 16, 20, 21 and 22)	42,510	52,062	429,394
Total long-term liabilities	388,438	326,249	3,923,616
Minority interests	33,393	30,239	337,303
Commitments and contingent liabilities (Note 19)	—	—	—
Shareholders' equity (Notes 1 and 14)			
Common stock:			
Authorized 3,955,000,000 shares in 2009 and 2008			
Issued 998,744,060 shares in 2009 and 2008			
Outstanding 967,822,292 shares in 2009 and 995,103,847 shares in 2008	67,870	67,870	685,555
Capital surplus	140,092	138,170	1,415,070
Retained earnings:			
Appropriated for legal reserve	28,472	26,714	287,596
Unappropriated	719,222	685,986	7,264,869
Accumulated other comprehensive income (loss) (Notes 1, 7, 13 and 15)	(105,744)	(28,779)	(1,068,121)
Treasury stock at cost, 30,921,768 shares in 2009 and 3,640,213 shares in 2008 (Notes 14)	(34,971)	(2,835)	(353,242)
Total shareholders' equity	814,941	887,126	8,231,727
	¥1,969,059	¥2,105,146	\$19,889,485

Consolidated Statements of Income

Komatsu Ltd. and Consolidated Subsidiaries
Years ended March 31, 2009, 2008 and 2007

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2009	2008	2007	2009
Net sales (Notes 1 and 8)	¥2,021,743	¥2,243,023	¥1,893,343	\$20,421,646
Cost of sales (Notes 17 and 25)	1,510,408	1,590,963	1,356,511	15,256,646
Selling, general and administrative expenses (Notes 17 and 25)	322,677	317,474	287,086	3,259,364
Impairment loss on long-lived assets (Note 1, 9 and 25)	16,414	2,447	81	165,798
Impairment loss on goodwill (Note 1 and 11)	2,003	2,870	—	20,232
Other operating income (expenses), net (Note 25)	(18,293)	3,581	(4,924)	(184,778)
Operating income	151,948	332,850	244,741	1,534,828
Other income (expenses), net (Note 25)	(23,166)	(10,640)	(8,250)	(234,000)
Interest and dividend income	8,621	10,265	8,532	87,081
Interest expense	(14,576)	(16,699)	(15,485)	(147,232)
Other, net	(17,211)	(4,206)	(1,297)	(173,849)
Income from continuing operations before income taxes, minority interests and equity in earnings of affiliated companies	128,782	322,210	236,491	1,300,828
Income taxes (Notes 1 and 16)				
Current	60,511	104,142	76,102	611,222
Deferred	(18,218)	11,652	3,643	(184,020)
Total	42,293	115,794	79,745	427,202
Income from continuing operations before minority interests and equity in earnings of affiliated companies	86,489	206,416	156,746	873,626
Minority interests in income of consolidated subsidiaries	(8,088)	(9,435)	(6,580)	(81,697)
Equity in earnings of affiliated companies	396	6,845	3,098	4,000
Income from continuing operations	78,797	203,826	153,264	795,929
Income from discontinued operations less applicable income taxes (Note 4)	—	4,967	11,374	—
Net income	¥ 78,797	¥ 208,793	¥ 164,638	\$ 795,929

Per share data (Notes 1 and 18):	Yen			U.S. cents
	¥	¥	¥	¢
Income from continuing operations:				
Basic	79.95	204.88	154.25	80.76
Diluted	79.89	204.61	153.97	80.70
Income from discontinued operations:				
Basic	—	4.99	11.45	—
Diluted	—	4.98	11.43	—
Net income:				
Basic	79.95	209.87	165.70	80.76
Diluted	79.89	209.59	165.40	80.70
Cash dividends per share (Note 1)	44.00	38.00	23.00	44.44

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, 2009, 2008 and 2007

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2009	2008	2007	2009
Common stock				
Balance, beginning of year	¥ 67,870	¥ 67,870	¥ 67,870	\$ 685,555
Balance, end of year	¥ 67,870	¥ 67,870	¥ 67,870	\$ 685,555
Capital surplus				
Balance, beginning of year	¥ 138,170	¥137,155	¥136,137	\$ 1,395,657
Sales of treasury stock	1,570	417	394	15,858
Issuance and exercise of stock acquisition rights (Notes 1 and 14)	352	598	663	3,555
Others	—	—	(39)	—
Balance, end of year	¥ 140,092	¥138,170	¥137,155	\$ 1,415,070
Retained earnings, appropriated for legal reserve				
Balance, beginning of year	¥ 26,714	¥ 24,267	¥ 23,416	\$ 269,838
Transfer from unappropriated retained earnings	1,758	2,447	851	17,758
Balance, end of year	¥ 28,472	¥ 26,714	¥ 24,267	\$ 287,596
Unappropriated retained earnings				
Balance, beginning of year	¥ 685,986	¥517,450	¥376,522	\$ 6,929,152
Net income	78,797	208,793	164,638	795,929
Cash dividends paid	(43,803)	(37,810)	(22,859)	(442,454)
Transfer to retained earnings appropriated for legal reserve	(1,758)	(2,447)	(851)	(17,758)
Balance, end of year	¥ 719,222	¥685,986	¥517,450	\$ 7,264,869
Accumulated other comprehensive income (loss)				
Balance, beginning of year	¥ (28,779)	¥ 33,501	¥ 23,095	\$ (290,697)
Other comprehensive income (loss) for the year, net of tax (Note 15)	(76,965)	(62,280)	20,263	(777,424)
Adjustment to initially apply SFAS No. 158, net of tax (Note 13)	—	—	(9,857)	—
Balance, end of year	¥(105,744)	¥ (28,779)	¥ 33,501	\$(1,068,121)
Treasury stock				
Balance, beginning of year	¥ (2,835)	¥ (3,526)	¥ (4,043)	\$ (28,636)
Purchase of treasury stock	(33,090)	(340)	(632)	(334,242)
Sales of treasury stock	954	1,031	1,149	9,636
Balance, end of year	¥ (34,971)	¥ (2,835)	¥ (3,526)	\$ (353,242)
Total shareholders' equity	¥ 814,941	¥887,126	¥776,717	\$ 8,231,727
Disclosure of comprehensive income				
Net income for the year	¥ 78,797	¥208,793	¥164,638	\$ 795,929
Other comprehensive income (loss) for the year, net of tax (Note 15)	(76,965)	(62,280)	20,263	(777,424)
Comprehensive income for the year	¥ 1,832	¥146,513	¥184,901	\$ 18,505

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, 2009, 2008 and 2007

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2009	2008	2007	2009
Operating activities				
Net income	¥ 78,797	¥ 208,793	¥ 164,638	\$ 795,929
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	98,354	75,664	72,709	993,475
Deferred income taxes	(18,218)	15,016	4,334	(184,020)
Net loss (gain) from sale of investment securities and subsidiaries	3,543	(8,045)	(19,101)	35,788
Net loss (gain) on sale of property	(269)	(3,169)	(13)	(2,717)
Loss on disposal of fixed assets	5,561	3,313	2,121	56,172
Impairment loss on long-lived assets	16,414	2,447	81	165,798
Impairment loss on goodwill	2,003	2,870	—	20,232
Pension and retirement benefits, net	3,378	(10,782)	1,078	34,121
Changes in assets and liabilities:				
Decrease (increase) in trade receivables	103,355	(83,855)	(93,141)	1,043,990
Decrease (increase) in inventories	(22,307)	(65,884)	(73,448)	(225,323)
Increase (decrease) in trade payables	(148,655)	12,586	70,693	(1,501,566)
Increase (decrease) in income taxes payable	(40,507)	(2,913)	19,680	(409,162)
Other, net	(2,674)	14,944	12,493	(27,010)
Net cash provided by operating activities	78,775	160,985	162,124	795,707
Investing activities				
Capital expenditures	(145,670)	(117,571)	(122,860)	(1,471,414)
Proceeds from sale of property	6,414	19,425	17,626	64,788
Proceeds from sale of available for sale investment securities	703	601	1,844	7,101
Purchases of available for sale investment securities	(6,785)	(4,663)	(6,737)	(68,535)
Proceeds from sale of subsidiaries, net of cash disposed	—	16,372	35,368	—
Acquisition of subsidiaries and equity investees, net of cash acquired	(223)	(42,717)	(24,621)	(2,253)
Collection of loan receivables	7,736	7,778	5,736	78,141
Disbursement of loan receivables	(6,381)	(6,315)	(5,974)	(64,455)
Decrease (increase) in time deposits	(1,162)	(1,092)	(2)	(11,737)
Net cash used in investing activities	(145,368)	(128,182)	(99,620)	(1,468,364)
Financing activities				
Proceeds from long-term debt	129,327	82,791	44,781	1,306,333
Repayments on long-term debt	(88,058)	(48,868)	(74,943)	(889,475)
Increase (decrease) in short-term debt, net	127,589	634	22,526	1,288,778
Repayments of capital lease obligations	(30,770)	(15,168)	(11,411)	(310,808)
Sale (purchase) of treasury stock, net	(32,685)	691	517	(330,152)
Dividends paid	(43,803)	(37,810)	(22,859)	(442,455)
Other, net	(4,381)	308	—	(44,253)
Net cash provided by (used in) financing activities	57,219	(17,422)	(41,389)	577,970
Effect of exchange rate change on cash and cash equivalents	(2,073)	(5,570)	1,087	(20,939)
Net increase (decrease) in cash and cash equivalents	(11,447)	9,811	22,202	(115,626)
Cash and cash equivalents, beginning of year	102,010	92,199	69,997	1,030,404
Cash and cash equivalents, end of year	¥ 90,563	¥ 102,010	¥ 92,199	\$ 914,778

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, mining and utility equipment throughout the world. Komatsu is also engaged in the manufacture and sale of industrial machinery and others.

The consolidated net sales of Komatsu for the year ended March 31, 2009, consisted of the following: Construction, Mining and Utility Equipment – 86.3%, Industrial Machinery and Others – 13.7%.

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, 2009, 77.6% were generated outside Japan, with 24.9% in the Americas, 14.0% in Europe and CIS, 11.7% in China, 16.6% in Asia (excluding Japan and China) and Oceania, and 10.4% 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 currency of the country in which the Company is incorporated and principally operates. The translation of Japanese yen amounts into United States dollar amounts as of and for the year ended March 31, 2009, is included solely for the convenience of readers and has been made at the rate of ¥99 to \$1, the approximate rate of exchange prevailing at the Federal Reserve Bank of New York on March 31, 2009. 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, 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. The consolidated balance sheets as of March 31, 2009 and 2008, include assets of ¥32,866 million (\$331,980 thousand) and ¥25,335 million, respectively, of consolidated variable interest entities, which engage in equipment leasing in Europe. The majority of these assets were included in trade notes and accounts receivable, long-term trade receivables.

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

(2) Translation of Foreign Currency Accounts

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

(3) Allowance for Doubtful Trade Receivables

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

(4) Inventories

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

(5) Investment Securities

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

Unrealized losses on marketable securities are charged against net earnings when a decline in market value below cost is determined to be other than temporary based primarily on the financial condition and near term prospects of the issuer and the extent and length of the time of the decline.

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 weighted average depreciation periods are 23 years for buildings and 9 years for machinery and equipment. Effective rates of depreciation for buildings, machinery and equipment for the years ended March 31, 2009, 2008 and 2007, were as follows:

	2009	2008	2007
Buildings	9%	9%	8%
Machinery and equipment	25%	26%	27%

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, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Aggregate cost	¥124,198	¥112,083	\$1,254,525
Accumulated depreciation	37,417	30,982	377,949

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 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 or an asset group exceeds the estimated undiscounted cash flows expected to be generated by the asset or an asset group. The amount of the impairment loss to be recorded is determined by the difference between the fair value of the asset or an asset group 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, mining and utility equipment and industrial machinery 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 benefit 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 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. As of April 1, 2007 and for the years ended March 31, 2009 and 2008, Komatsu did not have material unrecognized tax benefits and thus, no significant interest and penalties related to unrecognized tax benefits were recognized.

(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. Komatsu recognizes the overfunded or underfunded status of the defined benefit plans as an asset or liability in the consolidated balance sheet, with a corresponding adjustment to accumulated other comprehensive income, net of tax. 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 defined benefit plans 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

In accordance with SFAS No. 123 (revised 2004), "Share-Based Payment" ("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.

(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) Cash and cash equivalents

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 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 the asset or an asset group whenever events or changes in circumstances indicate that the carrying amount of an asset or an asset group 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 or an asset group exceeds the fair value. Long-lived assets and 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 accounts receivable.

(18) New Accounting Standards

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 noncontrolling

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 but expects it will not have a material impact.

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.

In May 2008, the FASB issued SFAS No. 163, "Accounting for Financial Guarantee Insurance Contracts – an interpretation of FASB Statement No. 60." SFAS No. 163 prescribes accounting for insurers of financial obligations, bringing consistency to recognizing and recording premiums and to loss recognition. SFAS No. 163 also requires expanded disclosures about financial guarantee insurance contracts. Except for some disclosures, SFAS No.163 is effective for fiscal periods beginning 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. 163 will have on its consolidated results of operations and financial condition but expects it will not have a material impact.

(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, 2009, 2008 and 2007, are as follows:

	Millions of yen			Thousands of U.S. dollars
	2009	2008	2007	2009
Additional cash flow information:				
Interest paid	¥ 14,403	¥ 16,639	¥15,513	\$ 145,485
Income taxes paid	111,508	110,674	75,058	1,126,343
Noncash investing and financing activities:				
Capital lease obligations incurred	¥ 29,762	¥ 28,159	¥23,584	\$ 300,626

3. Acquisition and Divestiture

(1) Komatsu NTC Ltd.

On January 16, 2008, the Company decided to purchase additional shares of NIPPEI TOYAMA CORPORATION (it was renamed Komatsu NTC Ltd., hereinafter "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 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 acquisition of NTC will promote business development on a global scale, collaboration in R&D, and joint development of new business domains that 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
Current assets	¥ 59,831
Property, plant and equipment	22,861
Intangible assets	29,219
Goodwill	12,815
Other assets	5,123
Total assets acquired	129,849
Current liabilities	53,882
Long-term liabilities	17,291
Minority interest	2,479
Total liabilities assumed	73,652
Net assets acquired	56,197

Intangible assets of ¥29,219 million consist of intangible assets subject to amortization of ¥21,852 million and intangible assets not subject to amortization of ¥7,367 million. The intangible assets subject to amortization mainly include customer relationships of ¥14,000 million, technology assets of ¥4,475 million and software of ¥2,194 million. The amortization periods are 17, 17 and 5 years, respectively. The intangible assets not subject to amortization are trademarks of ¥7,367 million.

The goodwill of ¥12,815 million was assigned to the industrial machinery and others segment. The goodwill is not deductible for tax purpose.

The differences between net assets acquired of ¥56,197 million and purchase consideration including direct costs of ¥41,234 million 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 from the date of acquisition to March 31, 2008 are included as equity in earnings in the consolidated statements of income for the fiscal year ended March 31, 2008, and are consolidated for the fiscal year ended March 31, 2009.

The following table presents unaudited pro forma consolidated operating results for Komatsu as if the acquisition of NTC had occurred on April 1, 2007. 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
	2008
Sales	¥2,317,784
Net income	¥ 211,975

	Yen
	2008
Basic earnings per share	¥213.07
Diluted earnings per share	¥212.79

The Company and NTC entered into a share exchange agreement with the purpose of making NTC a wholly owned subsidiary of the Company in April, 2008. The Company's ownership of NTC became 100.0% at August 1, 2008, the effective date of the share exchange. The additional acquisition did not have material impact on purchase price allocation as of the date of acquisition or pro forma consolidated operating results for Komatsu as if the additional acquisition of NTC had occurred on April 1, 2007. NIPPEI TOYAMA CORPORATION was renamed KOMATSU NTC Ltd. at October 1, 2008.

(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 and was paid in cash.

BR is a construction equipment rental company with a business presence in Tohoku and northern Kanto regions of Japan. The Company acquired BR with the expectation to strengthen its rental business and to expand its rental and used equipment business on a global scale.

In addition, a synergy from integration was 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
Current assets	¥ 9,423
Property, plant and equipment	39,260
Intangible assets	3,133
Goodwill	1,533
Other assets	922
Total assets acquired	54,271
Current liabilities	12,191
Long-term liabilities	31,807
Minority interest	1,709
Total liabilities assumed	45,707
Net assets acquired	8,564

Total intangible assets of ¥3,133 million consist primarily of customer relationships of ¥1,182 million, business model of ¥1,182 million and software of ¥667 million. The amortization periods are 7, 10 and 5 years, respectively.

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) 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 machinery 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

The goodwill of ¥1,533 million was assigned to the construction, mining and utility 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 and the business results of BR are included in the consolidated financial statements of income for the fiscal year ended March 31, 2009.

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, 2007 would not differ materially from the amounts reported in the consolidated financial statements for the fiscal years ended March 31, 2008.

Komatsu Rental Japan Ltd. ("KR"), a consolidated subsidiary of the Company, and BR entered into a share exchange agreement with the purpose of making BR a wholly owned subsidiary of KR in February 2008. The Company's ownership in BR increased to 79.0% from 57.9% at April 1, 2008, the effective date of the share exchange. The additional acquisition did not have material impact on purchase price allocation as of the date of acquisition or pro forma consolidated operating results for Komatsu as if the additional acquisition of BR had occurred on April 1, 2007.

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. 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 and 2007 are as follows:

	Millions of yen	
	2008	2007
Net sales	¥ —	¥63,416
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
Income taxes	3,364	14,566
Minority interests in income of consolidated subsidiaries	—	(3,613)
Equity in earnings of affiliated companies	—	9
Income from discontinued operations less applicable income taxes	¥4,967	¥11,374

5. Trade Notes and Accounts Receivable

Receivables at March 31, 2009 and 2008 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Trade notes	¥ 70,807	¥101,724	\$ 715,222
Accounts receivable	318,424	433,370	3,216,404
Total	389,231	535,094	3,931,626
Less: allowance	(15,330)	(11,470)	(154,848)
Trade receivables-current	¥373,901	¥523,624	\$3,776,778
Long-term trade receivables	¥102,969	¥ 89,695	\$1,040,091

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

The 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, 2009 and 2008, lease receivables comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Minimum lease payments receivable	¥111,158	¥24,492	\$1,122,808
Unearned income	(9,979)	(2,569)	(100,798)
Net lease receivables	¥101,179	¥21,923	\$1,022,010

The residual values of leased assets at March 31, 2009 and 2008 were not material.

Cash flows received from the sale of trade notes and accounts receivable for the years ended March 31, 2009, 2008 and 2007 were ¥243,495 million (\$2,459,545 thousand), ¥343,457 million and ¥355,627 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, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Total amount of trade receivables that are managed and securitized	¥ 595,968	¥ 791,045	\$ 6,019,879
Assets transferred	(103,768)	(166,256)	(1,048,162)
Total amount of trade receivable on balance sheet	¥ 492,200	¥ 624,789	\$ 4,971,717

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, 2009 and 2008 were as follows:

	2009	2008
Weighted-average life	28 months	29 months
Prepayment speed over the life	0.6%	0.5%
Expected credit losses over the life	2.4%	0.9%

The carrying amount of retained interest was ¥919 million (\$9,283 thousand) asset and ¥3,015 million asset as of March 31, 2009 and 2008, respectively. The impacts of 10% and 20% changes to the key assumptions on the fair value of retained interest as of March 31, 2009 are immaterial.

6. Inventories

At March 31, 2009 and 2008, inventories comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Finished products, including finished parts held for sale	¥328,643	¥341,363	\$3,319,626
Work in process	128,345	123,001	1,296,414
Materials and supplies	50,369	54,077	508,778
Total	¥507,357	¥518,441	\$5,124,818

7. Investment Securities

Investment securities at March 31, 2009 and 2008, primarily consisted of securities available for sale. Komatsu does not have intentions to sell these securities within a year as of the balance sheet date.

The cost, gross unrealized holding gains and losses, and fair value for such investment securities by major security types at March 31, 2009 and 2008, are as follows:

	Millions of yen			
	Cost	Gross unrealized holding		Fair value
		Gains	Losses	
At March 31, 2009				
Investment securities:				
Marketable equity securities available for sale	¥24,112	¥13,419	¥ 465	¥37,066
Other investment securities at cost	16,788			
Other	101			
	¥41,001			

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

	Thousands of U.S. dollars			
	Cost	Gross unrealized holding		Fair value
		Gains	Losses	
At March 31, 2009				
Investment securities:				
Marketable equity securities available for sale	\$243,556	\$135,545	\$4,697	\$374,404
Other investment securities at cost	169,576			
Other	1,020			
	\$414,152			

Other investment securities primarily include non-marketable equity securities. The fair value of other investment securities was not estimated as it was not practicable to estimate the fair value of investments and no significant events or changes that might have effected the fair value of those investments were observed.

Unrealized holding gains and losses are included as a

component of accumulated other comprehensive income (loss) until realized.

Proceeds from the sales of investment securities available for sale were ¥703 million (\$7,101 thousand), ¥601 million and ¥1,844 million for the years ended March 31, 2009, 2008 and 2007, respectively.

Net realized gains or losses on impairment or sale of investment securities available for sale during the years ended March 31, 2009, 2008 and 2007, amounted to losses of ¥9,188 million (\$92,808 thousand), losses of ¥289 million and gains of ¥344 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.

In connection with the share exchange of SUMCO CORPORATION and SUMCO TECHXIV CORPORATION effective May 30, 2008, the Company exchanged shares of SUMCO

TECHXIV CORPORATION for those of SUMCO CORPORATION. In accordance with the Emerging Issues Task Force ("EITF") Issue No. 91-5 "Nonmonetary Exchange of Cost-Method Investments", a non-cash gain of ¥6,148 million (\$62,101 thousand) was recorded in "Other income (expenses)" in the accompanying consolidated statement of income for the year ended March 31, 2009. The Company recorded impairment losses of ¥5,645 million (\$57,020 thousand) on its investment in SUMCO CORPORATION in connection with the decline of its fair value as "Other income (expenses)" in the accompanying consolidated statements of income for the year ended March 31, 2009.

8. Investments in and Advances to Affiliated Companies

At March 31, 2009 and 2008, investments in and advances to affiliated companies comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Investments in capital stock	¥16,348	¥19,293	\$165,131
Advances	2,901	3,591	29,303
Total	¥19,249	¥22,884	\$194,434

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 ¥869 million (\$8,778 thousand), ¥286 million and ¥679 million during the years ended March 31, 2009, 2008 and 2007, respectively.

Trade notes and accounts receivable from affiliated companies at March 31, 2009 and 2008, were ¥14,954 million (\$151,051 thousand) and ¥29,284 million, respectively.

Short-term loans receivable from affiliated companies at March 31, 2009 and 2008, were ¥2,994 million (\$30,242 thousand) and ¥4,314 million, respectively.

Trade notes and accounts payable to affiliated companies at March 31, 2009 and 2008, were ¥5,242 million (\$52,949 thousand) and ¥12,356 million, respectively.

Net sales for the years ended March 31, 2009, 2008 and 2007, included net sales to affiliated companies in the amounts of ¥41,821 million (\$422,434 thousand), ¥61,128 million and ¥54,731 million, respectively.

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

As of March 31, 2009 and 2008, consolidated unappropriated retained earnings included Komatsu's share of undistributed earnings of affiliated companies accounted for by the equity method in the amount of ¥9,743 million (\$98,414 thousand) and ¥10,646 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 affiliated companies is insignificant as of March 31, 2009.

Investments in affiliated companies include certain equity securities which have been quoted on an established market. The carrying amount of such equity securities at March 31, 2009 and 2008 were ¥401 million and ¥318 million, respectively. The quoted market value of the equity securities at March 31, 2009 and 2008 were ¥469 million and ¥513 million, respectively.

Summarized financial information for affiliated companies at March 31, 2009 and 2008, and for the years ended March 31, 2009, 2008 and 2007, is as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Current assets	¥142,366	¥187,691	\$1,438,041
Net property, plant and equipment—less accumulated depreciation	40,403	39,338	408,111
Investments and other assets	21,991	17,439	222,131
Total assets	¥204,760	¥244,468	\$2,068,283
Current liabilities	¥104,734	¥156,493	\$1,057,919
Noncurrent liabilities	48,161	28,712	486,475
Shareholders' equity	51,865	59,263	523,889
Total liabilities and shareholders' equity	¥204,760	¥244,468	\$2,068,283

	Millions of yen			Thousands of U.S. dollars
	2009	2008	2007	2009
Net sales	¥205,798	¥333,505	¥197,434	\$2,078,768
Net income	¥ 1,300	¥ 16,731	¥ 6,486	\$ 13,131

9. Property, Plant and Equipment

The major classes of property, plant and equipment at March 31, 2009 and 2008, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Land	¥ 93,864	¥ 94,724	\$ 948,121
Buildings	315,518	309,945	3,187,050
Machinery and equipment	682,241	655,035	6,891,323
Construction in progress	23,468	10,645	237,051
Total	1,115,091	1,070,349	11,263,545
Less: accumulated depreciation	(589,629)	(579,203)	(5,955,848)
Net property, plant and equipment	¥ 525,462	¥ 491,146	\$ 5,307,697

During March 2009, Komatsu decided to shut down Mooka plant in the construction, mining and utility equipment segment and Komatsu plant in the industrial machinery and others segment and transfer their production capacity to other plants. In this regard, Komatsu has determined certain long-lived assets that

are no longer used and will be sold or disposed of otherwise. As of March 31, 2009, Komatsu has not committed to sell these assets. Impairment losses were recorded ¥4,728 million (\$47,758 thousand) for Mooka plant, ¥1,808 million (\$18,263 thousand) for Komatsu plant for the year ended March 31, 2009.

10. Pledged Assets

At March 31, 2009, assets pledged as collateral for long-term debt and guarantees for debt are as follows:

	Millions of yen	Thousands of U.S. dollars
Other current assets	¥1,875	\$18,939
Property, plant and equipment—less accumulated depreciation	4,809	48,576
Total	¥6,684	\$67,515

The above assets were pledged against the following liabilities:

	Millions of yen	Thousands of U.S. dollars
Appearing in the consolidated balance sheets as:		
Long-term debt	¥4,809	\$48,576
Guarantees for debt	1,875	18,939
Total	¥6,684	\$67,515

11. Goodwill and Other Intangible Assets

The information for intangible assets other than goodwill at March 31, 2009 and 2008 are as follows:

	Millions of yen						Thousands of U.S. dollars		
	2009			2008			2009		
	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	¥23,386	¥ (3,031)	¥20,355	¥25,081	¥ (9,777)	¥15,304	\$236,222	\$ (30,616)	\$205,606
Other	36,262	(9,179)	27,083	39,788	(6,039)	33,749	366,283	(92,717)	273,566
Total	59,648	(12,210)	47,438	64,869	(15,816)	49,053	602,505	(123,333)	479,172
Other intangible assets not subject to amortization			12,908			12,863			130,384
Total other intangible assets			¥60,346			¥61,916			\$609,556

At March 31, 2009, the amounts of other in other intangible assets subject to amortization mainly consist of intangible assets resulted from the acquisition of additional shares of NTC.

For the fiscal year ended March 31, 2009, Komatsu recognized an impairment loss of ¥2,831 million (\$28,596 thousand) related to an asset group engaged in the rental business in Japan within the construction, mining and utility equipment segment due to significant deterioration in the rental business. The entire impairment loss was allocated to certain definite lived intangible assets within the asset group. The fair value used to measure the impairment of the asset group was based on discounted cash

flows using Komatsu's weighted average cost of capital.

The aggregate amortization expense of other intangible assets subject to amortization for the year ended March 31, 2009, 2008 and 2007 were ¥12,611 million (\$127,384 thousand), ¥5,487 million and ¥5,656 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 years ended March 31, 2008 and 2007.) 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
2010	¥8,287	\$83,707
2011	7,565	76,414
2012	6,455	65,202
2013	5,218	52,707
2014	3,135	31,667

The changes in carrying amounts of goodwill for the year ended March 31, 2009 and 2008 were as follow:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Balance at beginning of the year	¥31,833	¥20,594	\$321,545
Goodwill acquired during the year	1,216	14,588	12,283
Impairment loss	(2,003)	(2,870)	(20,232)
Recognition of deferred income taxes	—	(719)	—
Foreign exchange impact	(2,318)	240	(23,414)
Other	(67)	—	(677)
Balance at end of the year	¥28,661	¥31,833	\$289,505

At March 31, 2009, the amounts of goodwill allocated to the construction, mining and utility equipment segment and the industrial machinery and others segment were ¥15,258 million (\$154,121 thousand) and ¥13,403 million (\$135,384 thousand), respectively.

For the fiscal year ended March 31, 2008, Komatsu recognized ¥482 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, 2009, Komatsu recognized an impairment loss of ¥2,003 million (\$20,232 thousand), on goodwill allocated to Japanese rental business reporting unit in the construction, mining and utility equipment segment, due to unfavorable business circumstance of the business. For the fiscal year ended March 31, 2008, Komatsu recognized an

impairment loss of ¥2,870, on goodwill allocated to a North America's reporting unit of forestry equipment business in the construction, mining and utility equipment segment, due to unfavorable business circumstance where the reporting unit was located. These impairment losses were 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 fair value of the goodwill of the same reporting unit as determined based on estimated future discounted cash flows.

Goodwill acquired during the fiscal year ended March 31, 2009 principally resulted from the acquisition of additional shares of NTC and acquisition of additional shares of BR. Goodwill acquired during the fiscal year ended March 31, 2008 principally resulted from the acquisition of additional shares of NTC and acquisition of shares of BR. These were allocated to the industrial machinery and others segment and the construction, mining and utility equipment segment.

12 Short-Term and Long-Term Debt

Short-term debt at March 31, 2009 and 2008, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Banks, insurance companies and other financial institutions	¥125,087	¥ 96,890	\$1,263,505
Commercial paper	95,000	12,000	959,596
Short-term debt	¥220,087	¥108,890	\$2,223,101

The weighted-average annual interest rates applicable to short-term debt outstanding at March 31, 2009 and 2008, were 3.2% and 4.3%, respectively. Certain consolidated subsidiaries have entered into contracts for committed credit lines totaling ¥14,956 million (\$151,071 thousand) and have unused committed lines of credit amounting to ¥861 million (\$8,697 thousand) with certain financial institutions at March 31, 2009, which are

available for full and immediate borrowings. The Company is party to a committed ¥120,000 million (\$1,212,121 thousand) commercial paper program, ¥25,000 million (\$252,525 thousand) of which was unused at March 31, 2009, and is available upon the satisfaction of certain customary procedural requirements. Long-term debt at March 31, 2009 and 2008, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Long-term debt with collateral (Note 10):			
Banks, insurance companies and other financial institutions, maturing serially through 2009–2013, weighted-average rate 2.4%	¥ 1,400	¥ 1,777	\$ 14,141
Long-term debt without collateral:			
Banks, insurance companies and other financial institutions, maturing serially through 2009–2025, weighted-average rate 2.5%	162,261	142,006	1,639,000
Euro Medium-Term Notes maturing serially through 2009–2013, weighted-average rate 1.8%	63,332	75,644	639,717
1.45% Unsecured Bonds due 2009	10,000	10,000	101,010
0.80% Unsecured Bonds due 2010	—	200	—
0.85% Unsecured Bonds due 2010	—	200	—
0.62% Unsecured Bonds due 2010	—	250	—
0.98% Unsecured Bonds due 2010	200	—	2,020
0.91% Unsecured Bonds due 2012	—	165	—
1.66% Unsecured Bonds due 2012	20,000	20,000	202,020
1.53% Unsecured Bonds due 2013	30,000	—	303,030
Capital lease obligations (Note 17)	86,399	81,876	872,718
Other	6,176	11,087	62,384
Total	379,768	343,205	3,836,040
Less: current maturities	(87,662)	(107,928)	(885,474)
Long-term debt	¥292,106	¥ 235,277	\$2,950,566

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\$1,200 million. On October 14, 2003, Komatsu Europe Coordination Center N.V. and on September 25, 2008, Komatsu Capital Europe S.V. were added as an issuer under the Program, respectively. At March 31, 2009, the issuers under the Program were the Company, Komatsu Finance America Inc. and Komatsu Capital Europe S.A. 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 ¥10,000 million (\$101,010 thousand) during fiscal year ended March 31, 2009, and ¥23,500 million during fiscal year ended March 31, 2008 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 (\$1,010,101 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, 2009, excluding market value adjustments for balances subject to qualifying fair value hedges of ¥7,314 million (\$73,879 thousand) are as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2010	¥ 85,035	\$ 858,939
2011	89,426	903,293
2012	97,721	987,081
2013	45,120	455,758
2014	52,486	530,162
2015 and thereafter	2,666	26,929
Total	¥372,454	\$3,762,162

13. Liability for Pension and Other Retirement Benefits

The Company's employees, with certain minor exceptions, are covered by a severance payment and 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.

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
	2009	2008	2009
Change in benefit obligation:			
Benefit obligation, beginning of year	¥143,214	¥146,759	\$1,446,606
Service cost	8,460	6,390	85,455
Interest cost	3,885	3,776	39,242
Actuarial loss (gain)	462	918	4,667
Plan participants' contributions	98	—	990
Acquisition	348	4,179	3,515
Divestiture	—	(1,974)	—
Curtailement	330	—	3,333
Benefits paid	(13,234)	(12,897)	(133,677)
Foreign currency exchange rate change	(3,994)	(3,937)	(40,343)
Benefit obligation, end of year	¥139,569	¥143,214	\$1,409,788
Change in plan assets:			
Fair value of plan assets, beginning of year	¥107,183	¥120,193	\$1,082,657
Actual return on plan assets	(12,044)	(7,940)	(121,657)
Employer contributions	4,549	3,403	45,949
Plan participants' contributions	98	—	990
Acquisition	66	4,227	667
Divestiture	—	(1,228)	—
Benefits paid	(8,496)	(7,755)	(85,818)
Foreign currency exchange rate change	(3,104)	(3,717)	(31,354)
Fair value of plan assets, end of year	¥ 88,252	¥107,183	\$ 891,434
Funded status, end of year	¥ (51,317)	¥ (36,031)	\$ (518,354)
Prepaid benefit cost	¥ 184	¥ 736	\$ 1,859
Other current liability	(623)	(248)	(6,293)
Accrued benefit liability	(50,878)	(36,519)	(513,920)
	¥ (51,317)	¥ (36,031)	\$ (518,354)
Amounts recognized in accumulated other comprehensive income (loss):			
Actuarial loss	¥ 41,258	¥ 27,419	\$ 416,748
Prior service cost	1,341	1,947	13,545
	¥ 42,599	¥ 29,366	\$ 430,293

The accumulated benefit obligations for all defined benefit plans were ¥131,620 million (\$1,329,495 thousand) and ¥136,624 million, respectively, at March 31, 2009 and 2008.

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
	2009	2008	2009
Plans with accumulated benefit obligations in excess of plan assets:			
Accumulated benefit obligations	¥127,171	¥120,875	\$1,284,556
Plan assets	82,868	88,011	837,051
Plans with projected benefit obligations in excess of plan assets:			
Projected benefit obligations	¥139,506	¥133,541	\$1,409,152
Plan assets	88,182	96,883	890,727

Components of net periodic pension cost

Net periodic cost of the companies' defined benefit plans for the years ended March 31, 2009, 2008 and 2007, consisted of the following components:

	Millions of yen			Thousands of U.S. dollars
	2009	2008	2007	2009
Service cost—Benefits earned during the year	¥ 8,460	¥ 6,390	¥ 7,081	\$ 85,455
Interest cost on projected benefit obligation	3,885	3,776	3,770	39,242
Expected return on plan assets	(3,029)	(3,210)	(3,339)	(30,596)
Amortization of actuarial loss	1,622	570	373	16,384
Amortization of prior service cost	535	825	814	5,404
Curtailment loss	475	—	—	4,798
Net periodic cost	¥11,948	¥ 8,351	¥ 8,699	\$120,687

Other changes in plan assets and benefit obligations recognized in other comprehensive income (loss) for the years ended March 31, 2009 and 2008 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Current year actuarial loss	¥15,870	¥11,927	\$160,304
Amortization of actuarial loss	(2,031)	(570)	(20,515)
Current year prior service cost	(5)	141	(51)
Amortization of prior service cost	(601)	(825)	(6,071)
	¥13,233	¥10,673	\$133,667

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	¥2,655	\$26,818
Prior service cost	171	1,727

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	
	2009	2008	2009	2008
Discount rate	2.0%	2.0%	6.9%	6.7%
Assumed rate of increase in future compensation levels (Point-based benefit system)	3.9%	3.9%	—	—
Assumed rate of increase in future compensation levels	2.4%	2.0%	4.1%	4.4%

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

	Domestic plans			Foreign plans		
	2009	2008	2007	2009	2008	2007
Discount rate	2.0%	1.9%	2.0%	6.7%	5.6%	5.3%
Assumed rate of increase in future compensation levels (Point-based benefit system)	3.9%	3.7%	3.7%	—	—	—
Assumed rate of increase in future compensation levels	2.0%	2.3%	2.4%	4.4%	4.1%	4.3%
Expected long-term rate of return on plan assets	1.9%	1.9%	2.0%	7.5%	7.6%	7.6%

The Company and a certain domestic subsidiary have 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, 2009 and 2008 are as follows:

	2009	2008
Equity securities	25.2%	31.3%
Debt securities	43.8%	47.9%
Life insurance company general accounts	29.7%	19.6%
Others	1.3%	1.2%
Total	100.0%	100.0%

In order to secure long-term comprehensive earnings, the Company and certain subsidiaries' investment policies are designed to ensure adequate plan assets to provide future payments of pension benefits to eligible participants. Taking into account the expected long-term rate of return on plan assets, the Company and certain subsidiaries formulate a basic portfolio comprised of the judged optimum combination of equity and debt securities. Plan assets are 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 ¥21 million (0.03% of the Company's total plan assets) and ¥48 million (0.07% of the Company's total plan assets) at March 31, 2009 and 2008, respectively.

Cash flows**(1) Contributions**

The Company and certain subsidiaries expect to contribute ¥4,660 million (\$47,071 thousand) to their benefit plans in the year ending March 31, 2010.

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2010	¥14,678	\$148,263
2011	12,673	128,010
2012	13,553	136,899
2013	11,369	114,838
2014	7,261	73,343
Through 2015-2019	¥41,257	\$416,737

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

(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:

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
	2009	2008	2009
Change in accumulated postretirement benefit obligation:			
Accumulated postretirement benefit obligation, beginning of year	¥ 9,555	¥11,614	\$ 96,515
Service cost	311	340	3,142
Interest cost	575	597	5,808
Actuarial loss (gain)	150	(636)	1,515
Plan amendment	(393)	—	(3,970)
Medicare Part D	74	81	748
Benefits paid	(839)	(829)	(8,475)
Foreign currency exchange rate change	(364)	(1,612)	(3,677)
Accumulated postretirement benefit obligation, end of year	¥ 9,069	¥ 9,555	\$ 91,606
Change in plan assets:			
Fair value of plan assets, beginning of year	¥ 7,521	¥ —	\$ 75,970
Actual return on plan assets	(821)	(213)	(8,293)
Employer contributions	837	9,584	8,455
Benefits paid	(839)	(829)	(8,475)
Foreign currency exchange rate change	(119)	(1,021)	(1,202)
Fair value of plan assets, end of year	¥ 6,579	¥ 7,521	\$ 66,455
Funded status, end of year	¥(2,490)	¥ (2,034)	\$(25,151)
Prepaid benefit cost	¥ 677	¥ 1,105	\$ 6,838
Other current liabilities	(37)	(33)	(374)
Accrued benefit liability	(3,130)	(3,106)	(31,615)
	¥(2,490)	¥ (2,034)	\$(25,151)
Amounts recognized in accumulated other comprehensive income (loss):			
Actuarial loss	¥ 3,945	¥ 2,775	\$ 39,849
Prior service cost	686	1,207	6,929
	¥ 4,631	¥ 3,982	\$ 46,778

Accumulated postretirement benefit obligations exceed plan assets for each of 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, 2009, 2008 and 2007, included the following components:

	Millions of yen			Thousands of U.S. dollars
	2009	2008	2007	2009
Service cost	¥ 311	¥ 340	¥ 329	\$ 3,141
Interest cost	575	597	608	5,808
Expected return on plan assets	(400)	(232)	—	(4,040)
Amortization of actuarial loss	201	160	247	2,030
Amortization of prior service cost	128	144	172	1,293
Net periodic postretirement benefit cost	¥ 815	¥1,009	¥1,356	\$ 8,232

Other changes in plan assets and accumulated postretirement benefit obligations recognized in other comprehensive income (loss) for the years ended March 31, 2009 and 2008 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Current year actuarial (gain) loss	¥1,371	¥(155)	\$13,849
Amortization of actuarial loss	(201)	(160)	(2,030)
Current year prior service cost	(393)	(36)	(3,970)
Amortization of prior service cost	(128)	(144)	(1,293)
	¥ 649	¥(495)	\$ 6,556

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	¥305	\$3,081
Prior service cost	77	778

Information with respect to the plans is as follows:

Assumptions

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

	2009	2008
Discount rate	6.4%	5.9%
Assumed rate of increase in future compensation levels	4.0%	4.0%
Current healthcare cost trend rate	7.8%	8.0%
Ultimate healthcare cost trend rate	4.8%	5.0%
Number of years to ultimate healthcare cost trend rate	7	7

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

	2009	2008	2007
Discount rate	5.9%	5.5%	5.3%
Assumed rate of increase in future compensation levels	4.0%	4.0%	4.0%
Expected long-term rate of return on plan assets	5.5%	5.5%	—
Current healthcare cost trend rate	7.7%	9.0%	10.0%
Ultimate healthcare cost trend rate	4.8%	5.0%	5.0%
Number of years to ultimate healthcare cost trend rate	6	5	5

At March 31, 2009 and 2008, 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, 2009 and 2008 were follows:

	VEBA-Non Union		VEBA-Union	
	2009	2008	2009	2008
Equity securities	33.0%	32.1%	32.0%	32.0%
Debt securities	63.0%	38.9%	62.0%	58.2%
Others	4.0%	29.0%	6.0%	9.8%
Total	100.0%	100.0%	100.0%	100.0%

The U.S. subsidiaries' investment strategies are to provide returns that will maximize principal growth while accepting only moderate risk. The portfolio will be invested in a manner that emphasizes safety of capital while achieving total returns consistent with prudent levels of risk.

Cash flows

(1) Contributions

The U.S. subsidiaries expect to contribute ¥34 million (\$343 thousand) to their post retirement benefit plans in the year ending March 31, 2010.

(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
2010	¥ 792	\$ 8,000
2011	818	8,263
2012	839	8,475
2013	852	8,606
2014	882	8,909
Through 2015-2019	¥4,763	\$48,111

In addition to the aforementioned plans, certain other subsidiaries provide retirement benefits to certain employees. At March 31, 2009, 2008 and 2007, 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, 2009, 2008 and 2007,

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, 2009, would have been increased by ¥103,189 million (\$1,042,313 thousand) with a corresponding decrease in unappropriated retained earnings. At March 31, 2009 and 2008, affiliated companies owned 1,127,100 and 850,100 shares which represent 0.12% and 0.09% 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 ¥295,514 million (\$2,984,990 thousand), included in the Company's general books of account as of March 31, 2009 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, 2009, payment of a cash dividend totaling ¥17,431 million (\$176,071 thousand) to shareholders of record on March 31, 2009. In accordance with the Act, the approved dividend has not been reflected in the consolidated financial statements as of March 31, 2009. 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) Treasury Stock

The Company repurchased 28,382,963 shares of its common stock mainly from market place for ¥33,090 million (\$334,242 thousand) and sold 1,101,408 shares of its treasury stock mainly for a share exchange with Komatsu NTC and stock option plan for ¥954 million (\$9,636 thousand).

(5) Stock Option Plan

The Company intends to transfer treasury shares to directors and certain employees and certain directors of subsidiaries and affiliated companies under an agreement granting the right for them to request such transfers at a predetermined price. The purchase price is the amount calculated by taking the 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 and multiplying by 1.05, 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 24, 2008, June 22, 2007 and June 23, 2006 and the Board of Directors on July 15, 2008, July 10, 2007 and July 11, 2006, the Company issued 463 rights, 562 rights and 833 rights of its share acquisition rights during the years ended March 31, 2009, 2008 and 2007, 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, 2009, September 1, 2008, September 3, 2008, and August 1, 2007, 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, 2009, 2008 and 2007 were ¥376 million (\$3,798 thousand), ¥711 million and ¥663 million, respectively, and were recorded in selling, general and administrative expenses. Compensation expenses after tax during the years ended March 31, 2009, 2008 and 2007 were ¥224 million (\$2,263 thousand), ¥423 million and ¥394 million, respectively.

The following table summarizes information about stock option activity for the years ended March 31, 2009, 2008 and 2007:

	2009			2008		2007	
	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		Yen		Yen
Outstanding at beginning of year	2,844,000	¥1,784	\$18.02	3,648,000	¥1,182	3,665,000	¥ 848
Granted	463,000	2,499	25.24	562,000	3,661	833,000	2,325
Exercised	(416,000)	926	9.35	(1,366,000)	947	(845,000)	855
Cancelled or Expired	—	—	—	—	—	(5,000)	2,325
Outstanding at end of year	2,891,000	2,022	20.42	2,844,000	1,784	3,648,000	1,182
Exercisable at end of year	2,428,000	1,931	19.51	2,282,000	1,322	2,820,000	846

The intrinsic values of options exercised were ¥722 million (\$7,293 thousand), ¥3,023 million and ¥1,180 million for the years ended March 31, 2009, 2008 and 2007.

The information for options outstanding and options exercisable at March 31, 2009 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	200,000	¥ 595	\$ 6.01	¥ 95	\$ 960	0.3	200,000	¥ 595	\$ 6.01	¥ 95	\$ 960	0.3
¥ 651 - 900	330,000	673	6.80	131	1,323	3.3	330,000	673	6.80	131	1,323	3.3
¥ 901 - 1,350	680,000	1,126	11.37	—	—	4.3	680,000	1,126	11.37	—	—	4.3
¥1,351 - 2,325	656,000	2,325	23.48	—	—	5.3	656,000	2,325	23.48	—	—	5.3
¥2,326 - 3,700	1,025,000	3,136	31.68	—	—	6.9	562,000	3,661	36.98	—	—	6.4
¥ 445 - 3,700	2,891,000	2,022	20.42	226	2,283	5.1	2,428,000	1,931	19.51	226	2,283	4.6

The fair value of each share option award is estimated on the date of grant using a discrete-time model (a binomial model) 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 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.

	2009	2008	2007
Grant-date fair value	¥813 (\$8.21)	¥1,266	¥801
Expected term	7 years	7 years	6 years
Risk-free rate	0.60%–1.48%*	0.76%–1.66%*	0.52%–2.00%*
Expected volatility	39.00%	38.00%	39.00%
Expected dividend yield	1.32%	1.36%	1.27%

* 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%
2009	0.60%	0.71%	0.82%	0.94%	1.02%	1.07%	1.07%	1.16%	1.33%	1.48%

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 shareholder's equity of the consolidated balance sheets.

Accumulated other comprehensive income (loss) at March 31, 2009, 2008 and 2007, is as follows:

	Millions of yen			Thousands of U.S. dollars
	2009	2008	2007	2009
Foreign currency translation adjustments:				
Balance, beginning of year	¥ (34,457)	¥ 9,204	¥ (2,240)	\$ (348,050)
Adjustment for the year	(49,695)	(43,661)	11,444	(501,970)
Balance, end of year	¥ (84,152)	¥(34,457)	¥ 9,204	\$ (850,020)
Net unrealized holding gains (losses) on securities available for sale:				
Balance, beginning of year	¥ 24,736	¥ 39,807	¥ 36,910	\$ 249,858
Net increase (decrease)	(16,090)	(15,071)	2,897	(162,525)
Balance, end of year	¥ 8,646	¥ 24,736	¥ 39,807	\$ 87,333
Pension liability adjustments:				
Balance, beginning of year	¥ —	¥ —	¥(11,299)	\$ —
Adjustment for the year	—	—	5,856	—
Adjustment to initially apply SFAS No. 158	—	—	5,443	—
Balance, end of year	¥ —	¥ —	¥ —	\$ —
Pension liability adjustments—After application of SFAS No. 158:				
Balance, beginning of year	¥ (19,208)	¥(15,300)	¥ —	\$ (194,020)
Adjustment for the year	(10,027)	(3,908)	—	(101,283)
Adjustment to initially apply SFAS No. 158	—	—	(15,300)	—
Balance, end of year	¥ (29,235)	¥(19,208)	¥(15,300)	\$ (295,303)
Net unrealized holding gains (losses) on derivative instruments:				
Balance, beginning of year	¥ 150	¥ (210)	¥ (276)	\$ 1,515
Net increase (decrease)	(1,153)	360	66	(11,646)
Balance, end of year	¥ (1,003)	¥ 150	¥ (210)	\$ (10,131)
Total accumulated other comprehensive income (loss)				
Balance, beginning of year	¥ (28,779)	¥ 33,501	¥ 23,095	\$ (290,697)
Other comprehensive income for the year, net of tax	(76,965)	(62,280)	20,263	(777,424)
Adjustment to initially apply SFAS No. 158	—	—	(9,857)	—
Balance, end of year	¥(105,744)	¥(28,779)	¥ 33,501	\$ (1,068,121)

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
2009:			
Foreign currency translation adjustments	¥(50,243)	¥ 548	¥(49,695)
Net unrealized holding gains (losses) on securities available for sale:			
Unrealized holding gains or (losses) arising during the year	(29,333)	11,432	(17,901)
Less: reclassification adjustment for (gains) or losses included in net income	3,058	(1,247)	1,811
Net unrealized gains (losses)	(26,275)	10,185	(16,090)
Pension liability adjustments			
Unrealized holding gains or (losses) arising during the year	(16,843)	4,420	(12,423)
Less: reclassification adjustment for (gains) or losses included in net income	2,961	(565)	2,396
Net unrealized gains (losses)	(13,882)	3,855	(10,027)
Net unrealized holding gains (losses) on derivative instruments:			
Changes in fair value of derivatives	855	(306)	549
Net (gains) or losses reclassified into earnings	(2,892)	1,190	(1,702)
Net unrealized gains (losses)	(2,037)	884	(1,153)
Other comprehensive income (loss)	¥(92,437)	¥15,472	¥(76,965)
2008:			
Foreign currency translation adjustments	¥(43,661)	¥ —	¥(43,661)
Net unrealized holding gains (losses) 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 (losses) 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			
Unrealized holding gains or (losses) arising during the year	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

	Thousands of U.S. dollars		
	Pretax amount	Tax (expense) or benefit	Net of tax amount
2009:			
Foreign currency translation adjustments	\$(507,505)	\$ 5,535	\$(501,970)
Net unrealized holding gains (losses) on securities available for sale:			
Unrealized holding gains or (losses) arising during the year	(296,293)	115,475	(180,818)
Less: reclassification adjustment for (gains) or losses included in net income	30,889	(12,596)	18,293
Net unrealized gains (losses)	(265,404)	102,879	(162,525)
Pension liability adjustments			
Unrealized holding gains or (losses) arising during the year	(170,131)	44,646	(125,485)
Less: reclassification adjustment for (gains) or losses included in net income	29,909	(5,707)	24,202
Net unrealized gains (losses)	(140,222)	38,939	(101,283)
Net unrealized holding gains (losses) on derivative instruments:			
Changes in fair value of derivatives	8,636	(3,091)	5,545
Net (gains) or losses reclassified into earnings	(29,212)	12,021	(17,191)
Net unrealized gains (losses)	(20,576)	8,930	(11,646)
Other comprehensive income (loss)	\$(933,707)	\$156,283	\$(777,424)

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, 2009, 2008 and 2007, were as follows:

	Millions of yen			Thousands of U.S. dollars
	2009	2008	2007	2009
Income from continuing operations before income taxes, minority interests and equity in earnings of affiliated companies:				
Domestic	¥ 5,426	¥151,878	¥111,220	\$ 54,808
Foreign	123,356	170,332	125,271	1,246,020
	¥128,782	¥322,210	¥236,491	\$1,300,828
Income taxes:				
Current—				
Domestic	¥ 22,854	¥ 53,954	¥ 44,295	\$ 230,848
Foreign	37,657	50,188	31,807	380,374
	60,511	104,142	76,102	611,222
Deferred—				
Domestic	(17,008)	7,779	681	(171,798)
Foreign	(1,210)	3,873	2,962	(12,222)
	(18,218)	11,652	3,643	(184,020)
Total	¥ 42,293	¥115,794	¥ 79,745	\$ 427,202

Total income taxes recognized for the years ended March 31, 2009, 2008 and 2007 were applicable to the following:

	Millions of yen			Thousands of U.S. dollars
	2009	2008	2007	2009
Income from continuing operations	¥ 42,293	¥115,794	¥79,745	\$ 427,202
Income from discontinued operations	—	3,364	14,566	—
Other comprehensive income (loss):				
Foreign currency translation adjustments	(548)	—	—	(5,536)
Net unrealized holding gains (losses) on securities available for sale	(10,185)	(15,089)	1,918	(102,879)
Pension liability adjustments	(3,855)	(2,647)	4,044	(38,939)
Net unrealized holding gains (losses) on derivative instruments	(884)	248	45	(8,929)
Amount credited directly to accumulated other comprehensive income (loss) upon adoption of SFAS No. 158	—	—	(5,560)	—
Total income taxes	¥ 26,821	¥101,670	¥94,758	\$ 270,919

Temporary differences and tax loss carryforwards which gave rise to deferred tax assets and liabilities at March 31, 2009 and 2008, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Deferred tax assets:			
Allowances provided, not yet recognized for tax	¥ 1,587	¥ 3,399	\$ 16,030
Accrued expenses	52,054	49,662	525,798
Property, plant and equipment	14,117	2,798	142,596
Inventories	8,902	7,685	89,919
Net operating loss carryforwards	26,618	8,047	268,869
Research and development expenses	461	309	4,657
Other	21,854	23,432	220,747
Total gross deferred tax assets	125,593	95,332	1,268,616
Less valuation allowance	(31,420)	(22,435)	(317,374)
Total deferred tax assets	¥ 94,173	¥ 72,897	\$ 951,242
Deferred tax liabilities:			
Unrealized holding gains on securities available for sale	¥ 4,213	¥ 13,172	\$ 42,556
Deferral of profit from installment sales	213	240	2,152
Property, plant and equipment	11,807	11,734	119,263
Intangible assets	17,544	16,153	177,212
Undistributed earnings of foreign subsidiaries and affiliated companies accounted for by the equity method	3,080	5,280	31,110
Total deferred tax liabilities	¥ 36,857	¥ 46,579	\$ 372,293
Net deferred tax assets	¥ 57,316	¥ 26,318	\$ 578,949

Net deferred tax assets and liabilities as of March 31, 2009 and 2008 are reflected on the consolidated balance sheets under the following captions:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Deferred income taxes and other current assets	¥ 37,749	¥ 40,141	\$ 381,303
Deferred income taxes and other assets	36,397	16,483	367,646
Deferred income taxes and other current liabilities	(228)	(133)	(2,303)
Deferred income taxes and other liabilities	(16,602)	(30,173)	(167,697)
	¥ 57,316	¥ 26,318	\$ 578,949

The valuation allowance was ¥35,490 million as of March 31, 2006. The net changes in the total valuation allowance for the years ended March 31, 2009, 2008 and 2007 were an increase of ¥8,985 million (\$90,758 thousand), a decrease of ¥8,444 million and a decrease of ¥4,611 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, 2009 and 2008. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced.

The Company and its domestic subsidiaries are subject to a National Corporate tax rate of 30%, an inhabitant tax of approximately 6% and a deductible Enterprise tax of approximately 8%, which in the aggregate resulted in a 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, 2009, 2008 and 2007, are summarized as follows:

	2009	2008	2007
Japanese statutory tax rate	40.8%	40.8%	40.8%
Increase (decrease) in tax rates resulting from:			
Increase (decrease) in valuation allowance	7.1	0.8	0.7
Expenses not deductible for tax purposes	2.9	2.0	2.4
Realization of tax benefits on operating losses of subsidiaries	(1.4)	(1.5)	(2.2)
Income of foreign subsidiaries taxed at lower than Japanese normal rate	(11.3)	(5.1)	(6.2)
Tax credit for research and development expenses	(0.7)	(0.8)	(1.5)
Other, net	(4.6)	(0.3)	(0.3)
Effective tax rate	32.8%	35.9%	33.7%

Foreign subsidiaries are subject to income taxes of the countries in which they operate. At March 31, 2009 and 2008, undistributed earnings of foreign subsidiaries aggregated ¥392,766 million (\$3,967,333 thousand) and ¥332,451 million, respectively. Komatsu has a policy to distribute a certain portion of undistributed earnings of foreign subsidiaries. As of March 31, 2009 and 2008, Komatsu recognized deferred tax liabilities of ¥386 million (\$ 3,899 thousand) and ¥1,140 million, respectively, associated with those earnings. As of March 31, 2009 and 2008, Komatsu has not recognized deferred tax liabilities of ¥13,782 million (\$139,212 thousand) and ¥28,331 million, respectively, for such portion of undistributed earnings of foreign subsidiaries that the Company intends to reinvest indefinitely. At March 31, 2009, the Company and certain subsidiaries had net operating loss carryforwards aggregating approximately ¥66,811 million (\$674,859 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:

At March 31, 2009	Millions of yen	Thousands of U.S. dollars
Within 5 years	¥ 8,353	\$ 84,374
6 to 20 years	58,417	590,071
Indefinite periods	41	414
Total	¥66,811	\$674,859

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 ¥14,625 million (\$147,727 thousand), ¥15,911 million and ¥15,035 million, respectively, for the years

ended March 31, 2009, 2008 and 2007. Lease contracts for equipment that qualify as capital leases in conformity with SFAS No. 13 have been capitalized. At March 31, 2009, the future minimum lease payments under non-cancelable operating leases and capital leases are as follows:

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." For the years ended March 31, 2008 and 2009, 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, 2009, 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 the fiscal years before 2007. In other foreign tax jurisdictions, major subsidiaries are no longer subject to income tax examinations by tax authorities for the fiscal years before 2005 with few exceptions.

ended March 31, 2009, 2008 and 2007. Lease contracts for equipment that qualify as capital leases in conformity with SFAS No. 13 have been capitalized. At March 31, 2009, 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
2010	¥26,493	¥ 3,760	¥ 30,253	\$267,606	\$ 37,980	\$ 305,586
2011	21,675	2,312	23,987	218,940	23,353	242,293
2012	25,197	1,298	26,495	254,515	13,111	267,626
2013	12,476	821	13,297	126,020	8,293	134,313
2014	4,450	594	5,044	44,950	6,000	50,950
Thereafter	1,172	2,683	3,855	11,838	27,101	38,939
Total minimum lease payments	¥91,463	¥11,468	¥102,931	\$923,869	\$115,838	\$1,039,707
Less: amounts representing interest	(5,064)			(51,152)		
Present value of net minimum capital lease payments	¥86,399			\$872,717		

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
	2009	2008	2007	2009
Income from continuing operations	¥78,797	¥203,826	¥153,264	\$795,929
Income from discontinued operations less applicable income taxes	—	4,967	11,374	—
Net income	¥78,797	¥208,793	¥164,638	\$795,929

	Number of shares		
	2009	2008	2007
Weighted average common shares outstanding, less treasury stock	985,585,385	994,844,955	993,597,436
Dilutive effect of:			
Stock options	731,973	1,335,586	1,788,951
Weighted average diluted common shares outstanding	986,317,358	996,180,541	995,386,387

	Yen			U.S. cents
	2009	2008	2007	2009
Income from continuing operations:				
Basic	¥79.95	¥204.88	¥154.25	¢80.76
Diluted	79.89	204.61	153.97	80.70
Income from discontinued operations:				
Basic	¥ —	¥ 4.99	¥ 11.45	¢ —
Diluted	—	4.98	11.43	—
Net income:				
Basic	¥79.95	¥209.87	¥165.70	¢80.76
Diluted	79.89	209.59	165.40	80.70

19. Commitments and Contingent Liabilities

At March 31, 2009, Komatsu was contingently liable for discounted and transferred receivables on a recourse basis with the financial institutions of ¥14,480 million (\$146,263 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 10 years in the case of loans relating to the affiliated companies and other companies. The maximum amount of undiscounted payments Komatsu would have had to make in the event of default is ¥65,478 million (\$661,394 thousand) at March 31, 2009. The fair value of the liabilities recognized for Komatsu's obligations as guarantors under those guarantees at March 31, 2009 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, 2009, aggregated approximately ¥24,000 million (\$242,424 thousand).

Komatsu is involved in certain legal actions and claims arising

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

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

Komatsu also issues contractual product warranties under which it generally guarantee the performance of products delivered and services rendered for a certain period or term. Change in accrued product warranty cost for the years ended March 31, 2009 and 2008 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Balance at beginning of year	¥ 31,890	¥ 28,999	\$ 322,121
Addition	25,288	27,879	255,434
Utilization	(26,369)	(22,933)	(266,353)
Other	(2,553)	(2,055)	(25,788)
Balance at end of year	¥ 28,256	¥ 31,890	\$ 285,414

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. Komatsu has not held any derivative instruments which consisted credit-risk-related contingent features.

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, 2009, 2008 and 2007, hedge ineffectiveness resulting from fair value hedging activities was not material to Komatsu's result of operations. During the same period, no fair value hedges were discontinued.

Cash Flow Hedges

Komatsu uses derivative financial instruments designated as cash flow hedges to manage Komatsu's foreign exchange risks associated with forecasted transactions and Komatsu's interest risks associated with debt obligations. For transactions denominated in foreign currencies, Komatsu typically hedges forecasted and firm commitment exposures to the variability in cash flow basically up to one year. For the variable rate debt obligations, Komatsu enters into interest rate swap contracts to manage the changes in cash flows. Komatsu records the changes in fair value of derivative instruments designated as cash flow hedges in other comprehensive income (loss). These amounts are reclassified into earnings through other income (expenses) when the

hedged items impact earnings. Approximately ¥86 million (\$869 thousand) of existing income included in accumulated other comprehensive income (loss) at March 31, 2009 will be reclassified into earnings within twelve months from that date. No cash flow hedges were discontinued during the years ended March 31, 2009 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, 2009 and 2008 are as follows.

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Forwards and options:			
Sale of foreign currencies	¥ 30,868	¥ 89,531	\$ 311,798
Purchase of foreign currencies	48,424	68,460	489,131
Option contracts (purchased)	1,011	6,071	10,212
Option contracts (sold)	—	3,009	—
Interest rate swap, cross-currency swap and interest rate cap agreements	226,754	263,458	2,290,444

Fair values of derivative instruments at March 31, 2009 on the consolidated balance sheets are as follows:

Derivative instruments designated as hedging instruments	Millions of yen			
	2009			
	Derivative Assets		Derivative Liabilities	
	Location on the consolidated Balance Sheets	Estimated fair value	Location on the consolidated Balance Sheets	Estimated fair value
Forwards contracts	Deferred income taxes and other current assets	¥ 278	Deferred income taxes and other current liabilities	¥ 430
	Deferred income taxes and other assets	8	Deferred income taxes and other liabilities	—
Interest rate swaps, cross-currency swap and interest rate cap agreements	Deferred income taxes and other current assets	2,351	Deferred income taxes and other current liabilities	—
	Deferred income taxes and other assets	5,709	Deferred income taxes and other liabilities	—
Total		¥ 8,346		¥ 430
Undesignated derivative instruments	Millions of yen			
	2009			
	Derivative Assets		Derivative Liabilities	
	Location on the consolidated Balance Sheets	Estimated fair value	Location on the consolidated Balance Sheets	Estimated fair value
Forwards contracts	Deferred income taxes and other current assets	¥ 1,016	Deferred income taxes and other current liabilities	¥1,387
	Deferred income taxes and other assets	19	Deferred income taxes and other liabilities	—
Interest rate swaps, cross-currency swap and interest rate cap agreements	Deferred income taxes and other current assets	766	Deferred income taxes and other current liabilities	980
	Deferred income taxes and other assets	1,704	Deferred income taxes and other liabilities	3,058
Total		¥ 3,505		¥5,425
Total Derivative Instruments		¥11,851		¥5,855

Thousands of U.S. dollars				
2009				
Derivative instruments designated as hedging instruments	Derivative Assets		Derivative Liabilities	
	Location on the consolidated Balance Sheets	Estimated fair value	Location on the consolidated Balance Sheets	Estimated fair value
Forwards contracts	Deferred income taxes and other current assets	\$ 2,808	Deferred income taxes and other current liabilities	\$ 4,344
	Deferred income taxes and other assets	81	Deferred income taxes and other liabilities	—
Interest rate swaps, cross-currency swap and interest rate cap agreements	Deferred income taxes and other current assets	23,748	Deferred income taxes and other current liabilities	—
	Deferred income taxes and other assets	57,667	Deferred income taxes and other liabilities	—
Total		\$ 84,304		\$ 4,344
Undesignated derivative instruments	Derivative Assets		Derivative Liabilities	
	Location on the consolidated Balance Sheets	Estimated fair value	Location on the consolidated Balance Sheets	Estimated fair value
Forwards contracts	Deferred income taxes and other current assets	\$ 10,262	Deferred income taxes and other current liabilities	\$14,010
Option contracts	Deferred income taxes and other current assets	192	Deferred income taxes and other current liabilities	—
Interest rate swaps, cross-currency swap and interest rate cap agreements	Deferred income taxes and other current assets	7,737	Deferred income taxes and other current liabilities	9,899
	Deferred income taxes and other assets	17,212	Deferred income taxes and other liabilities	30,888
Total		\$ 35,403		\$54,797
Total Derivative Instruments		\$119,707		\$59,141

The effect of derivative instruments on the consolidated statements of income for the year ended March 31, 2009 are follows:

Derivative instruments designated as fair value hedging relationships

Millions of yen				
2009				
	Location of gains (losses) recognized in income on derivatives	Amount of gains (losses) recognized in income on derivatives	Location of gains (losses) recognized in income on hedged items	Amount of gains (losses) recognized in income on hedged items
	Interest rate swaps, cross-currency swap and interest rate cap agreements	Other income (expenses), net: Other, net	¥7,910	Other income (expenses), net: Other, net
Total		¥7,910		¥(6,958)

Thousands of U.S. dollars				
2009				
	Location of gains (losses) recognized in income on derivatives	Amount of gains (losses) recognized in income on derivatives	Location of gains (losses) recognized in income on hedged items	Amount of gains (losses) recognized in income on hedged items
	Interest rate swaps, cross-currency swap and interest rate cap agreements	Other income (expenses), net: Other, net	\$79,899	Other income (expenses), net: Other, net
Total		\$79,899		\$(70,283)

Derivative instruments designated as cash flow hedging relationships

	Millions of yen				
	2009				
	Effective portion			Ineffective portion and amount excluded from effectiveness testing	
Amount of gains (losses) recognized in OCI on derivatives	Location of gains (losses) reclassified from accumulated OCI into income	Amount of gains (losses) reclassified from accumulated OCI into income	Location of gains (losses) recognized in income on derivatives	Amount of gains (losses) recognized in income on derivatives	
Forwards contracts	¥790	Other income (expenses), net: Other, net	¥2,892	—	¥ —
Interest rate swaps, cross-currency swap and interest rate cap agreements	65	—	—	—	—
Total	¥855		¥2,892		¥ —

	Thousands of U.S. dollars				
	2009				
	Effective portion			Ineffective portion and amount excluded from effectiveness testing	
Amount of gains (losses) recognized in OCI on derivatives	Location of gains (losses) reclassified from accumulated OCI into income	Amount of gains (losses) reclassified from accumulated OCI into income	Location of gains (losses) recognized in income on derivatives	Amount of gains (losses) recognized in income on derivatives	
Forwards contracts	\$7,980	Other income (expenses), net: Other, net	\$29,212	—	\$ —
Interest rate swaps, cross-currency swap and interest rate cap agreements	656	—	—	—	—
Total	\$8,636		\$29,212		\$ —

* OCI stands for Other comprehensive income (loss).

Derivative instruments not designated as hedging instruments relationships

	Millions of yen	
	2009	
	Location of gains (losses) recognized in income on derivatives	Amount of gains (losses) recognized in income on derivatives
Forwards contracts	Other income (expenses), net: Other, net	¥ 846
Option contracts	Other income (expenses), net: Other, net	(7)
Interest rate swaps, cross-currency swap and interest rate cap agreements	Cost of sales	94
	Other income (expenses), net: Other, net	(2,771)
Total		¥(1,838)

	Thousands of U.S. dollars	
	2009	
	Location of gains (losses) recognized in income on derivatives	Amount of gains (losses) recognized in income on derivatives
Forwards contracts	Other income (expenses), net: Other, net	\$ 8,545
Option contracts	Other income (expenses), net: Other, net	(71)
Interest rate swaps, cross-currency swap and interest rate cap agreements	Cost of sales	949
	Other income (expenses), net: Other, net	(27,989)
Total		\$(18,566)

21. The Fair Value of Financial Instruments

(1) Cash and Cash Equivalents, Time Deposits, Trade Notes and Accounts Receivable, Other Current Assets, Short-Term Debt, Trade Notes, Bills and Accounts Payable, 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 and are recognized on the accompanying consolidated balance sheets.

(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 and are recognized on the accompanying consolidated balance sheets.

The carrying amounts and the estimated fair values of the financial instruments, including financial instruments not qualifying as hedge, as of March 31, 2009 and 2008, are summarized as follows:

	Millions of yen				Thousands of U.S. dollars	
	2009		2008		2009	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Investment securities, marketable equity securities	¥ 37,066	¥ 37,066	¥ 66,728	¥ 66,728	\$ 374,404	\$ 374,404
Long-term debt, including current portion	379,768	376,108	343,205	342,195	3,836,040	3,799,071
Derivatives:						
Forwards and options						
Assets	1,321	1,321	7,314	7,314	13,343	13,343
Liabilities	1,817	1,817	1,295	1,295	18,354	18,354
Interest rate swap, cross-currency swap and interest rate cap agreements						
Assets	10,530	10,530	9,064	9,064	106,364	106,364
Liabilities	4,038	4,038	4,619	4,619	40,787	40,787

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. Fair value measurements

Komatsu adopted SFAS 157, "Fair Value Measurements," which establishes a new framework for measuring fair value and expands related disclosures on April 1, 2008. SFAS 157 defines that fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. SFAS 157 establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. The three levels of inputs used to measure fair value are as follows:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly or indirectly

Level 3 – Unobservable inputs for the assets or liabilities

Komatsu adopted the provisions of FSP 157-2, "Effective Date of SFAS 157." FSP 157-2 defers the effective date of SFAS 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years for nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis.

Assets and liabilities that are measured at fair value on a recurring basis as of March 31, 2009 are as follows:

	Millions of yen			Total
	Level 1	Level 2	Level 3	
Assets				
Investment securities available for sale	¥37,066	¥ —	¥ —	¥37,066
Derivatives	—	11,851	—	11,851
Other	—	—	919	919
Total	37,066	11,851	919	49,836
Liabilities				
Derivatives	—	5,855	—	5,855
Other	—	46,946	—	46,946
Total	—	52,801	—	52,801

	Thousands of U.S. dollars			Total
	Level 1	Level 2	Level 3	
Assets				
Investment securities available for sale	\$374,404	\$ —	\$ —	\$374,404
Derivatives	—	119,707	—	119,707
Other	—	—	9,283	9,283
Total	374,404	119,707	9,283	503,394
Liabilities				
Derivatives	—	59,141	—	59,141
Other	—	474,202	—	474,202
Total	—	533,343	—	533,343

Investment securities available for sale

Marketable equity securities are classified Level 1 in the fair value hierarchy. Marketable equity securities are measured using a market approach based on the quoted market prices in active markets.

Derivatives

Derivatives primarily represent foreign exchange contracts and interest rate swap agreements. Derivatives are measured based on market observable market data in active markets and are classified in Level 2 in the fair value hierarchy.

Other

Other primarily represents the retained interests in securitizations of accounts receivables and loans which are measured at fair value. Assets or liabilities which are measured based on market observable data are classified in Level 2 in the fair value hierarchy. Because of unobserved inputs, assets or liabilities which are measured by the assumption of Komatsu are classified in Level 3 in the fair value hierarchy.

23. 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.

The following table summarizes information about changes of Level 3 for the year ended March 31, 2009:

	Millions of yen	Thousands of U.S. dollars
Balance at beginning of year	¥ 3,015	\$ 30,455
Total gains or losses (realized / unrealized)	355	3,586
Included in earnings	349	3,525
Included in other comprehensive income (loss)	6	61
Purchases, issuances and settlements	(2,451)	(24,758)
Balance at end of year	¥ 919	\$ 9,283

The amount of unrealized losses on classified in Level 3 assets recognized in earnings for the year ended March 31, 2009 related to assets still held at March 31, 2009 were ¥678 million (\$6,848 thousand). These losses were reported in other income (expenses), net of the consolidated statements of income.

Komatsu operates on a worldwide basis with two operating segments: 1) Construction, Mining and Utility Equipment 2) Industrial Machinery and Others.

From the fiscal year ended March 31, 2009, after the reassessment of its management decision-making units, Komatsu changed its operating segments from two operating segments: 1) Construction and mining equipment, 2) Industrial Machinery, Vehicles and Others. The business segment information as of March 31, 2008 and 2007 and for the fiscal years then ended

have been reclassified according to the presentation as of March 31, 2009 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, 2009, 2008 and 2007, and for the years then ended:

Operating segments:

	Millions of yen			Thousands of U.S. dollars
	2009	2008	2007	2009
Net sales:				
Construction, Mining and Utility Equipment—				
Customers	¥1,744,733	¥2,048,711	¥1,711,275	\$17,623,566
Intersegment	4,653	6,127	7,821	47,000
Total	1,749,386	2,054,838	1,719,096	17,670,566
Industrial Machinery and Others—				
Customers	277,010	194,312	182,068	2,798,080
Intersegment	26,389	23,376	22,385	266,556
Total	303,399	217,688	204,453	3,064,636
Elimination	(31,042)	(29,503)	(30,206)	(313,556)
Consolidated	¥2,021,743	¥2,243,023	¥1,893,343	\$20,421,646
Segment profit:				
Construction, Mining and Utility Equipment	¥ 180,455	¥ 317,895	¥ 232,653	\$ 1,822,778
Industrial Machinery and Others	12,891	19,947	20,399	130,212
Total	193,346	337,842	253,052	1,952,990
Corporate expenses and elimination	(4,688)	(3,256)	(3,306)	(47,354)
Consolidated segment profit	188,658	334,586	249,746	1,905,636
Impairment loss on long-lived assets	16,414	2,447	81	165,798
Impairment loss on goodwill	2,003	2,870	—	20,232
Other operating income (expenses)	(18,293)	3,581	(4,924)	(184,778)
Operating income	151,948	332,850	244,741	1,534,828
Interest and dividend income	8,621	10,265	8,532	87,081
Interest expense	(14,576)	(16,699)	(15,485)	(147,232)
Other, net	(17,211)	(4,206)	(1,297)	(173,849)
Consolidated income from continuing operations before income taxes	¥ 128,782	¥ 322,210	¥ 236,491	\$ 1,300,828
Identifiable assets:				
Construction, Mining and Utility Equipment	¥1,639,720	¥1,738,481	¥1,541,607	\$16,562,828
Industrial Machinery and Others	254,200	283,427	183,461	2,567,677
Corporate assets and elimination	75,139	83,238	118,914	758,980
Consolidated	¥1,969,059	¥2,105,146	¥1,843,982	\$19,889,485
Depreciation and amortization:				
Construction, Mining and Utility Equipment	¥ 87,260	¥ 69,738	¥ 61,812	\$ 881,414
Industrial Machinery and Others	9,981	4,890	3,609	100,818
Consolidated	¥ 97,241	¥ 74,628	¥ 65,421	\$ 982,232
Capital investment:				
Construction, Mining and Utility Equipment	¥ 152,803	¥ 141,184	¥ 119,114	\$ 1,543,464
Industrial Machinery and Others	9,709	4,546	10,566	98,071
Consolidated	¥ 162,512	¥ 145,730	¥ 129,680	\$ 1,641,535

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, 2009, 2008 and 2007 do not include amortization of long-term prepaid expenses of ¥1,113 million (\$11,242 thousand), ¥1,036 million and ¥913 million. Further depreciation and amortization for the year

ended March 31, 2007 does not include those for discontinued operations of ¥6,375 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, 2009, 2008 and 2007 are as follows:

	Millions of yen			Thousands of U.S. dollars
	2009	2008	2007	2009
Net sales to customers:				
Japan	¥ 452,172	¥ 505,185	¥ 487,103	\$ 4,567,394
The Americas	503,450	541,160	537,836	5,085,353
Europe and CIS	284,029	427,679	324,071	2,868,980
China	236,226	189,902	129,443	2,386,121
Asia (excluding Japan, China) and Oceania	335,574	348,462	252,768	3,389,636
Middle East and Africa	210,292	230,635	162,122	2,124,162
Consolidated net sales	¥2,021,743	¥2,243,023	¥1,893,343	\$20,421,646

Net sales recognized by geographic origin and property, plant and equipment at March 31, 2009, 2008 and 2007, and for the years then ended are as follows:

	Millions of yen			Thousands of U.S. dollars
	2009	2008	2007	2009
Net sales to customers:				
Japan	¥ 831,569	¥ 813,198	¥ 739,206	\$ 8,399,687
U.S.A.	469,047	526,821	527,680	4,737,848
Europe and CIS	269,139	420,778	298,509	2,718,576
Others	451,988	482,226	327,948	4,565,535
Total	¥2,021,743	¥2,243,023	¥1,893,343	\$20,421,646
Property, plant and equipment:				
Japan	¥ 400,554	¥ 363,646	¥ 282,050	\$ 4,046,000
U.S.A.	68,170	65,225	60,609	688,586
Europe and CIS	28,207	36,664	25,808	284,919
Others	28,531	25,611	19,926	288,192
Total	¥ 525,462	¥ 491,146	¥ 388,393	\$ 5,307,697

No individual country within Europe and CIS or other areas had a material impact on net sales to customers or property, plant and equipment.

There were no sales to a single major external customer for the years ended March 31, 2009, 2008 and 2007.

The following information shows net sales and segment profit recognized by geographic origin for the years ended March 31, 2009, 2008 and 2007. 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
	2009	2008	2007	2009
Net sales:				
Japan—				
Customers	¥ 831,569	¥ 813,198	¥ 739,206	\$ 8,399,687
Intersegment	380,880	479,116	396,361	3,847,273
Total	1,212,449	1,292,314	1,135,567	12,246,960
The Americas—				
Customers	469,047	526,821	527,792	4,737,848
Intersegment	42,774	40,422	38,221	432,061
Total	511,821	567,243	566,013	5,169,909
Europe and CIS—				
Customers	269,139	420,778	298,509	2,718,576
Intersegment	25,259	31,444	34,450	255,141
Total	294,398	452,222	332,959	2,973,717
Others—				
Customers	451,988	482,226	327,836	4,565,535
Intersegment	29,262	35,661	20,678	295,576
Total	481,250	517,887	348,514	4,861,111
Elimination	(478,175)	(586,643)	(489,710)	(4,830,051)
Consolidated	¥2,021,743	¥2,243,023	¥1,893,343	\$20,421,646
Segment profit:				
Japan	¥ 37,876	¥ 173,063	¥ 140,193	\$ 382,586
The Americas	52,133	56,667	51,842	526,596
Europe and CIS	22,279	44,088	32,104	225,040
Others	61,008	68,204	38,033	616,242
Corporate and elimination	15,362	(7,436)	(12,426)	155,172
Consolidated	¥ 188,658	¥ 334,586	¥ 249,746	\$ 1,905,636
Identifiable assets:				
Japan	¥1,194,694	¥1,282,182	¥1,065,487	\$12,067,616
The Americas	426,772	441,499	481,144	4,310,828
Europe and CIS	206,955	290,008	221,012	2,090,455
Others	350,822	328,741	237,839	3,543,657
Corporate assets and elimination	(210,184)	(237,284)	(161,500)	(2,123,071)
Consolidated	¥1,969,059	¥2,105,146	¥1,843,982	\$19,889,485
Overseas sales:				
The Americas	¥ 503,450	¥ 541,160	¥ 537,836	\$ 5,085,354
Europe and CIS	284,029	427,679	324,071	2,868,980
Others	782,092	768,999	544,333	7,899,919
Total	¥1,569,571	¥1,737,838	¥1,406,240	\$15,854,253

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.

24. Supplementary Information to Balance Sheets

At March 31, 2009 and 2008, deferred income taxes and other current assets were comprised of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Prepaid expenses	¥ 4,253	¥ 4,444	\$ 42,960
Short-term loans receivable:			
Affiliated companies	2,994	4,314	30,243
Other	766	1,198	7,737
Total	¥ 3,760	¥ 5,512	\$ 37,980
Deferred income taxes	37,749	40,141	381,303
Other	85,612	79,408	864,767
Total	¥131,374	¥129,505	\$1,327,010

At March 31, 2009 and 2008, deferred income taxes and other current liabilities were comprised of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Accrued expenses	¥ 81,133	¥ 91,624	\$ 819,525
Deferred income taxes	228	133	2,303
Other	117,984	113,400	1,191,758
Total	¥199,345	¥205,157	\$2,013,586

25. Supplementary Information to Statements of Income

The following information shows research and development expenses and advertising costs, for the years ended March 31, 2009, 2008 and 2007. 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
	2009	2008	2007	2009
Research and development expenses	¥53,736	¥49,673	¥46,306	\$542,788
Advertising costs	4,678	4,410	4,482	47,253

Shipping and handling costs included in selling, general and administrative expenses for the years ended March 31, 2009, 2008 and 2007, were as follows:

	Millions of yen			Thousands of U.S. dollars
	2009	2008	2007	2009
Shipping and handling costs	¥46,264	¥51,827	¥44,065	\$467,313

For the fiscal year ended March 31, 2009 and 2008, Komatsu recognized an impairment loss of ¥16,414 million (\$165,798 thousand) and ¥2,447 million, related to property, plant and equipment and intangible assets subject to amortization at the Company and certain 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. For the fiscal year ended March 31, 2009, an impairment

loss recognized is mainly ¥4,730 million (\$47,778 thousand) for Mooka plant in the construction, mining and utility equipment segment and ¥1,808 million (\$18,263 thousand) for Komatsu plant in the industrial machinery and others, due to reorganization and shut down of plants. Komatsu has a plan to transfer the production capacity of these plants to other plants in the fiscal year ending March 31, 2010.

Other operating income (expense), net for the years ended March 31, 2009, 2008 and 2007, were comprised of the following:

	Millions of yen			Thousands of U.S. dollars
	2009	2008	2007	2009
Gain on sale of property	¥ 630	¥ 3,169	¥ —	\$ 6,363
Loss on disposal or sale of fixed assets	(5,922)	(3,313)	(2,015)	(59,818)
Other*	(13,001)	3,725	(2,909)	(131,323)
Total	¥(18,293)	¥ 3,581	¥(4,924)	\$(184,778)

* For the fiscal year ended March 31, 2009, the Company and certain subsidiaries recognized expenses associated with structural reforms of production and sales operations. Out of the expenses, reorganization costs of ¥13,926 million (\$140,667 thousand) such as wind down and relocation costs related to the integration of facilities were included in other, except the expenses included in impairment loss on long-lived assets and impairment loss on goodwill of the consolidated statements of income.

Other income (expenses), net for the years ended March 31, 2009, 2008 and 2007, were comprised of the following:

	Millions of yen			Thousands of U.S. dollars
	2009	2008	2007	2009
Interest income—				
Installment receivables	¥ 1,843	¥ 2,107	¥ 945	\$ 18,616
Other	5,242	6,659	6,729	52,949
Dividends	1,536	1,499	858	15,515
Interest expense	(14,576)	(16,699)	(15,485)	(147,232)
Net gain (loss) from sale of investment securities	(3,543)	(289)	344	(35,788)
Exchange loss, net	(11,802)	(3,467)	(903)	(119,212)
Other	(1,866)	(450)	(738)	(18,848)
Total	¥(23,166)	¥(10,640)	¥ (8,250)	\$(234,000)

26. Valuation and Qualifying Accounts

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

	Millions of yen			Thousands of U.S. dollars
	2009	2008	2007	2009
Allowance for doubtful receivables				
Balance at beginning of fiscal period	¥11,470	¥11,808	¥11,786	\$115,859
Additions				
Charged to costs and expenses	7,091	3,003	2,653	71,626
Charged to other accounts	23	208	—	232
Deductions	3,254	3,549	2,631	32,869
Balance at end of fiscal period	¥15,330	¥11,470	¥11,808	\$154,848

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

	Millions of yen			Thousands of U.S. dollars
	2009	2008	2007	2009
Valuation allowance for deferred tax assets				
Balance at beginning of fiscal period	¥22,435	¥30,879	¥35,490	\$226,616
Additions				
Charged to costs and expenses	19,784	2,743	1,715	199,839
Charged to other accounts	587	945	341	5,929
Deductions	11,386	12,132	6,667	115,010
Balance at end of fiscal period	¥31,420	¥22,435	¥30,879	\$317,374

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 assurance 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, 2009. 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, 2009, Komatsu's internal control over financial reporting was effective.

Komatsu's independent registered public accounting firm, KPMG AZSA & Co., has issued an audit report on the effectiveness of Komatsu's internal control over financial reporting as of March 31, 2009.



Kunio Noji
President and CEO



Kenji Kinoshita
Director and Senior Executive Officer
CFO

June 30, 2009

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, 2009 and 2008, 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, 2009 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, 2009 and 2008, and the results of their operations and their cash flows for each of the years in the three-year period ended March 31, 2009, 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, 2009, 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, 2009 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, 2009 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, 2009

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, 2009, 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, 2009, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Komatsu Ltd. and subsidiaries as of March 31, 2009 and 2008, 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, 2009, expressed in Japanese yen, and our report dated June 30, 2009 expressed an unqualified opinion on those consolidated financial statements.

KPMG AZSA & Co.

Tokyo, Japan
June 30, 2009