

(Translation)

- Notes: 1. This document has been translated from the Japanese original for the convenience of non-Japanese shareholders. In the event of any discrepancy between this document and the Japanese original, the original shall prevail.
2. Regarding nonresident shareholders, if you wish to exercise your voting rights, please instruct your local permanent representative accordingly in advance of the date of the Ordinary General Meeting of Shareholders.

**NOTICE OF CONVOCATION OF THE**  
**ONE HUNDRED AND THIRTY-EIGHTH (138TH)**  
**ORDINARY GENERAL MEETING OF SHAREHOLDERS**  
**OF KOMATSU LTD.**

Securities Code: 6301  
May 31, 2007

Dear Shareholder:

Please be advised that the 138th Ordinary General Meeting of Shareholders of Komatsu Ltd. (hereinafter “the Company”) will be held in accordance with the particulars indicated in the attachment hereto. Your attendance at the meeting is cordially requested.

If you are unable to attend the above Meeting in person, it will be very appreciated if you “Exercise voting rights by conventional postal delivery” or “Exercise voting rights via the Internet.” Please check the “Reference Materials for the General Meeting of Shareholders” (pages 55 to 72) and exercise your voting rights by 5:45 p.m. on Thursday, June 21, 2007 (Japan Time).

(Exercising voting rights by conventional postal delivery)

Please indicate “for” or “against” for each agenda item shown on the enclosed Card for Exercising Voting Rights, and return it via the conventional postal delivery system. The mail must be delivered to the Company by the above time for exercising voting rights.

(Exercising voting rights via the Internet)

Please carefully access the website (<http://www.evotep.jp/>) designated by the Company, follow the directions on the screen, and indicate “for” or “against” for each agenda item. Voting must be performed by the above time for exercising voting rights.

Institutional investors can utilize the electronic platform for exercising voting rights, which is operated by ICJ, Inc.

Sincerely,

Masahiro Sakane  
President and Representative Director  
Komatsu Ltd.  
3-6, Akasaka 2-chome, Minato-ku, Tokyo

**1. Date and Time:** Friday, June 22, 2007 at 10:00 a.m. (Japan Time)

**2. Place:** PROMINENCE, ANA Intercontinental Hotel Tokyo  
(former ANA Hotel Tokyo)  
12-33, Akasaka 1-chome, Minato-ku, Tokyo

**3. Purpose:**

**Items to Be Reported**

- (1) The Business Report and the Consolidated Statutory Report for the 138th business year (April 1, 2006 – March 31, 2007), as well as the Accounting Auditors' Report and Board of Corporate Auditors' Report on the Result of the Audited Consolidated Statutory Report.
- (2) The Non-Consolidated Statutory Report for the 138th business year (April 1, 2006 – March 31, 2007).

**Items to Be Resolved**

- Item 1:** Appropriation of Surplus
- Item 2:** Election of Ten (10) Directors
- Item 3:** Election of One (1) Corporate Auditor
- Item 4:** Payment of Bonuses for Directors
- Item 5:** Establishment of the Amount of Remuneration for the Directors of the Company in the Form of Stock Options and the Details
- Item 6:** Stock Acquisition Rights as Stock Options to Employees of the Company and Directors of Major Subsidiaries of the Company
- Item 7:** Payment of Retirement Benefits for Retired Directors and Corporate Auditors, and Final Payment of Retirement Benefits for Directors and Corporate Auditors Marking the Termination of the Retirement Benefit System for Directors and Corporate Auditors

**4. Matters Related to the Exercise of Voting Rights**

- (1) Handling of duplicated voting  
If you exercise your voting rights twice, both by mail and via the Internet, the voting via the Internet shall prevail regardless of the arrival date of the mailed vote. In the case of multiple voting via the Internet, the last voting shall prevail.
  - (2) Diverse exercise of voting rights  
If you exercise your diverse exercise of voting rights, you are required to notify the Company the details and the reasons for this in writing.
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Notes:

1. In the event that you attend in person, please submit the enclosed Card for Exercising Voting Rights at the reception desk.
2. Please note that any changes in the matters described in Reference Materials for the General Meeting of Shareholders, Business Report, Non-Consolidated Statutory Report, and Consolidated Statutory Report will be posted on our website on the Internet ([http:// www.komatsu.co.jp/](http://www.komatsu.co.jp/)).
3. This document, entitled “Notice of Convocation of the 138th Ordinary General Meeting of Shareholders of Komatsu Ltd.” is also available on our website (<http://www.komatsu.co.jp/>).
4. Following the Ordinary General Meeting of Shareholders, all are invited to attend a reception that will be held in a nearby banquet hall.

Regarding nonresident shareholders, if you wish to exercise your voting rights, please instruct your local permanent representative accordingly in advance of the date of the Ordinary General Meeting of Shareholders.

**Business Report**

(April 1, 2006 - March 31, 2007)

**1. Current Conditions of the Komatsu Group****(1) Operations and Business Results**

For the business year ended March 31, 2007, the Komatsu Group (meaning as stipulated in Enforcement Regulation of the Corporation Act, hereinafter “Komatsu”) renewed record-high sales and profits, marking the fifth consecutive business year of growth in both sales and profits.

## Consolidated Results for the Year

	138th Business Year (April 2006 – March 2007)	Changes (2007/2006)
Net sales	JPY 1,893.3 billion	+17.4%
Operating income* <sup>1</sup>	JPY 244.7 billion	+49.8%
Income from continuing operations before income taxes, minority interests and equity in earnings of affiliated companies* <sup>2</sup>	JPY 236.4 billion	+51.8%
Income from discontinued operations* <sup>3</sup>	JPY 11.3 billion	+120.9%
Net income	JPY 164.6 billion	+44.1%

## Notes:

- Starting from the business year ended March 31, 2007, the Company presents operating income on the U.S. GAAP basis. To ensure accurate comparison of the changes from the amounts for the business year ended March 31, 2006, the percentage was obtained after reclassifying the previously reported amounts.
- In October 2006, the Company sold 51.0% of the shares of Komatsu Electronic Metals Co., Ltd. (hereinafter “KEM,” now SUMCO TECHXIV CORPORATION) to SUMCO CORPORATION. The Company held a 61.9% equity interest. Accordingly, KEM and its subsidiaries were no longer consolidated in the Company’s results. In January 2007, the Company signed a definitive agreement to sell the outdoor power equipment (hereinafter “OPE”) business of Komatsu Zenoah Co. to a Japanese subsidiary of Husqvarna AB of Sweden. Accordingly, the OPE business of Komatsu Zenoah and subsidiaries engaging in the OPE business will no longer be consolidated in Komatsu’s results. The concerned sale was completed in April 2007.  
In accordance with the Statement of Financial Accounting Standards (hereinafter “SFAS”) No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets,” operations other than the aforementioned are accounted for as continuing operations. Consequently, its income before taxes is presented as “income from continuing operations before income taxes, minority interests and equity in earnings of affiliated companies.”
- The transfer-related operating results of KEM and operating results of KEM and its subsidiaries as well as the operating results of the OPE business of Komatsu Zenoah and subsidiaries engaging in the OPE business, income after income taxes are presented as one item as “income from discontinued operations” in the Consolidated Statement of Income, based on the above SFAS No. 144.

Consolidated net sales reached JPY 1,893.3 billion. In the construction and mining equipment division, Komatsu continued to increase sales for the year under review by effectively capitalizing on expanded market demand resulting from strong activity in resource developments and infrastructure around the world. In the industrial machinery, vehicles and others division, all related Komatsu companies recorded good performance and advanced sales. Sales of the electronics division declined from the previous business year, as primarily affected by the sale of the polycrystalline silicon business which was executed last business year.

Operating income for the year advanced to JPY 244.7 billion, and operating income ratio improved by 2.8 percentage points to 12.9%. Profits further improved due not only to expanded

sales, centering on construction and mining equipment, but also to the realization of prices for construction equipment both in Japan and abroad. Income from continuing operations before income taxes, minority interests and equity in earnings of affiliated companies reached JPY 236.4 billion, reflecting a substantial increase in operating income. Net income for the business year, the sum of income from continuing and discontinued operations, totaled JPY 164.6 billion.

Results by operation are summarized below.

#### Sales by Operation

Division	138th Business Year	Changes (2007/2006)
Construction and Mining Equipment	JPY 1,567.7 billion	+21.4%
Industrial Machinery, Vehicles and Others*	JPY 298.0 billion	+6.6%
Electronics*	JPY 27.5 billion	-33.4%
Total	JPY 1,893.3 billion	+17.4%

Note: In accordance with the SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," the sales amounts related to the OPE business of Komatsu Zenoah and subsidiaries engaging in the OPE business as well as KEM and its subsidiaries are excluded from sales of the Industrial Machinery, Vehicles and Others and sales of the Electronics divisions. Accordingly, the changes in percentage are stated after retrospectively reclassifying related figures for the previous business year.

#### 1) Construction and Mining Equipment

Consolidated net sales of construction and mining equipment for the business year under review advanced 21.4% over the previous business year, to JPY 1,567.7 billion. As the markets for Komatsu's equipment continued to grow worldwide, Komatsu expanded the Group's production capacity in cooperation with suppliers, worked jointly with distributors to launch renewed models, which are compliant with new emission gas regulations in Japan, North America and Europe, and reinforced sales and service operations in Greater Asia in particular.

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

#### <Japan>

While public-sector investments remained slack, private-sector capital outlays increased. Exports of used equipment facilitated market stock adjustment, expanding demand for new equipment, especially in the rental industry.

Sales in Japan improved from the previous business year, supported by not only expanded sales of new equipment, which is compliant with the new emission gas regulations, and price realization, but also increased sales of used equipment. The Company also worked to further improve management efficiency, including the merger of 10 affiliated rental companies in October 2006.

#### <The Americas>

In North America, while demand declined for small construction equipment in particular, as affected by the slowing housing starts in the United States, demand for other equipment remained brisk in non-residential construction works, highway-related works and resource development. In Latin America, demand, primarily for mining equipment, increased. Under such an environment, Komatsu promoted efforts to expand sales of Tier 3 emission regulations

compliant models and to realize the improvement of prices in North America. Komatsu also worked to reinforce sales and product support capabilities for the mining industry in both regions.

As a result, sales in both North and Latin Americas increased from the previous business year.

#### <Europe & CIS>

In Europe, market demand improved in Germany, the largest European market, and in Eastern Europe, continuing to expand the markets. In addition, Komatsu worked to step up sales of Tier 3-compliant models, including a large wheel loader with reinforced capabilities, streamline production, and strengthen distribution networks in Eastern Europe. As a result, sales in Europe improved from the previous business year.

In the Commonwealth of Independent States (CIS: former Soviet Union), sales expanded driven by strong demand in resource development-related sectors and infrastructure development in metropolitan areas.

#### <China>

The Chinese market continued to generate a high rate of growth in demand for Komatsu's equipment during the business year, as the number of civil engineering projects increased in line with rural area development measures of the 11th Five-Year Guidelines and ongoing urbanization. The mining industry worked to streamline operational efficiency and develop new mines. Komatsu also focused efforts to streamline production and sales operations based on business negotiation and machine operation information obtained through IT deployment. Komatsu also expanded sales of mining equipment centering on large dump trucks. As a result, sales in China accelerated from the previous business year.

#### <Asia & Oceania>

While strong sales of mining equipment continued especially in Oceania, demand recovered in civil engineering, agriculture and forestry sectors in Indonesia, the largest Southeast Asian market. As a result, sales in Asia and Oceania improved from the previous business year.

#### <The Middle East & Africa>

Demand continued to expand, primarily driven by an increase in the number of infrastructure development projects in Saudi Arabia and other oil producing countries as well as in Turkey, and by buoyant mine developments in African countries. Under these market conditions, Komatsu carried out aggressive sales activities and worked to reinforce product support capabilities. As a result, sales in the Middle East and Africa accelerated from the previous business year.

## 2) Industrial Machinery, Vehicles and Others

Consolidated net sales of industrial machinery, vehicles and other operations reached JPY 298.0 billion, up 6.6% over the previous business year, reflecting strong sales recorded by main subsidiaries, such as Komatsu Forklift Co., Ltd. and Komatsu Industries Corporation.

Komatsu Forklift stepped up sales by not only expanding sales in the Middle East, Asia and other overseas markets but also launching a full model change of battery-powered forklifts. In August 2006, Komatsu Ltd. bought the 35.0% of Komatsu Forklift's equity held by Linde AG of Germany, making Komatsu Forklift a wholly owned subsidiary.

In the industrial machinery business, sales of Komatsu Industries' sheet metal and press machines were brisk. With respect to large presses, the Company established a new plant in Kanazawa City, Ishikawa Prefecture in January this year and expanded its production capacity to meet growing orders for AC Servo technology-incorporated presses. The Company also acquired

29.3% of the equity of NIPPEI TOYAMA CORPORATION, which enjoys a large market share of transfer machines and lathes for use in machining automobile engines, building a collaborative relationship in the areas of sheet metal and press machines as well as machine tools.

Concerning the outdoor power equipment business of Komatsu Zenoah Co., the Company signed a definitive agreement to sell it to a Japanese subsidiary of Husqvarna AB of Sweden. The sale was completed in April 2007.

### 3) Electronics

Komatsu Electronics Inc., a wholly owned subsidiary engaging in the production and sale of temperature-control equipment for semiconductor manufacturing, expanded sales for the business year. However, sales from the electronics operation declined 33.4% from the previous business year, to JPY 27.5 billion, as affected mainly by declined sales resulting from the sale of the polycrystalline silicon business executed last business year.

In October 2006, the Company accepted SUMCO's tender offer for Komatsu Electronic Metals Co., Ltd. (KEM) and sold 51.0% of the shares of KEM. The Company had held a total of 61.9%.

## [Operations and Business Results of the Company]

The Company, on a non-consolidated basis, expanded sales of construction and mining equipment domestically and overseas, registering the record-high, fourth consecutive year of increased sales and profits.

	138th Business Year	Changes (2007/2006)
Net sales	JPY 758.5 billion	+20.9%
Ordinary profit	JPY 98.1 billion	+61.8%
Net income	JPY 82.8 billion	+153.8%

### Sales by Operation

Division	138th Business Year	Changes (2007/2006)
Construction and Mining Equipment	JPY 694.7 billion	+25.5%
Industrial Machinery, Vehicles and Others	JPY 63.8 billion	-13.6%
Total	JPY 758.5 billion	+20.9%

## (2) Capital Investment

Total capital investment during the business year under review, on a consolidated basis, amounted to JPY 129.6 billion, an increase of JPY 15.7 billion compared with the previous business year. A breakdown by division is given below.

Division	138th Business Year
Construction and Mining Equipment	JPY 111.0 billion
Industrial Machinery, Vehicles and Others*	JPY 18.5 billion
Electronics*	JPY 0.1 billion
Total	JPY 129.6 billion

Note: In accordance with the SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," capital investment of Industrial Machinery, Vehicles and Others and Electronics divisions does not include amount relating to Komatsu Zenoah's OPE business, and amount relating to Komatsu Electronic Metals and its subsidiaries, respectively.

Main facilities completed in the business year under review are as follows.

Division	Main facilities
Construction and Mining Equipment	Additional establishment of a plant for hydraulic equipment and major component manufacturing facilities at Oyama Plant of the Company - Products: Engines, hydraulic equipment - Location: Oyama City, Tochigi Prefecture
	New establishment of Ibaraki Plant of the Company - Products: Large dump trucks, large wheel loaders - Location: Hitachinaka City, Ibaraki Prefecture
	Incorporation of Komatsu India Private Limited - Products: Large dump trucks Location: Chennai, India
Industrial Machinery, Vehicles and Others	New establishment of Kanazawa Plant of the Company - Products: Large presses for automotive manufacturers - Location: Kanazawa City, Ishikawa Prefecture

### (3) Fund Procurement

In addition to the investment for improving production capabilities such as new plant establishment, Komatsu also used operating cash flow to repay for syndicated loans in the amount of JPY 32.5 billion in Japan, and continued to repay its debt. As a result, the net DER\* at the end of the business year further improved to 0.33, compared with 0.49 at the previous business year-end.

\* Net DER (debt-equity ratio) = interest-bearing debt minus cash and deposits, divided by shareholders' equity

### (4) Tasks Facing Komatsu

Komatsu has so far succeeded in expanding profit by improving overall profitability in line with the first-stage Reform of Business Structure project (from 2001), introducing DANTOTSU (unique and unrivaled) products, further enhancing sales/product support framework in Greater Asia and precisely capitalizing on market expansion thereafter. Also, it has strategically selected and concentrated management resources on profitable projects, as seen in transfer of silicon wafer and OPE businesses, a capital tie-up in industrial machinery business and establishment of new plants domestically and overseas. Additionally, by launching the second-stage Reform of Business Structure project from 2006, Komatsu steps up the Group's efforts in reforming value chain (that can be created through business activities among Komatsu, distributors, suppliers, clients), and developing global human resources to further improve profitability.

Komatsu defines the Group's corporate value as the total sum of trust given to us by society and all stakeholders. To increase this corporate value, Komatsu has consistently worked on management tasks by upholding the following two management goals.

- To maintain industry's top-level profitability and financial position in the industry and enhance the Group's position in the global marketplace, especially in the Greater Asia region.
- To continue management while keeping market value in mind, which reflects the amount of trust given to us by society and shareholders/investors.

To achieve these management goals, Komatsu has started a new mid-range management plan "Global Teamwork for 15" with the goal of completing by the target year ending March 2010, and are developing following measures.

- 1) Komatsu will continue to constantly emphasize "Market Introduction of DANTOTSU (unique and unrivaled) Products," "Further Enhancement of Market Position in Greater Asia" and "Continuous Improvements of Fixed Costs" that Komatsu has targeted since the first-stage Reform of Business Structure project.
- 2) Komatsu will also place efforts on "Value-Chain Reform Activities" and "Human



Resource Development on a Global Basis,” through those reform activities as the major initiatives of the second-stage Reform project.

3) Komatsu will set new tasks of focus, and will produce specific results.

i) Establishment of Flexible Manufacturing Operations

The number of KOMTRAX (Komatsu Machine Tracking System)-mounted construction equipment in Japan, North America, Europe and China has passed 60,000 units. Komatsu is well prepared to take full advantage of this scale in order to gain information concerning market changes directly and quickly. By sharing market information among distributors, plants and suppliers, Komatsu will accurately incorporate such information into production, sales and inventory planning in the short term. In the medium term, Komatsu will accurately incorporate useful information into capital investment planning in order to ensure appropriate production capacity.

ii) Expansion of the Utility Equipment Business

Komatsu established Komatsu Utility Co., Ltd. in April 2007, which has unified the management of the forklift truck and compact-construction equipment businesses. In addition to generating synergy effects in production and development to enhance product competitiveness, Komatsu Utility Co., Ltd. will double its efforts in Greater Asia and enhance its position in the market in order to improve profits.

\*Please note that Komatsu Forklift Co., Ltd. merged with Komatsu Zenoah Co. in April 2007 and the company name was changed to “Komatsu Utility Co., Ltd.”

iii) Expansion of the Parts Business

Komatsu will continue its efforts to accelerate sales of ground engaging tools, such as buckets, teeth and undercarriage parts, expand the number of parts depots, support and training centers, and train more product support personnel through the Global Training Institute and other programs. In addition, Komatsu will take full advantage of information available about the operational conditions of machines through real-time remote monitoring systems such as the KOMTRAX in order to optimize parts inventories and speed up parts delivery to customers. These efforts will further expand sales of parts and improve profits.

iv) Reinforcement of the Industrial Machinery Business

With respect to large presses for which orders have been growing, Komatsu is going to expand production volume and shorten production lead-time, while improving QCD\*, by taking full advantage of the new Kanazawa Plant.

Concerning NIPPEI TOYAMA CORPORATION in which Komatsu has made equity participation, Komatsu will work to generate collaborative effects with NIPPEI TOYAMA in the areas of procurement and production.

\* QCD: Quality, Cost and Delivery

Komatsu enhances its contributions to the clients’ business by the products and sales/product support leveraging the outstanding features of Komatsu (Utilization of IT in construction and mining equipments including KOMTRAX and autonomous haulage system) and is aiming to be a clients’ indispensable business partner.

Komatsu is strengthening its corporate governance to ensure sound and transparent management, while working to improve management efficiency. In addition to promoting thorough compliance, Komatsu will also ensure that all employees of Komatsu share the KOMATSU Way. In addition to improving its business performance, Komatsu will facilitate the development of both corporate strength and social responsibility in a well balanced manner.

Centered on the “Spirit of Manufacturers” dedication, Komatsu’s direction remains crystal clear:

“We provide the products (both hardware and software), that customers are happy to own, and we will make profits and grow.” In addition to top management officers, of course, all employees of Komatsu in Japan and abroad are determined to fulfill this commitment with self-confidence and a sense of mission by converging their talents and knowledge.

## (5) Financial Position and Profit/Loss Trends

### 1) Financial position and profit/loss of Komatsu

(JPY billion)

	135th Business Year (April 2003 - March 2004)	136th Business Year (April 2004 - March 2005)	137th Business Year (April 2005 - March 2006)	138th Business Year (April 2006 - March 2007)
Net sales	1,127.3	1,356.0	1,612.1	1,893.3
Operating income	29.8	95.8	163.4	244.7
Income from continuing operations before income taxes, minority interests and equity in earnings of affiliated companies	22.5	91.8	155.7	236.4
Net income	26.9	59.0	114.2	164.6
Net income per share (JPY)	27.17	59.51	115.13	165.70
ROE	6.6%	13.1%	20.8%	23.5%
ROA (income from continuing operations on total assets)	1.7%	6.6%	10.0%	13.5%
Total assets	1,348.6	1,449.0	1,652.1	1,843.9
Net assets (Shareholders' equity)	425.5	477.1	622.9	776.7

Note: In accordance with the SFAS No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets,” the figures for net sales, operating income from continuing operations before income taxes, minority interests and equity in earnings of affiliated companies and ROA are reclassified, and presented since 135th business year concerning businesses that were discontinued in 138th business year.

## 2) Financial position and profit/loss of the Company

(JPY billion)

	135th Business Year (April 2003 - March 2004)	136th Business Year (April 2004 - March 2005)	137th Business Year (April 2005 - March 2006)	138th Business Year (April 2006 - March 2007)
Net sales	418.6	523.5	627.3	758.5
Operating income	20.9	30.0	56.8	90.4
Ordinary profit	19.9	33.4	60.6	98.1
Net income	10.5	17.0	32.6	82.8
Net income per share (JPY)	10.50	16.91	32.53	83.34
Total assets	755.9	777.2	859.9	974.8
Net assets	462.1	473.6	511.2	576.1

Note: Net income per share in “(1) Financial position and profit/loss of Komatsu” and “(2) Financial position and profit/loss of the Company” above are calculated on the basis of the average number of shares issued and outstanding for the business year deducting therefrom the average number of treasury stocks.

### (6) Acquisition or Disposal of Other Companies' Shares, Other Equity Stakes or Stock Acquisition Rights

Issuing Company	Month/Year	Details
NIPPEI TOYAMA Corporation	December 2006	14,835,000 ordinary shares
Komatsu Electronic Metals Co., Ltd. (now SUMCO TECHXIV CORPORATION)	October 2006	15,402,000 ordinary shares

### (7) Status of Principal Subsidiaries

#### 1) Principal Subsidiaries (As of March 31, 2007)

Name	Capital	Equity Ratio (%)	Main Businesses
Komatsu Forklift Co., Ltd.	JPY 13,033 mil	100.0	Manufacture and sale of industrial vehicles, and logistics-related machinery and equipment
Komatsu Zenoah Co.	JPY 5,099 mil	100.0	Manufacture of construction equipment
Komatsu Castex Ltd.	JPY 4,979 mil	100.0	Manufacture and sale of steel castings and iron castings
Komatsu Tokyo Ltd.	JPY 950 mil	100.0	Sale, repair of construction and equipment
Komatsu Kinki Ltd.	JPY 1,700 mil	100.0	Sale, repair of construction and equipment
Komatsu Nishinihon Ltd.	JPY 200 mil	100.0	Sale, repair of construction and equipment
Komatsu Used Equipment Corp.	JPY 290 mil	*100.0	Sale of used construction equipment

Name	Capital	Equity Ratio (%)	Main Businesses
Komatsu Rental Japan Ltd.	JPY 1,000 mil	100.0	Rental of construction equipment
Komatsu Industries Corporation	JPY 990 mil	100.0	Manufacture and sale of presses and sheet metal machines
Komatsu Machinery Corporation	JPY 600 mil	100.0	Manufacture and sale of machine tools and semiconductor material processing equipment
Komatsu Logistics Corp.	JPY 1,080 mil	100.0	Packing, baling, transportation, warehousing and port-and-harbor services
Komatsu Electronics Inc.	JPY 390 mil	100.0	Manufacture and sale of thermo electric modules and temperature control equipment for semiconductors
Komatsu America Corp.	USD 1,027 mil	100.0	Manufacture and sale of construction and mining equipment and supervision of operations in the Americas
Komatsu Latin-America Corp.	USD 18 mil	*100.0	Sale of construction and mining equipment
Komatsu do Brasil Ltda.	BRL 55 mil	*100.0	Manufacture and sale of construction equipment and castings
Komatsu Cummins Chile Ltda.	USD 13 mil	*81.8	Sale of construction and mining equipment
Komatsu Financial Limited Partnership	-	*100.0	Sales finance of construction and mining equipment
Komatsu Europe International N.V.	EUR 45 mil	100.0	Sale of construction equipment and supervision of European subsidiaries' operations
Komatsu UK Ltd.	GBP 23 mil	*100.0	Manufacture and sale of construction equipment
Komatsu Hanomag GmbH	EUR 19 mil	*100.0	Manufacture and sale of construction equipment
Komatsu Mining Germany GmbH	EUR 5 mil	100.0	Manufacture and sale of mining equipment
Komatsu Deutschland GmbH	EUR 6 mil	*100.0	Sale of construction equipment
Komatsu France S.A.	EUR 5 mil	*100.0	Sale of construction equipment
Komatsu Utility Europe S.p.A.	EUR 6 mil	*100.0	Manufacture and sale of construction equipment
Komatsu Italia S.p.A.	EUR 4 mil	*100.0	Sale of construction equipment
Komatsu Forest, AB	SEK 397 mil	100.0	Manufacture and sale of forestry equipment
Komatsu Southern Africa (Pty) Ltd.	ZAR 1,000	80.0	Sale of construction and mining equipment
Komatsu Asia & Pacific Pte Ltd.	USD 16 mil	100.0	Sale of construction/mining equipment and industrial machines and supervision of Asian Pacific subsidiaries' operations
P.T. Komatsu Indonesia	IDR 192,780 mil	94.9	Manufacture and sale of construction equipment and steel and iron castings
Bangkok Komatsu Co., Ltd.	THB 620 mil	*74.8	Manufacture and sale of construction equipment

Name	Capital	Equity Ratio (%)	Main Businesses
Komatsu Australia Pty. Ltd.	AUD 21 mil	*60.0	Sale of construction and mining equipment
Komatsu (China) Ltd.	USD 34 mil	100.0	Supervision of business in China
Komatsu (Changzhou) Construction Machinery Corp.	USD 21 mil	*85.0	Manufacture and sale of construction equipment
Komatsu Shantui Construction Machinery Co., Ltd.	USD 21 mil	*60.0	Manufacture and sale of construction equipment

Notes:

1. Figures with an asterisk (\*) are the ratio of investment through subsidiaries of the Company and the ratio includes the stakes held by them.
2. Though Komatsu Forklift Co., Ltd. was formerly a joint venture of the Company and Linde AG of Germany, the Company cancelled the joint venture agreement and in August 2006 purchased all the Komatsu Forklift's share (35.0%) that Linde had owned, and made it a wholly-owned subsidiary of the Company.
3. Komatsu Forklift Co., Ltd. merged with Komatsu Zenoah Co. in April 2007, and changed the company name to Komatsu Utility Co., Ltd.
4. In October 2006, 10 subsidiaries specialized in rental business were consolidated, and the company name of the surviving company was changed to Komatsu Rental Japan Ltd., with the aim to enhancing and streamlining rental business in Japan.
5. Komatsu Financial Limited Partnership is a limited partnership based on the state law of Delaware, the U.S., and the Company invests in it through a subsidiary. Its net asset which is equivalent to the capital, amounts to US\$ 327 million.
6. The number of consolidated subsidiaries of the Company, including those listed above, is 145, and the number of affiliated companies accounted for by the equity method of is 42.

2) Others (update on business combination)

- i) In October 2006, the Company accepted SUMCO CORPORATION's tender offer for Komatsu Electronic Metals Co., Ltd. (now SUMCO TECHXIV CORPORATION) and sold 51.0% of the shares of KEM. The Company had held a total of 61.9%. As a result, KEM became a subsidiary of SUMCO CORPORATION.
- ii) In April 2007, Komatsu Zenoah Co. split and transferred the OPE business to its subsidiary Zenoah Co., and transferred all shares of Zenoah to a Japanese subsidiary of Husqvarna AB of Sweden.
- iii) The Company accepted in a simple absorption-type demerger the hydraulic equipment business of Komatsu Zenoah Co. in April 2007.

**(8) Major Lines of Business (As of March 31, 2007)**

Division	Principal Products and Businesses	
Construction and Mining Equipment	Excavating Equipment	Hydraulic excavators, mini excavators, and backhoe loaders
	Loading Equipment	Wheel loaders, mini wheel loaders, and skid-steer loaders
	Grading and Roadbed Preparation Equipment	Bulldozers, motor graders, and vibratory rollers
	Hauling Equipment	Off-highway dump trucks, articulated dump trucks, and crawler carriers
	Forestry Equipment	Harvesters, forwarders, and feller bunchers
	Tunneling Machines	Shield machines, tunnel-boring machines, and small-diameter pipe jacking machines ( <i>Iron Moles</i> )
	Recycling Equipment	Mobile debris crushers, mobile soil recyclers, and mobile tub grinders
	Other Equipment	Railroad maintenance equipment
	Engines and Components	Diesel engines, diesel generator sets, and hydraulic equipment
	Casting Products	Steel castings and iron castings
Industrial Machinery, Vehicles and Others	Metal Forging and Stamping Presses	Large presses, AC-servo presses, small and medium-sized presses and forging presses
	Sheet-Metal Machines and Machine Tools	Press brakes, shears, laser cutting machines, fine plasma cutting machines, and crank shaft millers
	Industrial Vehicles Logistics	Forklift trucks, packing and transport
	Defense Systems	Ammunition and armored personnel carriers
	Others	Commercial-use prefabricated structures
Electronics	Temperature-Control Equipment	Thermoelectric modules and temperature-control equipment for semiconductor manufacturing

**(9) Principal Offices and Plants (As of March 31, 2007)**

## 1) The Company

Offices	Head Office (Minato-ku, Tokyo), Research Division (Hiratsuka City, Kanagawa Pref.)
Plants	Awazu Plant (Komatsu City, Ishikawa Pref.), Osaka Plant (Hirakata City, Osaka), Rokko Plant (Kobe City, Hyogo Pref.), Mooka Plant (Mooka City, Tochigi Pref.), Ibaraki Plant (Hitachinaka City, Ibaraki Pref.), Oyama Plant (Oyama City, Tochigi Pref.), Komatsu Plant (Komatsu City, Ishikawa Pref.), Kanazawa Plant (Kanazawa City, Ishikawa Pref.)

## 2) Principal subsidiaries

Name	Office/Plant
Komatsu Forklift Co., Ltd.	Head Office (Minato-ku, Tokyo), Plant (Oyama City, Tochigi Pref.)
Komatsu Zenoah Co.	Head Office (Kawagoe City, Saitama Pref.), Plants (Kawagoe City, Saitama Pref.; Koriyama City, Fukushima Pref.)
Komatsu Castex Ltd.	Head Office /Plant (Himi City, Toyama Pref.)

Name	Office/Plant
Komatsu Tokyo Ltd.	Head Office (Sagamihara City, Kanagawa Pref.)
Komatsu Kinki Ltd.	Head Office (Toyonaka City, Osaka)
Komatsu Nishinohon Ltd.	Head Office (Kurume City, Fukuoka Pref.)
Komatsu Used Equipment Corp.	Head Office (Yokohama City, Kanagawa Pref.)
Komatsu Rental Japan Ltd.	Head Office (Yokohama City, Kanagawa Pref.)
Komatsu Industries Corporation	Head Office (Komatsu City, Ishikawa Pref.)
Komatsu Machinery Corporation	Head Office /Plant (Komatsu City, Ishikawa Pref.)
Komatsu Logistics Corp.	Head Office (Kawasaki City, Kanagawa Pref.)
Komatsu Electronics Inc.	Head Office /Plant (Hiratsuka City, Kanagawa Pref.)
Komatsu America Corp.	Head Office (Rolling Meadows, Illinois, USA), Plants (Chattanooga, Tennessee, Peoria, Illinois, New Berry, South Carolina, USA, Candiatic, Quebec, Canada)
Komatsu Latin-America Corp.	Head Office (Miami, Florida, USA)
Komatsu do Brasil Ltda.	Head Office /Plant (Suzano, São Paulo, Brazil)
Komatsu Cummins Chile Ltda.	Head Office (San Tiago, Chile)
Komatsu Financial Partnership	Head Office (Rolling Meadows, Illinois, USA)
Komatsu Europe International N.V.	Head Office (Vilvoorde, Belgium)
Komatsu UK Ltd.	Head Office /Plant (Birtley, UK)
Komatsu Hanomag GmbH	Head Office /Plant (Hannover, Germany)
Komatsu Mining Germany GmbH	Head Office /Plant (Dusseldorf, Germany)
Komatsu Deutschland GmbH	Head Office (Hannover, Germany)
Komatsu France S.A.	Head Office (Aubergenville, France)
Komatsu Utility Europe S.p.A.	Head Office /Plant (Este, Italy)
Komatsu Italia S.p.A.	Head Office (Noventa, Italy)
Komatsu Forest, AB	Head Office /Plant (Umeå, Sweden)
Komatsu Southern Africa (Pty) Ltd.	Head Office (Isando, South Africa)
Komatsu Asia & Pacific Pte Ltd.	Head Office (Singapore)
P.T. Komatsu Indonesia	Head Office /Plant (Jakarta, Indonesia)
Bangkok Komatsu Co., Ltd.	Head Office /Plant (Chonburi, Thailand)
Komatsu Australia Pty. Ltd.	Head Office (North Ride, New South Wales, Australia)
Komatsu (China) Ltd.	Head Office (Shanghai, China)
Komatsu (Changzhou) Construction Machinery Corp.	Head Office /Plant (Changzhou, Jiangsu, China)
Komatsu Shantui Construction Machinery Co., Ltd.	Head Office /Plant (Jining, Shandong, China)

## (10) Employees (As of March 31, 2007)

### 1) Employees of Komatsu

Division	Number of Employees
Construction and Mining Equipment	26,790
Industrial Machinery, Vehicles and Others	6,441
Electronics	181
Others*	451
Total	33,863

Notes:

- Number of employees decreased by 734 from the end of the previous business year.  
The principal reasons for the decrease in this business year is that Komatsu Electronic Metal Co., Ltd. (now SUMCO TECHXIV CORPORATION) and its subsidiaries were excluded from Komatsu.
- “Others\*” includes administrative employees that cannot be classified into the above three (3) business divisions.

### 2) Employees of the Company

Number of Employees	Increase (Decrease) Over Previous Business Year-End	Average Age	Average Years of Services
6,231	252	41.0	19.4

Notes:

- Number of employees of the Company is included in the number of employees of Komatsu in 1) above.
- While registered staff were listed in the business report of the previous business year, from the business year only those employed are listed above.  
“Increase (decrease) over the previous business year-end” shows the difference regarding number of staff members employed.

## (11) Major Borrowing (As of March 31, 2007)

Name of Lenders	Balance of Loans (JPY billion)
Sumitomo Mitsui Banking Corporation	38.0
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	26.7
Mizuho Corporate Bank, Ltd.	21.9
The Hokkoku Bank, Ltd.	10.5
Taiyo Life Insurance Company	10.3

## (12) Other Significant Matters Regarding the Status of Komatsu

As the Company did not recognize in July 2005 that the dissolution of Komatsu Finance (Netherlands) B.V. that had terminated its business activities fell under the category of “material facts” (facts that may affect the judgment of investors) as stipulated in Securities and Exchange Law, it purchased treasury shares before disclosing the aforementioned information.

As a result of the investigation of the Japanese Securities and Exchange Surveillance Commission (hereinafter “SESC”), however, the fact of dissolution falls under the category of important matters, and the purchase of treasury shares before the information disclosure was judged to be a transaction prohibited by Securities and Exchange Law.

Accordingly, in line with the recommendation by SESC, Financial Services Agency (hereinafter “FSA”) ordered the Company to pay surcharge for it in March 2007. In April 2007,



the Company paid JPY 43.78 million to the FSA.

**2. Shares of the Company** (As of March 31, 2007)

- (1) Number of shares authorized to be issued: 3,955,000,000 shares  
 (2) Total number of shares issued and outstanding: 994,368,068 shares (excluding 4,375,992 treasury shares)  
 (3) Number of shareholders as of the end of the business year: 129,640  
 (4) Major shareholders (top ten)

Name of Shareholders	Status of Investment by the Shareholder in the Company	
	Number of Shares held (thousand shares)	Equity Ratio (%)
Japan Trustee Services Bank, Ltd. (Trust Account)	69,041	6.9
The Master Trust Bank of Japan, Ltd. (Trust Account)	61,174	6.1
Taiyo Life Insurance Company	56,464	5.6
Nippon Life Insurance Company	31,783	3.1
State Street Bank and Trust Company 505103	20,872	2.0
Sumitomo Mitsui Banking Corp.	17,835	1.7
Japan Trustee Services Bank, Ltd. (Trust Account 4)	15,653	1.5
NIPPONKOA Insurance Co., Ltd.	13,962	1.4
NATS CUMCO	13,408	1.3
Trust & Custody Services Bank, Ltd. (Trust Account B)	13,036	1.3

Note: Equity ratio is calculated by subtracting treasury shares.

### 3. Matters Regarding Stock Acquisition Rights of the Company etc.

#### (1) Outline of Content of Stock Acquisition Rights Held by Directors of the Company, Which Were Granted as Remuneration for Their Performance of Duties

(As of March 31, 2007)

##### 1) Type of shares subject to Stock Acquisition Rights

Ordinary shares

##### 2) Total of holdings by classification

Classification	Issue date (Period for exercise of Stock Acquisition Rights)	Number of Stock Acquisition Rights owned	Number of shares subject to Stock Acquisition Rights (Number of shares per Stock Acquisition Rights)	Paid-in amount per Stock Acquisition Rights	Exercise price per Stock Acquisition Rights	Number of holders of Stock Acquisition Rights
Directors (excluding Outside Directors)	August 1, 2006 (From August 1, 2007 to July 31, 2014)	283	283,000 shares (1,000 shares)	JPY 801,000	JPY 2,325,000	7
Outside Directors	August 1, 2006 (From August 1, 2007 to July 31, 2014)	48	48,000 shares (1,000 shares)	JPY 801,000	JPY 2,325,000	3

Note: "Exercise price" means the "amount of assets to be paid upon exercise of Stock Acquisition Rights."

##### 3) Major conditions for exercise of Stock Acquisition Rights

- Any person granted Stock Acquisition Rights may exercise his or her rights pursuant to the Agreement Concerning Issuance of Stock Acquisition Rights (hereinafter "the Agreement") even after the person loses his or her status as of the allocation of the Stock Acquisition Rights (Director of the Company).
- When a grantee is deceased, his or her heir may exercise the rights in accordance with the terms and conditions of the Agreement.

**(2) Outline of Stock Acquisition Rights Issued During the Business Year to Employees of the Company and Directors of the Subsidiaries of the Company as Remuneration for Their Performance of Duties**

Issue date	August 1, 2006
Period for exercise of Stock Acquisition Rights	From August 1, 2007 to July 31, 2014
Number of grantees	55 in total Of the total, 40 are employees of the Company (excluding those who concurrently serve as Director of the Company) and 15 are Representative Directors of the subsidiaries of the Company (excluding those who concurrently serve as Directors or employees of the Company).
Number of Stock Acquisition Rights issued	497 in total Of the total, 375 are granted to employees of the Company (excluding those who concurrently serve as Director of the Company) and 122 are granted to Representative Directors of the subsidiaries of the Company (excluding those who concurrently serve as Directors or employees of the Company).
Type of shares subject to Stock Acquisition Rights	Ordinary shares
Number of shares subject to Stock Acquisition Rights	497,000 shares (1,000 shares per Stock Acquisition Right)
Paid-in amount per Stock Acquisition Right	Stock Acquisition Rights are issued gratis.
Exercise price per Stock Acquisition Right	JPY 2,325,000
Major conditions for exercise of Stock Acquisition Rights	<ul style="list-style-type: none"> <li>- Any person granted Stock Acquisition Rights may exercise his or her rights pursuant to the Agreement Concerning Issuance of Stock Acquisition Rights (hereinafter “the Agreement”) even after the person loses his or her status as of the allocation of the Stock Acquisition Rights (employee of the Company or Representative Director of the subsidiaries of the Company).</li> <li>- When a grantee is deceased, his or her heir may exercise the rights in accordance with the terms and conditions of the Agreement.</li> </ul>

Note: “Exercise price” means the “amount of assets to be paid upon exercise of Stock Acquisition Rights.”

**(3) Other Significant Matters Regarding Stock Acquisition Rights etc.**

(As of March 31, 2007)

	Type of shares subject to Stock Acquisition Rights	Number of Stock Acquisition Rights owned	Number of shares subject to Stock Acquisition Rights
1) Stock options through the acquisition of treasury shares under the former Commercial Code	Ordinary shares	-	110,000 shares
2) Stock options through Stock Acquisition Rights under the former Commercial Code	Ordinary shares	2,710	2,710,000 shares
3) Stock options through Stock Acquisition Rights under the Corporation Act	Ordinary shares	828	828,000 shares

Note: “3) Stock options through Stock Acquisition Rights under the Corporation Act” include Stock Acquisition Rights in the “(1) Outline of Content of Stock Acquisition Rights Held by Directors of the Company, Which Were Granted as Remuneration for Their Performance of Duties” and “(2) Outline of Stock Acquisition Rights Issued During the Business Year to Employees of the Company as Remuneration for Their Performance of Duties.”

#### 4. Directors and Corporate Auditors of the Company

##### (1) Names etc. of Directors and Corporate Auditors

Position	Name	In charge at the Company	Representative Positions in other companies
Chairman of the Board and Representative Director	Toshitaka Hagiwara	–	President of the Financial Accounting Standard Foundation
President and Representative Director (Chief Executive Officer)	Masahiro Sakane	–	–
Director (Senior Executive Officer)	Kunio Noji	General Manager of KOMATSU Way Division and President of Production Division Supervising Construction & Mining Equipment Business (Strategy, Marketing and Production) and e-KOMATSU In charge of Construction & Mining Equipment Business in Japan and Asia	–
Director (Senior Executive Officer)	Kunihiko Komiyama	President of Development Division and President of Engine & Hydraulics Business Division Supervising Research & Development and Quality Assurance Operations In charge of Construction & Mining Equipment Business in Europe	–
Director (Senior Executive Officer)	Masahiro Yoneyama	Representative of All China Operations	–
Director (Senior Executive Officer)	Yoshinori Komamura	President of Construction & Mining Equipment Marketing Division Supervising External Corporate Affairs and Legal Affairs In charge of Construction & Mining Equipment Marketing Business in North America and Latin America	–

Position	Name	In charge at the Company	Representative Positions in other companies
Director (Senior Executive Officer)	Yasuo Suzuki	General Manager of Corporate Planning Division Supervising Structural Reorganization, Environment, Electronics, Human Resources and Industrial Machinery Business In charge of Ishikawa Prefecture Area	–
Director	Toshio Morikawa	–	Advisor of Sumitomo Mitsui Banking Corporation
Director	Hajime Sasaki	–	Chairman of the Board (Representative Director) of NEC Chairman of the Japanese Standards Association
Director	Morio Ikeda	–	Advisor of Shiseido Company, Limited Chairman of the Board of Trustees of Toyo Eiwa Jogakuin
Standing Corporate Auditor	Makoto Nakamura	–	–
Standing Corporate Auditor	Masafumi Kanemoto	–	–
Corporate Auditor	Masahiro Yoshiike	–	Chairman of the Board and Representative Director of Taiyo Life Insurance Company
Corporate Auditor	Takaharu Dohi	–	Attorney at law
Corporate Auditor	Makoto Okitsu	–	Chairman and Director of Teijin Limited Chairman and Director of Nabtesco Corporation

Notes:

1. Directors Toshio Morikawa, Hajime Sasaki and Morio Ikeda are Outside Directors.
2. Messrs Masahiro Yoshiike, Takaharu Dohi and Makoto Okitsu are Outside Corporate Auditors.
3. Standing Corporate Auditor Masafumi Kanemoto has long engaged in accounting-related duties at the Company, and has a considerably profound knowledge concerning financial affairs and accounting.
4. Important positions concurrently held by Outside Directors and Outside Corporate Auditors, other than those mentioned above, are listed in “(3) Outside Directors and Outside Corporate Auditors.”
5. The Company has introduced the Executive Officer system.

## (2) Remuneration for Directors and Corporate Auditors

Classification	Number of persons paid	Amount of remuneration paid	Reference
Directors	10	JPY 993 million	Including bonuses, stock options and retirement benefit
Corporate Auditors	5	JPY 85 million	Including retirement benefit
Total	15	JPY 1,078 million	–

Notes:

1. Of the above-mentioned “Amount of remuneration paid” to Directors and Corporate Auditors, the amounts of remuneration paid to Outside Directors and Outside Corporate Auditors are as follows.

Classification	Number of persons paid	Amount of remuneration paid	Reference
Outside Directors	3	JPY 89 million	Including bonuses, stock options and retirement benefit
Outside Corporate Auditors	3	JPY 27 million	Including retirement benefit
Total	6	JPY 116 million	–

2. It was resolved at the 135th Ordinary General Meeting of Shareholders, held in June 2004, that the maximum amount of remuneration to be paid to Directors in total per month (excluding bonuses, stock options and retirement benefit) shall not exceed JPY 60 million (however, not including salaries as employees) and the maximum amount of remuneration to be paid to Corporate Auditors in total per month (excluding retirement benefit) shall not exceed JPY 10 million. It was also resolved at the 137th Ordinary General Meeting of Shareholders, held in June 2006, that the maximum amount of remuneration concerning stock options to be paid to Directors shall not exceed JPY 360 million in total per year.
3. The above-mentioned “Amount of remuneration paid” to Directors and Corporate Auditors includes the following:
  - 1) Bonuses for Directors (Total amount to be paid, which is planned to be resolved in Agenda Item 4 “Payment of Bonuses to Directors” at the 138th Ordinary General Meeting of Shareholders”)
    - Ten (10) Directors: JPY 348 million (of which, JPY 9 million is for three (3) Outside Directors)
  - 2) Stock options (amount posted as remuneration in the business year)
    - Ten (10) Directors: JPY 265 million (of which, JPY 38 million is for three (3) Outside Directors)
  - 3) Retirement benefit (Amount posted under “Reserve for retirement benefits for Directors” for the business year)
    - Ten (10) Directors: JPY 30 million (of which, JPY 2 million is for three (3) Outside Directors)
    - Five (5) Corporate Auditors: JPY 4 million (of which, JPY 1 million is for three (3) Outside Corporate Auditors)
4. The Company does not grant stock options and bonuses to Corporate Auditors.
5. If Agenda Item 7: “Payment of Retirement Benefits for Retired Directors and Corporate Auditors, and Final Payment of Retirement Benefits for Directors and Corporate Auditors Marking the Termination of the Retirement Benefit System for Directors and Corporate Auditors” is resolved at the 138th Ordinary General Meeting of Shareholders, JPY 701 million, posted under “Liability for Director and Corporate Auditor retirement benefits” shall be paid to Directors (including two (2) Directors who will retire at the conclusion of the 138th Ordinary General Meeting of Shareholders) and Corporate Auditors (including one (1) Corporate Auditor who will retire at the conclusion of the 138th Ordinary General Meeting of

Shareholders) when they retire. (“retirement benefits” specified in the above Note 3. 3) Retirement benefit are included.)

Ten (10) Directors: JPY 655 million (of which, JPY 20 million is for three (3) Outside Directors)

Five (5) Corporate Auditors: JPY 46 million (of which, JPY 18 million is for three (3) Outside Corporate Auditors)

6. The amount of salaries of employees concurrently serving as Directors is not included in the “Amount of remuneration paid” above.

### (3) Outside Directors and Outside Corporate Auditors (As of March 31, 2007)

#### 1) Executive directorship and other positions held in other companies

Classification	Name	Name of company where positions are held concurrently	Positions held concurrently	Relationship
Outside Directors	Toshio Morikawa	-	-	-
	Hajime Sasaki	NEC	Chairman of the Board ( Representative Director)	-
	Morio Ikeda	-	-	-
Outside Corporate Auditors	Masahiro Yoshiike	Taiyo Life Insurance Company	Chairman of the Board and Representative Director	Provider of group life insurance policies Lender of long-term funds
	Takaharu Dohi	-	-	-
	Makoto Okitsu	-	-	-

#### 2) Positions of Outside Directors concurrently held in other companies

Classification	Name	Name of company where positions are held concurrently	Positions held concurrently
Outside Directors	Toshio Morikawa	NEC Taisho Pharmaceutical Co., Ltd. The Royal Hotel, Limited.	Outside Director Outside Corporate Auditor Outside Director
	Hajime Sasaki	Teijin Limited	Outside Director
	Morio Ikeda	-	-



Classification	Name	Name of company where positions are held concurrently	Positions held concurrently
Outside Corporate Auditors	Masahiro Yoshiike	NIPPONKOA Insurance Co., Ltd.	Outside Corporate Auditor
	Takaharu Dohi	Mazda Motor Corporation Sekisui House, Ltd. Hankyu Hanshin Holdings, Inc. Hankyu Corporation The Kansai Electric Power Co., Inc. Urban Corporation	Outside Corporate Auditor Outside Corporate Auditor Outside Corporate Auditor Outside Corporate Auditor Outside Corporate Auditor Outside Director
	Makoto Okitsu	—	—

### 3) Major activities in the business year

#### i) Outside Directors

Name	Attendance to the meetings of the Board of Directors	Details of major activities
Toshio Morikawa	Attended 14 meetings of the 15 meetings held	Having served as Representative Director of The Sumitomo Bank Ltd., (now Sumitomo Mitsui Banking Corporation) and as Outside Director of various other companies, Toshio Morikawa speaks at need about proposals and deliberations at the Board of Directors based on his rich experience in the business world.
Hajime Sasaki	Attended 14 meetings of the 15 meetings held	Serving as Representative Director of NEC, Hajime Sasaki speaks at need about proposals and deliberations at the Board of Directors based on his rich experience in the business world.
Morio Ikeda	Attended 15 meetings of the 15 meetings held	Having served as Representative Director of Shiseido, Morio Ikeda speaks at need about proposals and deliberations at the Board of Directors based on his rich experience in the business world.

ii) Outside Corporate Auditors

Name	Attendance to meetings		Details of major activities
	Board of Directors	Board of Corporate Auditors	
Masahiro Yoshiike	Attended 13 meetings of the 15 meetings held	Attended 14 meetings of the 16 meetings held	Currently serving as Representative Director of Taiyo Life Insurance Company, Masahiro Yoshiike speaks at need at the Board of Corporate Auditors and the Board of Directors based on his rich experience in the business world.
Takaharu Dohi	Attended 12 meetings of the 15 meetings held	Attended 13 meetings of the 16 meetings held	From his professional standpoint as an attorney at law, Takaharu Dohi speaks at need about the compliance system of the Company and other issues at the Board of Corporate Auditors and the Board of Directors.
Makoto Okitsu	Attended 10 meetings of the 11 meetings held	Attended 10 meetings of the 11 meetings held	Having served as Representative Director of Teijin Limited, Makoto Okitsu speaks at need at the Board of Corporate Auditors and the Board of Directors based on his rich experience in the business world.

Note: The numbers of meetings of the Board of Directors and the Board of Corporate Auditors to which Outside Corporate Auditor Makoto Okitsu attended differ from those of other Outside Corporate Auditors, since he was appointed at the 137th Ordinary General Meeting of Shareholders held in June 2006.

4) Outline of facts in violation of laws and regulations or the Articles of Incorporation or facts of any other unreasonable execution of business (any dishonest execution of business in case of Outside Corporate Auditors) during the business year, and measures to prevent the occurrence of such facts and deal with them after the occurrence

i) Facts in violation of laws and regulations

As described in (12) Other Significant Matters Regarding the Status of Komatsu (Page 16) of 1. Current Conditions of the Komatsu Group.

ii) Measures to prevent the occurrence of such facts and deal with them after their occurrence

Outside Directors Toshio Morikawa, Hajime Sasaki and Morio Ikeda, as well as Outside Corporate Auditors Masahiro Yoshiike, Takaharu Dohi and Makoto Okitsu were informed of the said facts at the Board of Directors of the Company, and they discussed how to prevent the occurrence of similar incidents.

## 5. Status of Accounting Auditors

### (1) Name of Accounting Auditor

KPMG AZSA & Co.

### (2) Amount of Remuneration for Accounting Auditors

1) Remuneration for the Accounting Auditor of the Company:	JPY 255 million
2) Total amount of money and other financial benefits that the Company and its subsidiaries should pay to the Accounting Auditor:	JPY 457 million

Notes:

1. The amount of remuneration given in the above-mentioned 1) and 2) includes the sum of the amount of remuneration for auditing services in accordance with the Corporation Act and the amount of remuneration for auditing work in accordance with the Securities and Exchange Law, because the two kinds of remunerations are not clearly each other in the audit contract concluded between the Company and the Accounting Auditor, and they cannot be recorded separately.
2. Among principal subsidiaries of the Company, twenty-two (22) companies including Komatsu America Corp. are audited by Certified Public Accountants or Audit Corporations other than the Accounting Auditor of the Company.

### (3) Details of Non-Auditing Services

The Company pays the remuneration to the Audit Corporation for services principally regarding issuance of bonds other than services defined in Article 2, Paragraph 1 of the Certified Public Accountants Law in Japan.

### (4) Policy on Decision to Discharge or Not to Reappoint Accounting Auditors

When Accounting Auditors fall under any of the items in Article 340, Paragraph 1 of the Corporation Act, the Board of Corporate Auditors shall discharge the Accounting Auditors based on the consent of all Corporate Auditors.

When Accounting Auditors lack qualifications and qualities required as Accounting Auditors of the Company, including cases that fall under disqualification reasons specified in Article 337, Paragraph 3 of the Corporation Act, Directors shall submit to a general meeting of shareholders a proposal for discharging or not reappointing the Accounting Auditors after obtaining the consent of the Board of Corporate Auditors or at the request of the Board of Corporate Auditors.

## **6. Systems for Ensuring That the Performance of Duties by Directors Complies With Laws and Regulations, the Company's Articles of Incorporation, and Other Systems for Ensuring the Proper Operation**

At the meeting of the Board of Directors in May, 2006, the Company decided, as follows, with regard to the “establishment of systems for ensuring that the performance of duties by Directors complies with laws and regulations, the Company's Articles of Incorporation, and other systems for ensuring the proper operation of a joint stock company” (basic policies on internal control systems) in accordance with Article 362, Paragraph 4, Item 6 of the Corporation Act of Japan and Article 100, Paragraphs 1 and 3 of the Enforcement Regulations of the Corporation Act.

### **(1) Basic Policy on Internal Control**

The Company defines its corporate value as the total sum of trust given to us by society and all stakeholders.

To increase this corporate value, the Company recognizes the importance of strengthening corporate governance. The Company strives to maintain transparency and soundness of management by appointing Outside Directors and Outside Corporate Auditors, while limiting the number of the Board members small so that discussions at the Board of Directors are more substantial. The Company also does its utmost to improve the operation of the Board of Directors, aiming at more effective governance by the Board, ample discussions and quick decision making.

### **(2) Systems for Retention and Management of Information Related to Directors' Performance of Duties**

Komatsu shall safeguard and manage important information related to Directors' performance of duties, including the record of Board meetings and other consensus-based, approved documents, as stipulated by laws and regulations, and Company's regulations and rules.

### **(3) Rules and Other Systems for Risk Management**

While continuing to make efforts to raise its corporate value, the Company recognizes the problems related to compliance, in particular, environment, product quality, accidents, information security and other matters, as major risks for continuous growth and is thus implementing the following countermeasures.

- i) The Company shall establish Risk Management Rules to correctly recognize and manage risks, for which the Company has appointed personnel in charge of individual risks, further promoting the build-up of a solid foundation for risk management.
- ii) The Company shall establish Risk Management Committee to devise risk management policies of Komatsu, evaluate risk measures in place, and take control of risks when they surface. The Risk Management Committee regularly reports its reviews and activities to the Board of Directors.
- iii) Komatsu shall establish an emergency headquarters when serious risks surface, and work to minimize damage(s) and implement appropriate measures.

#### **(4) Systems for Ensuring Efficient Performance of Duties by Directors**

To ensure the efficient performance of duties by Directors, the Company shall implement the following:

- i) The Board of Directors shall meet every month and more often as needed. It shall strive to maintain transparency and soundness of management through the participation of Outside Directors. It shall also establish regulations and rules for the operation of the Board of Directors.
- ii) The Company shall define the separation of duties for Directors, Executive Officers and senior managers, and set up internal rules including “Decision-Making Authority Regulations,” to ensure appropriate and effective execution of duties by Directors.
- iii) To promote efficient management of the Board of Directors, the Company shall establish a Strategy Review Committee consisting of senior executive officers and senior managers. Based on the reviews of the Committee, each executive officer and each senior manager executes his or her duties within the authority delegated by the Board of Directors.

#### **(5) Systems for Ensuring That the Performance of Duties by Directors and Employees Complies With Laws and Regulations, and the Company’s Articles of Incorporation**

The Company shall establish the Compliance Committee as Komatsu to oversee compliance, and the Committee regularly reports its reviews and activities to the Board of Directors. The Company shall also establish a framework to ensure thorough compliance to business rules through a variety of measures, including the provision of *Komatsu Code of Worldwide Business Conduct*, appointment of the executive officer in charge of compliance, and establishment of the Compliance Dept. Moreover, the Company shall establish an internal reporting system through which persons reporting questionable actions and other compliance-related matters will not be penalized.

#### **(6) Systems for Ensuring the Proper Operation of Komatsu Comprising the Company and Its Subsidiaries**

- i) The Company shall establish the “Affiliated Company Regulations” and relevant rules to contribute to proper and efficient operation of Group management while respecting the independence of the management of affiliated companies. It shall also position the *Komatsu Code of Worldwide Business Conduct*, as the code to be applied by all companies affiliated with Komatsu. Each company in Komatsu shall stipulate various regulations for the proper promotion of duties.
- ii) Important committees of the Company, including the Compliance Committee, Risk Management Committee and Export Management Committee, shall take actions with the entire Group in view, and allow representatives of affiliated companies to take part in their meetings on occasion.
- iii) The Company shall make particularly important affiliated companies regularly report to the Board of Directors of the Company on the status of business, including risks and compliance.
- iv) The Audit Dept. of the Company shall audit each division of the Company, and implement or supervise auditing of affiliated companies that belong to Komatsu. It shall also supervise and give instructions to affiliated companies so that they establish systems in accordance with the internal control of the Company and properly operate the systems.

**(7) Matters Regarding Employees Assisting Corporate Auditors**

The Company shall set up a Corporate Auditor Staff division, which shall assist Corporate Auditors in their duties, and allocate employees who work as assistants to Corporate Auditors either exclusively or concurrently in another position within the Company.

**(8) Matters Regarding the Independence of the Employees Mentioned Above (Assistants to Corporate Auditors) From Directors**

- i) Handling of personnel affairs (employment, appointment and personnel changes) of the employees who belong to the Corporate Auditor Staff Dept. shall be premised on approval of the Standing Corporate Auditors.
- ii) The exclusive employees who assist the Corporate Auditors are independent of control and command of the Directors, and their performance shall be rated by the Standing Corporate Auditors.

**(9) Systems for Reporting to Corporate Auditors and Systems for Ensuring Effective Audits by Corporate Auditors**

- i) Directors and Executive Officers shall regularly report the status of performance of their duties at the Board of Directors and the Board of Corporate Auditors.
- ii) In the event that Directors find a serious violation of the law or other important facts regarding compliance at the Company or affiliated companies of Komatsu, they shall report to the Corporate Auditors immediately.
- iii) The Corporate Auditors shall attend various committees and principle meetings concerning internal control as observers, and also read circulars sent around to obtain the sanction of executives, which are important decision-making documents of the Company, and essential prior settlement documents.

END

## Consolidated Balance Sheet

(As of March 31, 2007)

(JPY million)

<b>Assets</b>	
Current assets:	
Cash and cash equivalents	92,199
Time deposits	54
Trade notes and accounts receivable, less allowance for doubtful receivables of JPY 11,808 million	478,063
Inventories	437,894
Assets held for sale	16,321
Deferred income taxes and other current assets	119,214
Total current assets	1,143,745
 Long-term trade receivables	 73,669
Investments:	
Investments in and advances to affiliated companies	36,688
Investment securities	108,173
Other	10,285
Total investments	155,146
 Property, plant and equipment, less accumulated depreciation	 388,393
Goodwill	20,594
Other intangible assets	25,243
Deferred income taxes and other assets	37,192
Total assets	1,843,982

(JPY million)

<b>Liabilities</b>	
Current liabilities:	
Short-term debt	102,248
Current maturities of long-term debt	72,486
Trade notes and accounts payable	365,065
Income taxes payable	54,933
Liabilities held for sale	7,919
Deferred income taxes and other current liabilities	182,529
Total current liabilities	785,180
Long-term liabilities:	
Long-term debt	174,340
Liability for pension and retirement benefits	37,783
Deferred income taxes and other liabilities	50,188
Total long-term liabilities	262,311
<b>Minority interests</b>	19,774
<b>Shareholders' equity</b>	
Common stock	67,870
Capital surplus	137,155
Retained earnings:	
Appropriated for legal reserve	24,267
Unappropriated	517,450
Accumulated other comprehensive income	33,501
Treasury shares, at cost	(3,526)
Total shareholders' equity	776,717
Total liabilities, minority interests and shareholders' equity	1,843,982



## **Consolidated Statement of Income**

(From April 1, 2006 to March 31, 2007)

	(JPY million)
Net sales	1,893,343
Cost of sales	1,356,511
Selling, general and administrative expenses	287,086
Other operating income (expenses)	(5,005)
<b>Operating income</b>	<b>244,741</b>
Other income (expenses)	
Interest and dividend income	8,532
Interest expense	(15,485)
Other-net	(1,297)
<b>Other income (expenses)</b>	<b>(8,250)</b>
Income from continuing operations before income taxes, minority interests and equity in earnings of affiliated companies	236,491
Income taxes:	
Current	76,102
Deferred	3,643
<b>Income taxes</b>	<b>79,745</b>
Income from continuing operations before minority interests and equity in earnings of affiliated companies	156,746
Minority interests in income of consolidated subsidiaries	(6,580)
Equity in earnings of affiliated companies	3,098
<b>Income from continuing operations</b>	<b>153,264</b>
Income from discontinued operations	11,374
<b>Net income</b>	<b>164,638</b>

## Consolidated Statement of Shareholders' Equity and Retained Earnings

(From April 1, 2006 to March 31, 2007)

	(JPY million)
<b>Common stock</b>	
Balance, beginning of period	67,870
Balance, end of period	67,870
<b>Capital surplus</b>	
Balance, beginning of period	136,137
Sales of treasury shares	394
Issuance of Stock Acquisition Rights	663
Share issue cost	(39)
Balance, end of period	137,155
<b>Retained earnings, appropriated for legal reserve</b>	
Balance, beginning of period	23,416
Transfer from unappropriated retained earnings	851
Balance, end of period	24,267
<b>Unappropriated retained earnings</b>	
Balance, beginning of period	376,522
Net income	164,638
Cash dividends paid	(22,859)
Transfer to retained earnings appropriated for legal reserve	(851)
Balance, end of period	517,450
<b>Accumulated other comprehensive income (loss)</b>	
Balance, beginning of period	23,095
Aggregate adjustment for the period resulting from translation of foreign currency financial statements	11,444
Increase in net unrealized holding gains on securities available for sale	2,897
Adjustment for the period of pension liability	
- After application of SFAS No. 87	5,856
- After application of SFAS No. 158	(9,857)
Increase in net unrealized holding gains (losses) on derivative instruments	66
Balance, end of period	33,501
<b>Treasury shares</b>	
Balance, beginning of period	(4,043)
Purchase of treasury shares	(632)
Sales of treasury shares	1,149
Balance, end of period	(3,526)
Total shareholders' equity	776,717
<b>Disclosure of comprehensive income</b>	
Net income	164,638
Other comprehensive income, net of tax	20,263
Comprehensive income	184,901

## Notes to Consolidated Statutory Report

### **Basis of preparation of Consolidated Statutory Report**

#### **Significant Accounting Policies**

- (1) **Basis of preparation of Consolidated Statutory Report**  
The Consolidated Statutory Report of Komatsu is prepared in accordance with the stipulations of Article 148, Paragraph 1 of the Corporate Accounting Regulations, and the method of preparation conforms to the standards of accounting generally accepted in the United States in terms of terminology and format (hereinafter “U.S. GAAP”). However, some description and notes under the mandatory requirements of U.S. GAAP are omitted within the scope of stipulations in the said clause.
  
- (2) **Method and basis of valuation of inventories**  
Inventories are stated at the lower of cost or market. The cost of finished products and work in process are valued by the specific identification method and costs of consumable supplies are mainly stated using the first-in first-out method with certain immaterial amounts using the last-in first-out method. Cost of materials and supplies are stated at average cost.
  
- (3) **Method and basis of valuation of investment securities**  
Komatsu has applied SFAS No. 115 “Accounting for Certain Investments in Debt and Equity Securities” for the valuation of investment securities.  
Available-for-sale securities:  
Stated at fair market value based on market prices at the balance sheet date (Unrealized gains and losses are charged, net of applicable income taxes, to shareholders’ equity, and the cost of securities sold is determined using the moving-average method.).
  
- (4) **Depreciation and amortization of fixed assets**  
Depreciation of property, plant and equipment:  
Computed principally using the declining-balance method.  
  
Amortization of intangible assets:  
Computed using the straight-line method  
Komatsu has applied SFAS No. 142 “Goodwill and Other Intangible Assets.” Goodwill and intangible assets whose useful lives cannot be determined are reviewed for impairment at least annually.
  
- (5) **Allowances**  
Allowance for doubtful receivables:  
To cover possible credit losses on accounts receivables or loans, an allowance for doubtful receivables is provided in the amount deemed uncollectible, which is calculated on the basis of historical default rates for normal claims, or on the basis of individual assessments for specific claims on obligors threatened with bankruptcy.  
  
Liability for pension and retirement benefits:  
In accordance with SFAS No. 87, “Employers’ Accounting for Pensions” and SFAS No. 158 “Employer’s Accounting for Defined Benefit Pension and Postretirement Plans,” provision is made in the amount deemed necessary as of the balance sheet date based on retirement benefit obligations and fair value of the plan assets. Komatsu recognized the

funded status (i.e., the difference between the fair value of plan assets and the projected benefit obligations) of its pension plans in the consolidated balance sheet, with a corresponding adjustment to accumulated other comprehensive income (loss), net of tax. Additional provision is made in the amount of the shortfall of liability for pension and retirement benefit to accumulated benefit obligations deducted by fair value of plan assets.

Unrecognized prior service cost are charged to income on a straight-line basis over the average remaining service period of employees.

Regarding unrecognized net actuarial loss, an excessive amount of the “corridor” (10% of projected benefit obligations, or fair value of plan assets, whichever is the larger) to income on a straight-line basis over the average remaining service period of employees.

(6) Adoption of new accounting standards

Starting from the business year ended March 31, 2007, Komatsu adopted the SFAS No. 123 (R), “Accounting for Stock-Based Remuneration.” As a result, Komatsu measured the remuneration cost at fair value as of the grant date, and recognized it over the vesting period. Due to the effect of this adoption, the Company recognized JPY 663 million as the remuneration cost for the business year ended March 31, 2007.

Effective from the business year ended March 31, 2007, Komatsu adopted SFAS No. 158 “Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans.” As a result, Komatsu recognized the unrecognized actuarial loss and unrecognized prior service cost in the consolidated balance sheet. The effect of the adoption of this standard was to increase liability for pension and retirement benefits by JPY 9,940 million and to decrease accumulated other comprehensive income by JPY 9,857 million for the business year ended March 31, 2007. This change had no effect on the Komatsu’s consolidated profit/loss.

(7) Accounting for consumption taxes

Consumption taxes are separately accounted for by excluding it from each transaction amounts.

### Notes to Consolidated Balance Sheet

(1) Accumulated depreciation for property, plant and equipment: JPY 537,924 million

(2) Accumulated 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.

(3) Assets pledged as collateral:

Cash and cash equivalents	JPY	881 million
Property, plant and equipment	JPY	500 million
Total	JPY	1,381 million

- (4) Guaranteed obligations  
 Guaranteed obligations for borrowings made by Komatsu's employees and affiliated companies: JPY 57,063 million
- (5) Assets and liabilities held for sale  
 In accordance with the SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," assets and liabilities held for sale in connection with the discontinued operations were classified as assets held for sale and liabilities held for sale, respectively.

### Notes to Consolidated Statement of Income

- (1) Income from discontinued operations  
 In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," the result of discontinued operations, less applicable taxes, is presented as income from discontinued operations.
- (2) Basic income from continuing operations per share JPY 154.25  
 Diluted income from continuing operations per share JPY 153.97
- (3) Basic net income per share JPY 165.70  
 Diluted net income per share JPY 165.40
- (4) Reclassification  
 Starting from the business year ended March 31, 2007, Komatsu changed its form of consolidated statement of income from single- to multiple-step and operating income is presented in accordance with U.S. GAAP.

### Significant Subsequent Events

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

Non-Consolidated Statutory Report is based on Japanese accounting standards.

## **Non-Consolidated Balance Sheet**

(As of March 31, 2007)

(JPY million)

<b>Assets</b>	
Current assets:	
Cash on hand and in banks	47,426
Notes receivable	5,017
Trade accounts receivable	211,622
Finished products and merchandise	34,818
Materials and supplies	3,751
Work in process	33,862
Prepaid expenses	648
Deferred income taxes – current	13,775
Short-term loans receivable	51,863
Other current assets	35,247
Allowance for doubtful receivables	(347)
<b>Total current assets</b>	<b>437,686</b>
Non-current assets:	
Tangible fixed assets:	
Buildings	50,581
Structures	8,600
Machinery and equipment	46,963
Vehicles and delivery equipment	271
Tools, furniture and fixtures	6,046
Land	39,468
Construction in progress	1,267
<b>Total tangible fixed assets</b>	<b>153,200</b>
Intangible assets:	
Utility rights	88
Software	10,815
Other intangible assets	723
<b>Total intangible assets</b>	<b>11,626</b>
Investments and other assets	
Investment securities	94,021
Securities and other investments in affiliated companies	298,127
Long-term loans receivable	1,385
Long-term prepaid expenses	679
Other investments	8,380
Allowance for doubtful receivables	(6,069)
Allowance for loss on valuation of investments in affiliated companies	(24,179)
<b>Total investments and other assets</b>	<b>372,344</b>
<b>Total non-current assets</b>	<b>537,171</b>
<b>Total assets</b>	<b>974,858</b>

(JPY million)

**Liabilities**

## Current liabilities:

Trade notes payable	337
Trade accounts payable	161,431
Short-term borrowings	3,062
Current portion of bonds	20,000
Other accounts payable	48,024
Income taxes payable	30,712
Advances received	1,473
Accrued bonuses	5,573
Accrued bonuses for Directors and Corporate Auditors	348
Warranty reserve	7,864
Other current liabilities	35,840

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Total current liabilities	314,666
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## Long-term liabilities:

Bonds	10,000
Long-term debt	43,000
Deferred income taxes – non-current	13,417
Liability for employees' retirement benefits	16,296
Liability for Directors' and Corporate Auditors' retirement benefits	700
Other long-term liabilities	638

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Total long-term liabilities	84,052
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Total liabilities	398,718
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**Net Assets**

## Shareholders' Equity

Common stock	70,120
Capital surplus:	140,742
Additional paid-in capital	140,140
Other capital surplus	602

## Retained earnings:

Legal reserve	18,036
Other retained earnings:	308,169
Reserve for special depreciation	116
Reserve for advanced depreciation deduction	15,325
Reserve for special advanced depreciation account	32
General reserve	180,359
Retained earnings brought forward	112,334

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Total retained earnings	326,206
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Treasury shares	(3,203)
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Total shareholders' equity	533,866
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## Valuation and translation adjustments:

Net unrealized gains on available-for-sale securities	41,516
Net deferred profits on hedges	93

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Total valuation and translation adjustments	41,609
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## Stock Acquisition Rights

Stock Acquisition Rights	663
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Total Stock Acquisition Rights	663
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Total net assets	576,139
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Total liabilities and net assets	974,858
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## Non-Consolidated Statement of Income

(From April 1, 2006 to March 31, 2007)

	(JPY million)
Net sales	758,529
Cost of sales	569,238
Deferred profit on installment sales	(34)
Gross profit	189,324
Selling, general and administrative expenses	98,848
Operating income	90,475
Non-operating income:	
Interest and dividend income	15,732
Other non-operating income	987
Non-operating expenses:	
Interest expenses	1,181
Other non-operating expenses	7,864
Ordinary profit	98,149
Extraordinary income:	
Gain on sale of land	265
Gain on sale of investment securities	46
Gain on sale of shares of affiliated companies	27,632
Reversal of provision for loss on valuation of investments in affiliated companies	9,278
Extraordinary Losses:	
Loss on sale of land	30
Loss on valuation of investment securities	109
Impairment loss	5,382
Loss on compensation for sold products	2,169
Income before income taxes	127,678
Income taxes:	
Current	39,461
Deferred	5,373
Net income	82,843



## Non-Consolidated Statement of Changes in Net Assets

(From April 1, 2006 to March 31, 2007)

(JPY million)

	Shareholders' equity										
	Common stock	Capital surplus			Legal reserve	Retained earnings:					
		Additional paid-in capital	Other capital surplus	Total capital surplus		Other retained earnings:					Total retained earnings
						Reserve for special depreciation	Reserve for advanced depreciation deduction	Reserve for special advanced depreciation account	General reserve	Retained earnings brought forward	
Balance as of March 31, 2006	70,120	140,140	461	140,601	18,036	29	14,683	2,585	180,359	50,872	266,567
Changes in this term: transfer to reserve for special depreciation*						128				(128)	-
Transfer to reserve for special depreciation						17				(17)	-
Reversal of reserve for special depreciation*						(19)				19	-
Reversal of reserve for special depreciation						(38)				38	-
Transfer to reserve for advanced depreciation deduction*							2,884			(2,884)	-
Reversal of reserve for advanced depreciation deduction*							(1,188)			1,188	-
Reversal of reserve for advanced depreciation deduction							(1,053)			1,053	-
Transfer to reserve for special advanced depreciation account								32		(32)	-
Reversal of reserve for special advanced depreciation account*								(2,585)		2,585	-
Dividends paid*										(9,936)	(9,936)
Dividends paid										(12,922)	(12,922)
Bonus to Directors and Corporate Auditors*										(346)	(346)
Net income										82,843	82,843
Acquisition of treasury shares											
Disposal of treasury shares			141	141							
Net changes of items other than shareholders' equity											
Total changes in the term	-	-	141	141	-	87	642	(2,552)	-	61,462	59,638
Balance as of March 31, 2007	70,120	140,140	602	140,742	18,036	116	15,325	32	180,359	112,334	326,206

Note: Figures for the items with an asterisk (\*) are appropriated profits resolved at the Ordinary General Meeting of Shareholders in June 2006.

(JPY million)

	Shareholders' equity		Valuation and translation adjustments			Stock Acquisition Rights	Total net assets
	Treasury shares	Total shareholders' equity	Net unrealized gain on available-for-sale securities	Deferred profit/loss on hedges	Total valuation and translation adjustments		
Balance as of March 31, 2006	(3,502)	473,787	37,435	-	37,435	-	511,222
Changes in this term: transfer to reserve for special depreciation*		-					-
Transfer to reserve for special depreciation		-					-
Reversal of reserve for special depreciation*		-					-
Reversal of reserve for special depreciation		-					-
Transfer to reserve for advanced depreciation deduction*		-					-
Reversal of reserve for advanced depreciation deduction*		-					-
Reversal of reserve for advanced depreciation deduction		-					-
Transfer to reserve for special advanced depreciation account		-					-
Reversal of reserve for special advanced depreciation account*		-					-
Dividends paid*		(9,936)					(9,936)
Dividends paid		(12,922)					(12,922)
Bonus of Directors and Corporate Auditors*		(346)					(346)
Net income		82,843					82,843
Acquisition of treasury shares	(309)	(309)					(309)
Disposal of treasury shares	609	750					750
Net changes of items other than shareholders' equity			4,081	93	4,174	663	4,838
Total changes in the term	299	60,078	4,081	93	4,174	663	64,917
Balance as of March 31, 2007	(3,203)	533,866	41,516	93	41,609	663	576,139

Note: Figures for the items with an asterisk (\*) are appropriated profits resolved at the Ordinary General Meeting of Shareholders in June 2006.

## **Notes to Non-Consolidated Statutory Report**

### **Significant Accounting Policies**

- (1) Method and basis of valuation of securities  
Held-to-maturity debt securities: Stated at amortized cost (on a straight-line basis).  
Investments in subsidiaries and affiliated companies: Stated at cost determined by the moving-average method.  
Available-for-sale securities:  
    Securities whose market value is readily determinable:  
        Stated at market value, based on market quotation. Unrealized gains and losses are reported, with net of applicable taxes, as a separate component of net assets. The cost of securities sold is determined based on the moving-average method.  
    Securities whose market value is not readily determinable:  
        Stated at cost determined by the moving-average method.
- (2) Method and basis of valuation of inventories  
Finished products (excluding spare parts), work in process and parts: Stated at lower of cost (specific identification method) or market.  
Spare parts: Stated at lower of cost (last-in first-out method) or market.  
Materials and supplies: Stated at lower of cost (periodic average method).
- (3) Depreciation of fixed assets  
Depreciation of tangible fixed assets and amortization of intangible assets are computed according to the declining-balance method and the straight-line method, respectively.
- (4) Allowances
  - 1) Allowance for doubtful receivables  
To cover possible credit losses on accounts receivables or loans, an allowance for doubtful receivables is provided in the amount deemed uncollectible, which is calculated on the basis of historical default rates for normal claims, or on the basis of individual assessments for specific claims on obligors threatened with bankruptcy.
  - 2) Allowance for loss on valuation of investments in affiliated companies  
Allowance for loss on valuation of investments in affiliated companies is accounted for by taking into consideration the financial position of the issuer and fluctuation of the foreign exchange of the country of the issuer in order to prepare for losses from investing in domestic and overseas affiliated companies.
  - 3) Accrued bonuses  
Accrued bonuses are provided for payment prospect of bonuses to employees at an amount considered to be recorded for the business year.
  - 4) Accrued bonuses for Directors and Corporate Auditors  
Accrued bonuses are provided for payment prospect of bonuses to Directors at an amount considered to be recorded for the business year.
  - 5) Warranty reserve  
Warranty reserve is provided for product after-sales service expenses on the historical performance.
  - 6) Liability for pension and retirement benefits  
In order to provide for the employee retirement benefits, the Company accrues liabilities for severance payments and pension at the amount calculated based on the projected benefit obligations and plan assets at the balance sheet date.  
Prior service obligations are charged to income when incurred. Actuarial loss is charged to income in an amount proportionally appropriated on a straight-line basis

over a 10-year period, which is shorter than the averaged remaining service period of employees, beginning with the following term when the loss is recognized.

- 7) Liabilities for Directors and Corporate Auditors retirement benefits  
The Company calculates the required amount, based on internal regulations, in preparation for payment of retirement benefits for Directors and Corporate Auditors applicable to the business year.
  
- (5) Accounting method of lease transactions  
Finance leases that do not transfer ownership of leased property to the lessee are accounted in the same manner as operating leases.
  
- (6) Accounting for consumption taxes  
Consumption taxes are separately accounted for by excluding it from each transaction amounts.
  
- (7) Other significant matters to prepare statutory report  
The Company has, in part, adopted terminology and forms in line with Regulations Regarding Terminology, Format and Preparation of Statutory Report, etc.
  
- (8) Changes in accounting policies
  - 1) Accounting standard for bonuses for Directors and Corporate Auditors  
Effective from the business year, the Company has adopted the Accounting Standard for Directors' Bonus (ASBJ Statement No. 4; November 29, 2005).  
As a result, operating income, ordinary profit and income before income taxes have each decreased by JPY 348 million for the business year ended March 31, 2007.
  - 2) Accounting standard for the presentation of net assets in the non-consolidated balance sheet  
As from the business year under review, the Company has adopted the Accounting Standard for Presentation of Net Assets in the Balance Sheet (ASBJ Statement No. 5; December 9, 2005) and the Guidance for Accounting Standard for Presentation of Net Assets in the Balance Sheet" (ASBJ Implementation Guidance No. 8; December 9, 2005).  
Total shareholders' equity under the previous standard would have been JPY 575,382 million.  
Net assets as of the end of business year under review are prepared in accordance with the revised Regulation Regarding Terminology, Format and Preparation of Statutory Report, etc. because of the amendment to the said Regulations.
  - 3) Accounting standard for stock options  
As from the business year under review, the Company has adopted the Accounting Standard for Share-based Payment (ASBJ Statement No. 8; December 27, 2005) and the Guidance on Accounting Standards for Share-based Payment (ASBJ Implementation Guidance No. 11; May 31, 2006).  
As a result, operating income, ordinary profit and income before income taxes decreased by JPY 663 million, respectively.

## Notes to Non-Consolidated Balance Sheet

- (1) Accumulated depreciation of tangible fixed assets: JPY 303,707 million
- (2) Contingency liability (Guaranteed liability etc.) JPY 45,985 million
- Balance under letters of keep-well agreements: JPY 74,354 million
- Maximum repurchase amount for the transferred claims for installment sales receivables: JPY 55 million
- (3) Receivables from, and debts payable to affiliated companies
- Short-term receivables from affiliated companies: JPY 223,785 million
- Short-term debts payable to affiliated companies: JPY 86,589 million
- Long-term receivables from affiliated companies: JPY 1,383 million
- (4) Accounting of notes matured at the end of business year  
The Balance Sheet date for the business year fell on a bank holiday and trade notes with maturity on the Balance Sheet date were cleared on the next business day of the clearing houses. Thus current assets and current liabilities include respectively trade notes receivable and trade notes payable with maturity on the Balance Sheet date as follows:
- Notes receivable: JPY 301 million
- Notes payable: JPY 92 million

## Notes to Non-Consolidated Statement of Income

- Trading with affiliated companies
- Sales: JPY 441,894 million
- Purchases: JPY 231,191 million
- Trading other than operating transactions: JPY 30,033 million

## Notes to Non-Consolidated Statement of Changes in Net Assets

### 1. Type and number of shares issued and outstanding

Type	Number of shares as of March 31, 2006	Number of shares increased	Number of shares decreased	Number of shares as of March 31, 2007
Ordinary shares	998,744,060	-	-	998,744,060

## 2. Type and number of treasury shares

Type	Number of shares as of March 31, 2006	Number of shares increased	Number of shares decreased	Number of shares as of March 31, 2007
Ordinary shares*	5,098,568	135,220	857,796	4,375,992

Notes: 1. The reason for increase of number of treasury shares by 135,220 shares for the business year is acquisition of fractional treasury shares.

2. Decrease of number of treasury shares by 857,796 consists of the following.

1) 845,000 shares by the exercise of stock options

2) 12,796 shares by the sale of shares constituting fractional shares

## 3. Dividends

### (1) Payment amount of dividends

Resolution	Type of shares	Total dividends (JPY million)	Dividend per share (JPY)	Record date	Effective date
Ordinary General Meeting of Shareholders held on June 23, 2006	Ordinary shares	9,936	10	March 31, 2006	June 26, 2006
Board of Directors Meeting held on October 31, 2006	Ordinary shares	12,922	13	September 30, 2006	December 1, 2006

### (2) Among dividends of which record date is in the business year and effective date is in the next business year

Resolution	Type of shares	Resource of dividends	Total dividends (in million yen)	Dividend per share (in yen)	Record date	Effective date
Ordinary General Meeting of Shareholders to be held on June 22, 2007	Ordinary shares	Retained earnings	17,898	18	March 31, 2007	June 25, 2007

#### 4. Matters concerning Stock Acquisition Rights

Breakdown of Stock Acquisition Rights	Type of shares allocated for Stock Acquisition Rights	Number of shares allocated for Stock Acquisition Rights			
		Number of shares in previous business year-end	Increase during the business year	Decrease during the business year	Number of shares at business year-end
2002 Stock Acquisition Rights <sup>*1</sup>	Ordinary shares	190,000	–	20,000	170,000
2003 Stock Acquisition Rights <sup>*2</sup>	Ordinary shares	560,000	–	90,000	470,000
2004 Stock Acquisition Rights <sup>*3</sup>	Ordinary shares	920,000	–	120,000	800,000
2005 Stock Acquisition Rights <sup>*4</sup>	Ordinary shares	1,610,000	–	340,000	1,270,000
2006 Stock Acquisition Rights No. 1 <sup>*5</sup>	Ordinary shares	–	331,000	–	331,000
2006 Stock Acquisition Rights No. 2 <sup>*6</sup>	Ordinary shares	–	497,000	–	497,000

#### Notes

1. The decrease in shares recorded this year for the Stock Acquisition Rights of 2002 is due to exercise of Stock Acquisition Rights.
2. The decrease in shares recorded this year for the Stock Acquisition Rights of 2003 is due to exercise of Stock Acquisition Rights.
3. The decrease in shares recorded this year for the Stock Acquisition Rights of 2004 is due to exercise of Stock Acquisition Rights.
4. The decrease in shares recorded this year for the Stock Acquisition Rights of 2005 is due to exercise of Stock Acquisition Rights.
5. The increase in shares recorded this year for the Stock Acquisition Rights No. 1 of 2006 is due to new issue of Stock Acquisition Rights.
6. The increase in shares recorded this year for the Stock Acquisition Rights No. 2 of 2006 is due to new issue of Stock Acquisition Rights.

## Notes concerning tax effect accounting

### 1. Major reasons for the accrual of deferred tax assets and deferred tax liabilities

(Deferred tax assets)	
Product warranties	JPY 3,186 million
Inventories	JPY 2,912 million
Unpaid enterprise tax	JPY 2,586 million
Accrued bonuses	JPY 2,258 million
Provision for excess of allowed limit chargeable to liability for retirement benefits	JPY 10,259 million
Allowance for loss on valuation of investments in affiliated companies	JPY 9,797 million
Impairment loss	JPY 7,403 million
Loss on compulsory revaluation of investment securities and shares of affiliated companies	JPY 7,390 million
Others	<u>JPY 8,477 million</u>
Subtotal deferred tax assets	JPY 54,268 million
Less valuation allowance	<u>JPY (14,933) million</u>
Total deferred tax assets	JPY 39,335 million
(Deferred tax liabilities)	
Reserve for advanced depreciation deduction	JPY (10,440) million
Net unrealized gains on available-for-sale securities	JPY (28,283) million
Others	<u>JPY (254) million</u>
Total deferred tax liabilities	<u>JPY (38,977) million</u>
Net deferred tax assets	JPY 358 million

## Notes concerning leased assets used by lease

### 1. Equivalents for leased assets (purchase price equivalent, accumulated depreciation equivalent, term-end amount outstanding equivalent)

(JPY million)

	Purchase price equivalent	Accumulated depreciation equivalent	Year-end amount outstanding equivalent
Tools, furniture and equipment	7,171	2,820	4,350
Other	5,779	1,386	4,393
Total	12,951	4,207	8,744

### 2. The present value of future rental expenses under capital leases

Due within one (1) year	JPY 2,100 million
Due over one (1) year	JPY 6,826 million
<u>Total</u>	<u>JPY 8,926 million</u>

### 3. Lease expenses, depreciation equivalent and interest expense equivalent

(i) Lease expenses	JPY 2,163 million
(ii) Depreciation equivalent	JPY 2,008 million
(iii) Equivalent amount of interest payments	JPY 185 million



#### 4. Method for calculating depreciation equivalent amount of expenses

Depreciation equivalent is computed on a straight-line method over the lease period without residual value.

#### 5. Method for calculating the interest equivalent

The difference between the total lease expenses and the purchase price equivalent becomes the interest equivalent and the interest method is used as the method of allocation for each period.

### Notes concerning related party transactions

#### Subsidiaries and other affiliated companies

(JPY million)

Attribute	Company name	Holding voting rights	Relationship with related party	Transaction	Transaction amount	Category	Outstanding balance
Subsidiary	Komatsu America Corp.	(Holding) Directly 100%	Manufacture and sale of the Company's products. Interlocking directorate.	Sale of products, etc.* <sup>1</sup>	123,359	Accounts receivable	13,122
	Komatsu Zenoah Co.	(Holding) Directly 100%	Manufacture and sale of the Company's products. Interlocking directorate.	Purchase of products, etc.* <sup>2</sup>	57,578	Accounts payable	21,925
	Komatsu Industries Corporation	(Holding) Directly 100%	Manufacture and sale of the Company's products. Interlocking directorate.	Advancement of parts, etc.* <sup>3</sup>	33,950	Other Accounts receivable	14,230

Notes concerning transaction conditions and policies etc., for deciding

1. Prices and other transaction conditions are decided by negotiation, taking into account market conditions.
2. Purchase price of products etc. are decided by negotiation, taking into account market conditions.
3. With respect to advancements etc. for parts, the sight for collection of receivables shall be decided in the same way as general transaction conditions.

### Notes concerning per-share information

- |                         |            |
|-------------------------|------------|
| 1. Net assets per share | JPY 578.74 |
| 2. Net income per share | JPY 83.34  |

### Notes concerning significant subsequent events

On April 1, 2007, the Company absorbed the Hydraulic Equipment Division of Komatsu Zenoah Co., which is the Company's 100% subsidiary, into the Company's Engines and Hydraulics Business Division.

The Hydraulic Equipment Division of Komatsu Zenoah Co., was partially responsible for the development and production of key components used in various products of Komatsu. However, these operations have now been absorbed and integrated to strengthen competitive advantage through centralizing management resources on a consolidated group level and gain greater efficiency.

**Notes concerning impairment loss**

The Company recorded the following impairment losses in the asset grouping for this business year.

Machinery and equipment	JPY 3,017 million
Tools, furniture and fixtures	JPY 2,365 million
<u>Total</u>	<u>JPY 5,382 million</u>

The grouping of the Company's assets are by individual listing for idle assets while working assets are grouped according to the categories given by administrative accounting. Taking into consideration new plant construction and facility investment to expand production in existing plants, the Company conducted a survey of the current situation of fixed assets, identified fixed assets planned for disposal and recorded an impairment loss of JPY 5,382 million as an extraordinary loss for this business year.

**Independent Auditors' Report**

May 11, 2007

The Board of Directors  
Komatsu Ltd.

KPMG AZSA & Co.  
Teruo Suzuki  
Designated and Engagement Partner  
Certified Public Accountant

Yoshiteru Yamamoto  
Designated and Engagement Partner  
Certified Public Accountant

Takaki Okano  
Designated and Engagement Partner  
Certified Public Accountant

We have audited the consolidated statutory report, comprising the consolidated balance sheet, the consolidated statement of income, the consolidated statement of shareholders' equity and retained earnings and the related notes of Komatsu Ltd. as of March 31, 2007 and for the year from April 1, 2006 to March 31, 2007 in accordance with Article 444, Paragraph 4 of the Corporation Act. The consolidated statutory report is the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated statutory report based on our audit as independent auditors.

We conducted our audit in accordance with auditing standards generally accepted in Japan. Those auditing standards require us to obtain reasonable assurance about whether the consolidated statutory report is free of material misstatement. An audit is performed on a test basis, and includes assessing the accounting principles used, the method of their application and estimates made by management, as well as evaluating the overall presentation of the consolidated statutory report. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated statutory report referred to above presents fairly, in all material respects, the financial position and the results of operations of Komatsu Ltd. and its consolidated subsidiaries for the period, for which the consolidated statutory report was prepared, in conformity with accounting principles generally accepted in the United States under Article 148, Paragraph 1 of the Corporate Accounting Regulations of Japan (refer to "Basis of preparation of Consolidated Statutory Report" of "Significant Accounting Policies" of "Notes to Consolidated Statutory Report").

As discussed in the subsequent events of the Notes to Consolidated Statutory Report, Komatsu Zenoah Co., a subsidiary of the Company, split off the Outdoor Power Equipment business to a new company named Zenoah Co., Ltd. ("Zenoah") and transferred all shares of Zenoah to the Japanese subsidiary of Husqvarna AB of Sweden.

Our firm and engagement partners have no interest in the Company which should be disclosed pursuant to the provisions of the Certified Public Accountants Law of Japan.

END

**Independent Auditors' Report**

May 8, 2007

The Board of Directors  
Komatsu Ltd.

KPMG AZSA & Co.  
Teruo Suzuki  
Designated and Engagement Partner  
Certified Public Accountant

Yoshiteru Yamamoto  
Designated and Engagement Partner  
Certified Public Accountant

Takaki Okano  
Designated and Engagement Partner  
Certified Public Accountant

We have audited the statutory report, comprising the non-consolidated balance sheet, the non-consolidated statement of income, the non-consolidated statement of changes in net assets and the related notes, and its supporting schedules of Komatsu Ltd. as of March 31, 2007 and for the 138th business year from April 1, 2006 to March 31, 2007, in accordance with Article 436, Paragraph 2, Item 1 of the Corporation Act. The statutory report and supporting schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on the statutory report and supporting schedules based on our audit as independent auditors.

We conducted our audit in accordance with auditing standards generally accepted in Japan. Those auditing standards require us to obtain reasonable assurance about whether the statutory report and supporting schedules are free of material misstatement. An audit is performed on a test basis, and includes assessing the accounting principles used, the method of their application and estimates made by management, as well as evaluating the overall presentation of the statutory report and supporting schedules. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the statutory report and supporting schedules referred to above present fairly, in all material respects, the financial position and the results of operations of Komatsu Ltd. for the period, for which the statutory report and supporting schedules were prepared, in conformity with accounting principles generally accepted in Japan.

As discussed in the significant subsequent events of the notes to non-consolidated statutory report, the Company took over the hydraulic equipment business of Komatsu Zenoah Co. and merged it into the Engines and Hydraulics Business Division of the Company on April 1, 2007.

Our firm and engagement partners have no interest in the Company which should be disclosed pursuant to the provisions of the Certified Public Accountants Law of Japan.

END

## **Board of Corporate Auditors' Report**

Regarding the performance of duties by the Directors for the 138th Business Year from April 1, 2006 to March 31, 2007, we have prepared this Audit Report upon deliberation based on the audit reports prepared by each Corporate Auditor and hereby report as follows.

### 1. Auditing Methods Employed by the Corporate Auditors and Board of Corporate Auditors and Details of Such Methods

We established auditing policies, allocation of duties and other relevant matters, and received reports from each Corporate Auditor regarding their execution of audits and results thereof, as well as reports from the Directors, other relevant personnel, and the Accounting Auditor regarding performance of their duties, and sought explanations as necessary.

Each Corporate Auditor complied with the auditing standards of Corporate Auditors established by the Board of Corporate Auditors, followed the auditing policies, allocation of duties, and other relevant matters, communicated with such as the Directors, the Internal Auditing Office and other employees, and made efforts to establish the environment for collecting department information and auditing, and participated in the meetings of the Board of Directors and other important meetings, received reports from such as the Directors and employees regarding performance of their duties, sought explanations as necessary, examined important authorized documents and associated information, and studied the operations and status of assets at the head office and principal offices. In addition, we monitored and verified the content of the resolution of the Board of Directors concerning the maintenance of the system for ensuring that the performance of duties by the Directors complies with laws and regulations and the Company's Articles of Incorporation, and other systems for securing appropriate performance of duties stipulated in Item 1 and Item 3, Article 100, of the Enforcement Regulations of the Corporation Act and the status of the system based on such Resolution (Internal Control System). With respect to subsidiaries, we communicated and exchanged information with Directors and Corporate Auditors of subsidiaries, and received reports with respect to their business from subsidiaries as necessary. Based on the above methods, we examined the business reports and the accompanying detailed statements for this business term.

Furthermore, we monitored and verified whether the Accounting Auditor maintained its independence and implemented appropriate audits, and we received reports from the Accounting Auditor regarding the performance of its duties and sought explanations as necessary. In addition, we received notice from the Accounting Auditor that "the System for ensuring that duties are performed properly" (matters set forth in each item of Article 159 of the Corporate Accounting Regulations) is organized in accordance with the "Quality Management Standards Regarding Audits" (Business Accounting Council, October 28, 2005) and other relevant standards, and sought explanations as necessary. Based on the above methods, we examined the non-consolidated statutory report ("non-consolidated balance sheet," "non-consolidated statement of income," "non-consolidated statement of changes in net assets," and "notes to non-consolidated statutory report"), the accompanying statements, and consolidated statutory report ("consolidated balance sheet," "consolidated statement of income," "consolidated statement of shareholders' equity and retained earnings," and "notes to consolidated statutory report") for this business year.

### 2. Result of Audit

#### (1) Results of Audit of Business Report and Other Relevant Documents

- 1) We confirm that the business report and the accompanying detailed statements fairly represent the Company's condition in accordance with the related laws and regulations and the Articles of Incorporation.
- 2) We have found no significant evidence of wrongful acts or violations of either related laws and regulations, or the Articles of Incorporation with regard to the

performance of duties by the Directors.

- 3) We confirm that the content of the resolution of the Board of Directors regarding the Internal Control System is appropriate. In addition, we have found no matters to remark on in regard to the performance of duties by the Directors regarding the Internal Control System.

(2) Result of Audit of non-consolidated statutory report and the accompanying detailed statements

We confirm that the methods and results of the audit employed by the Accounting Auditor, KPMG AZSA & Co., are proper.

(3) Result of Audit of consolidated statutory report

We confirm that the methods and results of the audit employed by the Accounting Auditor, KPMG AZSA & Co., are proper.

May 15, 2007

The Board of Corporate Auditors  
Makoto Nakamura  
Standing Corporate Auditor

Masafumi Kanemoto  
Standing Corporate Auditor

Masahiro Yoshiike  
Corporate Auditor

Takaharu Dohi  
Corporate Auditor

Makoto Okitsu  
Corporate Auditor

END

## Reference Materials for the General Meeting of Shareholders

### **Proposed Resolution and Reference Information:**

#### **Item 1: Appropriation of Surplus**

The Company is building a sound financial position and flexible and agile corporate strength to increase its corporate value. Concerning cash dividends to shareholders, the Company maintains the policy of redistributing profits by first striving to continue stable dividends and then considering consolidated business results, while working for the goal of a consolidated payout ratio of 20% or higher.

For the 138th business year, the Company proposes to pay a year-end dividend from surplus as follows, in consideration of the Company's business performance for the business year and future business development.

- (1) Type of dividend assets  
Cash
  
- (2) Matters concerning allotment, and total amount, of dividend assets  
JPY 18 per one (1) ordinary share of the Company (an increase of JPY 8 over the previous business year)  
Total amount of dividend: JPY 17,898,625,224  
Accordingly, combined with the interim dividend of JPY 13 per one (1) ordinary share of the Company, the annual dividend will be JPY 31 per one (1) ordinary share of the Company for this business year, an increase of JPY 13 per ordinary share of the Company over the previous business year.
  
- (3) Effective date of when the dividends from surplus take effect  
Monday, June 25, 2007

## Item 2: Election of Ten (10) Directors

The terms of office of all of the ten (10) Directors will expire as of the close of this Ordinary General Meeting of Shareholders.

Accordingly, an election of the following ten (10) Directors is requested.

The candidates for the positions are as follows.

### Director Candidates

Name (Date of Birth)	Brief Personal History and Position in the Company (In charge at the Company and Representative position in other corporations)	Number of Shares of the Company Held (shares)
1. Masahiro Sakane (January 7, 1941)	4/1963 Joined the Company 6/1989 Director 6/1994 Managing Director 6/1997 Executive Managing Director 6/1999 Executive Vice President and Representative Director 6/2001 President and Representative Director (current) 6/2003 Chief Executive Officer (current)	89,500
2. Kunio Noji (November 17, 1946)	4/1969 Joined the Company 6/1997 Director 6/1999 Executive Officer 6/2000 Senior Executive Officer 6/2001 Managing Director 4/2003 Director and Senior Executive Officer (current) [In charge at the Company and Representative position in other corporations] Supervising Construction & Mining Equipment Business (Strategy, Marketing and Production)	61,100
3. Yoshinori Komamura (February 20, 1948)	4/1970 Joined the Company 4/2005 President of Construction and Mining Equipment Marketing Division (current) 4/2005 Senior Executive Officer 6/2005 Director (current) 4/2007 Senior Executive Officer (current) [In charge at the Company and Representative position in other corporations] President of Construction & Mining Equipment Marketing Division	23,700



Name (Date of Birth)	Brief Personal History and Position in the Company (In charge at the Company and Representative position in other corporations)	Number of Shares of the Company Held (shares)
4. Yasuo Suzuki (January 28, 1948)	4/1970 Joined the Company 6/2002 Executive Officer 4/2004 Senior Executive Officer 6/2004 Director (current) 4/2005 General Manager of Corporate Planning Division (current) 4/2007 Senior Executive Officer (current) [In charge at the Company and Representative position in other corporations] General Manager of Corporate Planning Division Supervising Structural Reorganization, External Corporate Affairs, Environment, Compliance, Legal Affairs, CSR, Human Resources and Industrial Machinery Business In charge of the Ishikawa Prefecture Area	21,900
5. Masahiro Yoneyama (July 3, 1946)	4/1970 Joined the Company 6/1999 Executive Officer 4/2003 Senior Executive Officer 6/2004 Director (current) 4/2006 Representative of All China Operations (current) 4/2007 Senior Executive Officer (current) [In charge at the Company and Representative position in other corporations] Representative of All China Operations	25,800
6. Toshio Morikawa (March 3, 1933)	4/1955 Joined The Sumitomo Bank, Ltd. (now Sumitomo Mitsui Banking Corporation, hereinafter “the Bank”) 6/1980 Director of the Bank 2/1984 Managing Director of the Bank 10/1985 Senior Managing Director and Representative Director of the Bank 10/1990 Deputy President and Representative Director of the Bank 6/1993 President and Representative Director of the Bank 6/1997 Chairman of the Board and Representative Director of the Bank 6/1999 Director of the Company (current) 3/2001 Advisor of the Bank 4/2001 Advisor of Sumitomo Mitsui Banking Corporation 6/2002 Advisor of the Bank 3/2005 Advisor of the Bank (current)	5,000

Name (Date of Birth)	Brief Personal History and Position in the Company (In charge at the Company and Representative position in other corporations)	Number of Shares of the Company Held (shares)
7. Hajime Sasaki (April 6, 1936)	4/1961 Joined NEC Corporation (hereinafter “NEC”) 6/1988 Member of the Board of NEC 6/1991 Senior Vice President and Member of the Board of NEC 6/1994 Executive Vice President and Member of the Board of NEC 6/1996 Senior Executive Vice President and Member of the Board (Representative Director) of NEC 3/1999 Chairman of the Board (Representative Director) of NEC (current) 6/2003 Director of the Company (current) [In charge at the Company and representative positions in other corporations] Chairman of the Board (Representative Director) of NEC Chairman of the Japanese Standards Association	2,100
8. Morio Ikeda (December 25, 1936)	4/1961 Joined Shiseido Company, Limited (hereinafter “Shiseido”) 6/1990 Director of Shiseido 6/1995 Executive Director of Shiseido 6/1997 Senior Executive Director and Representative Director of Shiseido 6/2000 Executive Vice President and Representative Director of Shiseido 6/2001 Representative Director, President and Chief Executive Officer of Shiseido 6/2005 Director of the Company (current) 6/2005 Chairman and Director of Shiseido 6/2006 Advisor of Shiseido (current) [In charge at the Company and representative position in other corporations] Chairman of the Board of Trustees of Toyo Eiwa Jogakuin	1,000
9. Susumu Isoda (January 20, 1947)	4/1969 Joined the Company 6/1998 Director 6/1999 Executive Officer 4/2003 Senior Executive Officer 4/2003 President of Production Division and President of Procurement Division 4/2004 President of Production Division 4/2006 Senior Executive Officer (current) 1/2007 Representative Director and President of Komatsu Zenoah Co. 4/2007 Representative Director and President of Komatsu Utility Co., Ltd. (current) [In charge at the Company and Representative position in other corporations] Representative Director and President of Komatsu Utility Co., Ltd.	19,000

Name (Date of Birth)	Brief Personal History and Position in the Company (In charge at the Company and Representative position in other corporations)	Number of Shares of the Company Held (shares)
10. Kenji Kinoshita (October 7, 1947)	7/1971 Joined the Company 6/2000 Executive Officer 6/2001 Chief Financial Officer (CFO) (current) 4/2004 Senior Executive Officer (current) [In charge at the Company and Representative position in other corporations] Supervising Audit and Corporate Communications and Investor Relations	22,900

Notes:

1. There are no conflicts of interests between the candidates and the Company.
2. Messrs. Toshio Morikawa, Hajime Sasaki and Morio Ikeda are candidates for Outside Directors.

Note:

3. Matters regarding candidates for Outside Directors

(1) Reason for nomination as candidates for Outside Directors

Name	Reason for nomination as candidates
Toshio Morikawa	Having served as Representative Director of the Sumitomo Bank (now Sumitomo Mitsui Banking Corporation) and as Outside Director of various other companies, Mr. Toshio Morikawa has rich experience in the business world. The Company nominates him as a candidate for Outside Director, since his proposals concerning the overall management of the Company, to be made based on his experience, are expected to enhance corporate governance of the Company.
Hajime Sasaki	Mr. Hajime Sasaki serves as Representative Director of NEC and has rich experience in the business world. The Company nominates him as a candidate for Outside Director, since his proposals concerning the overall management of the Company, to be made based on his experience, are expected to enhance corporate governance of the Company.
Morio Ikeda	Having served as Representative Director of Shiseido, Mr. Morio Ikeda has rich experience in the business world. The Company nominates him as a candidate for Outside Director, since his proposals concerning the overall management of the Company, to be made based on his experience, are expected to enhance corporate governance of the Company.

(2) Outline of facts in violation of laws and regulations or the Articles of Incorporation or facts of any other unreasonable execution of business at the Company while candidates for Outside Directors were serving as Outside Directors of the Company after they had been elected last time, and measures to prevent the occurrence of such facts and deal with them after the occurrence.

1) Outside Directors who were in Office

Messrs. Toshio Morikawa, Hajime Sasaki and Morio Ikeda

2) Outline of facts in violation of laws and regulations or the Articles of Incorporation and measures to prevent the occurrence of such facts and deal with them after the occurrence

As written in Business Report, “4. Directors and Corporate Auditors of the Company,” “(3) Outside Directors and Outside Corporate Auditors (As of March 31, 2007),” and “4) Outline of facts in violation of laws and regulations or the Articles of Incorporation or facts of any other unreasonable execution of business (any dishonest execution of business in case of Outside Corporate Auditors) during the business year, and measures to prevent the occurrence of such facts and deal with them after the occurrence.”

(3) In the case in which candidates for Outside Directors have served as Director, Executive Officer or Corporate Auditor of other corporations in the past five (5) years

1) Facts in violation of laws and regulations or the Articles of Incorporation or facts of any other unreasonable execution of business at the other corporations

Name	Hajime Sasaki
Company	NEC
Position	Chairman of the Board and Representative Director
Facts in violation of laws and regulations or the Articles of Incorporation or facts of any other unreasonable execution of business at the other corporations	NEC is obliged to submit annual reports to the U.S. Securities and Exchange Commission under the Securities Exchange Act of 1934 of the U.S. as an issuer of American Depositary Receipts (ADRs). However, NEC has not submitted the annual report for the year ended March 2006 even after the deadline for submitting the annual report (October 2, 2006), since additional analysis concerning recognition of earnings, which had been demanded during the process of audit of the consolidated statutory report for the business year ended March 2006, has not been completed.

2) Outline of facts in violation of laws and regulations or the Articles of Incorporation or facts of any other unreasonable execution of business at the other corporations, and measures to prevent the occurrence of such facts and deal with them after their occurrence, while candidates for Outside Directors have served as Outside Directors or Corporate Auditors.

Name	Toshio Morikawa
Company	NEC
Position	Outside Director
Facts in violation of laws and regulations or the Articles of Incorporation or facts of any other unreasonable execution of business at the other corporations	Same as the description of “facts in violation of laws and regulations or the Articles of Incorporation and facts of other improper execution of duties at the other corporations” in above (3) 1).
Action taken to prevent the occurrence of facts and deal with them after the occurrence	Mr. Toshio Morikawa is constantly expressing his views about disclosure of information at the Board of Directors of NEC. Having received reports on the occurrence of the fact and the progress thereafter at the Board of Directors, he discussed measures to be taken, disclosure policies, etc. with other members of the Board.

(4) When candidates for Outside Directors are currently serving as Outside Director or Corporate Auditor of the Company, the number of years since they took office

Position	Name	Number of years in office
Outside Director	Toshio Morikawa	8
Outside Director	Hajime Sasaki	4
Outside Director	Morio Ikeda	2

Note: The number of years in office shows the time from the day of the general meeting of shareholders when the Outside Director was elected for the first time to the day of this Ordinary General Meeting of Shareholders.

### Item 3: Election of One (1) Corporate Auditor

The term of office of Mr. Masahiro Yoshiike as Corporate Auditor will expire as of the close of this Ordinary General Meeting of Shareholders.

Accordingly, the Company proposes that one (1) Corporate Auditor be elected.

This item for resolution was reviewed and approved by the Board of Corporate Auditors.

The candidate is as follows.

#### Corporate Auditor Candidate

Name (Date of Birth)	Brief Personal History and Position (In charge at the Company Representative position in other corporations)	Number of Shares of the Company Held (shares)
Hiroyuki Kamano (July 21, 1945)	4/1971 Entered the Ministry of Foreign Affairs 12/1978 Retired from the Ministry of Foreign Affairs 4/1981 Registered as a lawyer 10/1988 Partner of the Kamano Sogo Law Offices (current) [In charge at the Company Representative positions in other corporations] Partner of the Kamano Sogo Law Offices	3,000

Notes:

1. There are no conflicts of any interests between the candidate and the Company.
2. Hiroyuki Kamano is the candidate for the Outside Corporate Auditor.
3. Reason for nomination as candidates for the Outside Corporate Auditor

Mr. Hiroyuki Kamano has rich actual business experiences in the field of corporate legal affairs as attorney at law. The Company nominates him as a candidate for Outside Corporate Auditor, since he is expected to play the role of Corporate Auditor putting his large experience to use.

The Company judged that although Mr. Hiroyuki Kamano has no experience in participating in the management of the other companies directly, he would be able to perform the duties of Corporate Auditors adequately because of above reasons.

### Item 4: Payment of Bonuses for Directors

The Company wishes to pay JPY 348 million in total as bonuses to the ten (10) Directors who were in the office as of the end of the 138th business year (of which, JPY 9 million in total to the three (3) Outside Directors) in consideration of the business results of the business year, etc.

The Company requests that the details such as the amount, timing and manner of payment to each Director shall be left to the decision of the Board of Directors.

## **Item 5: Establishment of the Amount of Remuneration for the Directors of the Company in the Form of Stock Options and the Details**

The Company asks for the shareholders' approval to grant stock options to the Directors of the Company for the purposes of raising the motivation and morale of the Directors of the Company, which shall contribute to the improvement of the consolidated performance of the Company.

### **1. Reasons for Resolution**

At the 137th Ordinary General Meeting of Shareholders, held on June 23, 2006, the shareholders approved the yearly remuneration amount for Directors of the Company in the form of stock options of up to JPY 360 million (provided however, that the salaries for Directors who also serve as Company employees are not included) and details of the Stock Acquisition Rights to be issued as the aforesaid stock option to the Directors of the Company for a one year period beginning on June 24, 2006.

The Company is proposing the amount of remuneration in the form of the aforementioned stock option for this business year and each business year thereafter, will be no more than JPY 360 million (of which, up to JPY 50 million is allocated for Outside Directors). The Company wishes to propose that it will be possible to flexibly plan the details of the Stock Acquisition Rights issued to the Directors of the Company (including Outside Directors) as stock options within a set range of amount and details that the Company requests for the shareholders' approval at this Ordinary General Meeting of Shareholders, as stated in below 2. (2).

The amount of remuneration in the form of the above-mentioned stock options (including those for Outside Directors) is calculated after considering the situation until present regarding stock option grants, and various other factors. With respect to the details of the Stock Acquisition Rights issued to the Directors of the Company (including Outside Directors) as the stock options proposed in this item for the shareholders' approval, the Stock Acquisition Rights are issued as stock options for the purposes of raising the motivation and morale of the Directors of the Company, which shall contribute to the improvement of the consolidated performance of the Company as stated above, the details are decided based on various factors including the situation until present regarding stock option grants, and, in light of the factors above mentioned the details that are decided are considered reasonable.

After this agenda item is approved, the Company plans to issue and allocate Stock Acquisition Rights as stock options to the Directors of the Company every year upon resolution of the Board of Directors and within the range of amount and details that are approved at this Ordinary General Meeting of Shareholders.

The Company currently has ten (10) Directors (including three (3) Outside Directors), and assuming that the Item 2 of the Agenda is approved as the original proposal, the number of Directors will be the same ten (10).

### **2. Details of Agenda Item**

- (1) Separate from the monthly remuneration amount for Directors of the Company, the Company asks shareholders to approve a yearly amount of not more than JPY 360 million for one (1) year from the day of the Ordinary General Meeting of Shareholders of the respective business year that comprises the yearly amount for remuneration in the form of stock options issued to the Directors of the Company (provided however, that the salaries for Directors who also serve as Company employees are not included), and in this, not more than JPY 50 million for one (1) year from the day of the Ordinary General Meeting of Shareholders of the respective business year is yearly remuneration for Outside Directors.

(2) The Stock Acquisition Rights to be issued as stock options to Directors of the Company (including Outside Directors) are as follows.

1) Type and number of ordinary shares to be issued upon the exercise of the Stock Acquisition Rights

The maximum number of Stock Acquisition Rights to be issued on a date within a year from the day of the Ordinary General Meeting of Shareholders of the respective business year shall be 239 units (of which, a total number of 33 units is allocated for Outside Directors).

The maximum number of ordinary shares of the Company that Directors of the Company may receive through the exercise of the Stock Acquisition Rights to be issued on a date within a year from the day of the Ordinary General Meeting of Shareholders of the respective fiscal year shall be 239,000 shares (of which, 33,000 shares are allocated for Outside Directors). When the Number of Granted Shares (defined below) is adjusted, the maximum number of shares granted to Directors and Outside Directors will be obtained by multiplying the total number of the aforementioned Stock Acquisition Rights by the Number of Granted Shares after adjustment, respectively.

The number of shares subject to one Stock Acquisition Right (hereinafter “Number of Granted Shares”) shall be 1,000 shares. If, however, the Company either effects a stock split of its ordinary shares (including allotment of ordinary shares of the Company to shareholders without consideration; the same applies hereinafter) or effects a stock consolidation after the date of resolution of this agenda item (hereinafter “Resolution Date”), the Number of Granted Shares in connection with the aforementioned Stock Acquisition Rights shall be adjusted proportionately, in accordance with the ratio of the stock split or the stock consolidation in question. Also, if it is necessary to adjust the Number of Granted Shares after the Resolution Date for other reasons, the Company can adjust the Number of Granted Shares in connection with the aforementioned Stock Acquisition Rights to the extent reasonable.

Fractions of less than one (1) share resulting from the foregoing adjustments shall be rounded down.

2) Amount of assets to be paid upon exercise of the Stock Acquisition Rights

The amount of assets to be paid upon exercise of the Stock Acquisition Rights shall be the amount calculated by multiplying the paid-in amount per share to be transferred upon exercise of the Stock Acquisition Rights (hereinafter “Exercise Price”) by the Number of Shares subject to one Stock Acquisition Right.

The Exercise Price shall be the amount calculated by multiplying 1.05 by the average of the closing price of the Company’s ordinary shares of each day in regular trading during the month (excluding days when there were no transactions of the Company’s ordinary shares) (hereinafter “Closing Price”) at the Tokyo Stock Exchange, immediately preceding the month in which the date of allotment of the Stock Acquisition Rights falls (hereinafter “Allotment Date”), with fractions of less than one (1) yen rounded up to a whole yen. However, if the Exercise Price is lower than the Closing Price on the Allotment Date (if there is no Closing Price on that date, the Closing Price on the immediately preceding transaction date shall be applied), the Closing Price on the Allotment Date shall be applied.

The Company can suitably adjust the Exercise Price to the extent reasonable after the Allotment Date of the Stock Acquisition Rights when the Company effects a stock split or stock consolidation of ordinary shares of the Company; issues new ordinary shares or



disposes ordinary shares of the Company at a price below the market price; allots, without consideration, shares of the Company of a class other than the ordinary shares to holders of the ordinary shares of the Company; or pays dividends in the form of shares of another company to the holders of ordinary shares of the Company; and if, in consideration of all factors in the situation, there is a need to adjust the Exercise Price.

3) Exercise period for the Stock Acquisition Rights

The exercise period for the Stock Acquisition Rights will be the period decided by the Board of Directors and within seven (7) years starting from the day that falls one (1) year after the Allotment Date.

4) Restrictions on the transfer and acquisition of Stock Acquisition Rights

Transfer and acquisition of Stock Acquisition Rights shall be required the approval by resolution of the Board of Directors of the Company.

5) Conditions for exercising the Stock Acquisition Rights

If a holder of Stock Acquisition Rights, be they Director, Corporate Auditor, or employee of the Company, or Director, Corporate Auditor, or employee of an affiliate of the Company, loses all their respective positions, that person is able to exercise the Stock Acquisition Rights only within a period of three (3) years from the day they lost their position, and other terms and conditions concerning the exercise of Stock Acquisition Rights shall be decided at a meeting of the Company's Board of Directors.

## **Item 6: Stock Acquisition Rights as Stock Options to Employees of the Company and Directors of Major Subsidiaries of the Company**

The management of the Company asks the shareholders' approval to give the Company's Board of Directors the authority to issue Stock Acquisition Rights as stock options to employees and Directors of Major Subsidiaries of the Company in accordance with the provisions of Articles 236, 238, and 239 of the Corporation Act.

### **1. Reasons for Necessity of Issuing the Stock Acquisition Rights on Preferential Terms and Conditions**

The Company would like to grant Stock Acquisition Rights to employees of the Company and to the Directors of major subsidiaries of the Company, for the purpose of raising their morale and their motivation to contribute to the improvement of the consolidated performance of the Company.

### **2. Details of the Stock Acquisition Rights and the maximum number of such rights that the Board of Directors can decide to issue within the scope of authority granted by a resolution at this Ordinary General Meeting of Shareholders**

#### **(1) The maximum number of the Stock Acquisition Rights for which the terms and conditions of the issue can be determined based on the authority granted by this Ordinary General Meeting of Shareholders**

The maximum number of Stock Acquisition Rights to be issued under the conditions described in 2. (3) below shall be 323 units.

The maximum number of ordinary shares to be issued upon the exercise of the Stock Acquisition Rights shall be 323,000 shares, and if the Number of Shares Granted (defined below) subject to Stock Acquisition Rights has been adjusted as provided for in 2. (3) below, the maximum number of ordinary shares to be issued shall be the number obtained by multiplying the above mentioned maximum number of the Stock Acquisition Rights by the adjusted number of shares in connection with the Stock Acquisition Rights.

#### **(2) The Company may issue Stock Acquisition Rights in question without consideration.**

#### **(3) Details of the Stock Acquisition Rights to be issued on the basis of the authority granted by this Ordinary General Meeting of Shareholders**

##### **1) Type and number of shares to be issued upon the exercise of Stock Acquisition Rights**

The shares to be issued for the Stock Acquisition Rights shall be ordinary shares, and the number of shares subject to one (1) Stock Acquisition Right (hereinafter "Number of Shares Granted") shall be 1,000 shares. However, after the resolution date of this item of Agenda (hereinafter "Resolution Date"), if the Company effects a stock split of its ordinary shares (including allotment of ordinary shares to shareholders without consideration; the same applies hereinafter) or effects a stock consolidation, the Number of Shares subject to one (1) Stock Acquisition Right shall be adjusted proportionately, in accordance with the ratio of the stock split or the stock consolidation in question. Also, if it is necessary to adjust the Number of Shares Granted after the Resolution Date for other than the aforementioned reasons, the Company shall adjust the Number of Shares Granted in

connection with the aforementioned Stock Acquisition Rights to the extent reasonable.

Fractions of less than one (1) share resulting from the foregoing adjustment shall be rounded down.

## 2) Amount of assets paid upon exercise of the Stock Acquisition Rights

The amount of assets paid upon exercise of the Stock Acquisition Rights shall be the amount calculated by multiplying the paid-in amount per share to be transferred upon exercise of the Stock Acquisition Rights (hereinafter “Exercise Price”) by the Number of Shares subject to one (1) Stock Acquisition Right.

The Exercise Price shall be the amount calculated by multiplying 1.05 by the average of the closing price of the Company’s ordinary shares of each day in regular trading during the month (excluding days when there was no transaction of the Company’s ordinary shares) (hereinafter “Closing Price”) at the Tokyo Stock Exchange, immediately preceding the month in which the date of allotment of the Stock Acquisition Rights falls (hereinafter “Allotment Date”), with fractions of less than one (1) yen rounded up to a whole yen. However, if the Rights Exercise Price is lower than the Closing Price on the Allotment Date (if there is no Closing Price on that date, the Closing Price on the immediately preceding transaction date shall be applied), the Closing Price on the Allotment Date shall be applied.

In addition, the Exercise Price shall be adjusted as follows.

- i. If the Company effects a stock split or stock consolidation after the Allotment Date of the Stock Acquisition Rights, the Exercise Price shall be adjusted in accordance with the following formula, with fractions of less than one (1) yen resulting from the adjustment being rounded up to a whole yen.

$$\text{Exercise Price after adjustment} = \text{Exercise Price before adjustment} \times \frac{1}{\text{Ratio of stock split (or stock consolidation)}}$$

- ii. After the Allotment Date of the Stock Acquisition Rights, if the Company issues new ordinary shares or disposes of treasury shares at a price below the market price, the Exercise Price shall be adjusted in accordance with the following formula, with fractions of less than one (1) yen being rounded up to a whole yen. However, this shall not apply to the cases where issue or disposition of ordinary shares is made upon exchange of securities exchangeable for the Company’s ordinary shares, or upon exercise of Stock Acquisition Rights (including corporate bonds with Stock Acquisition Rights).

$$\text{Exercise Price after adjustment} = \text{Exercise Price before adjustment} \times \frac{\text{Number of currently issued shares} + \frac{\text{Number of newly issued shares} \times \text{Paid-in amount per share}}{\text{Market Price}}}{\text{Number of currently issued shares} + \text{Number of newly issued shares}}$$

In addition, the “Number of currently issued shares” in the formula above shall exclude the number of treasury shares, and when disposing of treasury shares, the term “Number of newly issued shares” shall be read as “Number of treasury shares for disposal.”

- iii. After the Allotment Date of the Stock Acquisition Rights, if the Company allots shares

of the Company of a class other than the ordinary shares without consideration to the holders of the ordinary shares of the Company, or pays dividends in the form of shares of another company to the holders of the ordinary shares, and if, in consideration of all factors in the situation, there is a need to adjust the Exercise Price, the Company shall adjust the Exercise Price to the extent reasonable.

3) Exercise period for the Stock Acquisition Rights

From September 1, 2008 to August 31, 2015

4) Matters concerning the increase in paid-in capital and capital surplus in the event of issuance of shares upon the exercise of the Stock Acquisition Rights

- i. The amount of paid-in capital increase in the event of the issuance of shares upon the exercise of the Stock Acquisition Rights shall be one half of the maximum amount of capital increase, calculated in accordance with Article 40, Paragraph 1 of the Regulations for Corporation Accounting. Fractions less than one (1) yen resulting from the calculation shall be rounded up.
- ii. An increase in the capital surplus in the event of the issuance of shares upon exercise of the Stock Acquisition Rights shall be the amount obtainable by subtracting the amount of the paid-in capital increase from the maximum amount of the capital increase, as set forth in 4) i. above.

5) Restriction on Transfer and Acquisition

Acquisition and transfer of the Stock Acquisition Rights shall be subject to the approval by resolution of the Board of Directors.

6) Provisions pertaining to acquisition of the Stock Acquisition Rights by the Company

The Stock Acquisition Rights do not contain the provisions pertaining to the acquisition by the Company.

7) Conditions for exercising the Stock Acquisition Rights

If a holder of Stock Acquisition Rights, be they Director, Corporate Auditor, or employee of the Company, or Director, Corporate Auditor, or employee of an affiliate of the Company, loses all their respective positions, that person is able to exercise the Stock Acquisition Rights only within a period of three years from the day they lost their position, and other terms and conditions concerning the exercise of Stock Acquisition Rights shall be decided at a meeting of the Company's Board of Directors.

8) In the event where the Company engages in any merger (after which the Company ceases to exist), a corporate split in which a division is merged into an existing company, a corporate split in which a division is spun off to establish a new company (for both, limited to cases where the Company is split up), or an exchange or transfer of shares (for both, limited to cases where the Company becomes a fully-owned subsidiary) (hereinafter collectively "Restructuring Actions"), each person holding the remaining Stock Acquisition Rights at the time the Restructuring Actions take effect (hereinafter "Remaining Stock Acquisition

Rights”) shall be granted the Stock Acquisition Rights of the relevant joint stock companies prescribed in Article 236, Paragraph 1, Item 8, (a) through (e) of the Corporation Act (hereinafter “Reorganized Company”), in accordance with the conditions set forth below. In this event, the Remaining Stock Acquisition Rights shall be extinguished and new Stock Acquisition Rights in the Reorganized Company shall be issued. However, the new Stock Acquisition Rights shall be granted only if provisions for granting them in accordance with the following conditions (i–viii) are included as conditions in a merger agreement (in which the Company is merged into a Reorganized Company or a Reorganized Company is established as the result of the merger), a corporate split agreement in which a division is merged into a Reorganized Company, a plan for a corporate split in which a division is spun off to establish a Reorganized Company or a share exchange agreement, or a plan for transfer of shares.

- i. Number of the Stock Acquisition Rights of a Reorganized Company to be granted  
At the time the Restructuring Actions take effect, each holder of the Remaining Stock Acquisition Rights shall be granted an identical number of the Stock Acquisition Rights of the Reorganized Company.
- ii. Type of shares of the Reorganized Company to be issued for the Stock Acquisition Rights  
Type of shares subject to the Stock Acquisition Rights shall be ordinary shares of the Reorganized Company.
- iii. Number of shares of the Reorganized Company to be issued upon exercise of the Stock Acquisition Rights  
The number of shares shall be determined in accordance with 1) above, after taking into consideration the conditions or other factors concerning the Restructuring Actions.
- iv. Amount of assets to be paid upon the exercise of the Stock Acquisition Rights  
The amount of assets to be paid upon the exercise of newly granted Stock Acquisition Rights shall be the amount obtainable by multiplying the Rights Exercise Price to be adjusted after taking into consideration the conditions and other factors concerning the Restructuring Actions, by the number of shares to be issued for each acquisition right as stipulated in 8) iii. above.
- v. Exercise period for the Stock Acquisition Rights  
The Exercise Period shall begin on either the first day of the exercise period for the Stock Acquisition Rights stipulated in 3) above, or on the day that the Restructuring Actions take effect, whichever is later, and shall continue to the final day of the exercise period for the Stock Acquisition Rights stipulated in 3) above.
- vi. Increase in paid-in capital and capital surplus in the event of the issuance of shares upon exercise of the Stock Acquisition Rights  
Such increases shall be determined based on 4) above.
- vii. Restriction on Transfer and Acquisition of the Stock Acquisition Rights  
Transfer and Acquisition of the Stock Acquisition Rights shall be required to be approved by the Reorganized Company.
- viii. Provisions pertaining to acquisition of the Stock Acquisition Rights  
The Stock Acquisition Rights do not contain the provisions pertaining to the acquisition of the Stock Acquisition Rights.

- 9) In case where the number of shares to be issued or transferred to the holders of the Stock Acquisition Rights includes any fraction less than one (1) share, such fraction shall be rounded down.
- (4) Delegation of authority to make decisions regarding the issue of the Stock Acquisition Rights and related matters
- In addition to the above provisions, decisions regarding the issue of the Stock Acquisition Rights and all the relevant details shall be decided by the resolution of the meeting of the Board of Directors which shall be held separately.

**Item 7: Payment of Retirement Benefits for Retired Directors and Corporate Auditors, and Final Payment of Retirement Benefits for Directors and Corporate Auditors Marking the Termination of the Retirement Benefit System for Directors and Corporate Auditors**

The Company proposes to pay retirement benefits in appropriate amounts with the set limits, according to the standards prescribed by the Company, to Messrs. Toshitaka Hagiwara and Kunihiko Komiyama, who will retire as Director at the conclusion of this Ordinary General Meeting of Shareholders, and Masahiro Yoshiike, who will retire as Corporate Auditor at the conclusion of this meeting, in order to reward their services. The Company requests that the details such as the amount, timing and manner of payment shall be left to the decision of the Board of Directors regarding the Directors and to the deliberation among Corporate Auditors regarding the Corporate Auditor.

Brief personal histories of the retiring Directors and the retiring Corporate Auditor are as follows.

Name	Brief Personal History	
Toshitaka Hagiwara	6/1990 6/1995 6/1997 6/1999 6/2003	Director of the Company Managing Director of the Company Executive Managing Director of the Company Executive Vice President and Representative Director of the Company Chairman of the Board and Representative Director of the Company (current)
Kunihiko Komiyama	6/2002 4/2003	Managing Director of the Company Director of the Company (current)
Masahiro Yoshiike	6/1997	Corporate Auditor of the Company (current)

At the Board of Directors Meeting in May 2004, the Company resolved to terminate in phasing out (or down) the Retirement Benefit System. The phasing out (or down) the Retirement Benefit System will be completed at the conclusion of this Ordinary General Meeting of Shareholders and the Company is supposed to terminate the system. Accordingly, the Company proposes to pay retirement benefits as the final payment appropriate amounts with the set limits, according to the standards prescribed by the Company, to Messrs. Masahiro Sakane, Kunio Noji, Yoshinori Komamura, Yasuo Suzuki, Masahiro Yoneyama, Toshio Morikawa, Hajime Sasaki and Morio Ikeda, who will be reappointed as Director if this Ordinary General Meeting of Shareholders' agenda subjects on Item 2 be approved, and Messrs. Makoto Nakamura, Masafumi Kanemoto, Takaharu Dohi and Makoto Okitsu currently in tenure of office as Corporate Auditors, in order to reward their services.

The Company requests that the details such as the amount and manner of payment shall be left to the decision of the Board of Directors regarding the Directors and to the deliberation among Corporate Auditors regarding the Corporate Auditors. The Company also requests that the timing of payment when each shall be Director and Corporate Auditor will retire.

Brief personal histories of the Directors to be reappointed with the approval of Item 2 of the agenda are as follows.

Name	Brief personal history
Masahiro Sakane	6/1989 Director of the Company 6/1994 Managing Director of the Company 6/1997 Executive Managing Director of the Company 6/1999 Executive Vice President and Representative Director of the Company 6/2001 President and Representative Director of the Company (current)
Kunio Noji	6/2001 Managing Director of the Company 4/2003 Director of the Company (current)
Yoshinori Komamura	6/2005 Director of the Company (current)
Yasuo Suzuki	6/2004 Director of the Company (current)
Masahiro Yoneyama	6/2004 Director of the Company (current)
Toshio Morikawa	6/1999 Director of the Company (current)
Hajime Sasaki	6/2003 Director of the Company (current)
Morio Ikeda	6/2005 Director of the Company (current)

Brief personal histories of Corporate Auditors currently in tenure of office are as follows.

Name	Brief personal history
Makoto Nakamura	6/2004 Standing Corporate Auditor of the Company (current)
Masafumi Kanemoto	6/2002 Standing Corporate Auditor of the Company (current)
Takaharu Dohi	6/1999 Corporate Auditor of the Company (current)
Makoto Okitsu	6/2006 Corporate Auditor of the Company (current)

The Company proposes that the amount in total of payment of retirement benefits for retired Directors and Corporate Auditors and final payment of retirement benefits for Directors and Corporate Auditors following the termination of retirement benefit System shall be the equivalent amount that is accounted for in “Liability for Director and Corporate Auditor retirement benefits” (JPY 701 million: total of the amount recorded as “Liability for Director and Corporate Auditor retirement benefits” in the Consolidated balance Sheet and the amount recorded as such in May 2007) and the breakdown shall be JPY 654.7 million in total to the ten (10) Directors (of which, JPY 19.5 million to the three (3) Outside Directors ) and JPY 46.3 million in total to the five (5) Corporate Auditors (of which, JPY 18.3 million to the three (3) Outside Corporate Auditors).

END