KOMATSU

Annual Report 2008

Global Teamwork

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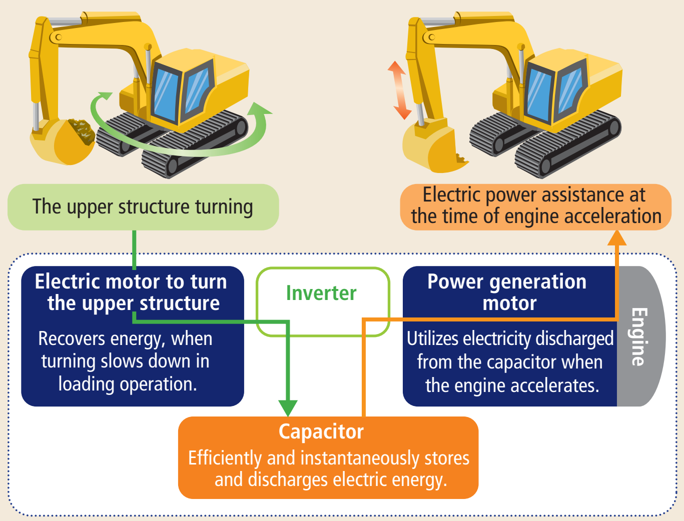
On the cover: The PC200-8 hybrid hydraulic excavator makes the world's first debut of hybrid construction equipment on the market.

The World's First* Hybrid Hydraulic Excavator on the Market

Introducing the PC200-8 Hybrid

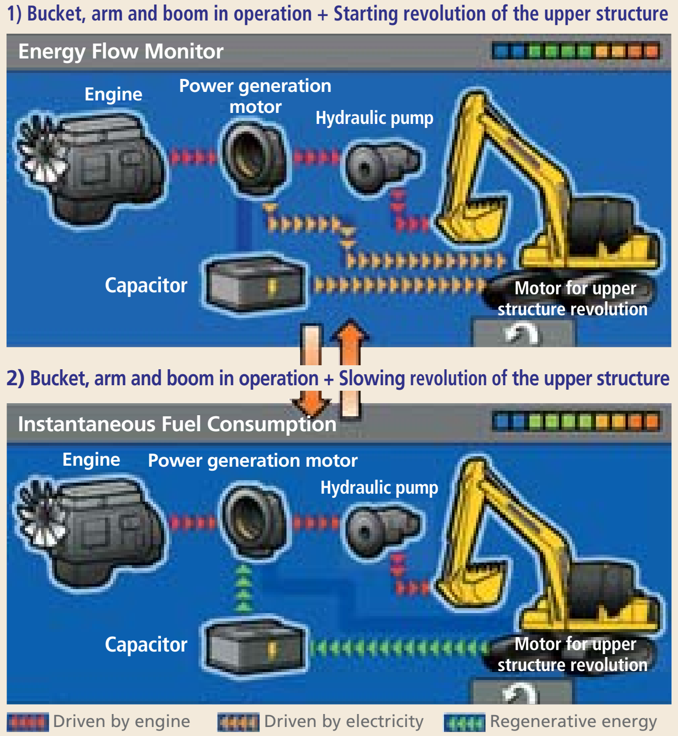
Outline of the Komatsu Hybrid System



Monitor Display of Energy Flows

1) Bucket, arm and boom in operation + Starting revolution of the upper structure

2) Bucket, arm and boom in operation + Slowing revolution of the upper structure



* The world's first introduction according to our research with respect to 7 major products for sale on the market (crawler-type hydraulic excavators, wheel-type hydraulic excavators, bulldozers, wheel loaders, dump trucks, articulated dump trucks and motor graders) as of May 13, 2008

ON THE RECORD

Sixth Consecutive Year of Growth in Sales and Profits and Fourth Consecutive Year of Renewing Record-High Profits

	Results For The Year	Change (2008/2007)
✓ Net sales	2,243.0 billion yen	UP 18.5%
✓ Operating income	332.8 billion yen	UP 36.0%
✓ Operating income ratio	14.8%	UP 1.9pts
✓ Income from continuing operations before income taxes	322.2 billion yen	UP 36.2%
✓ Net income	208.7 billion yen	UP 26.8%

ON THE MOVE

Progress Made in the Mid-Range Management Plan "Global Teamwork for 15"

(Fiscal 2008 – Fiscal 2010)

	Results For FY2008	Targets For FY2010
☐ Operating income ratio	14.8%	15% or above
✓ ROE*[1]	25.1%	20% level
☐ Net debt-to-equity ratio*[2]	0.39	0.2 or below
✓ Consolidated payout ratio	20.0%	20% or above

*[1] ROE = Net income / [(Shareholders' equity at the beginning of the fiscal year + Shareholders' equity at the end of the fiscal year) / 2]
*[2] Net debt-to-equity ratio = (Interest-bearing debt – Cash and cash equivalents – Time deposits) / Shareholders' equity

Financial Highlights

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

	Millions of yen (except per share amounts)			Thousands of U.S. dollars (except per share amounts)
	2008	2007	2006	**2008**
Net sales	**¥2,243,023**	¥1,893,343	¥1,612,140	**$22,430,230**
Japan	**505,185**	487,103	482,825	**5,051,850**
Overseas	**1,737,838**	1,406,240	1,129,315	**17,378,380**
Operating income	**332,850**	244,741	163,428	**3,328,500**
Operating income ratio	**14.8%**	12.9%	10.1%	—
Income from continuing operations before income taxes, minority interests and equity in earnings of affiliated companies	**322,210**	236,491	155,779	**3,222,100**
Net income	**208,793**	164,638	114,290	**2,087,930**
Net income per share—basic	**¥ 209.87**	¥ 165.70	¥ 115.13	**209.87¢**
—diluted	**¥ 209.59**	¥ 165.40	¥ 114.93	**209.59¢**
ROE	**25.1%**	23.5%	20.8%	—
ROA	**16.3%**	13.5%	10.0%	—
Total assets	**2,105,146**	1,843,982	1,652,125	**21,051,460**
Shareholders' equity	**887,126**	776,717	622,997	**8,871,260**
Shareholders' equity ratio	**42.1%**	42.1%	37.7%	—
Shareholders' equity per share	**¥ 891.49**	¥ 781.57	¥ 626.98	**891.49¢**
Capital investment	**145,730**	129,680	113,934	**1,457,300**
Research and development expenses	**49,673**	46,306	44,560	**496,730**
Number of employees	**39,267**	33,863	34,597	—

Sales by Operation

	Millions of yen			Thousands of U.S. dollars
	2008	2007	2006	**2008**
Construction and Mining Equipment	**¥1,897,620**	¥1,567,723	¥1,291,223	**$18,976,200**
Industrial Machinery, Vehicles and Others	**345,403**	325,620	320,917	**3,454,030**
Net sales	**¥2,243,023**	¥1,893,343	¥1,612,140	**$22,430,230**

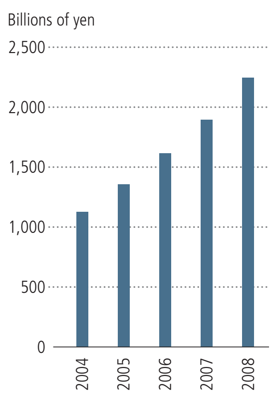
Sales by Region

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

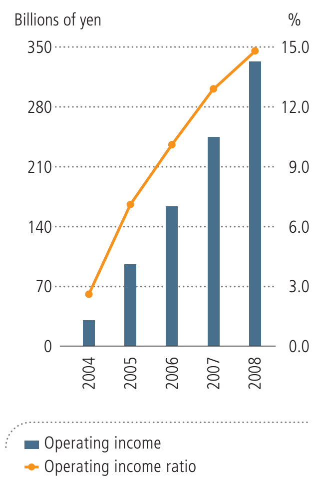
Starting in the fiscal year ended March 31, 2008, Komatsu changed its business segmentation to two segments. Accordingly, some figures in sales by operation for the previous fiscal years have been retrospectively reclassified.
The above sales by region are presented based on sales destination.
The United States dollar amounts represent translations of Japanese yen amounts at the rate of $1=¥100.
See Note 1 of Notes to Consolidated Financial Statements.

Years ended March 31

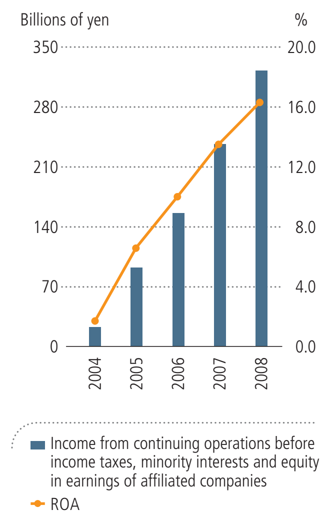
Net sales



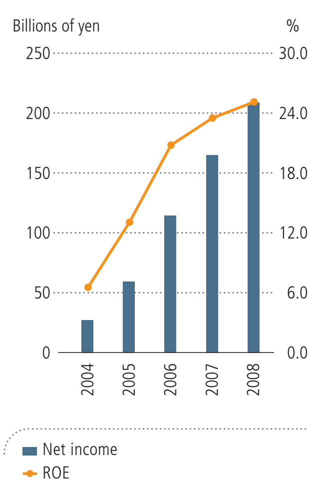
Operating income and Operating income ratio



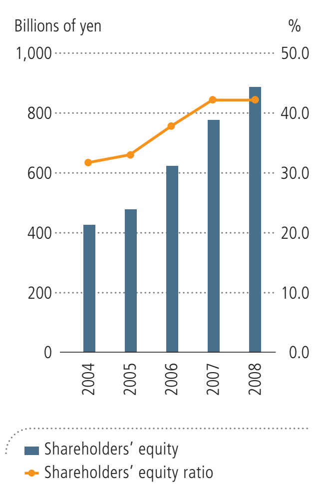
Income from continuing operations before income taxes, minority interests and equity in earnings of affiliated companies and ROA



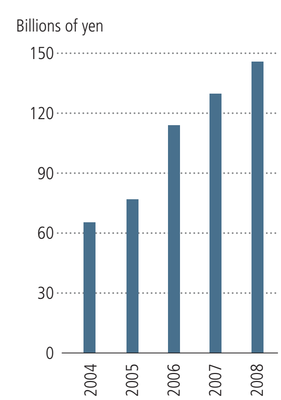
Net income and ROE



Shareholders' equity and Shareholders' equity ratio



Capital investment



Business Results

We are very pleased to report that the Komatsu Group continued to improve its performance for fiscal 2008, ended March 31, 2008, as shown in the table below. We renewed our record-high in consolidated sales and profits, and recorded the sixth straight year of growth in sales and profits.

Consolidated Results for the Year

	Results for the Year	Change (2008/2007)
Net sales	¥2,243.0 billion	Up 18.5%
Operating income	¥ 332.8 billion	Up 36.0%
Operating income ratio	14.8%	+1.9pts
Income from continuing operations before income taxes*1	¥ 322.2 billion	Up 36.2%
Income from discontinued operations*2	¥ 4.9 billion	Down 56.3%
Net income	¥ 208.7 billion	Up 26.8%

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

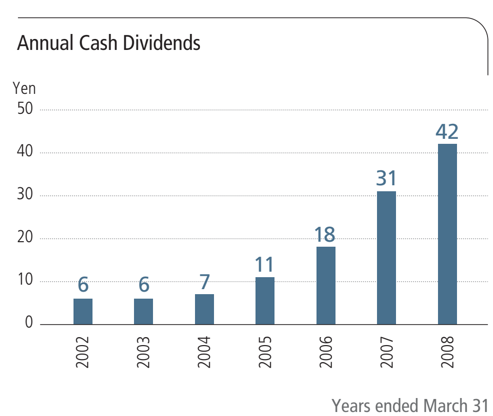
*2 In accordance with the above-mentioned Standards, income from the sale of the outdoor power equipment business of Komatsu Zenoah Co. is presented as one line, "income from discontinued operations," in the consolidated statements of income.

Consolidated net sales reached ¥2,243.0 billion (US$22,430 million, at US$1=¥100). In the construction and mining equipment segment, we boosted sales by steadily capitalizing on expanded demand against the backdrop of thriving resource development around the world and infrastructure development, particularly in emerging economies. We also expanded sales of forklift trucks and industrial machinery, reflecting buoyant capital investments in Japan and overseas.

Operating income for the year increased to ¥332.8 billion (US$3,329 million), and operating income ratio improved 1.9 percentage points over the previous fiscal year, to 14.8%. Operating income improved 36.0% due not only to expanded sales, centering on construction and mining equipment, but also to the successful realization of prices for construction and mining equipment in Japan and overseas. Income from continuing operations before income taxes, minority interests and equity in earnings of affiliated companies reached ¥322.2 billion (US$3,222 million). Net income for the year, the sum of income from continuing and discontinued operations, advanced to ¥208.7 billion (US$2,088 million).

Cash Dividends

Komatsu is building a sound financial position and flexible and agile corporate strengths 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 toward the goal of a consolidated payout ratio of 20% or higher.



Masahiro Sakane
Chairman of the Board

We have set the fiscal 2008 year-end dividends at ¥22 per share, an increase of ¥4 from a year ago, after reviewing the business results for fiscal 2008 as well as current and future business prospects. Together with the interim per share dividends of ¥20, annual dividends per share increased to ¥42, up ¥11 from the previous fiscal year, realizing the fifth consecutive year of larger dividends to shareholders.

Mid-Range Management Strategies, Goals and Tasks Ahead

With respect to our construction and mining equipment business, there are some factors of concern, such as an increase in prices of raw materials, in addition to slack demand for construction equipment in the United States. However, we project that thriving demand for construction and mining equipment should remain at a high note, particularly in emerging economies. In the industrial machinery market, we also anticipate an expansion in sales against the backdrop of buoyant capital investments, especially in emerging economies.

We at Komatsu define our corporate value as the total sum of trust given to us by society and all stakeholders. To increase this corporate value, we have set the following two management goals.

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

* Asia in the broad sense of the term, including China, Southeast Asia, India, Middle East and CIS.

Mid-Range Management Items		Goals
Preconditions	Foreign exchange rates	¥110/USD and ¥145/EUR
	Consolidated sales	¥2,400 billion (+/- ¥100 billion)
Operating income		15% or above
ROE*1		20% level
Net debt-to-equity ratio*2		0.2 or below
Consolidated payout ratio		20% or above

*1 ROE = Net income / [(Shareholders' equity at the beginning of the fiscal year + Shareholders' equity at the end of the fiscal year) / 2]

*2 Net debt-to-equity ratio = (Interest-bearing debt – Cash and cash equivalents – Time deposits) / Shareholders' equity

To achieve these two goals, we will promote the following three matters as Komatsu's permanent ongoing tasks. (1) thorough measures for compliance, safety and environmental conservation, (2) dissemination of The KOMATSU Way and human resource development, and (3) brand management activities, which we are introducing for the first time staring in the current fiscal year, ending March 31,2009.

Furthermore, we are continuing our efforts regarding the following seven activities of importance for our "Global Teamwork for 15" mid-range management plan, the goal of which is set for the year, ending March 31, 2010. We are determined to produce achievements.

1) Development of DANTOTSU Products

We are promoting the development of DANTOTSU products by taking advantage of Komatsu group-wide strengths, such as in-house capabilities to develop and produce key components including engines and hydraulic units which enable a substantial reduction of fuel consumption, IT applications as

Kunio Noji
President and CEO

represented by KOMTRAX (Komatsu Machine Tracking System), and an autonomous haulage system for super-large dump trucks.

2) Further Enhancement of Market Position in Greater Asia

We are going to further enhance our market position in Greater Asia, especially by leading our competitors in product launchings, expanding local production, and further reinforcing sales and product support capabilities.

3) Business Expansion in the Entire Value Chain*

In addition to reinforcing our parts business, we are also going to expand peripheral businesses in relation to construction and mining equipment, such as (1) services and Reman, (2) retail finance, (3) rental and used equipment, (4) working gears (attachments) and forest machines by capitalizing on Komatsu's edge in group-wide areas of original technology and by facilitating collaboration among different business operations.

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

4) Establishment of Flexible Manufacturing Operations

By taking effective advantage of global sales, production, procurement and other operations, we are going to further enhance production flexibility in tune with demand changes and foreign exchange fluctuations. We are also going to share market information among distributors, plants and suppliers. In the short term, we are going to accurately incorporate such information into production, sales and inventory planning. In the medium term, we will accurately incorporate useful information into capital investment planning in order to ensure appropriate production capacity.

5) Expansion of Utility Equipment Business

We are working further to generate synergy in production and development of forklift trucks and compact-construction equipment in order to enhance product competitiveness. We are also working to improve our position in the utility equipment industry and improve earnings by doubling our efforts in Greater Asia.

6) Reinforcement of Industrial Machinery Business

We are working to further expand our industrial machinery business by generating more synergy with NIPPEI TOYAMA Corporation as a new member of the Komatsu Group and by strengthening overseas business, particularly in Greater Asia.

7) Reduction of Fixed Costs

We have been working to reduce fixed costs since the commencement of the first-stage Reform of Business Structure project. We are working to further cut down our fixed costs by applying IT to improve administrative operations.

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

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

July 2008

Masahiro Sakane
Chairman of the Board

Kunio Noji
President and CEO

Face to Face

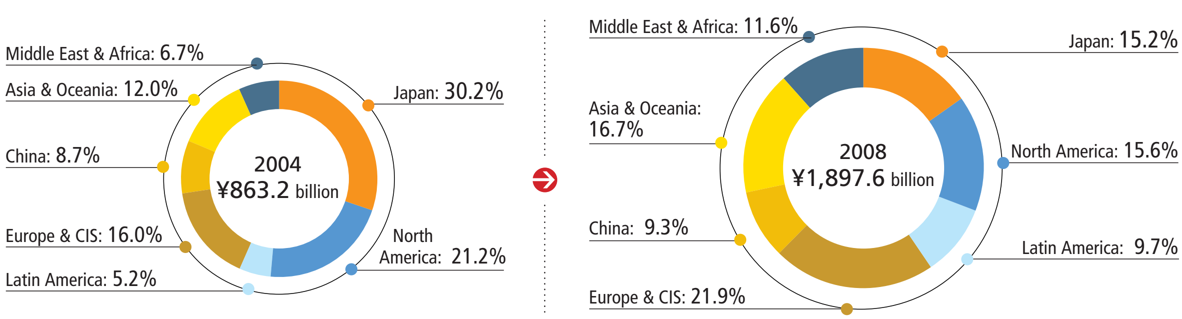
Q Against the backdrop of an expanding market for construction and mining equipment around the world, Komatsu has achieved the sixth consecutive year of growth in both sales and profits. How do you evaluate the results for the year ended March 31, 2008?

Noji: For the fiscal year under review, we were able to expand both sales and profits for six straight fiscal years and renew record-high profits for four consecutive years with substantial increases from the previous fiscal year. I am very pleased to report further improvement of Komatsu's corporate value to our shareholders and investors. This is precisely the direct result of support from employees of the Komatsu Group and our partner distributors and suppliers all around the world. In other words, it's the result of global teamwork.

Kunio Noji, President and CEO

In addition to accomplishing record-high sales and profits following the previous fiscal year, we also further improved profitability for the fiscal year under review. We were able to increase operating income ratio to 14.8%, a little short of the 15% goal of our mid-range management plan "Global Teamwork for 15" which we developed last year. In the construction and mining equipment business which accounts for about 85% of our total sales, we were able to boost sales in Latin America, Europe & CIS, Asia & Oceania, China, and Middle East & Africa, while demand in North America, the largest market of the past, and that in the Japanese market remained slack. I believe that our distribution of regional sales around the world has become evenly balanced, having gotten away from performance being affected by economic fluctuations of a given region.

Construction and Mining Equipment: Sales by Region



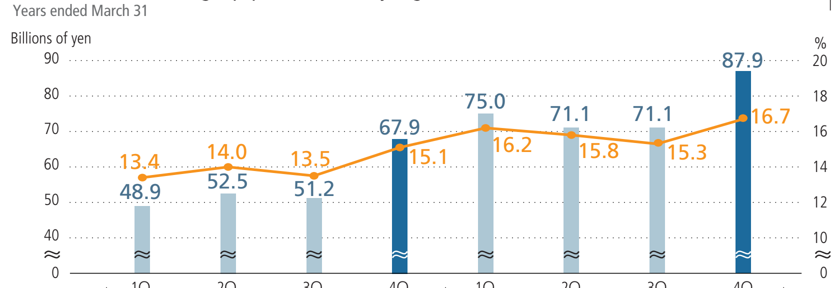
Q **The fourth quarter results (January through March 2008) of your construction and mining equipment business show a segment profit ratio of 16.7%, even when the Japanese currency appreciated by 15 yen against the US dollar compared to the same period last year. Would you explain the factors which enabled such high profitability?**

Noji: In the fourth quarter under review, the Japanese currency appreciated by 15 yen to 104 yen, compared to 119 yen in the corresponding fourth quarter a year ago. However, a big gain from expanded sales volume easily covered the yen's appreciation, particularly because of an impressive increase in demand in China during the sales season following the Chinese New Year.

Fundamentally, I believe our results show that we have been able to establish an operational framework in which we are much less volatile to foreign exchange fluctuations, reflecting our efforts over the years in global procurement and cross-sourcing activities, reinforcement of product competitiveness, as represented by our DANTOTSU products, and reduction of fixed costs.

Construction and Mining Equipment: Quarterly Segment Profit

Years ended March 31



Foreign Exchange Rates	1Q: Apr-Jun	2Q: Jul-Sep	3Q: Oct-Dec	4Q: Jan-Mar	1Q: Apr-Jun	2Q: Jul-Sep	3Q: Oct-Dec	4Q: Jan-Mar
1USD	114yen	117yen	118yen	119yen	122yen	117yen	113yen	104yen
1EUR	145yen	149yen	153yen	157yen	164yen	162yen	165yen	158yen

Segment profit — Segment profit ratio*

*Segment profit ratio is based on sales after eliminating inter-segment transactions.

Q Could you tell us about your projections for a market outlook of construction and mining equipment for the current fiscal year and mid- to long-range demand outlook?

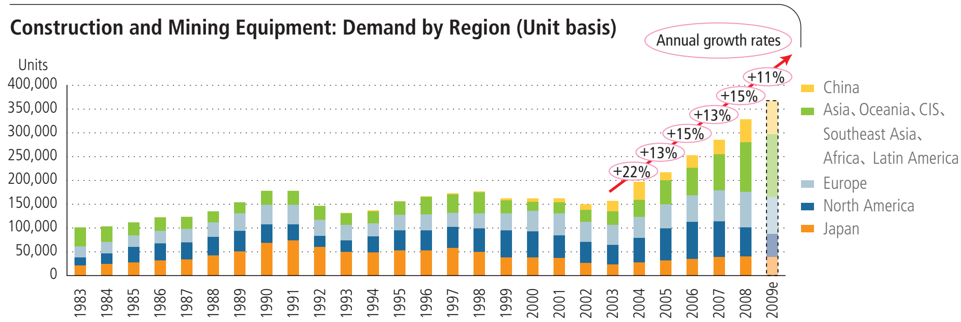
Noji: Certainly. For the fiscal year under review, a drop in demand in North America was well compensated for by growth in demand in emerging economies. As a result, with respect to seven major products, global demand increased by 15% on a unit basis from the previous fiscal year. Also, for the current fiscal year, which will end on March 31, 2009, we are projecting an increase of over 10% in global demand, driven by demand in regions other than Japan, North America and Europe.

From 1980 to 2000, global demand kept changing, mainly affected by demand in Japan, North America or Europe. Since 2003, however, global demand has been driven upward by emerging economies, as represented by BRICS* such as China.

Demand for commodities is fueled by the Chinese economic expansion and the countries with natural resources step up their investments in infrastructure development, which results in demand for more commodities. A new cycle is clearly developing, centering on emerging economies. In this light, I believe demand for construction and mining equipment should continue to grow for some more years to come.

* In addition to Brazil, Russia, India and China, we include South Africa.

Construction and Mining Equipment: Demand by Region (Unit basis)



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

Notes: 1) Years ended March 31
2) Units: Estimated by Komatsu
3) The number of units in 2009 projected by Komatsu as of April 30, 2008

Q Now, what is your projection of business results for the current fiscal year? Based on the announcement made together with the business results for the fiscal year just ended, Komatsu is anticipating a smaller growth rate of profits compared to that of sales. Could you elaborate on that?

Noji: As you have pointed out, on April 30 we projected a 15% increase in sales, 8% growth in operating income and about 5% in net income. We are anticipating the seventh straight year of growth in both sales and profits, and therefore we will continue to renew the record-high sales and profits, following the fiscal year just ended. There are two factors for smaller profits. First, it's an adverse effect of foreign exchange rates. We are anticipating the Japanese yen's appreciations by 11 yen and 2 yen per the US dollar and Euro, respectively, from the fiscal year just ended. The effects on our operating income are 3.2 billion yen and 900 million yen for a full year, when the Japanese currency appreciates by 1 yen per the US dollar and Euro, respectively. By including the foreign exchange effects of other currencies, we are estimating 43 billion yen on our operating income for the current fiscal year. Second, it's growth of materials costs. Although we are expecting a substantial increase in the prices of raw materials, we are working to offset this increase of materials costs with our efforts in price hikes of our products and cost reduction. After putting these external and internal factors together, we are planning to make a gain. However, as this gain was quite large for the fiscal year just ended, the growth rates of profits will be smaller.

Projection of 2009 Results — Billions of yen

	Projection ¥103/USD and ¥160/EUR	Change (2009/2008)
Net sales	2,580	Up 15.0%
Operating income	360	Up 8.2%
Operating income ratio	14.0%	−0.8 pts
Income from continuing operations before income taxes	353	Up 9.6%
Net income	219	Up 4.9%

Q How about other risks that you are assuming in your projections for the business results for the current fiscal year?

Noji: In addition to foreign exchange rates and materials costs, there are other external risk factors, such as delayed shipment of our products resulting from a lack of available cargo vessels. Internally, it is also important to manage the Komatsu Group in such a way that a lax mindset will not develop.

While we have recorded good results for the last few years, we nevertheless have a variety of tasks that have been left behind. Therefore, it is very important that each and every employee of the Komatsu Group work on and clear his or her own tasks one by one according to The KOMATSU Way.

Q Please explain the progress you have made in the mid-range management plan "Global Teamwork for 15."

Noji: As you know, last year we announced the plan with the goal year set for the fiscal year ending March 31, 2010. For figurative targets, we are working to obtain 15% or higher for operating income ratio, maintain a 20% level of ROE, attain 0.2 or less for net debt-to-equity ratio, and 20% or higher for consolidated payout ratio. I think we made good progress toward these targets in the fiscal year just ended. In particular, we were able to increase our operating income ratio to 14.8% for the year under review, just very short of the target of 15%. When each and every employee working in different business units of the Komatsu Group diligently clears his or her tasks one by one through the seven activities of importance defined in the mid-range management plan, I believe we will be able to achieve the targets of the plan, which should consequently lead to our sustainable growth.

[Seven Activities of Importance]

1. Development of DANTOTSU products
2. Further enhancement of market position in Greater Asia
3. Business expansion in the entire value chain
4. Establishment of flexible manufacturing operation
5. Expansion of utility equipment business
6. Reinforcement of industrial machinery business
7. Reduction of fixed costs

▲ Production of engines at the Oyama Plant

▲ With the second plant in operation, Bangkok Komatsu expands its production capacity to 6,000 units per year.

Q Could you please discuss the expansion of production capacities?

Noji: Sure. We have been expanding our production capacities in tandem with the expansion of regional demand around the world without experiencing any major problem or causing a bottleneck. I believe that this is a successful, direct result of teaming up with our partner suppliers for expansion of our production capacities. In the last fiscal year, we boosted our production capacity for construction and mining equipment by about 20% so that we could supply our products to all regions of the world. We are also going to expand it by about 20% again in the current fiscal year. To accomplish this task, we are planning to step up Japan-concentrated production of engines, hydraulic units and other key components more than the assembly capacity.

We are also planning to further upgrade our global cross-sourcing operation. As our flagship medium-sized hydraulic excavators are being produced at eight plants worldwide, we have already established an operational framework in which we can supply them to different markets around the world in tune with demand changes by positioning Bangkok Komatsu in the center of the framework. We are going to build a global cross-sourcing framework for wheel loaders in the near future.

Q Komatsu has recently made NIPPEI TOYAMA a consolidated subsidiary. Please explain your efforts in the creation of synergy with NIPPEI TOYAMA.

Noji: In December 2006, we acquired 29.3% of their outstanding shares, and since then we have been promoting the generation of collaborative effects in purchasing, production, sales and service in the industrial machinery business. To achieve more synergy effects, we have made NIPPEI TOYAMA a consolidated subsidiary after implementing tender offer for its shares. In August this year, we are going to make NIPPEI TOYAMA a wholly owned subsidiary through share exchange. With NIPPEI TOYAMA as a wholly owned subsidiary, we will be better positioned to strengthen the collaborative relationship and generate more synergy in research and development as well as joint development of new business domains which transcend the scope of our existing businesses by capitalizing on NIPPEI TOYAMA's advanced technologies and overseas business capability. In April this year, we created the Industrial Machinery General Headquarters as the organization to oversee the industrial machinery business of the Komatsu Group, including NIPPEI TOYAMA. We have established the Planning Department at NIPPEI TOYAMA, to which we have assigned some of our employees to work routinely. I hope that we will build on a win-win relationship as the two companies work flexibly and speedily on business challenges one by one.

Q Now, can you tell us about your social responsibility efforts in the environmental area?

Noji: Yes. Generally speaking, construction equipment uses diesel fuel and therefore emits carbon dioxide (CO_2). We hope to make our share of contributions to CO_2 reduction by developing products of excellent fuel economy. Last year, we launched the world's first hybrid electric forklift trucks, and this year we led the industry with the market introduction of hybrid hydraulic excavators.

PC200-8 hybrid hydraulic excavator made a debut on May 13, 2008.

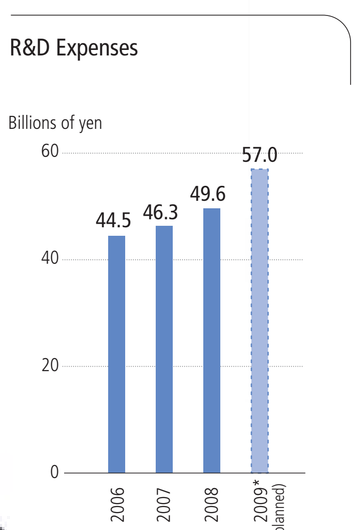
The PC200-8 hybrid hydraulic excavator achieves about 25% reduction of CO_2 emissions on average compared to standard models in its class. In our user tests, the PC200-8 hybrid has recorded a maximum of 41% reduction of CO_2 emissions, depending on the type of work conditions. With respect to our hybrid electric forklift trucks, they achieve about 80% reduction of CO_2 emissions compared to internal combustion models, and about 20%, compared to standard electric models. Our hybrid electric forklift truck received the Minister's Award, Ministry of Economy, Trade and Industry (METI) of Japan, that is the highest award of the Superior Energy-Saving Machinery Award for Fiscal 2007 which was sponsored by the Japan Machinery Federation. We are determined to develop innovative products which are even more environmentally friendly as a leader of the industries in the environmental protection area.

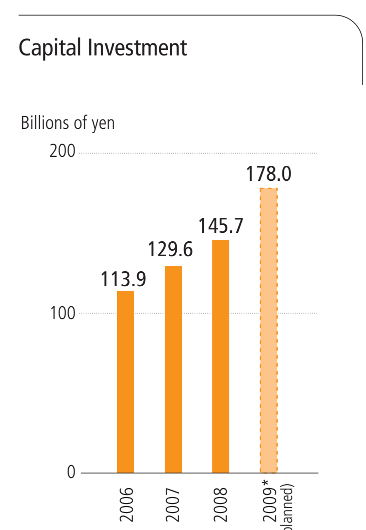
* Both PC200-8 hybrid hydraulic excavator and hybrid electric forklift truck are also described in the Feature Section "INNOVATION THROUGH TEAMWORK" on pages 13 through 21.

Q Can you tell us about your policies on capital?

Noji: Certainly. Our basic policy calls for investment to reinforce our businesses and redistribution of profits to shareholders. Main elements of the business reinforcement investment are R&D and facilities. With respect to R&D expenses, we used 49.6 billion yen for the fiscal year just ended and plan to use 57 billion yen for the current fiscal year. As for facilities investments, we committed 145.7 billion yen for the fiscal year just ended, and about 180 billion planned for the current fiscal year. In the R&D area, for example, we continue to invest in technology development aiming at the Tier 4 emission standards for construction equipment to be effective in 2011. In the area of facilities, we will also continue to invest in our production capacities for the assembling of equipment and manufacturing of parts and components, as we anticipate that demand will continue to expand, especially in emerging economies. In the fiscal year ending March 31, 2010, we will launch production of large hydraulic excavators at a new plant adjacent to the Port of Kanazawa along the Japan Sea, and in the fiscal year ending March 2011, construction equipment and forklift trucks at a new manufacturing subsidiary in Russia. So, we are keeping an aggressive stance in investments for a while.

Concerning the redistribution of profits to shareholders, our basic policy calls for cash dividends which reflect consolidated business results. More specifically, we have set a consolidated payout ratio of 20% or higher based on operating income after excluding non-operating income. We would like to continue our efforts in the redistribution of profits to shareholders by emphasizing stable cash dividends.





* Plans announced on April 30, 2008
Note: Years ended and ending March 31

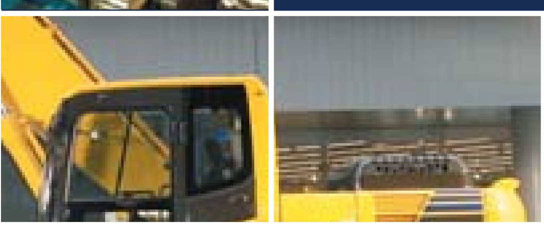
Interview with Kunio Noji, President and CEO

Feature Section

INNOVATION THROUGH TEAMWORK

Teamwork, whether global or cross-organizational, is one of our strengths, especially when developing new products. DANTOTSU (Unique and Unrivaled) products, as we call them, are also made through teamwork, and offer unrivaled performance in one or more of the following areas: fuel economy (energy efficiency), IT, safety, and environmental friendliness. With DANTOTSU products, we are determined to stay three or more years ahead of our competitors.

In the following pages, we are proud to highlight some of our DANTOTSU portfolio. Proud not only because of their excellent performance, but also because of individual employees' daily dedicated efforts in the creation of technological innovation through teamwork.



PC200-8 Hybrid Hydraulic Excavator

The PC200-8 hybrid hydraulic excavator exemplifies our concepts of development regarding fuel economy (environmental friendliness), safety and IT, with a special focus on fuel economy which is directly proportional to carbon dioxide (CO_2) reduction. By maximizing our original strengths of in-house manufacturing of key components, we have achieved an ideal matching of energy, regenerated by the electric turning system for the upper structure with engine performance. The result is about 25% reduction in CO_2 emissions and fuel consumption compared to the PC200-8 standard hydraulic excavator.

▲ The PC200-8 hybrid hydraulic excavator at a special event held on May 13, 2008, our 87th anniversary day.

From ice shelves breaking up in Antarctica to desertification advancing in Africa, global climate change is taking different forms around the world. Global warming is the most urgent environmental problem that we face today. It is partly caused by CO_2 which construction equipment also emits. We estimate that CO_2 emissions from all construction equipment working around the world account for about 0.35%* of the global fossil-fuel CO_2 emissions. By improving fuel economy of our equipment, we hope to make our part of contributions, *albeit* small, to halting global warming.

We believe that any environmental problem becomes more serious when people fall into thinking that it is too big a task for one person or company. Representing our 10-year research efforts, the PC200-8 hybrid hydraulic excavator demonstrates our commitment, as a manufacturer, to doing what we can to reduce CO_2 emissions.

We are also reducing the emissions of nitrogen oxide (NOx) and particulate matters (PM) from our equipment in compliance with international regulations. New, more stringent regulations will become effective in 2011. We don't just follow regulations but hope to set the pace for the industry.


▲ The Komatsu Hybrid System attracts hot attention from news media.

* Based on our own estimation by using 2004 data for global fossil-fuel CO_2 emissions and those of four main construction equipment types, hydraulic excavators, bulldozers, wheel loaders and dump trucks.

Outline of the Komatsu Hybrid System

Our proprietary Komatsu Hybrid Hydraulic System recovers energy generated when the upper structure reduces its speed while turning, stores the energy in the capacitor, and uses it to assist the power of the engine *via* the power generation motor when the engine accelerates. To ensure high reliability and durability, we manufacture all components of the Komatsu Hybrid System in-house, except for capacitor cells.

Comparison with Standard Construction Equipment

While standard equipment normally uses a hydraulic motor to turn the upper structure, for this movement, we have developed an electric motor exclusively for the Hybrid System, which recovers regenerative energy when the upper structure's turns slow down. Through the use of this new motor, we have achieved a hybrid excavator.

Furthermore, in the field tests with our customers, we have confirmed the maximum reduction of 41% at a jobsite where the machine's upper structure turns more frequently.

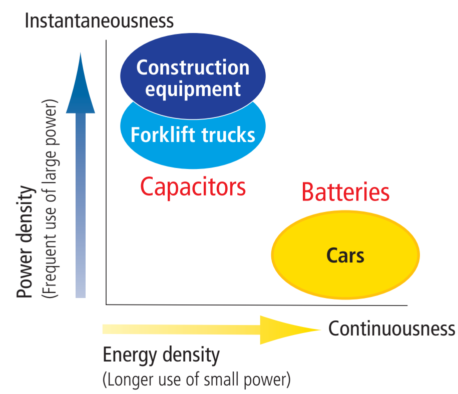
Comparison with Hybrid Cars: Capacitors v.s. Batteries

Hybrid cars require a large amount of electric energy when they start moving and accelerating, then they can run with relatively stable engine revolution. By comparison, construction equipment has to accommodate dynamic and frequent fluctuations of the engine revolution, for example, for excavation work. To assist the engine for such fluctuations, the PC200-8 Hybrid is mounted with a capacitor.

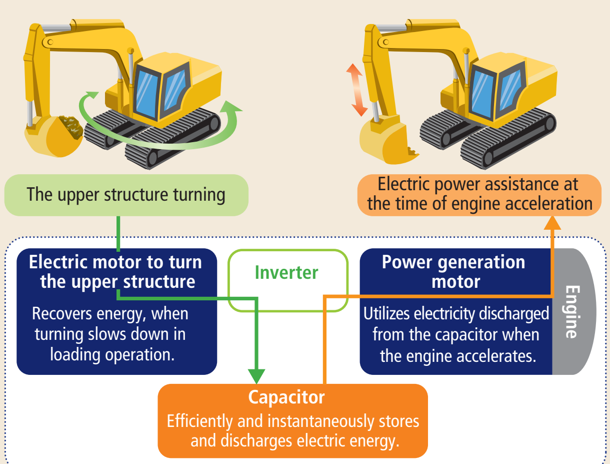
Automotive batteries work on the principle of chemical reactions, thus it takes time for them to discharge electricity, lacking sufficient support when applied to construction equipment. Meanwhile, capacitors can instantaneously and efficiently recover, store and discharge electricity.

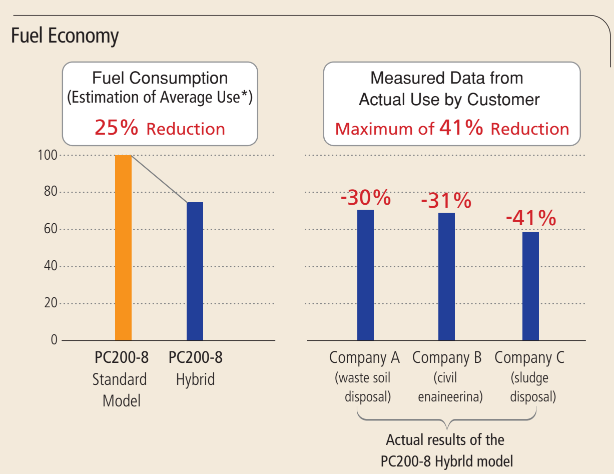
Standard construction equipment uses only diesel engines for power, whereas our new hybrid excavator utilizes regenerated energy to assist the engine when it is accelerating, enabling the use of the engine in a low revolution zone with high-efficiency combustion. In addition, while the engine runs idle, our hybrid excavator keeps the revolution at a super low level, thereby achieving impressive reductions in fuel consumption.

Compared to the PC200-8 standard model, we have achieved an average of 25% reduction in fuel consumption.



Outline of the Komatsu Hybrid System





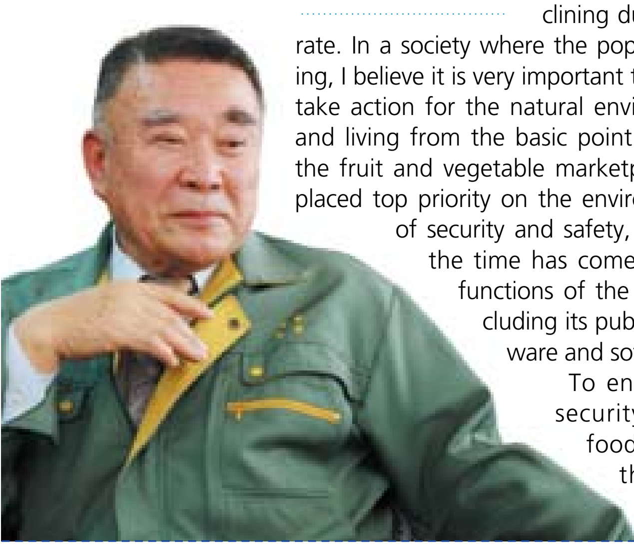
* Computed according to our internal-use standard concerning average ways of using construction equipment.

AE50 Hybrid Electric Forklift Truck

The AE50 Hybrid is the world's first hybrid electric forklift truck. It is equipped with two power systems, a battery and a capacitor as the second power supply. As a result, our hybrid model achieves 20% reduction (max.) in electric power consumption (CO_2 emissions) compared to conventional electric forklift trucks. For its superior performance, our hybrid electric forklift truck received the Minister's Award, Ministry of Economy, Trade and Industry (METI) of Japan, which is the highest award of the Superior Energy-Saving Machinery Award for Fiscal 2007, sponsored by the Japan Machinery Federation.

▲ AE50 hybrid electric forklift truck in full-schedule operation at the Yokohama Market

Mr. **Akihiro Okura**
President and COO
KINKOH SEIKA Co., Ltd.

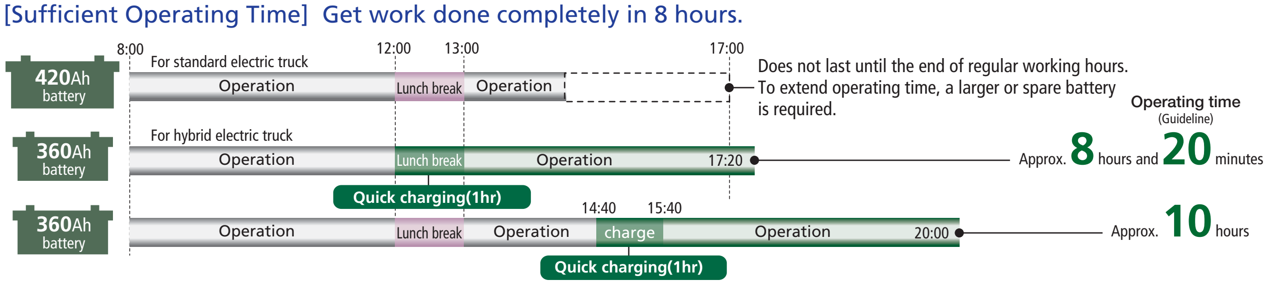


▸▸ "As you know, while the Japanese society is aging, population is declining due to a low birth rate. In a society where the population is declining, I believe it is very important to talk about and take action for the natural environment, eating and living from the basic point of views. While the fruit and vegetable marketplace has always placed top priority on the environment, a sense of security and safety, I also think that the time has come to reassess the functions of the marketplace, including its public mission, hardware and software.

To ensure a sense of security and safety of foodstuffs, I believe the marketplace needs to become a place where all concerned parties can share information, ranging from producers of vegetables and fruits to retailers. To this end, the marketplace needs to actively transmit information concerning the safety of foodstuffs. This is the reason why we bought our first hybrid electric forklift truck as soon as it became available on the market. By telling others about our efforts to further ensure the safety of foodstuffs at the marketplace, we want more people to join us. I also believe that the marketplace should get closer to consumers, who are our end-customers, by transmitting information concerning foodstuffs, for example, recipes.

In terms of actual use of our hybrid electric forklift truck, the most attractive feature is its quick charging, because the amount of time needed for charging was a really big problem for conventional electric forklift trucks. Here at the Yokohama Market, there are about 100 electric forklift trucks, including those owned by intermediaries. Unfortunately, however, we don't have enough power outlets. When all these 100 vehicles are replaced with hybrid models, operational efficiency of this marketplace should improve dynamically."

[Sufficient Operating Time] Get work done completely in 8 hours.



Yoshitaka Niigaki (right)
Group Manager
Daisuke Yoshida (left)
Chief Engineer
Takayoshi Endou (center)
Project Manager

Power Electronics Group
System Development Center
Construction Equipment Electronics
Development Division
Komatsu Ltd.

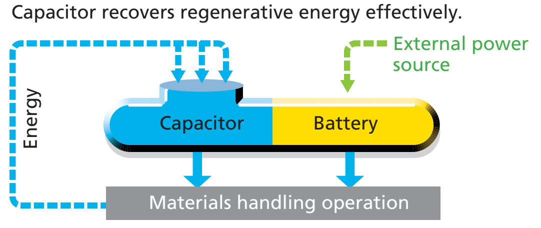
▶▶ "Our group is responsible for the development of hybrid controllers for the entire Komatsu Group, including the controllers for two Komatsu hybrid machine types, hydraulic excavator and electric forklift truck.

Power electronics is a relatively new technology. For our hybrid electric forklift trucks, we applied our technology to control the vehicles so that they would efficiently utilize their limited amount of charged electricity for the best possible energy savings and extension of operatings time. The CPU (central processing unit) of the controller calculates and evaluates different operating conditions and controls the use of electricity between the two power sources of capacitor and battery. Simply put, the hybrid controller is like a brain, giving instructions to the vehicles so that they will operate with an optimum distribution of energy.

While we were developing this hybrid controller, initially for construction equipment, we first asked Komatsu Forklift (currently, Komatsu Utility) to incorporate it into their electric forklift trucks. In January 2004, our joint development efforts with Komatsu Forklift engineers – vehicle body specialists – began. Our first prototype carried a huge controller on top of the roof, and it took about two years for us to reduce its size to one third.

The remaining two years were spent on a long battle with heat. As in the case of construction equipment, our final battle is usually with heat, noise and/or vibration. Of course, we simulate beforehand, but it's impossible to predict everything. During our joint development, we really appreciated Komatsu's strengths of in-house manufacturing capabilities. To let heat escape from the vehicle, our partners reviewed everything in micro precision, ranging from the position of the radiator and array patterns of parts to vehicle aerodynamics, the direction and number of tilt fans and drilling methods for bolt holes. While we knew they had accumulated knowledge concerning the production of forklift trucks, we were deeply impressed by their three-dimensional ways of thinking. We have learned a lot from this joint development project."

Hybrid System for Electric Forklift Trucks



Masashi Yoshida (right)
Deputy General Manager
Utility Equipment Technical Center 2
Yoshihiro Dougan (left)
Manager
Battery-powered Truck Development Group 1
Utility Equipment Technical Center 2

Development Division
Komatsu Utility Co., Ltd.

▶▶ "As we are a latecomer to the electric forklift truck market, we worked to solve the shortcomings of existing electric trucks. The major challenges were shortening the time for charging, extending operating time, prevention of a drop in power resulting from lowered voltage, simplifying maintenance, such as no refilling the battery with water, and improvement of traveling performance.

It was a big controller for the prototype, but we felt that we could `squeeze' it in the vehicle without changing the size of the conventional model. Because forklift trucks are used in confined spaces like a warehouse, an ideal model is compact yet powerful.

To solve the heat problem, we worked very closely with power electronics people. When parts are laid out neatly, the machine performance naturally becomes better. It might sound unreal, but it's true. Concerning the vibration problems, we were impressed by Komatsu's analytical capability and rich know-how in solutions accumulated over the years. While forklift trucks travel on paved surfaces, construction equipment does not. That's why they may be very sensitive to vibration problems.

We also had wonderful support from the entire Komatsu Group, especially from Komatsu's Osaka Plant. While we normally test our prototypes for 300 hours to identify defects and develop solutions, they spent a little more than a year. They assigned one operator to our prototype for evaluations with higher-than-customer criteria at many places where different types of forklift work were required."

D51-22 Bulldozer

In addition to unrivaled front visibility which enables the operator to see the blade contacting the ground, the D51-22 bulldozer is equipped with our proprietary electronically controlled hydrostatic transmission which makes possible a pairing of a hydraulic pump and motor to drive each crawler. The result is excellent operability and grading capability. Its simplified structure also ensures top durability in its class with a minimum number of welded parts.

▲ The D51-22 provides operators with the best all-around visibility in its class in the world.

Masayuki "Masa" Mukaino
Group Manager, Small-Size Machine Development Group
Construction Equipment Technical Center 1 (CETC1)
Development Division, Komatsu Ltd.

▸▸ "All were involved and everything meant a challenge to the unknown! The world's first super-slant nose D51-22 bulldozer was made available by Komatsu people from Japan, the U.S., Brazil, and Europe, sharing both hard and exciting times in a spirit of global teamwork.

In 2002, our D41-6 bulldozer was losing its market share in North America. In April, my boss and I arrived at U.S. Technical Center 1 (USTC1), which was newly established at the Chattanooga Manufacturing Operation of Komatsu America, with two missions: first, to remodel the D41-6 and second, to secure my successor. When we were recruiting local design engineers, we were encouraged by the President (at that time) of the North American Development Division, who told us, 'Develop a new model which we would never be able to do in Japan.' Then I recalled, back in 1990, a young operator complaining that bulldozers were more difficult to operate than other equipment because of a critical lack in front visibility. This idea of a super-slant nose design came across but I could not technically think of any possible way and gave up the idea then. Twelve years later, we now have the technologies at Komatsu. We told ourselves that we had come here on the Mayflower to do this pioneering job. So our challenge began – to create the world's first super-slant nose bulldozer.

In September 2002, we started the development with American design engineers, but lost three capable engineers midway. This was the most regrettable experience I had. Then, CETC1 in Japan supported us with manpower. We also had enthusiastic support from Brazil, namely, Komatsu do Brasil (KDB) and Atommix Industria, a subsidiary specializing in exterior parts. They offered many proposals, expressing their customers' voices and their own innovative ideas of manufacturing. And there was more. The Marketing and Service people at Komatsu America and Komatsu Europe International also gave us encouraging support for the creation of this new model. Our slogan, "Let's share an experience of success with everyone here!" kept me going.

All in all, it took 39 months from the development of the D51-22, our first bulldozer outside of Japan, to market launching. I understand that the D51-22 has attracted keen attention on the market. Our efforts have also resulted in the super-slant nose design as a Komatsu standard for small to medium-sized bulldozers.

In May 2008, Karl, my successor, and I felt very honored to receive the Komatsu President's Award. This award also goes to all the others who worked so hard on this project, generating the power of global teamwork."

▲ Top-level productivity is ensured by the highest horsepower in its class together with the high capacity Power-Angle-Tilt dozer blade.

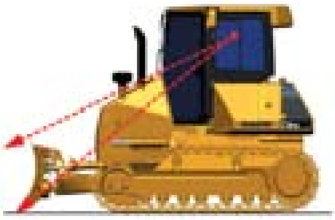
Karl R. Dommert
Chief Engineer
US Technical Center 1, North American R&D Division
Komatsu America Corp.

"Our success in the start-up of USTC1 and development of the D51-22 resulted from the challenges we took on to overcome a variety of difficulties. A major challenge was communication. The first days of development were conducted in an office with four native languages: Japanese, English, Portuguese and Hindi. Since we had the common language of engineering, we naturally shifted to writing down words and drawing many pictures.

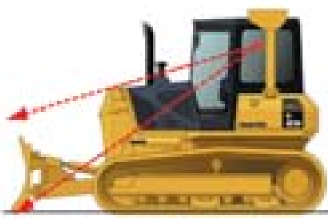
Very limited time for USTC1 members to become familiar with Komatsu's development procedures presented another challenge. On-job training in the Komatsu Engineering Standard System, processes to find information, and the development procedures themselves were a daily challenge. Many of the standard formats for design documents were not available in English and were completely new to USTC1 members.

Komatsu do Brasil and Atommix Industria brought market experience and expertise in manufacturing to the team. Together, engineering and manufacturing agreed on a design that incorporated elements that used the best of experience and special capabilities in manufacturing to build a robust cost-competitive product. The use of modular design and large steel castings reduced part count and assembly time. At each step, we worked together to develop designs according to strengths and capabilities to improve quality while reducing production costs.

In the end, what makes the D51-22 a DANTOTSU machine is best proven by our customers. If a tool is very easy to use, it will naturally bring a better value to its owners. During initial customer testing, one operator expressed his feeling in the seat of the D51-22 with a one-word comment, "Awesome!" displaying his excitement for something wonderful he had never experienced, even with bulldozers."



▲ New model: D51-22



▲ Old model: D41-6

Jorge Hosokawa
Director, Manufacturing
Komatsu do Brasil Ltda.

"At Komatsu do Brasil (KDB), we waited a long time for the opportunity to remodel the D41-6 bulldozer. This opportunity meant that KDB would become a Mother plant in partnership with the USTC1 after successfully developing and producing a new model.

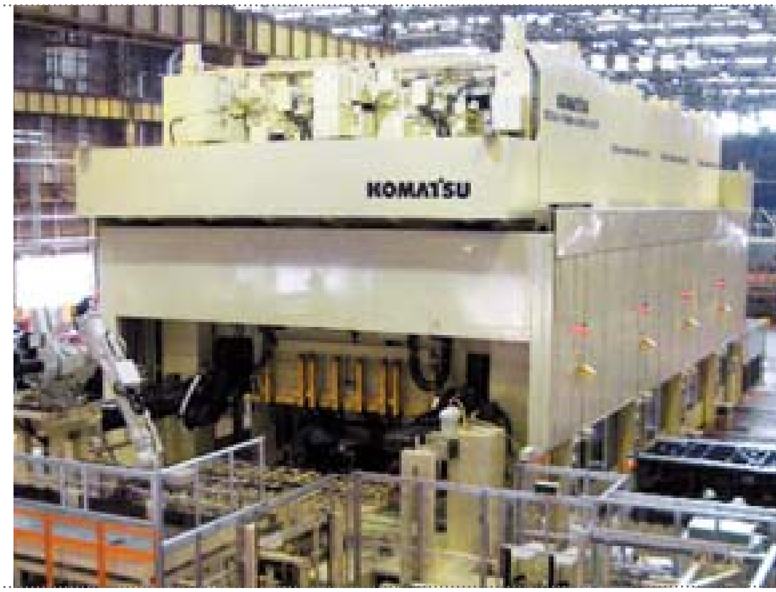
We are also Komatsu Group's exclusive production and supply center for D41 and 51 bulldozers, and thus we had a long list of requests which we wanted to incorporate into a new model. The list included not only our customers' complaints and suggestions but also our own ideas to improve production efficiency and cut down costs. This opportunity took a double-fold form of challenge for both the USTC1 and KDB. First, it would be the first time for the two to develop and produce a new model. Second, the new model would have to meet DANTOTSU qualifications.

This is why we teamed up with USTC1 people, starting in the first stage of development in order to share technical information such as our manufacturing capability and capacity, before they began to draw designs. It's also because our new model would feature the world's first super-slant design and rear-mount radiator among other innovations. Attomix Industria was also a regular, indispensable member, offering their steel cutting and other expertise. Without their committed involvement, we would not have been able to make the D51-22 available as it is today, especially the super-slant nose.

As we worked to advance our joint development to the production phase of a prototype, I clearly felt a change in the air at KDB. Everyone became keenly aware of his or her own part and responsibility in this project, which heightened company-wide motivation driven by self-confidence and a sense of mission."

Large AC Servo Press

The large AC Servo press, one of our DANTOTSU products, is making important contributions to the global production of the world's top quality cars by Toyota Motor Corporation. While conventional large mechanical presses generate pressure by a general-purpose motor which moves the slide in a constant motion, the large AC Servo press enables flexible control of the slide position and pressure. As a result, the large AC Servo press offers many advantages over the mechanical presses, including stable metal-forming quality, higher productivity, shortened production start-up lead-time and space savings. With respect to environmental friendliness, the AC Servo press cuts down electric power consumption by about 35% and noise by 20dB



▲ The large AC Servo press is used to produce body panels of Toyota Motor's flagship Lexus vehicle.

Mr. **Shoji Ikawa**
Senior Managing Director
Member of The Board
Toyota Motor Corporation

►► "We at Toyota conferred Komatsu with the Toyota Technology Award for its large AC Servo press by recognizing its contributions to reducing our internal production costs in the fiscal year ended March 31, 2007. Looking ahead, I hope that Komatsu and Toyota will continue to integrate each other's strengths for further growth. In this light, I have some expectations from Komatsu.

First of all, I would like to ask them to work on a shorter lead-time from press designing to installment. In the case of automobiles, it takes less than a year from development to market launchings of some vehicles with a short lead-time. I hope that Komatsu will make a lead-time as close as possible to a little less than a year. Second, while today's AC Servo presses handle only thin steel plates, I would like to ask them to advance the AC Servo technology and develop presses which can handle thick plates or can be used in forging in the future. Third, I would like to ask them to make further improvements in environmental friendliness. With the AC Servo press, we are now able to reduce consumption of energy by about 35%. However, as we still have the loss of energy, I would like to eliminate that loss so that we will be able to make contributions to solving the global CO_2 problem. While we have been able to substantially reduce the amount of hydraulic oil in use, almost no amount of lubricant oil has been cut down. To this end, I would like to see a recycling type, like cars, or an oil-free type in presses. We have been using completely closed facilities made of concrete in order to prevent soil contamination with oil. With such a press, we would no longer need to worry about any possibility of oil leaks. With respect to the press shop environment, there is a noise problem. AC Servo presses have considerably reduced noise, but in terms of an ideal work environment, I believe there is still room for improvements. The ideal noise level may be that of home electric appliances. Fourth, from the viewpoint of resource saving, I would like to ask Komatsu to engage in the recycling of presses which are made of hundreds of tons of iron. If Komatsu can reuse the scrapped iron for new AC Servo presses, the new presses should become more environmentally friendly and cost competitive.

Lastly, I would like to see that Komatsu and Toyota, both as manufacturers, further advance or integrate each other's technologies to make social contributions in a broad spectrum, including environmental protection."

Mr. **Kiyochika Soma**
General Manager
Technical Administration Dept.
Stamping Engineering Division
Toyota Motor Corporation

"I have always thought about getting rid of the so-called 'hard work in a dirty and dark work environment' which represented the press shop over the years, and creating a new environment where everyone wants to work.

In 2004, when I assumed my current position, Toyota was working to reinforce its global manufacturing operation. I felt that a chance had finally called on me and that it was my responsibility to introduce a press that would be safe and environmentally friendly, a press that would enable simultaneous production start-up of cars with uniform quality at plants around the world, a press that would be easy for anyone to use worldwide and free from maintenance, and a press that would offer high productivity and a cost-competitive edge. All in all, such a press would demonstrate high performance in terms of quality, quantity and cost.

We had only one and a half years to develop such a press in order to make it available for projects in China and other countries as part of our global strategies. So right away, we began development efforts with Komatsu in a sense of crisis. We created a working team with full-time members from the two companies and engaged in heated discussions every week, removing the corporate wall between the two, which resulted in today's large AC Servo presses. Although I think that Komatsu engineers must have thought of me as a meticulous and demanding guy, I would like to thank all those who worked on this project.

Our large AC Servo presses are on the world's top level today. Frankly speaking, however, when we actually see them working, we feel there is still room for further technological innovation. I would like to make technological reviews, including areas which we have overlooked or made mistakes, in order to further advance our presses."

Kenji Nishida, Ph.D.
Vice President
Industrial Machinery General Headquarters
Komatsu Ltd.

"About 20 years ago, Komatsu initiated research and development in Servo technology to control a multiple number of motors with a multiple spindle with an eye to applying to presses. In 2002, we exhibited our small and medium-sized AC Servo press series at the 21st Japan International Machine Tool Fair (JIMTOF), Japan's largest such fair. In 2004, module Servo press and the world's first AC Servo-drive die cushion for large presses attracted keen attention.

When conventional large mechanical presses form a large press material for an automotive body panel, a steel plate is held tightly between top and bottom dies with 1,000 to 2,000 tons of pressure released as kinetic energy accumulated in the flywheel on top of the press and form the press material. The die cushion is a device to control the forming pressure from under the bottom die by means of air or hydraulic pressure. By replacing this with a Servo motor, we can control this process, conventionally known as experienced craftsmanship, with numeric value. This is a very sophisticated technology as it calls for electrical control of complicated pressure adjustments in the interval of a mere 0.2 seconds.

Large presses are basically custom-made, so we develop and build them for customers' specifications and make final adjustments after installing them. As we delivered the world's first AC Servo press to Toyota Motor, we had many meetings with Toyota engineers, in which we solved a number of technical issues, one by one. Especially it was known that controlling the impact load of the Servo die cushion to specified values was technologically most difficult. Without a doubt, the fact that we were able to achieve the world's top level of molding quality in such a short time was a direct result of the teamwork with Toyota Motor working together for one goal."

Major Improvements Made Possible by the Large AC Servo Press

Higher Productivity
No. of sheets processed per hour: 350 → 700 (doubled)

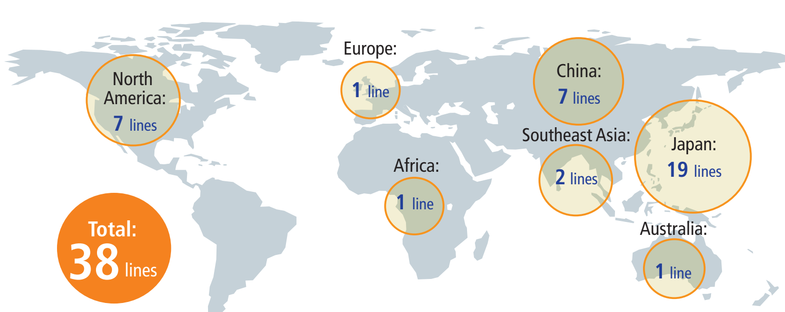
Larger Savings of Energy
CO_2 emissions reduced by 1.2 million tons (or by 35%) per line

Lower Noise
105dB → 85dB (reduced to 1/100 in terms of noise energy)

Less Maintenance Work
16 hours → 4 hours (reduced to 1/4)

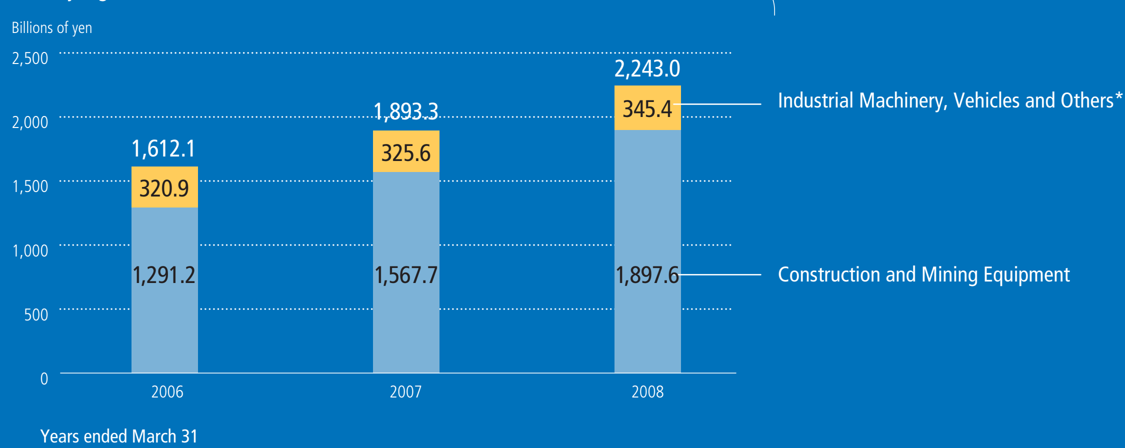
Larger Savings of Space
Size reduced to 50%

Large AC Servo Presses Delivered to The Toyota Group

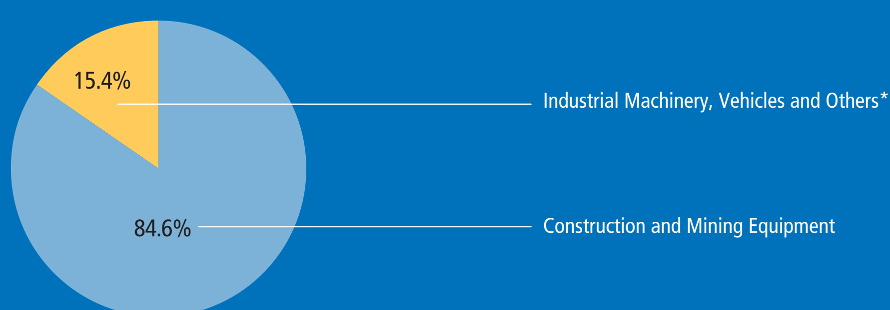


The Komatsu Group consists of 209 companies consolidated or accounted for by the equity method and employs about 39,000 people around the world. Under the mid-range management plan "Global Teamwork for 15," we provide the products, both hardware and software, which customers worldwide are happy to own. This is accomplished through the teamwork of all employees of the Komatsu Group and our partners, such as distributors and suppliers. Under this plan we are also working to promote sustainable growth of the construction and mining equipment business and the industrial machinery, vehicles and others business.

Sales by Segment



Percentage Share for 2008



* Starting in the fiscal year ended March 31, 2008, Komatsu has included Electronics in the Industrial Machinery, Vehicles and Others segment. As a result, Komatsu discloses the two segments of Construction and Mining Equipment and Industrial Machinery, Vehicles and Others. Accordingly, the figures are stated after retrospectively reclassifying related figures for the previous years.

Business Categories and Principal Products & Services

Construction and Mining Equipment

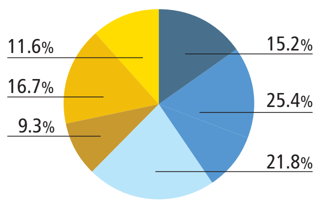
● Excavating Equipment	Hydraulic excavators, mini excavators, and backhoe loaders
● Loading Equipment	Wheel loaders, mini wheel loaders, and skid steer loaders
● Grading and Roadbed Preparation Equipment	Bulldozers, motor graders, and vibratory rollers
● Hauling Equipment	Off-highway dump trucks, articulated 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
● 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

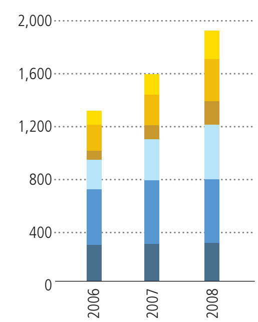
● Metal Forging and Stamping Presses	Large presses, Servo presses, small and medium-sized presses, and forging presses
● Sheet-Metal Machines	Laser cutting machines, fine-plasma cutting machines, press brakes, and shears
● Machine Tools	Transfer machines, machining centers, crankshaft millers, and grinding machines
● Industrial Vehicles and Logistics	Forklift trucks, packing and transport
● Defense Systems	Ammunition and armored personnel carriers
● Temperature-control Equipment	Thermoelectric modules and temperature-control equipment for semiconductor manufacturing
● Others	Commercial-use prefabricated structures

Construction and Mining Equipment

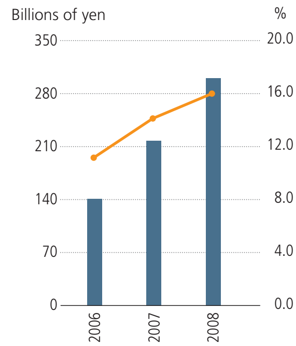
Sales by Region for 2008



Net Sales



Segment Profit



Middle East & Africa
Asia (excluding Japan & China) & Oceania
China
Europe & CIS
Americas
Japan

Segment profit
Segment profit ratio

Years ended March 31

Consolidated net sales* of construction and mining equipment for the fiscal year under review accelerated 21.0% over the previous year, to ¥1,897.6 billion (US$18,976 million). As demand for our equipment continued to expand, we not only introduced and stepped up sales of DANTOTSU models, which feature unrivaled performance in low fuel consumption and other areas, but also worked to realize better prices and strengthen our product support capability. In response to thriving demand for our equipment, we further expanded our production capacities, including new Japanese facilities for key components and assembly plants, particularly in Asia, in concert with partner suppliers.

* Sales made to external customers after elimination of inter-segment transactions

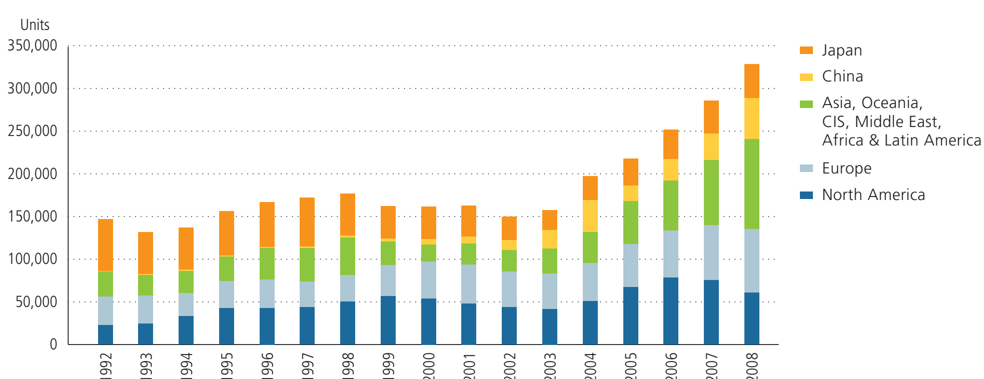
Segment profit of the construction and mining equipment business reached ¥304.3 billion (US$3,044 million), up 38.0% over the previous fiscal year, supported by expanded sales, realization of better prices in Japan and overseas and other factors. Segment profit ratio improved by 1.9 percentage points to 16.0%.

In preparation for further growth in demand, we began construction of three new plants: one to produce super-large hydraulic excavators adjacent to the Port of Kanazawa in Ishikawa Prefecture, Japan; one for medium-sized hydraulic excavators, forklift trucks and other equipment in Yaroslavl, northeast of Moscow, Russia; and one for crawlers for construction equipment in Jining, Shandong, China.

Demand for Construction & Mining Equipment by Region

Units: Estimated by Komatsu

Years ended March 31



Seven Major Products (excl. mini equipment): 1) Crawler-type hydraulic excavators, 2) Wheel-type hydraulic excavators, 3) Bulldozers, 4) Wheel loaders, 5) Dump trucks, 6) Articulated dump trucks, and 7) Motor graders

Japan

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

In this environment, we worked to expand sales of new equipment centering on DANTOTSU models, realize better prices, and reinforce the used equipment business. As a result, sales increased 2.1% from the previous year, to ¥288.6 billion (US$2,886 million). As a measure to further build up the rental and used equipment business, we decided to unify the management of Komatsu Rental Japan Ltd. and BIGRENTAL CO., LTD.

▲ BIGRENTAL's rental fleet

Europe & CIS

European demand expanded, reflecting good market conditions in Germany, the largest market in Europe, as well as Central and Eastern Europe. In addition to shortening our production lead-time, we focused our efforts on accelerating sales of DANTOTSU models and realizing better prices through our distributors who are more in number and have a stronger presence.

In CIS, demand sharply expanded for use in infrastructure development in urban areas in addition to use in natural resource and energy development. Under the leadership of Komatsu CIS, LLC, our regional headquarters, we worked to increase the number of distributors and strengthen their capabilities and reinforce our sales and product support capabilities for the mining industry. As a result, sales in Europe & CIS increased 32.9% over the previous fiscal year, to ¥414.2 billion (US$4,143 million).

▲ D355C pipe layer in Siberia

The Americas

North American demand, which had begun declining since the second half period of 2006 against the backdrop of a decline in U.S. housing starts, remained slack as affected by an economic slowdown which was triggered by the subprime mortgage problem. Meanwhile, Latin American demand continued to increase, centering on mining equipment. In this environment, we continued our efforts to normalize our distributors' inventories in North America.

In both regions, we worked to reinforce our sales and product support capabilities for the mining industry. We also worked to expand sales of DANTOTSU models, such as the D51 bulldozer, which offers unrivaled frontal visibility for operators, and to strengthen our competitiveness through such measures as price realization. As a result, sales in the Americas amounted to ¥481.2 billion (US$4,813 million), remaining flat (up 0.2%) from the previous fiscal year.

▲ Komatsu's booth at CONEXPO 2008 in Las Vegas, U.S.A. in March 2008

China

In addition to expanded demand for use in infrastructure development nationwide, demand continued to climb, supported mainly by exploration of new mines and progress in mechanization. While launching the medium-sized PC200 remodeled hydraulic excavator, which offers better fuel economy, we concerted efforts to sharpen our competitiveness by expanding sales of new equipment based on IT-utilized information concerning business negotiations and equipment operations, improving operational efficiency of sales and production and reinforcing our capability to manage customers' equipment. As a result, sales in China advanced 62.3% over the previous fiscal year, to ¥175.9 billion (US$1,759 million).

▲ 930E super-large dump trucks delivered to China for the first time

Asia & Oceania

In Indonesia, the largest market of Southeast Asia, demand continued to expand in civil engineering, agricultural and forestry sectors, in addition to surging demand for mining equipment. In India, demand for equipment advanced steadily for uses in infrastructure development and mining, driven by powerful economic growth. In Oceania, demand was strong, centering on mining equipment. In this environment, we focused our efforts on expanding our production capacity and sales and product support capabilities for the mining industry. As a result, sales in Asia & Oceania reached ¥316.7 billion (US$3,167 million), recording an increase of 37.8% from the previous fiscal year.

▲PC1250 large hydraulic excavator in a mine in India

Middle East & Africa

Against the backdrop of skyrocketing prices of crude oil and other commodities, demand remained strong in infrastructure development in the Middle East and resource and infrastructure developments in Africa. In this environment, we concerted efforts to strengthen our aggressive sales and product support capabilities by teaming up with our partner distributors. As a result, sales in the Middle East & Africa improved 42.6% over the previous fiscal year, to ¥220.7 billion (US$2,208 million).

▲PC2000 large hydraulic excavator working with HD465 dump truck in a diamond mine in Africa

Agreement Reached for Sales of Autonomous Haulage System for Dump Trucks in Australia

We have reached an agreement with Rio Tinto (Head Office: London, the United Kingdom), an international leader of mining and resource development, to provide the FrontRunner® Autonomous Haulage System for use at Rio Tinto's Pilbara iron ore operations in Western Australia. This is the second FrontRunner® autonomous installation using Komatsu's flagship 930E electric-drive dump truck, as Komatsu has already supplied the first fleet to Codelco in Chile.

▲Autonomous Haulage System for 930E super-large dump trucks in operation in a copper mine in Chile

KOMTRAX-equipped Machines Top 100,000 Units in Operation

The number of equipment with our proprietary KOMTRAX (Komatsu Machine Tracking System) has surpassed 100,000 units in operation around the world. KOMTRAX is a system to operate construction equipment by utilizing IT applications, such as our in-house developed GPS (global positioning satellite) and mobile telecommunication technologies. Since its trial market introduction in 1999, we have expanded the KOMTRAX presence throughout Japan, the United States, Europe and China. Today, we are extending it to Australia and Southeast Asian countries.

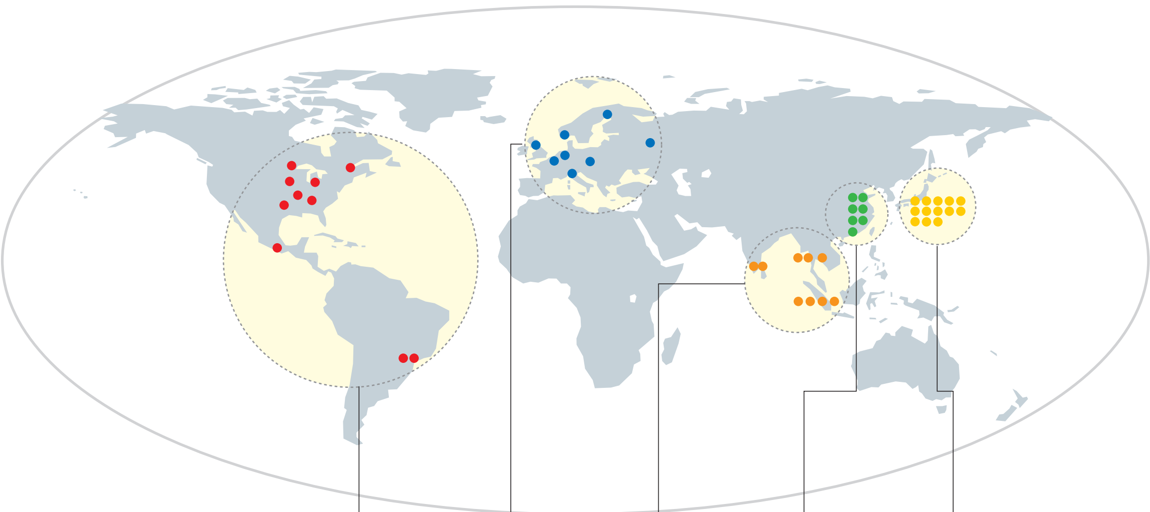
With KOMTRAX, we are not only contributing to the fuel-economizing of our customers by supporting fuel-saving machine operations and cutting down on maintenance expenses, but we are also using it as a tool to collect valuable information for management decision-making of demand prediction as well as production and inventory plans.

Number of Delivered Units Equipped with KOMTRAX as of May 2008

Japan:	Approx.	47,000 units
China:	Approx.	27,000 units
North America:	Approx.	14,000 units
Europe and other regions:	Approx.	12,000 units
Total:	**Over**	**100,000 units**

▲KOMTRAX information on the display

Manufacturing Plants for Construction and Mining Equipment



As of March 31, 2008

	The Americas	Europe and CIS	Asia	China	Japan	Total
Assembly	6	5	4	3	7	25
Components, parts and applied products	4	3	5	4	6	22
Total	**10**	**8**	**9**	**7**	**13**	**47**
"Mother" plants (equipped with product development capability)	**2**	**4**	**0**	**0**	**5**	**11**

Building Plants in Russia and Japan

We are going to build new plants, one each in Russia and Japan, in order to meet expanding demand for construction and mining equipment in infrastructure and natural resource development. In Russia, we are going to establish a manufacturing subsidiary in Yaroslavl, situated northeast of Moscow, and are planning to start with production of medium-sized hydraulic excavators in 2010 as well as forklift trucks whose demand is rapidly growing.

In Japan, we are going to build a new plant for super-large hydraulic excavators for mining use. Situated adjacent to the Port of Kanazawa along the Japan Sea coast, the new plant will commence production of 400-ton class PC4000 hydraulic excavators in August 2009.

Outline of Komatsu Manufacturing Rus LLC

Location: Yaroslavl City, Yaroslavl Region, Russia
Site area: 500,000 square meters
Investment: Approx. ¥6.9 billion (US$69 million)
Products: Medium-sized hydraulic excavators, forklift trucks, compact equipment (skid steer loaders)
Production start-up: June 2010 (planned)

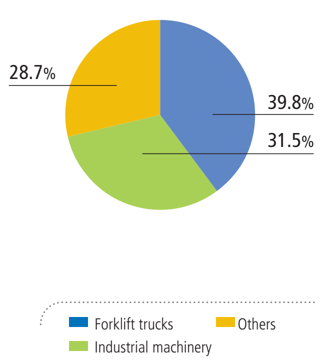
Outline of Kanazawa Plant No.2

Location: Kanazawa City, Ishikawa Prefecture, Japan
Site area: 104,500 square meters
Investment: Approx. ¥5.3 billion (US$53 million)
Products: PC4000 super-large hydraulic excavators
Production start-up: August 2009 (planned)

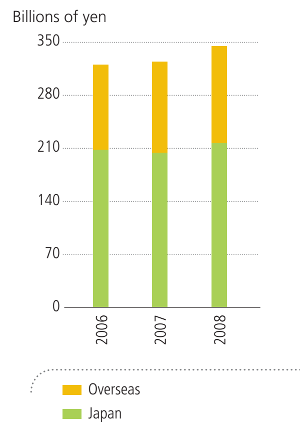
▲ PC4000 super-large hydraulic excavator (right) and 730E super-large dump truck in a mine

Industrial Machinery, Vehicles and Others*1

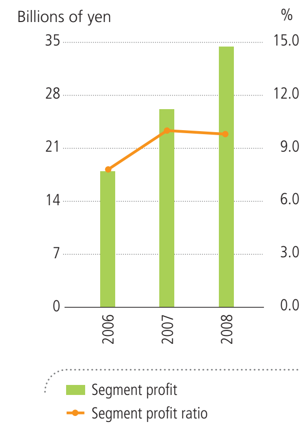
Breakdown of Sales by Business for 2008



Net Sales



Segment Profit



Years ended March 31

Consolidated net sales*2 of industrial machinery, vehicles and other operations increased 6.1% over the previous year, to ¥345.4 billion (US$3,454 million) for the fiscal year under review. Reflecting strong capital investments in Japan and overseas, the forklift truck business and the industrial machinery business continued to improve sales.

Segment profit of the industrial machinery, vehicles and other operations increased 3.2% over the previous fiscal year, to ¥33.7 billion (US$337 million). Segment profit ratio was 9.8%, a decline of 0.2 percentage points from the previous fiscal year.

*1 Starting in the fiscal year ended March 31, 2008, Komatsu has included Electronics in the Industrial Machinery, Vehicles and Others segment. As a result, Komatsu discloses the two segments of Construction and Mining Equipment and Industrial Machinery, Vehicles and Others. Accordingly, the figures are stated after retrospectively reclassifying related figures for the previous years.

*2 Sales made to external customers after elimination of inter-segment transactions

Number of Manufacturing Plants for Industrial Machinery and Forklift Trucks

As of March 31, 2008

	The Americas	China	Japan	Total
Forklift trucks	1	1*3	1*3	3
Industrial machinery	0	1	6*4	7
Total	1	2	7	10

*3 It is a plant where both forklift trucks and construction equipment are being produced. It is counted as a manufacturing plant for the construction and mining equipment business.

*4 One of the six plants is situated on the same site as a manufacturing plant for the construction and mining equipment business.

▲ Komatsu Plant for large presses

▲ Kanazawa Plant for large presses

▲ Komatsu Utility (China) Machine Co., Ltd. for forklift trucks and small construction equipment

Forklift Truck Business

In the forklift truck business, Komatsu Utility Co., Ltd. worked to expand sales of new models and strengthen its sales and service capabilities, mainly in Greater Asia which includes Asia, CIS and the Middle East. The company also concerted efforts to step up sales of electric forklift trucks in Japan, including the market introduction of the industry's first hybrid electric forklift truck.

Industrial Machinery Business

Our industrial machinery business effectively took advantage of capital investments, centering on the automobile industry in Japan and overseas, and enjoyed good sales of large presses, sheet metal and press machines of Komatsu Industries Corporation, and machine tools of Komatsu Machinery Corporation.

To further reinforce the industrial machinery sector, Komatsu Ltd. had acquired 29.3% of the equity of NIPPEI TOYAMA Corporation back in December 2006. In January 2008 the Company launched the tender offer to obtain all issued shares of NIPPEI TOYAMA, resulting in an equity-holding ratio of 93.7% as of March 31, 2008.

Hybrid Electric Forklift Receives the Minister's Award, Ministry of Economy, Trade and Industry of Japan

Komatsu Utility's AE50 hybrid electric forklift truck has received the Minister's Award, Ministry of Economy, Trade and Industry (METI) of Japan, the highest award of the Superior Energy-Saving Machinery Award for Fiscal 2007, which was sponsored by the Japan Machinery Federation (JMF). This world's first hybrid electric forklift truck is powered by two electric systems – a capacitor and a battery. In addition to a 20% reduction (max.) in energy consumption compared to conventional electric forklifts, our hybrid model has gained excellent responses on the market since its launching in May 2007 for its innovative solutions to typical problems: a drop in power at low levels of charged electricity, short operational time, and tiresome maintenance of battery replacement.

▲ At the ceremony for the Superior Energy-Saving Machinery Award for Fiscal 2007

▲ AE50 hybrid electric forklift truck awarded with the Minister's Award, Ministry of Economy, Trade and Industry (METI) of Japan

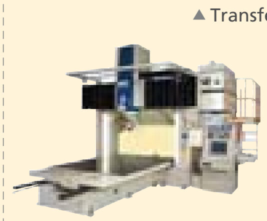
NIPPEI TOYAMA to Become a Wholly Owned Subsidiary

Komatsu Ltd. and NIPPEI TOYAMA Corporation decided to make the latter a wholly owned subsidiary of the former on August 1, 2008 through share exchange. Since our first acquisition of their shares in December 2006, we have worked to achieve collaboration benefits in purchase, production, sales and service in the industrial machinery business. We are now looking into collaboration in the research and development area as well as in new business development which transcends the existing domains of the two companies, as we continue to strengthen our relationship.

Outline of NIPPEI TOYAMA Corporation

Established:	July 1945
Capitalized:	¥ 6,014 million (US$60 million)
Net sales:	¥ 90,691 million (US$907 million)
Number of employees:	1,689 (Consolidated)
Production facilities:	3 in Japan and 1 in China
Main products:	Industrial machinery (laser cutting machines, transfer machines, machining centers, wire saws for silicon wafers, etc.)

▲ Transfer machines



▲ 3-D laser cutting machine

▲ Machining center

▲ Wire saw

Reducing Environmental Impact

In accordance with the Komatsu Earth Environmental Charter (revised in July 2003) in which we laid forth our vision for realizing a sustainable society, we at the Komatsu Group are promoting efforts from a global perspective, which reflect our awareness of our social responsibilities.

Komatsu Earth Environmental Charter (revised in July 2003)

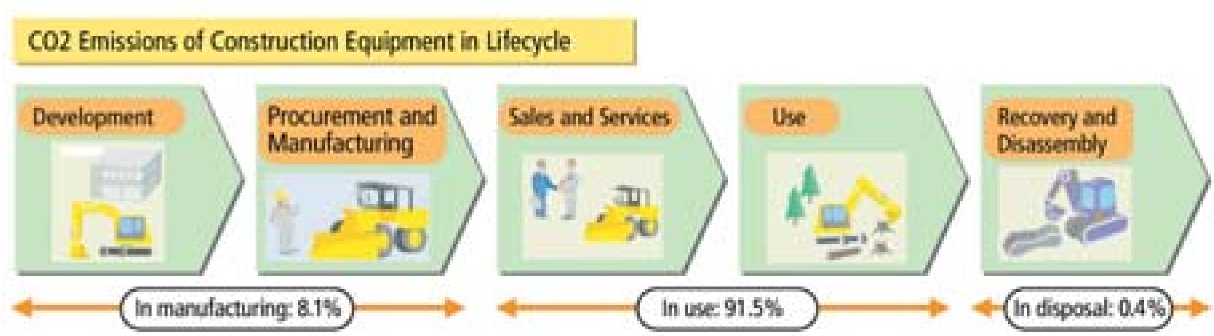
Corporate Principles

1. Contributions to Realization of Sustainable Society
2. Simultaneous Realization of Environmental and Economic Performance
3. Observance of Corporate Social Responsibility

Guidelines for Corporate Activity

1. Framework for Global, Group-wide Environmental Management System
2. Development of Products and Technology with Superior Environmental Quality and Economic Performance
3. Promotion of Zero Emissions
4. Management of Environmental Risks and Observance of Corporate Social Responsibility

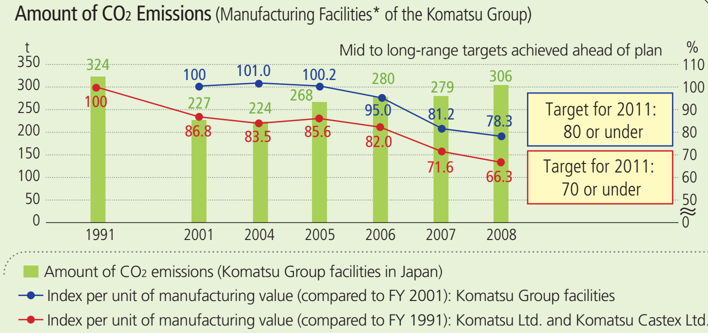
Activities to Reduce CO_2 Emissions for the Prevention of Global Warming



1. Reduction of CO_2 Emissions in Manufacturing

Starting in the fiscal year ended March 31, 2008, Komatsu upgraded the mid- to long-range environmental management goals by setting CO_2 emissions volume per manufacturing value as an index for all types of energy used in manufacturing, including electricity, fuel gases, and fuel oil. Under this initiative, we are working to reduce CO_2 emissions by 20% by the end of the fiscal year ending March 31, 2011 from the fiscal year ended March 31, 2001. During the fiscal year under review, we carried out a variety of group-wide improvement activities under the leadership of All Komatsu Energy Saving Working Group, and reduced CO_2 emissions per unit of manufacturing value by 21.7% from the fiscal year ended March 31, 2001, achieving the mid- to long-range goal ahead of schedule again.

Amount of CO_2 Emissions (Manufacturing Facilities* of the Komatsu Group)



Manufacturing value: Total production costs after direct materials costs, costs of parts from other Komatsu plants and procurement costs of parts

*1 Awazu Plant, Osaka Plant, Mooka Plant, Oyama Plant, Construction Equipment Electronics Division, Koriyama Plant, Komatsu Utility Co., Ltd. (Tochigi and Kawagoe plants), Komatsu Castex Ltd. (Himi Plant), Komatsu Engineering Corp. (Awazu Plant), and Komatsu House Ltd.

Note: Years ended March 31.

Reduction of Materials with Environmental Impact and Response to Registration, Evaluation and Authorisation of Chemicals (REACH)*[1]

In response to REACH regulations effective in Europe in 2007, we have been reassessing chemical substances for limited use and promoting the reduction or prohibition of their use. In cooperation with our partner suppliers, we have begun the introduction of a management system in order to strengthen our management of impact substances used in our products.

Environmental Impact Substances: Banned and Reduced Use in Products

Rank	Amount	Substance
Banned	9	PCBs, Asbestos, Specified Chlorofluorocarbons, Trichloroethylene, Triethanolamine, Chromium(VI)*[2], Cadmium*[2], PBB/PBDE DE (Brominated flame retardants)*[2], Polycyclic aromatic hydrocarbons (PAH)*[2]
Reduced	7	Lead, Mercury, Arsenic, Selenium, Hydrofluorocarbons, Methanol, Hexachlorobenzene

*[1] EU regulation addressing Registration, Evaluation and Authorisation and Restriction of Chemicals.
*[2] Total ban of flame retardants planned to start in January 2010

Komatsu Group in Japan Certified for ISO14001 Standards

In the fiscal year ended March 31, 2008, non-manufacturing entities, such as the Tokyo Head Office, Research Division, and Techno Center, as well as main subsidiaries in Japan, were certified for the ISO14001 standards, a leading environmental management system of the world. By adding them to our four plants, i.e., Awazu, Osaka, Mooka and Oyama, the Komatsu Group in Japan is now certified for the ISO14001 standards.

Note: See *Environmental & Social Report 2008* for more information concerning Komatsu Group's efforts.
URL: http://www.komatsu.com/CompanyInfo/csr/

2. Reduction of CO_2 Emissions from Construction Equipment in Operation

In terms of its lifecycle, construction equipment emits 91.5% of total CO_2 emissions in operation. In addition to reducing CO_2 emissions from our equipment by means of improving mechanical efficiency, we are working to reduce CO_2 emissions by developing and introducing hybrid hydraulic excavators and hybrid electric forklift trucks.

Leading the World with the Market Introduction of Hybrid Models

Reduction of CO_2 Emissions
Down 85% compared to internal combustion models
Down 20% compared to standard electric models

Reduction of Electricity Consumption
Down 20% compared to standard electric models

Receiving the Minister's Award, Ministry of Economy, Trade and Industry (METI) of Japan, the highest award of the Superior Energy-Saving Machinery Award for Fiscal 2007

▼ PC200-8 Hybrid Hydraulic Excavator
(Introduced on the market in June 2008)

▲ AE50 Hybrid Electric Forklift Truck
(Introduced on the market in May 2007)

Reduction of CO_2 Emissions
Down 25% compared to PC200-8 standard hydraulic excavators
(Estimated average use on the market)

Working Together with Local Communities

We believe that the way to enhance our corporate value from a long-range perspective is not only by growing our business but also by harmonizing with and making contributions to society as a respected corporate citizen. The Komatsu Group as a whole is actively and continuously engaging in activities that bring benefit to society.

Basic Stance on Making Social Contributions

Purpose

The Komatsu Group and its employees, as local community members, will contribute to society.

Basic Principles

Contributions shall be:

1. Continuous
2. In the public interest
3. Voluntary
4. Acceptable by employees
5. Not aimed at advertisement

Main Areas of Activities

Komatsu Group's main activities for social contributions are in the following three areas.

- Support for the Flower Association of Japan
- Promotion of culture and education as well as development of the local community
- Promotion of sports
- Recovery from disasters and humanitarian assistance

▲ Roof-top garden of the Komatsu Head Office building open to the public every Friday afternoon

Providing Full Support in Removal of Anti-Personnel Landmines and Reconstruction of Communities: Extending the Reach to Africa

As part of our efforts to make social contributions, we have developed demining machines for anti-personnel landmines since 2003. In September 2007, we delivered our first machine for actual deployment in Afghanistan. Anti-personnel landmines were placed whenever the civil wars broke out, leaving a massive amount of them in the ground in Asia, namely, Afghanistan and Cambodia, as well as in Africa. Those landmines continue to cause serious injuries even today, making it very difficult for community rebuilding. We are now extending our demining reach to Africa.

▲ Komatsu-made demining machine for anti-personnel landmines in operation in Afghanistan

Collaborating with NPO

In January, we announced a collaboration agreement with Japan Mine Action Service (JMAS), a non-profit organization concerning the removal of anti-personnel landmines. JMAS is mainly staffed with retirees of Japan's Defense Forces who have a wealth of skills and experience in removing landmines. In addition to removing landmines and unexploded bombs,

▲ Kunio Noji (left), President and CEO of Komatsu Ltd. with Mr. Mitsuo Nonaka (right), President of JMAS after signing the agreement for a reconstruction project in Cambodia

Support for Reconstruction of Disaster-Affected Communities such as the Niigata-ken Chuetsu-oki Earthquake in 2007

The Komatsu Group actively offers or lends construction equipment and makes cash donations, which are needed for assistance and rebuilding efforts in order to facilitate early recovery of disaster-affected communities. In the Niigata-ken Chuetsu-oki Earthquake in 2007, our efforts included the donation of a temporary nursing school building.

▲Komatsu provides a temporary building for the Handa Nursery School of Kashiwazaki City, Niigata Prefecture.

Promotion of Sports through Judo

Komatsu places the promotion of sports as one of the main efforts for social contributions. While continuing the promotion of Judo through Komatsu Women's Judo Team, we supported the City of Jining in the establishment of Jining Komatsu Judo Facility in November 2007, and have expanded the exchange activities, for example, by inviting local Judo athletes to Japan for joint workouts with our Judo team members.

▲At the opening ceremony for the Jining City Komatsu Dojo

digging wells and engaging in educational activities, JMAS has been actively assisting the development of skills and human resources in cooperation with governmental organizations of different countries. By integrating our technologies of demining machines and JMAS' know-how and experience, we should be able to rebuild mine-contaminated areas faster than before, thereby making more beneficial contributions. Our efforts jointly with JMAS are already underway in the form of community reconstruction projects, the first in Cambodia and the second in Angola.

Providing Integrated Assistance from Landmine Removal to Community Reconstruction

In the community reconstruction project in Cambodia, our first joint project with JMAS, in which we have already begun activities, we are planning to remove landmines as soon as possible by using our demining machine, and make community reconstruction efforts, developing farm land from landmine-removed areas, digging wells, building schools and repairing and building roads and bridges. For this project, in addition to lending our demining machine and construction equipment at no cost, we are going to pay for transportation and other expenses to Cambodia as well as spare parts for the equipment. We shipped all equipment from Japan at the end of May 2008, and plan to start training people who are going to operate the equipment.

Our next project is in Angola, where we are planning to provide support jointly with Japan's Ministry of Foreign Affairs and trading houses. In January 2008, we conducted the third site survey there, and we are finalizing our selection of the areas now. After completing the necessary procedures with the two governments of Angola and Japan, we would like to deliver our equipment in August 2008 and start training in September.

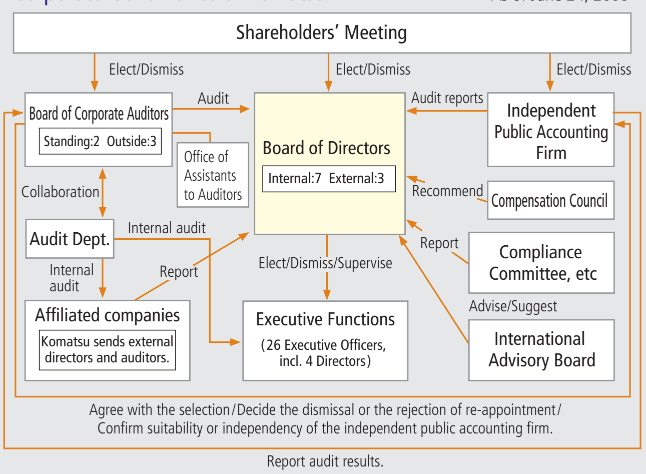
▲Our demining equipment deployed for a site survey in Angola

By continuing the community reconstruction efforts, which start with demining as one of our social contribution activities, we hope to extend the reach of our efforts in collaboration with supporting companies, NGOs, governments, international organizations and local citizens.

We, at Komatsu Ltd., believe our corporate value is the total sum of trust given to us by society and all stakeholders. To become a company which enjoys more trust from shareholders and all other stakeholders, Komatsu is working to strengthen corporate governance, improve management efficiency, advocate corporate ethics and ensure sound management on a group-wide basis.

To further improve the transparency of management to our shareholders and investors, we disclose information in a fair and timely manner and actively engage in investor relations activities by holding meetings with shareholders and investors.

Corporate Governance of Komatsu — As of June 24, 2008



Organizational Profile

In 1999 Komatsu Ltd. introduced the Executive Officer System and has been working to separate management decision making and supervisory functions from executive functions within the confines of the law. At the same time, the Company has maintained the Board of Directors with a small number of members and appointed outside directors and auditors. To improve the effectiveness of discussions in Board meetings, we have promoted reforms in the operational aspect of Board meetings to ensure thorough discussions of important management agendas and quick decision-making.

Board of Directors and Directors

The Board of Directors meets every month and makes decisions on management policies of the Komatsu Group, reviews and resolves important management matters, and strictly controls and supervises the execution of management duties by all executive management personnel including the representative directors. [The Board met 15 times in the fiscal year ended March 31, 2008.]

Of the 10 directors on the Board, there are three outside directors who work to ensure transparent and sound management of the Company

Outside Directors — As of June 24, 2008

Name	Concurrent Office
Morio Ikeda	Advisor, Shiseido Company, Limited.
Kensuke Hotta	Chairman and Representative Director, Hotta Partners Inc.
Noriaki Kano	Professor Emeritus, Tokyo University of Science

Board of Corporate Auditors and Auditors

Komatsu Ltd. has consistently ensured that the number of outside corporate auditors represents at least half of the Board of Corporate Auditors. There are five corporate auditors, of whom three are outside auditors. The Board of Corporate Auditors makes decisions concerning audit policies, duty assignments and other relevant matters. Each corporate auditor attends Board of Directors meetings and other important meetings, audits the execution of duties by directors, and conducts appropriate audits by meeting every month and hearing the conditions of execution of management duties from the directors. [The Board of Corporate Auditors met 15 times in the fiscal year ended March 31, 2008.] We have also established the Office of Auditors' Staff to exclusively assist auditors.

Outside Corporate Auditors — As of June 24, 2008

Name	Concurrent Office
Takaharu Dohi	Attorney at Law
Makoto Okitsu	Advisor, Teijin Limited
Hiroyuki Kamano	Partner, Kamano Sogo Law Offices

Support for Outside Directors (and Outside Corporate Auditors)

As a general rule, we provide the outside directors (and the outside corporate auditors) with the materials for Board meetings beforehand to ensure sufficient time for review. Concerning particularly important resolution matters, the Board of Directors discusses them in the Board meeting prior to the Board meeting where the concerned matters are scheduled for resolution. In this manner, we ensure that the directors will have sufficient time to review the matters before they resolve them and that they will be able to utilize the matters, which were pointed out during the earlier discussion, as proposals for review when resolving the concerned matters.

Collaboration between Corporate Auditors and Independent Public Accounting Firm

When making audit plans, corporate auditors exchange opinions with the contracted independent public accounting firm concerning audit policies, audit items focused upon and audit approaches in order to accomplish effective and efficient auditing. Corporate auditors also observe the independent public accounting firm when the firm audits Komatsu's business bases, affiliated companies and other related entities. They also hold meetings with the independent public accounting firm to exchange audit information as needed during a given fiscal year, thus improving mutual collaboration and engaging in expeditious auditing. Furthermore, corporate auditors evaluate the methods and results of the independent public accounting firm by checking important matters at each interim and fiscal year-end, receiving its audit report and hearing its audit summary.

When the Board of Corporate Auditors approves of audit and non-audit work by the accounting firm, the Board defines the policies, procedures and other related matters and conducts preliminary reviews of individual procedures in order to maintain the independence of the accounting firm from Komatsu Ltd. and its subsidiaries.

Collaboration between Corporate Auditors and the Internal Audit Department

The Internal Audit Department, in cooperation with other related departments, regularly audits business bases and affiliated companies both in Japan and overseas, evaluates the effectiveness of their internal control, reinforces their risk management and work to prevent frauds and errors. Corporate auditors observe audits by the Internal Audit Department, form their own audit opinions, and give advice and recommendations to the Internal Audit Department. In addition to reporting the audit results to the Board of Corporate Auditors, the Internal Audit Department maintains close and substantive collaborations with corporate auditors, for example, by providing information on a routine basis.

Collaboration between the Internal Audit Department and Independent Public Accounting Firm

In assessing the effectiveness of internal control implemented by corporate auditors, the Internal Audit Department and the independent public accounting firm collaborate as needed by exchanging opinions and sharing information.

Directors' Remuneration

Concerning the director's remuneration, in 1999 we established the Compensation Council membered mostly by experts outside of the Company to ensure transparency, objectivity, and validity.

For the fiscal year ended March 31, 2008, remuneration and other compensation for directors and corporate auditors are shown below.

	Number of persons	Amount of remuneration and other compensation	Description
Directors	10	¥1,041 million	Incl. bonus and stock option.
Corporate auditors	5	¥ 92 million	–
Total	15	¥1,133 million	–

International Advisory Board

In 1995 we established the International Advisory Board (IAB) to receive objective advice and suggestions from outside experts for what Komatsu should work for as a global company. As a general rule, it meets twice a year to discuss and engage in information exchange. The fifth session of IAB started in January 2008 with its new members below, who met in February 2008. To date, IAB has held a total of 24 meetings since its establishment in 1995.

Outside Advisors of the Fifth Session of IAB

Name	Title
Mr. Yukio Okamoto	Specialist of International Affairs, and President, Okamoto Associates, Inc.
Dr. Lawrence J. Lau	Vice Chancellor and President, and Ralph and Claire Landau Professor of Economics, The Chinese University of Hong Kong
Dr. Juergen M. Geissinger	President and CEO, INA-Holding Schaeffler KG
Mr. Travis Engen	Former President and CEO, Alcan Inc.

▲The 24th International Advisory Board meeting held in February 2008

Improvement of Internal Control

Management of Information Related to Directors' Execution of Duties

We safeguard and manage important information related to Directors' execution 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.

Rules and Other Systems for Risk Management

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

a) We have established 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.

b) We have established the Risk Management Committee to devise risk management policies of the Komatsu Group, 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.

c) We will establish an emergency headquarters when serious risks surface, and work to minimize the damage(s) and implement appropriate measures.

Efficient Execution of Duties by Directors

To ensure the efficient execution of duties by directors, we implement the following:

a) The Board of Directors meets every month and more often as needed. It strives to maintain transparency and soundness of management through the participation of outside directors. We have also established the Regulations of the Board of Directors and the Standards for Agenda of Board Meetings, thereby clarifying the matters on which the Board of Directors should make decisions.

b) Together with the introduction of the Executive Officer System, we have defined the separation of duties for directors, executive officers and senior managers, and set up internal rules including the Regulations of Decision-Making Authority, to ensure appropriate and effective execution of duties by directors, executive officers and other senior managers.

c) To promote efficient management of the Board of Directors, we have established the 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.

KOMATSU'S CODE OF WORLDWIDE BUSINESS CONDUCT (7th edition)

Compliance by Directors and Employees When Executing Their Duties

The Board of Directors makes decisions on important management matters in accordance with the law and the Regulations of the Board of Directors. Based on the decisions made by the Board of Directors, each director not only executes his or her own duties but also supervises employees for the execution of their duties, and reports the conditions thereof to the Board of Directors.

We have established the Compliance Committee to oversee compliance, and the Committee regularly reports its reviews and activities to the Board of Directors. We have also established a framework to ensure thorough compliance to business rules as well as laws and regulations 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 Department. Through all of these, we work to supervise, educate and train directors and employees.

In addition, we have established the internal reporting system where those who are discretely reporting questionable actions in light of the law and business rules will not be penalized.

Proper Operation of the Komatsu Group

a) We have established the Regulations of Affiliated Companies and relevant rules to contribute to proper and efficient operation of Group management while respecting the independence of the management of affiliated companies. Each affiliated company receives prescribed management and support of the department or division of the Company in charge. We have also positioned *the Komatsu Code of Worldwide Business Conduct*, as the code applicable to all companies affiliated with the Company. Each company of the Komatsu Group stipulates various regulations for the proper promotion of duties.

b) The Company assigns and dispatches directors and corporate auditors from the Company to major affiliated companies as needed, in order to strengthen corporate governance on a group-wide basis and monitor their management.

c) Important committees of the Company, including the Compliance Committee, Risk Management Committee and Export Control Committee, take actions with the entire Group in view, and allow representatives of affiliated companies to take part in their meetings on occasion.

d) The Company makes particularly important affiliated companies regularly report to the Board of Directors of the Company on the status of business, including risks and compliance.

e) The Internal Audit Department of the Company audits each division of the Company, and implements or supervises auditing of major affiliated companies that belong to the Komatsu Group. It also monitors and instructs each affiliated company so that it will build its structure in conformity with the Company's internal control and operate it correctly. The Internal Audit Department regularly reports the internal control and auditing conditions to the Board of Directors, and also reports to the Board of Corporate Auditors as needed.

Employees Assisting Corporate Auditors for Execution of Their Duties

We have set up the Office of Corporate Auditors' Staff, which assists corporate auditors in their duties, and allocated employees who work as assistants to corporate auditors either exclusively or concurrently in another position within the Company.

Independence of Assistants to Corporate Auditors from Directors

a) Handling of personnel affairs (employment, appointment and personnel changes) of the employees who belong to the Corporate Auditor Staff Department is premised on approval of the standing corporate auditors.

b) The employees who exclusively assist corporate auditors are independent of control and command of the directors, and their performance is rated by standing corporate auditors.

Reporting to Corporate Auditors by Directors and Employees, and Effective Audits by Corporate Auditors

a) In accordance with the law, corporate auditors receive reports by directors, executive officers and other senior managers concerning the conditions of execution of their respective duties.

b) 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 the Company, they shall report to corporate auditors immediately.

c) Corporate auditors attend various committees and principle meetings concerning internal control as observers, and also read circulars *per* management approval sent around to obtain the sanction of executives, which are important decision-making documents of the Company, and essential prior settlement documents.

d) Corporate auditors may appoint legal counsels and other advisors needed for the execution of their duties.

Basic Policy Pertaining to the Elimination of Antisocial Forces

It is the basic policy of the Company to prohibit the Komatsu Group from having any relation whatsoever with antisocial movements or groups that threaten the order and security of civil society from the perspectives of social justice and corporate social responsibility.

a) The above policy is provided in the *Komatsu Code of Worldwide Business Conduct* and diffused throughout the Company as well as each company of the Komatsu Group.

b) The general affairs divisions of the Head Office of the Company as well as the general affairs divisions of its main plants and Group companies work with police and other relevant external organizations to prevent the involvement of antisocial movements or groups in its management and quell any harmful effects they may bring about in accordance with the basic policy.

c) The Company is doing its utmost to collect information and receive education training from the above external organizations and shares above information both within the Company and among related divisions of the Komatsu Group.

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Financial Section

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Results of Operations

(1) General

Consolidated business results of Komatsu Ltd. ("Company") and consolidated subsidiaries (together "Komatsu") for the fiscal year ended March 31, 2008 continued to renew the record-high figures in both net sales and profits, registering the sixth consecutive year of improvements in the two figures.

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

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

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

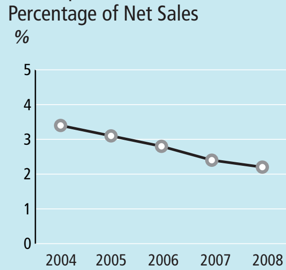
Operating income advanced to ¥332,850 million (US$3,329 million), a 36.0% increase from the previous year, and operating income ratio improved by 1.9 percentage points to 14.8%. Profits further improved due not only to expanded sales, centering on construction and mining equipment, but also to the realization of prices for construction equipment both in Japan and abroad. Income from continuing operations before income taxes, minority interests and equity in earnings of affiliated companies reached ¥322,210million (US$3,222 million), a 36.2% increase from the previous year, reflecting a substantial increase in operating profit. Net income for the year, the sum of income from continuing and discontinued operations, totaled ¥208,793million (US$2,088 million), a 26.8% increase from the previous year .

(2) Impact of Foreign Exchange Rate

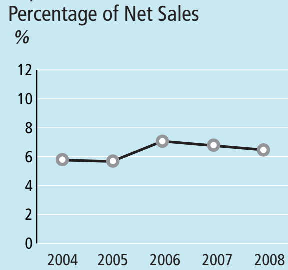
In comparison to the previous year, Japanese yen was strong against US dollar and weak against Euro during the current year. Due to such currency fluctuations, segment profit in the construction and mining equipment segment for the year increased by approximately ¥2.5billion from the previous year. The impact of currency fluctuations is determined as the sum of the amounts obtained by multiplying foreign currency transactions of each entity by the change in the applicable exchange rate. However, the effects of change of selling price due to currency fluctuations were not taken into account.

Return on Net Sales

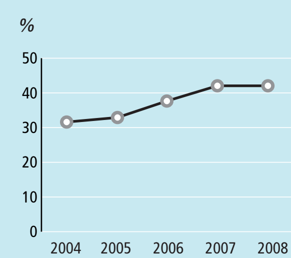
R&D Expenses as a Percentage of Net Sales



Capital Investment as a Percentage of Net Sales



Shareholders' Equity Ratio



(3) Sales

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

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

Construction and Mining Equipment

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

<Japan>

While public-sector investments remained slack, demand for equipment renewal supported the Japanese market, reflecting strong exports of used equipment from Japan. However, demand for new equipment declined around the middle of the fiscal year resulting from a drop in housing starts when Japan's Building Code was revised. We worked to expand sales of new equipment centering on DANTOTSU models, realize higher prices, and reinforce the used equipment business. As a result, sales increased 2.1% from the previous year. As a measure to further build up the rental and used equipment business, we decided to unify the management of Komatsu Rental Japan Ltd. and BIGRENTAL CO., LTD.

<The Americas>

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

<Europe & CIS>

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

<China>

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

<Asia & Oceania>

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

<Middle East & Africa>

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

Industrial Machinery, Vehicles and Others

Consolidated net sales of industrial machinery, vehicles and other operations increased 6.1% over the previous year, to ¥345,403 million (US$3,454 million) for the fiscal year under review. Reflecting strong capital investments in Japan and overseas, the forklift truck business and the industrial machinery business continued to improve sales. In the forklift truck business, Komatsu Utility Co., Ltd. worked to expand sales of new models and strengthen its sales and service capabilities, mainly in Greater Asia which includes Asia, CIS and the Middle East. The company also concerted efforts to step up sales of electric forklift trucks in Japan, including the market introduction of the industry's first hybrid electric forklift truck. Our industrial machinery business effectively took advantage of capital investments centering on the automobile industry in Japan and overseas, enjoying good sales of large presses, sheet metal and press machines of Komatsu Industries Corporation, and machine tools of Komatsu Machinery Corporation. To further reinforce the industrial machinery sector, the Company had acquired 29.3% of the equity of NIPPEI TOYAMA CORPORATION (hereinafter NIPPEI TOYAMA) back in December 2006. In January 2008 the Company launched the tender offer to obtain all issued shares of NIPPEI TOYAMA, resulting in an equity-holding ratio of 93.7% as of March 31, 2008. The Company plans to make NIPPEI TOYAMA a wholly owned subsidiary through share exchange in August 2008.

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

Accompanying the rise in sales, costs of sales rose by 17.3% over the previous year to ¥1,590,963 million (US$15,910 million). Komatsu's efforts at reducing manufacturing costs contributed to a 0.7 point improvement in the cost of sales to sales ratio to 70.9% from the previous year. Selling, general and administrative expenses (SG&A) rose by 10.6% over the previous year to ¥317,474 million (US$ 3,175 million), primarily due to higher direct selling expenses, which is in line with the increase in sales volume during the current year. Although the expenses for research and development, reinforcement of sales and product support organization and management of safety, environment and compliance increased, the ratio of SG&A to sales fell by 1.0 points from the previous year to 14.2%. Moreover, research and development expenses, which are included in cost of sales and SG&A, rose by 7.3% year over year to ¥49,673 million (US$497 million). Among the main factors responsible for this increase are the development of new Unique and Unrivaled products, development of next generation engines that comply with new emissions regulations, and aggressive development of products in the construction and mining equipment division.

(5) Segment Profit

(Segment profit is determined in a manner that is consistent with Japanese accounting principles by subtracting the cost of sales and selling, general and administrative expenses from net sales attributed to the operating segment)

Segment profit in the construction and mining equipment segment increased by ¥83,779 million over the previous year to ¥304,385 million (US$ 3,044 million). This increase was primarily due to positive factors such as expanded gross margin as a result of increased sales volume, beneficial changes in foreign exchange rates, price raise and cost reduction which outweighed negative factors such as soaring prices of parts purchased including steel materials, increase of fixed cost for research and development for renewed models which are compliant with new emission gas regulations, and reinforcement of sales and product support organization.

With regards to industrial machinery, vehicle and others segment, the expansion in the business of Komatsu Industries Corp., Komatsu Machinery Corp., Komatsu Logistics Corp., and other subsidiaries also experienced an increase in profits by ¥1,032 million to ¥33,727 million (US$337 million).

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

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

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

(7) Impairment Loss on Goodwill

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

(8) Other Operating Income (Expenses)

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

(9) Operating Income

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

(10) Other Income (Expense)

Interest and dividend income of ¥10,265 million (US$103 million) was up ¥1,733 million compared with ¥8,532 million in the previous year. Interest expense of ¥16,699 million (US$167 million) was up ¥1,214 million compared with ¥15,485 million in the previous year.

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

Income from continuing operations before income taxes rose by ¥85,719 million to ¥322,210 million (US$3,222 million) in the current year from the ¥236,491 million recorded during the previous year.

(12) Income Taxes

Corporate income taxes increased by ¥36,049 million to ¥115,794 million (US$ 1,158 million) from an income tax expense of ¥79,745 million for the previous year. The actual effective tax rate was 35.9% from 33.7% for the previous year. The difference between the Japanese statutory tax rate of 40.8% and the actual effective tax rate of 35.9% was caused by income of foreign subsidiaries taxed at a rate lower than the Japanese statutory tax rate and a realization of previously reserved tax benefits on operating losses of subsidiaries offset in part by non deductible expenses.

(13) Minority Interests in Income of Subsidiaries

Komatsu Australia Pty Ltd., Komatsu Shantui Construction Machinery Co., Ltd. and other subsidiaries increased earnings as a result of their favorable business performances. Consequently, minority interests in income of subsidiaries increased to ¥9,435 million (US$94 million) from ¥6,580 million in the last year.

(14) Equity in Earnings of Affiliated Companies

Thanks to the improvement in earnings of affiliated companies held under the equity accounting method, their contributions improved from ¥3,098 million in profit in the previous year to ¥6,845 million (US$68 million) profit in the current year.

(15) Income from Continuing Operations

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

(16) Income from Discontinued Operations less applicable income taxes

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

(17) Net Income

Net income for the current year, the sum of income from continuing operations and discontinued operations, grew by 26.8% to ¥208,793 million (US$2,088 million) from the previous year's level of ¥164,638 million. Similarly net income per share rose to ¥209.87 from ¥165.70 in the previous year. (The earnings per share diluted is ¥209.59 and ¥165.40 respectively for the current year and previous year.)

Liquidity and Capital Resources

(1) Funding and Liquidity Management

Komatsu's principal capital resources policy is to maintain sufficient capital resources in order to be prepared to respond promptly to future capital needs in its operations and to maintain an appropriate level of liquidity.

Komatsu expects to fund its future capital expenditures and working capital needs with cash generated by its operations and capital raising activities. This approach is supplemented with group-wide cash management system. Komatsu's interest-bearing debt, including its capital lease obligations, as of March 31, 2008 totaled ¥452,095 million (US$4,521 million), which increased by ¥103,021 million in fiscal year ended March 31, 2008 as compared to fiscal year ended March 31, 2007. Net interest-bearing debt after deducting cash and deposits also increased by ¥93,167 million to ¥349,988 million (US$3,500 million) in fiscal year ended March 31, 2008. As a result, Komatsu's net debt-to equity ratio as of March 31, 2008 was 0.39, compared to 0.33 March 31, 2007.

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

Komatsu has established a program to issue up to ¥100,000 million (US$1,000 million) of variable-term bonds, and the Company, Komatsu Finance America Inc. and Komatsu Europe Coordination Center N.V. have established a 1.2 billion US Dollar EMTN program to fulfill Komatsu's medium- to long-term funding needs. Outstanding bonds issued under the program were ¥20,000 million (US$200 million) and outstanding borrowings under these EMTN programs were ¥75,644 million (US$756 million) as of March 31, 2008.

The Company and certain consolidated subsidiaries have also established programs to securitize trade notes and accounts receivables for the purpose of accelerating the receipt of cash related to its finance receivables and diversifying their sources of funding. As of March 31, 2008, the balance of such off-balance sheet securitized receivables was ¥166,256 million (US$1,663 million).

As of March 31, 2008, current assets increased by ¥129,932 million to ¥1,273,677 million (US$12,737 million), while current liability increased by ¥76,352 million to ¥861,532 million (US$8,615 million). As the increase of current liability was lower than it of current assets, the current ratio, which is calculated by dividing current assets by current liabilities, as of March 31, 2008 was 147.8%, which reflected an increase of 2.1 percentage points from fiscal year ended March 31, 2007. Judging from the current levels in working capital and the current ratio, Komatsu believes that it maintains an adequate level of liquidity. Short-term funding needs are met mainly by cash flows from operating activities, as well as by bank loans, securitized receivables and commercial paper. Certain consolidated subsidiaries maintain committed credit line agreements totaling ¥10,846 million (US$108 million) with financial institutions to secure liquidity. As of March 31, 2008, approximately ¥2,087 million (US$21 million) is available to be used under such credit line agreements. The Company holds ¥80,000 million (US$800 million) commercial paper program and had ¥68,000 million (US$680 million) unused amount as of March 31, 2008.

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

(2) Cash Flows

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

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

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

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

The cash flows attributable to the operating, investing and financing activities of the discontinued operations are not presented separately from the cash flows attributable to activities of the continuing operations. Net cash provided by operating activities of the discontinued operations were ¥14,805 million and ¥24,823 million for the fiscal years ended March 31, 2007 and 2006, respectively. Net cash used in investing activities of the discontinued operations were ¥18,295 million and ¥21,665 million for the fiscal years ended March 31, 2007 and 2006, respectively. Net cash provided by financing activities of the discontinued operations was ¥1,870 million for the fiscal year ended March 31, 2007 and net cash used in financing activities of the discontinued operations was ¥4,090 million for the fiscal years ended March 31, 2006.

Cash flows used in investing activities of its discontinued operations have been provided mainly by cash flows from their operating activities. In addition, Komatsu's discontinued operations did not have any material effect on cash flows from its financing activities. Accordingly, Komatsu does not expect that the absence of cash flows from its discontinued operations has any material impact on Komatsu's future liquidity and capital resources.

(3) Capital Investment

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

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

(4) Contractual Obligations

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

	Millions of yen				
	Cash payments due by period				
	Total	Less than 1 year	1-3years	3-5 years	More than 5 years
Short-term debt obligations	108,782	108,782	—	—	—
Long-term debt obligations (excluding Capital lease obligations)	253,578	80,838	87,574	83,694	1,472
Capital (Finance) lease obligations	81,876	27,206	33,157	19,353	2,160
Operating lease obligations	12,523	3,845	4,521	1,563	2,594
Interest on interest-bearing debt	20,826	11,942	6,691	2,010	183
Pension and other postretirement obligations	4,963	4,963	—	—	—
Total	482,548	237,576	131,943	106,620	6,409

	Millions of U.S. dollars				
	Cash payments due by period				
	Total	Less than 1 year	1-3years	3-5 years	More than 5 years
Short-term debt obligations	1,088	1,088	—	—	—
Long-term debt obligations (excluding Capital lease obligations)	2,536	808	876	837	15
Capital (Finance) lease obligations	819	272	332	194	21
Operating lease obligations	125	38	45	16	26
Interest on interest-bearing debt	208	119	67	20	2
Pension and other postretirement obligations	49	49	—	—	—
Total	4,825	2,374	1,320	1,067	64

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

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

Business Risks

Given the business environment in which Komatsu operates, Komatsu is exposed to a variety of risks. Komatsu has identified the following risks as its primary risks based on information currently available to it.

1 Economic and market conditions

As Komatsu is engaged in business on a global scale, the economic and market conditions and competitive environment in which Komatsu operates differ from region to region. In addition, demand for Komatsu's products as well as the business environment in which Komatsu operates may change substantially as a result of changes in the economic and market conditions of each such region.

In economically-advanced regions in which Komatsu operates, Komatsu's business is generally affected by cyclical changes in the economies. Therefore, factors which are beyond Komatsu's control, such as levels of housing starts, industrial production, public investments in infrastructure development and private-sector capital outlays, may affect demand for Komatsu's products.

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

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

2 Foreign currency exchange rate fluctuations

Approximately 70% of Komatsu's total sales are derived from sales outside of Japan, and a substantial portion of its overseas sales are affected by foreign currency exchange rate fluctuations. In general, an appreciation of the Japanese yen against another currency would adversely affect Komatsu's results of operations, while a depreciation of the Japanese yen against another currency would have a favorable impact thereon. In addition, foreign currency exchange rate fluctuations may also affect the comparative prices between products sold by Komatsu and products sold by its foreign competitors in the same market, as well as the cost of materials used in the production of such products. Komatsu strives to alleviate the effect of such foreign currency exchange rate fluctuations by locating its production bases globally and placing such bases closer to the respective markets in which the products manufactured by such bases are sold. Komatsu also engages in hedging activities to minimize the effects of short-term foreign currency exchange rate fluctuations. Despite Komatsu's efforts, if the foreign currency exchange rate fluctuates beyond Komatsu's projected fluctuation range, Komatsu's results of operations may be adversely affected.

3 Fluctuations in financial markets

While Komatsu is currently working on improving the efficiency of its assets to reduce its interest-bearing debt, its aggregate short- and long-term interest-bearing debt was approximately ¥450 billion as of March 31, 2008. Although Komatsu has strived to reduce the effect of interest rate fluctuations by procuring funds at fixed interest rates, an increase in interest rates may increase Komatsu's interest expenses with respect to its interest-bearing debt subject to floating interest rates, thereby adversely affecting Komatsu's results of operations. In addition, fluctuations in the financial markets, such as fluctuations in the fair value of marketable securities and interest rates, may also increase the unfunded obligation portion of Komatsu's pension plans or pension liabilities, which may result in an increase in pension expenses. Such an increase in interest expenses and pension expenses may adversely affect Komatsu's results of operations and financial condition.

4 Laws and regulations of different countries

Komatsu is subject to various governmental regulations and approval procedures in the countries in which it operates. If the government of a given country enacts new laws and regulations, such as laws and regulations relating to import/export duties, quotas, currency restrictions and taxation, which are unfavorable to Komatsu, Komatsu may be required to bear increased expenses in order to comply with such regulations. Such increased expenses may adversely affect Komatsu's results of operations.

5 Environmental laws and regulations

Komatsu's products and business operations are required to comply with increasingly stringent environmental laws and regulations in the numerous countries in which Komatsu operates. Komatsu expends a significant share of its management resources, such as research and development expenses, to comply with regulations concerning air and wastewater emission levels of its manufacturing facilities and products. If the existing standards are amended, Komatsu may be required to bear increased costs and to make further capital investments to comply with such new standards. Incurrence of such additional environmental compliance costs may adversely affect Komatsu's results of operations.

6 Product liability

While Komatsu endeavors to sustain and ensure the quality and reliability of its operations and products based on stringent standards established internally by Komatsu, it may face product liability claims or become exposed to other liabilities if unexpected defects in its products result in accidents. If the costs for addressing such claims or other liabilities are not covered by Komatsu's existing insurance policies, Komatsu may be required to bear the cost thereto, which may adversely affect its financial condition.

7 Alliances and collaborative relationships

Komatsu has entered into various alliances and collaborative relationships with distributors, suppliers and other companies in its industry to reinforce its international competitiveness. Through such arrangements, Komatsu is working to improve its product development, production, supply and service capabilities. While Komatsu expects its alliances and collaborative relationships to be successful, Komatsu's failure to attain expected results or the termination of such alliances or collaborative relationships may adversely affect Komatsu's results of operations.

8 Procurement, production and other matters

Komatsu's procurement of parts and materials for its products is exposed to the fluctuations in commodity prices, mainly in the price of steel metal. Price increases in our commodities may increase the costs of materials as well as production costs of Komatsu's products. In addition, an increase in commodity prices may result in a shortage of product parts and materials, making it difficult for Komatsu to engage in the timely procurement of parts and materials and manufacture of its products, thereby lowering Komatsu's production efficiency. In an effort to reduce any adverse effect to its business as a result of an increase in material costs, Komatsu plans to reduce other costs and pass on the increase in material costs to its customers through its product prices. Komatsu plans to minimize the effects of a shortage in product parts or materials by promoting closer collaboration among all of its related business divisions. However, if the increase in commodity prices exceeds Komatsu's expectations or a prolonged shortage of materials and parts occurs, Komatsu's results of operations may be adversely affected.

9 Information security, intellectual property and other matters

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

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

Komatsu conducts its business operations on a global scale and operates and maintains development, production, supply and other business facilities in many countries. If natural disasters, such as earthquakes and floods, wars, terrorist acts, accidents, unforeseeable criticism or interference by third parties or any malfunction of information and telecommunication systems in regions in which Komatsu operates occurs that causes extensive damage to one or more of its facilities that cannot become fully operational within a short period of time, delays or disruption in the procurement of materials and parts or the production and supply of Komatsu's products and other service activities may result. Such delays or disruptions may adversely affect Komatsu's results of operations.

Market Risk Exposure

Komatsu is exposed to market risk primarily from changes in foreign currency exchange rates and interest rates with respect to international operations and foreign currency denominated credits and debts. In order to manage these risks that arise in the normal course of business, Komatsu enters into various derivative financial transactions pursuant to their policies and procedures. Komatsu does not enter into derivative financial transactions for trading or speculative purposes.

Komatsu is exposed to credit-related losses in the event of nonperformance by counterparties to derivative financial instruments. However, because of the counterparties' satisfactory credit ratings, none are expected to fail to meet their obligations.

Foreign Exchange Risk

To reduce foreign exchange risks against foreign currency denominated assets and liabilities, Komatsu executes forward exchange contracts and option contracts in a range of 50% to 100% based on their projected cash flow in foreign currencies.

The following table provides information concerning derivative financial instruments of Komatsu in relation to foreign currency exchange transactions existing as of March 31, 2008, which are translated into yen at the rate used on that date, together with the related weighted average contractual exchange rates as of March 31, 2008. As of March 31, 2008, the notional amount of option contracts is ¥9,080 million (US$90,800 thousand).

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

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

Interest Rate Risk

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

The following tables provide information concerning debt obligations excluding capital lease obligations (including due within one year), interest rate swaps, cross-currency swaps and interest caps. For debt obligations, the tables present fair value, principal cash flows and related weighted average interest rates by expected maturity dates. For interest rate and cross-currency swaps, the following tables present fair value, notional amounts and weighted average receive and pay interest rates. For interest caps, the following tables present fair value, notional amounts and its average strike rate.

Long-term debt excluding capital lease obligations (including due within one year) — Millions of yen

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

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

Interest rate swaps, cross-currency swaps and interest caps — Millions of yen

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

Long-term debt excluding capital lease obligations (including due within one year) — Thousands of U.S. dollars

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

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

Interest rate swaps, cross-currency swaps and interest caps — Thousands of U.S. dollars

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

Five-Year Summary

Komatsu Ltd. and Consolidated Subsidiaries
Years ended March 31

	Millions of yen (except per share amounts)	
	2008	2007
For the fiscal period		
Net sales	**¥2,243,023**	¥1,893,343
Cost of sales	**1,590,963**	1,356,511
Income from continuing operations before income taxes, minority interests and equity in earnings of affiliated companies	**322,210**	236,491
Net income	**208,793**	164,638
As percentage of sales	**9.3%**	8.7%
Capital investment	**145,730**	129,680
At fiscal period-end		
Total assets	**¥2,105,146**	¥1,843,982
Working capital	**412,145**	358,565
Property, plant and equipment	**491,146**	388,393
Long-term debt—less current maturities	**235,277**	174,340
Shareholders' equity	**887,126**	776,717
As percentage of total assets	**42.1%**	42.1%
Per share data		
Net income per share:		
Basic	**¥209.87**	¥165.70
Diluted	**209.59**	165.40
Cash dividends per share	**38.00**	23.00
Shareholders' equity per share	**891.49**	781.57

	Yen per U.S. dollar	
	2008	2007
Other information		
Exchange rate into U.S. dollars (per the Federal Reserve Bank of New York):		
At fiscal period-end	**¥ 100**	¥ 118
Average for the fiscal period	**114**	117
Range for the fiscal period:		
High	**123**	121
Low	**100**	112

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

	Yen per U.S. dollar		
	2006	2005	2004
	¥ 117	¥ 107	¥ 104
	114	107	113
	120	111	120
	105	103	104

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

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

The accompanying Notes to Consolidated Financial Statements are an integral part of these balance sheets.

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

Consolidated Statements of Income

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

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

	Yen			U.S. cents
Per share data (Notes 1 and 18):				
Income from continuing operations:				
Basic	**¥ 204.88**	¥ 154.25	¥ 109.94	**¢ 204.88**
Diluted	**204.61**	153.97	109.75	**204.61**
Income from discontinued operations:				
Basic	**4.99**	11.45	5.19	**4.99**
Diluted	**4.98**	11.43	5.18	**4.98**
Net income:				
Basic	**209.87**	165.70	115.13	**209.87**
Diluted	**209.59**	165.40	114.93	**209.59**
Cash dividends per share (Note 1)	**38.00**	23.00	14.00	**38.00**

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Consolidated Statements of Shareholders' Equity

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

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

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Consolidated Statements of Cash Flows

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

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

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

1. Description of Business, Basis of Financial Statements and Summary of Significant Accounting Policies

Description of Business

Komatsu Ltd. (“Company”) and consolidated subsidiaries (together “Komatsu”) primarily manufacture and market various types of construction and mining equipment throughout the world. Komatsu is also engaged in the manufacture and sale of industrial machinery, and vehicles.

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

Sales are made principally under the Komatsu brand name, and are almost entirely through sales subsidiaries and sales distributors. These subsidiaries and distributors are responsible for marketing and distribution and primarily sell to retail dealers in their geographical area. Of consolidated net sales for the year ended March 31, 2008, 77.5% were generated outside Japan, with 24.1% in the Americas, 19.1% in Europe and CIS, 8.5% in China, 15.5% in Asia (excluding Japan and China) and Oceania, and 10.3% in the Middle East and Africa.

The manufacturing operations of Komatsu are conducted primarily at plants in Japan, United States, Germany, United Kingdom, Sweden, Indonesia, Brazil, Italy, and China.

Basis of Financial Statements

The accompanying consolidated financial statements are stated in Japanese yen, the functional currency of the country in which the Company is incorporated and principally operates. The translation of Japanese yen amounts into United States dollar amounts for the year ended March 31, 2008, is included solely for the convenience of readers and has been made at the rate of ¥100 to $1, the approximate rate of exchange prevailing at the Federal Reserve Bank of New York on March 31, 2008. Such translation should not be construed as a representation that Japanese yen amounts could be converted into United States dollars at the above or any other rate.

The Company and its domestic subsidiaries maintain their books of account in conformity with accounting principles generally accepted in Japan, and its foreign subsidiaries generally maintain their books of account in conformity with those in the country of their domicile. The accompanying consolidated financial statements reflect certain adjustments, not recorded in Komatsu’s books, to present them in conformity with U.S. generally accepted accounting principles. These adjustments are made mainly in connection with accounting for liability for pension and other retirement benefits, leases, derivative financial instruments, and recognition of certain accrued expenses.

Summary of Significant Accounting Policies

(1) Consolidation and Investments in Affiliated Companies

The consolidated financial statements include the accounts of the Company and all of its majority-owned domestic and foreign subsidiaries, except for certain immaterial subsidiaries.

The accounts of any variable interest entities that must be consolidated under Financial Accounting Standards Board (“FASB”) Interpretation (“FIN”) No. 46 (revised December 2003), “Consolidation of Variable Interest Entities” (“FIN 46R”) because the Company has been determined to be the primary beneficiary, are included in the consolidated financial statements.

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

(2) Translation of Foreign Currency Accounts

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

(3) Allowance for Doubtful Trade Receivables

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

(4) Inventories

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

(5) Investment Securities

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

Unrealized losses on marketable securities are charged against net earnings when a decline in market value below cost is determined to be other than temporary based primarily on the financial condition and near term prospects of the issuer and the extent and length of the time of the decline. Investments with unrealized losses that continue for six months or more are written down to fair value.

In assessing other-than-temporary impairment of investment securities which are stated at cost, Komatsu considers the financial condition and prospects of each investee company and other relevant factors. Impairment to be recognized is measured based on the amount by which the carrying amount of the investment securities exceeds its estimated fair value which is determined using discounted cash flows or other valuation techniques considered appropriate.

(6) Property, Plant and Equipment, and Related Depreciation

Property, plant and equipment are stated at cost, less accumulated depreciation. Depreciation is computed principally using the declining-balance method at rates based on the estimated useful lives of the assets. The average depreciation periods are 25 years for buildings and 8 years for machinery and equipment. Effective rates of depreciation for buildings, machinery and equipment for the years ended March 31, 2008, 2007 and 2006, were as follows:

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

Certain leased machinery and equipment are accounted for as capital leases in conformity with SFAS No. 13, "Accounting for Leases." The aggregate cost included in property, plant and equipment and related accumulated depreciation as of March 31, 2008 and 2007 were as follows:

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

Ordinary maintenance and repairs are charged to expense as incurred. Major replacements and improvements are capitalized. When properties are retired or otherwise disposed of, the costs of those properties and the related accumulated depreciation are relieved from the consolidated balance sheets and the differences between the costs of those properties and the related accumulated depreciation are recognized in other operating income (expenses) of the consolidated statements of income.

(7) Goodwill and Other Intangible Assets

Komatsu applies the provisions of SFAS No. 141 "Business Combinations" and SFAS No. 142 "Goodwill and Other Intangible Assets." SFAS No. 141 requires the use of the purchase method of accounting for business combinations and establishes a basis for the determination of intangible assets acquired in a purchase business combination. SFAS No. 142 precludes the amortization of goodwill and instead requires annual impairment testing thereof. SFAS No. 142 also requires recognized intangible assets with a definite useful life to be amortized over their respective estimated useful lives and reviewed for impairment in accordance with SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets." An impairment loss would be recognized when the carrying amount of an asset exceeds the estimated undiscounted cash flows expected to be generated by the assets. The amount of the impairment loss to be recorded is determined by the difference between the fair value of the asset using a discounted cash flow valuation model and carrying value. Any recognized intangible asset determined to have an indefinite useful life is not to be amortized, but instead tested for impairment annually based on its fair value until its life is determined to no longer be indefinite.

(8) Revenue Recognition

Komatsu recognizes revenue when (1) persuasive evidence of an arrangement exists, (2) delivery has occurred or services have been rendered for customers or dealers, (3) sales price is fixed or determinable, and (4) collectibility is reasonably assured.

Revenue from sales of products including construction and mining equipment, industrial machinery, and vehicles is recognized when title and risk of ownership is transferred to independently owned and operated customers or dealers, which occurs upon the attainment of customer acceptance or when installation is completed. The conditions of acceptance are governed by the terms of the contract or arrangement. For arrangements with multiple elements, which may include any combination of products, installation and maintenance, Komatsu allocates revenue to each element based on its relative fair value if such elements meet the criteria for treatment as a separate unit of accounting as prescribed in the Emerging Issues Task Force ("EITF") Issue No. 00-21, "Revenue Arrangements with Multiple Deliverables." When Komatsu enters into a separate contract to render transportation or technical advice, principally related to a sale of large-sized industrial machinery such as large presses, these service revenues are accounted for separately from the product sale and recognized at the completion of the service delivery specified in the contract.

Service revenues from repair and maintenance and from transportation are recognized at the completion of service delivery. Revenues from long-term fixed price maintenance contracts are recognized ratably over the contract period.

Certain of consolidated subsidiaries rent construction equipments to customers. Rent revenue is recognized on a straight-line basis over the rental period.

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

(9) Income Taxes

In accordance with SFAS No. 109, "Accounting for Income Taxes," income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences and carryforwards are expected to be realized or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Komatsu uses a specific identification method to release the residual tax effects associated with components of accumulated other comprehensive income (loss) resulting from a change in tax law or rate.

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

(10) Product Warranties

Komatsu establishes a liability for estimated product warranty cost at the time of sale. Estimates for accrued product warranty cost are primarily based on historical experience and are classified as other current liabilities.

(11) Pension and Retirement Benefits

The defined benefit plans are accounted for in accordance with SFAS No. 87, "Employers' Accounting for Pensions" and SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans-an amendment of SFAS No. 87, 88, 106 and 132(R)" except for certain subsidiaries' pension plans which in the aggregate are not significant. Certain domestic subsidiaries also have local severance payment plans under which accrued severance liabilities are stated on a vested benefit obligation basis, which is the amount required to be paid if all eligible employees voluntarily terminated their employment as of the balance-sheet date.

Amortization of actuarial net gain or loss is included as a component of Komatsu's net periodic pension cost for a year if, as of the beginning of the year, that unrecognized net gain or loss exceeds 10 percent of the greater of (1) the projected benefit obligation or (2) the fair value of that plan's assets.

In such case, the amount of amortization recognized is the resulting excess divided by average remaining service period of active employees expected to receive benefits under the plan. The expected return on plan assets is determined based on the historical long-term rate of return on plan assets. The discount rate is determined based on the rates of return of high-quality fixed income investments currently available and expected to be available during the period to maturity of the pension benefits.

(12) Share-Based Compensation

Effective April 1, 2006, Komatsu adopted SFAS No. 123 (revised 2004), "Share-Based Payment" ("SFAS No. 123R") for the year ended March 31, 2007 using the modified prospective method. In accordance with SFAS No. 123R, Komatsu recognizes share-based compensation expense using the fair value method. Compensation expense is measured at grant-date fair value of the share-based award and charged to expense over the vesting period.

For the year ended March 31, 2006, Komatsu applied the intrinsic value method under Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees". No compensation expense was recognized as the exercise price of outstanding stock options was at least equal to the market price of the underlying shares on the date of grant.

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

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

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

(13) Per Share Data

Basic net income per share has been computed by dividing net income by the weighted-average number of common shares outstanding during each fiscal year, after deducting treasury shares. Diluted net income per share reflects the potential dilution computed on the basis that all stock options were exercised (less the number of treasury shares assumed to be purchased from proceeds using the average market price of the Company's common shares) to the extent that each is not antidilutive.

Dividends per share shown in the accompanying consolidated statements of income are based on dividends approved and paid in each fiscal year.

(14) Consolidated Statements of Cash Flows

For the purpose of the consolidated statements of cash flows, cash and cash equivalents include highly liquid investments with an original maturity of three months or less at the date of purchase.

(15) Derivative Financial Instruments

Komatsu uses various derivative financial instruments to manage its interest rate and foreign exchange exposure.

Komatsu accounts for its investment in derivative financial instruments in accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities"as amended. SFAS No. 133 as amended requires that all derivatives, including derivatives embedded in other financial instruments, be measured at fair value and recognized as either assets or liabilities on the consolidated balance sheet. Changes in the fair values of derivative instruments not designated or not qualifying as hedges under SFAS No. 133 and any ineffective portion of qualified hedges are recognized in earnings in the current period. Changes in the fair values of derivative instruments which qualify as fair value hedges are recognized in earnings, along with changes in the fair value of the hedged item. Changes in the fair value of the effective portions of cash flow hedges are reported in accumulated other comprehensive income (loss), and recognized in earnings when the hedged item is recognized in earnings.

(16) Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed of

In accordance with SFAS No. 144, long-lived assets and certain identifiable intangibles to be held and used by Komatsu are reviewed for impairment based on a cash flow analysis of related operations whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The assets to be held for use are considered to be impaired when estimated undiscounted cash flows expected to result from the use of the assets and their eventual disposition is less than their carrying amounts. The impairment losses are measured as the amount by which the carrying amount of the asset exceeds the fair value of the asset. Long-lived assets and certain identifiable intangibles to be disposed of are reported at the lower of carrying amount or fair value less cost to sell.

(17) Use of Estimates

Komatsu has made a number of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses presented in consolidated financial statements prepared in conformity with U.S. GAAP. Actual results could differ from the estimates and assumptions.

Komatsu has identified six areas where it believes assumptions and estimates are particularly critical to the financial statements. These are the determination of the allowance for doubtful receivables, impairment loss on long-lived assets and goodwill, pension liabilities and expenses, fair value of financial instruments, realization of deferred tax assets and securitization of trade notes and account receivable.

(18) New Accounting Standards

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements." SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS No. 157 is effective for the fiscal periods beginning after November 15, 2007 and is required to be adopted by Komatsu in the fiscal year beginning April 1, 2008. In February 2008, the FASB issued FASB Staff Position No. FAS157-1, "Application of SFAS No. 157 to SFAS No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13" and No. FAS157-2, "Effective Date of SFAS No. 157" which partially delay the effective date of SFAS No. 157 for one year for certain nonfinancial assets and liabilities and remove certain leasing transactions from its scope. Komatsu is currently evaluating the effect that the adoption of SFAS No. 157 will have on its consolidated results of operations and financial condition but expects it will not have a material impact.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of SFAS No. 115." SFAS No. 159 permits entities to choose to measure certain financial assets and liabilities at fair value. The unrealized gains and losses on items for which the fair value option has been elected are required to be reported in earnings. SFAS No. 159 is effective for the fiscal periods beginning after November 15, 2007 and is required to be adopted by Komatsu in the fiscal year beginning April 1, 2008. The adoption of SFAS No. 159 will not have a material impact on its consolidated results of operations and financial condition.

In December 2007, the FASB issued SFAS No. 141 (revised 2007) ("SFAS No. 141R"),"Business Combinations." SFAS No. 141R establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired or gain from a bargain purchase. SFAS No. 141R also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. SFAS No. 141R is effective for the fiscal periods beginning on or after December 15, 2008 and is required to be adopted by Komatsu in the fiscal year beginning April 1, 2009. Komatsu is currently evaluating the effect that the adoption of SFAS No. 141R will have on its consolidated results of operations and financial condition.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51." SFAS No. 160 establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS No. 160 also establishes disclosure requirements that clearly identify and distinguish between the controlling and noncontrolling interests and requires the separate disclosure of income attributable to controlling and noncontrolling interests. SFAS No. 160 is effective for the fiscal periods beginning on or after December 15, 2008 and is required to be adopted by Komatsu in the fiscal year beginning April 1, 2009.

(19) Discontinued Operation

Throughout the notes to consolidated financial statements, the amounts of discontinued operations related to consolidated statements of income have been excluded from disclosures applicable to past years, unless indicated otherwise.

2. Supplemental Cash Flow Information

Additional cash flow information and noncash investing and financing activities for the years ended March 31, 2008, 2007 and 2006, are as follows:

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

3. Acquisition and Divestiture

(1) NIPPEI TOYAMA CORPORATION

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

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

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

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

Intangible assets of ¥29,219 million ($292,190 thousand) consist of intangible assets subject to amortization of ¥21,852 million ($218,520 thousand) and intangible assets not subject to amortization of ¥7,367 million ($73,670 thousand). The intangible assets subject to amortization mainly include customer relationships of ¥14,000 million ($140,000 thousand), technology assets of ¥4,475 million ($44,750 thousand) and software of ¥2,194 million ($21,940 thousand). The amortization periods are 17, 17 and 5 years, respectively. The intangible assets not subject to amortization are trademarks of ¥7,367 million ($73,670 thousand).

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

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

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

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

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

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

(2) BIGRENTAL Co., Ltd.

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

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

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

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

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

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

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

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

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

4. Discontinued Operations

On October 18, 2006, the Company sold 51.0% of the shares of Komatsu Electronic Metals Co., Ltd. ("KEM", currently SUMCO TECHXIV CORPORATION), which was, allocated to a reporting unit in the electronics segment to SUMCO CORPORATION. Prior to this disposition, the Company held a 61.9% equity interest. Accordingly, KEM and its subsidiaries are no longer consolidated in Komatsu's results. On April 2, 2007, the outdoor power equipment (OPE) business of Komatsu Zenoah Co., which was, allocated to a reporting unit in the industrial machinery, vehicles and others segment was sold to a Japanese subsidiary of Husqvarna AB of Sweden. Accordingly, the OPE business of Komatsu Zenoah Co. and its subsidiaries engaging in the OPE business are no longer consolidated in Komatsu's results. In accordance with SFAS No. 144, the gain on sale of KEM's shares and operating results less applicable income taxes, related to KEM and its subsidiaries as well as the gain on sale of the OPE business of Komatsu Zenoah Co. and operating results less applicable income taxes of the OPE business of

Komatsu Zenoah Co. and its OPE business subsidiaries, are presented as one line, "income from discontinued operations less applicable income taxes" in the consolidated statements of income. Assets and liabilities related to the OPE business of Komatsu Zenoah Co. and its OPE business subsidiaries are classified as held for sale on the consolidated balance sheet as of March 31, 2007. The cash flows attributable to the discontinued operations are not presented separately from the cash flows attributable to activities of the continuing operations in the consolidated statements of cash flows.

Selected financial information in connection with the discontinued operations for the years ended March 31, 2008, 2007 and 2006 are as follows:

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

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

	Millions of yen
Assets held for sale	2007
Trade notes and accounts receivable	¥ 9,088
Inventories	3,567
Property, plant and equipment	1,874
Other assets	1,792
Total	¥16,321

	Millions of yen
Liabilities held for sale	2007
Short-term debt	¥ 1,294
Trade notes and accounts payable	4,242
Other Liabilities	2,383
Total	¥ 7,919

5. Trade Notes and Accounts Receivable

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

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

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

Lease receivables primarily represent receivables from customers for equipment leased by Komatsu Utility Co., Ltd. These leases are accounted for as sales-type leases in conformity with SFAS No. 13. Equipment sales revenue from sales-type leases are recognized at the inception of the lease.

At March 31, 2008 and 2007, lease receivables comprised the following:

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

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

Certain consolidated subsidiaries retain responsibility to service sold trade notes and accounts receivable that are sold pursuant to a securitization transaction, however contractual servicing fees are not received from the third parties separately. The investors and the trusts that hold the receivables have no or limited recourse rights to certain subsidiaries' assets in case of debtors' default. Appropriate reserves have been established for potential losses relating to the limited recourse of the sold receivables. Also certain subsidiaries, except for a certain U.S. subsidiary, as transferor do not retain any interest in the receivables sold.

The components of securitized trade receivables and other assets managed together at March 31, 2008 and 2007 were as follows:

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

A certain U.S. subsidiary's retained interests, which are included in the recourse provisions, are subordinate to investor's interests. Their values are estimated based on the present value of future expected cash flows, using certain key assumptions such as a weighted average life, prepayment speed over the life and expected credit losses over the life. Key assumptions used in measuring the fair value of retained interests related to securitization transactions completed during the year ended March 31, 2008 and 2007 were as follows:

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

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

6. Inventories

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

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

7. Investment Securities

Investment securities at March 31, 2008 and 2007, primarily consisted of securities available for sale. Komatsu does not have intentions to sell these securities within a year as of the balance sheet date.

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

	Millions of yen			
		Gross unrealized holding		
	Cost	Gains	Losses	Fair value
At March 31, 2008				
Investment securities available for sale:				
Marketable equity securities	**¥ 27,648**	**¥ 40,557**	**¥ 1,477**	**¥ 66,728**
Other investment securities at cost	**12,751**	**—**	**—**	**12,751**
Current portion of other investment securities at cost	**103**	**—**	**—**	**103**
	¥ 40,502	**¥ 40,557**	**¥ 1,477**	**¥ 79,582**
At March 31, 2007				
Investment securities available for sale:				
Marketable equity securities	¥ 24,589	¥ 68,167	¥ 57	¥ 92,699
Other investment securities at cost	15,474	—	—	15,474
Current portion of other investment securities at cost	417	—	—	417
	¥ 40,480	¥ 68,167	¥ 57	¥108,590

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

Other investment securities primarily include non-marketable equity securities.

Unrealized holding gains and losses deemed to be temporary are included as a component of accumulated other comprehensive income (loss) until realized.

Proceeds from the sales of investment securities available for sale were ¥601 million ($6,010 thousand), ¥1,844 million and ¥4,112 million for the years ended March 31, 2008, 2007 and 2006, respectively.

Net realized gains on sale of investment securities available for sale during the years ended March 31, 2008, 2007 and 2006, amounted to losses of ¥289 million ($2,890 thousand), gains of ¥344 million and gains of ¥18 million, respectively. Such gains and losses were included in "other income (expenses)" in the accompanying consolidated statements of income. The cost of the marketable securities and investment securities sold was - computed based on the average-cost method.

8. Investments in and Advances to Affiliated Companies

At March 31, 2008 and 2007, investments in and advances to affiliated companies comprised the following:

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

The investments in and advances to affiliated companies relate to 20% to 50% owned companies whereby Komatsu has the ability to exercise significant influence over the operational and financial policies.

Dividends received from affiliated companies were ¥286 million ($2,860 thousand), ¥679 million and ¥130 million during the years ended March 31, 2008, 2007 and 2006, respectively.

Trade notes and accounts receivable from affiliated companies at March 31, 2008 and 2007, were ¥29,284 million ($292,840 thousand) and ¥30,919 million, respectively.

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

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

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

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

As of March 31, 2008 and 2007, consolidated unappropriated retained earnings included Komatsu's share of undistributed earnings of 50% or less owned companies accounted for by the equity method in the amount of ¥10,646 million ($106,460 thousand) and ¥6,068 million, respectively.

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

The carrying value of the investments in affiliated companies exceeded Komatsu's equity in the underling net assets of such associated companies by ¥5,487 million at March 31, 2007. The excess is attributed primarily to the goodwill at the time of the initial investments in those companies.

Investments in affiliated companies include certain equity securities which have been quoted on an establish market. The carrying amount of the equity securities at March 31, 2008 and 2007 were ¥318 million and ¥13,288 million, respectively. The quoted market value of the equity securities at March 31, 2008 and 2007 were ¥513 million and ¥20,294 million, respectively.

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

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

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

9. Property, Plant and Equipment

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

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

10. Pledged Assets

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

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

The above assets were pledged against the following liabilities:

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

11. Goodwill and Other Intangible Assets

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

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

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

The aggregate amortization expense of other intangible assets subject to amortization for the year ended March 31, 2008, 2007 and 2006 were ¥5,487 million ($54,870 thousand), ¥5,656 million and ¥5,665 million, respectively. (In accordance with SFAS No. 144, the amortization expense in connection with the discontinued operations is not included in the aggregate amortization expense for the year ended March 31, 2008, 2007 and 2006.) The future estimated amortization expenses for each of five years relating to amounts currently recorded in the consolidated balance sheet are as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2009	¥8,428	$84,280
2010	6,984	69,840
2011	5,859	58,590
2012	4,801	48,010
2013	3,739	37,390

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

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

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

For the fiscal year ended March 31, 2008 and 2007, Komatsu recognized ¥482 million ($4,820 thousand) and ¥1,387 million of deferred income taxes relating to preexisting net operating tax losses and temporary differences deductible in the future. In connection therewith, Komatsu reduced the related goodwill by the same amount.

For the fiscal year ended March 31, 2008, Komatsu recognized an impairment loss of ¥2,870 million ($28,700 thousand), on goodwill allocated to a North America's reporting unit of forestry equipment business in the construction and mining equipment segment, due to unfavorable business circumstance where the reporting unit was located. The impairment loss was recognized based on the difference by which the net book value of the goodwill of the reporting unit to which the goodwill was assigned exceeded the estimated fair value of the goodwill of the same reporting unit as determined based on estimated future discounted cash flows.

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

12. Short-Term and Long-Term Debt

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

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

The weighted-average annual interest rates applicable to short-term debt outstanding at March 31, 2008 and 2007, were 4.3% and 5.0%, respectively. Certain consolidated subsidiaries have entered into contracts for committed credit lines totaling ¥10,846 million ($108,460 thousand) and have unused committed lines of credit amounting to ¥2,087 million ($20,870 thousand) with certain financial institutions at March 31, 2008, which are available for full and immediate borrowings. The Company is party to a committed ¥80,000 million ($800,000 thousand) commercial paper program and unused committed commercial paper program amounting to ¥68,000 million ($680,000 thousand) at March 31, 2008, is available upon the satisfaction of certain customary procedural requirements.

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

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

In 1996, the Company, Komatsu Finance America Inc. and Komatsu Finance (Netherlands) B.V. registered the US$1.0 billion Euro Medium-Term Note Program ("the Program") on the London Stock Exchange. On April 1, 1999, the registered amount of the Program was increased to US$1.2 billion. On October 14, 2003, Komatsu Europe Coordination Center N.V. was added as an issuer under the Program. At March 31, 2008, the issuers under the Program were the Company, Komatsu Finance

America Inc. and Komatsu Europe Coordination Center N.V. Under the Program, each of the issuers may from time to time issue notes denominated in any currency as may be agreed between the relevant issuers and dealers. The issuers under the Program issued ¥23,500 million ($235,000 thousand) during fiscal year ended March 31,2008, and ¥40,000 million during fiscal year ended March 31,2007 of Euro Medium-Term Notes with various interest rates and maturity dates.

The Company has established a program to issue up to ¥100,000 million ($1,000,000 thousand) of variable term bonds.

As is customary in Japan, substantially all bank loans are made under agreements which provide that the banks may require, under certain conditions, the borrower to provide collateral, additional collateral or guarantors for its loans.

Lending banks have a right to offset cash deposited with them against any debt or obligation that becomes due and, in the case of default and certain other specified events, against all other debt payable to the banks.

Under certain loan agreements, the lender may require the borrower to submit proposals for the payment of dividends and other appropriations of earnings for the lender's review and approval before presentation to the shareholders. Komatsu has never received such a request.

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

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

13. Liability for Pension and Other Retirement Benefits

The Company's employees, with certain minor exceptions, are covered by a severance payment and a defined benefit cash balance pension plan. The plan provides that approximately 60% of the employee benefits are payable as a pension payment, commencing upon retirement at age 60 (mandatory retirement age) and that the remaining benefits are payable as a lump-sum severance payment based on remuneration, years of service and certain other factors at the time of retirement. The plan also provides for lump-sum severance payments, payable upon earlier termination of employment.

Under the cash balance pension plan, each employee has an account which is credited yearly based on the current rate of pay and market-related interest rate.

Certain subsidiaries have various funded pension plans and/or unfunded severance payment plans for their employees, which are based on years of service and certain other factors. The Company and certain subsidiaries' funding policy is to contribute the amounts to provide not only for benefits attributed to service to date but also for those expected to be earned in the future.

At March 31, 2007, Komatsu adopted the recognition and disclosure provisions of SFAS No. 158, "Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of SFAS No. 87, 88, 106, and 132(R)" ("SFAS No. 158"). SFAS No. 158 requires Komatsu to recognize the funded status (i.e. the difference between the projected benefit obligations and the fair value of plan assets) of their pension plans in the consolidated balance sheet, with a corresponding adjustment to accumulated other comprehensive income, net of tax.

The adjustment to accumulated other comprehensive income (loss) at adoption represents the unrecognized actuarial net gain or loss and unrecognized prior service cost, both of which were previously netted against the plans' funded status in the consolidated balance sheet pursuant to the provisions of SFAS No. 87. These amounts will be subsequently recognized as net periodic benefit cost pursuant to Komatsu's historical accounting policy for amortizing such amounts. Further, actuarial gains and losses that arise in subsequent periods and are not recognized as net periodic benefit cost in the same periods will be recognized as a component of other comprehensive income (loss). Those amounts will be subsequently recognized as a component of net periodic benefit cost on the same basis as the amounts recognized in accumulated other comprehensive income (loss) at adoption of SFAS No. 158.

SFAS No. 158 also requires that the benefit obligations and the fair value of plan assets be measured as of the balance sheet date. Komatsu adopted the measurement date provisions in the year ended March 31, 2008 for those plans that had not previously used a March 31 measurement date. The change in the measurement date of defined benefit pension and other postretirement benefit plans was not material to Komatsu's consolidated results of operations and financial condition.

The reconciliation of beginning and ending balances of the benefit obligations and the fair value of the plan assets of the defined benefit plans are as follows:

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

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

Information for pension plans with accumulated benefit obligations in excess of plan assets and pension plans with projected benefit obligations in excess of plan assets is as follows:

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

Components of net periodic pension cost

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

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

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

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

The estimated actuarial loss and prior service cost for the defined benefit plans that will be amortized from accumulated other comprehensive income into net periodic cost over the next fiscal year are summarized as follows.

	Millions of yen	Thousands of U.S. dollars
Actuarial loss	¥1,559	$15,590
Prior service cost	536	5,360

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

Assumptions

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

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

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

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

The Company and a certain domestic subsidiary adopt defined benefit cash balance pension plans. These companies adopt the assumed rate of increase in future compensation levels under the point-based benefit system.

The Company and certain subsidiaries determine the expected long-term rate of return on plan assets based on the consideration of the current expectations for future returns and actual historical returns of each plan asset category.

Plan assets

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

	2008	2007
Equity securities	**31.3%**	46.3%
Debt securities	**47.9%**	36.3%
Life insurance company general accounts	**19.6%**	15.4%
Others	**1.2%**	2.0%
Total	**100.0%**	100.0%

In order to secure long-term comprehensive earnings, the Company and certain subsidiaries' investment policies are designed to ensure adequate plan assets to provide future payments of pension benefits to eligible participants. Taking into account the expected long-term rate of return on plan assets, the Company and certain subsidiaries formulate a basic portfolio comprised of the judged optimum combination of equity and debt securities. Plan assets are principally invested in equity securities, debt securities and life insurance company general accounts in accordance with the guidelines of the basic portfolio in order to produce a total return that will match the expected return on a mid-term to long-term basis. The Company and certain subsidiaries evaluate the gap between expected return and actual return of invested plan assets on an annual basis to determine if such differences necessitate a revision in the formulation of the basic portfolio. The Company and certain subsidiaries revise the basic portfolio when and to the extent considered necessary to achieve the expected long-term rate of return on plan assets.

The "Pension and Retirement Benefit Committee" is organized in the Company in order to periodically monitor the employment of such plan assets.

Equity securities include common stock of the Company in the amount of ¥48 million (0.07% of the Company's total plan assets) and ¥13 million (0.02% of the Company's total plan assets) at March 31, 2008 and 2007, respectively.

Cash flows

(1) Contributions

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

(2) Estimated future benefit payments

The benefits expected to be paid in each of the next five years, and in the aggregate for the five years thereafter which reflect estimated future employee service are as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2009	¥12,854	$128,540
2010	13,410	134,100
2011	12,650	126,500
2012	13,544	135,440
2013	11,438	114,380
Through 2014-2018	¥41,689	$416,890

Other postretirement benefit plan

Some U.S. subsidiaries provide certain postretirement health care and life insurance benefits for substantially all of their employees. The plans are contributory, with contributions indexed to salary levels. Employee contributions are adjusted to provide for any costs of the plans in excess of those paid for by the subsidiaries. The policy is to fund the cost of these benefits as claims and premiums are paid. In the fiscal year ended March 31, 2008 certain U.S. subsidiaries established a Voluntary Employees' Beneficiary Association ("VEBA") trust to hold assets and pay substantially all of these subsidiaries' self-funded post employment benefit plan obligations. The VEBA trust arrangement provides for segregation and legal restriction of the plan assets to satisfy plan obligations, and tax deductibility for contributions to the trust, subject to certain tax code limitations.

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

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

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

Components of net periodic postretirement benefit cost

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

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

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

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

The estimated actuarial loss and prior service cost for the postretirement benefit plans that will be amortized from accumulated other comprehensive income into net periodic postretirement benefit cost over the next fiscal year are summarized as follows.

	Millions of yen	Thousands of U.S. dollars
Actuarial loss	¥204	$2,040
Prior service cost	144	1,440

Information with respect to the plans is as follows:

Measurement date

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

Assumptions

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

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

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

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

At March 31, 2008 and 2007, the impact of a one percentage point change in the assumed health care cost trend rates was not material to Komatsu's consolidated financial position or results of operations.

Plan assets

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

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

Cash flows

(1) Contributions

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

(2) Estimated future benefit payments

The benefits expected to be paid in each of the next five years, and in the aggregate for the five years thereafter which reflect estimated future employee service are as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2009	¥ 830	$ 8,300
2010	864	8,640
2011	891	8,910
2012	917	9,170
2013	943	9,430
2014-2018	¥5,210	$52,100

In addition to the aforementioned plans, certain other subsidiaries provide retirement benefits to certain employees. These retirement benefit plans are generally not funded. At March 31, 2008, 2007 and 2006, these subsidiaries have fully provided for the benefits. Such amounts are not material to Komatsu's consolidated financial position or results of operations for any of the periods presented. Directors of the Company and domestic subsidiaries are primarily covered by unfunded retirement allowance plans. At March 31, 2008, 2007 and 2006, the amounts required if all directors covered by the plans had terminated their service have been fully accrued. Such amounts are not material to Komatsu's consolidated financial position or results of operations for any of the periods presented.

Certain subsidiaries maintain various defined contribution plans covering certain employees. The amount of cost recognized for all periods presented is not material to Komatsu's consolidated financial position or results of operations.

14. Shareholders' Equity

(1) Common Stock and Capital Surplus

The Commercial Code of Japan ("the Code") permitted, upon approval of the Board of Directors, transfer of amounts from capital surplus to common stock. Prior to October 2001, the Company from time to time made free share distributions that were accounted for by a transfer from capital surplus to common stock of the aggregate par value of shares issued. Effective on October 2001, the Code requires no accounting recognition for such free share distribution. Publicly owned corporations in the United States issuing shares in similar transactions would be required to account for them as stock dividends as of the shareholders' record date by reducing retained earnings and increasing appropriate capital accounts by an amount equal to the fair value of the shares issued.

If such United States practice had been applied to the cumulative free distributions made by the Company, capital surplus at March 31, 2008, would have been increased by ¥103,189 million ($1,031,890 thousand) with a corresponding decrease in unappropriated retained earnings. At March 31, 2008 and 2007, affiliated companies owned 850,100 and 1,010,200 shares which represent 0.09% and 0.10% of the Company's common stock outstanding, respectively.

The Corporate Act, which has been in force since May 1, 2006 (the Act), requires a company to obtain the approval of shareholders for transferring an amount between common stock and capital surplus. Common stock and capital surplus also are available for being transferred to other capital surplus or being used to reduce a deficit mainly upon an approval of shareholders.

(2) Retained Earnings Appropriated for Legal Reserve

The Act provides that an amount equal to 10% of retained earnings distributed each fiscal period shall be appropriated as a capital surplus or a legal reserve until the total amount of capital surplus and legal reserve becomes equal to 25% of the amount of common stock.

Legal reserve is available for being transferred to other retained earnings or being used to reduce a deficit mainly upon an approval of shareholders.

(3) Retained Earnings and Dividends

The amount of retained earnings available for dividends under the Act is based on the amount recorded in the Company's general books of account maintained in accordance with accounting principles generally accepted in Japan. In addition to the Act provision requiring an appropriation for capital surplus or legal reserve as discussed above, the Act imposes certain limitations on the amount of retained earnings available for dividends. Accordingly, total shareholders' equity of ¥365,676 million ($3,656,760 thousand), included in the Company's general books of account as of March 31, 2008 is available for dividends under the Act.

The Board of Directors recommended to and approved by the shareholders, at the general meeting held on June 24, 2008, payment of a cash dividend totaling ¥21,904 million ($219,040 thousand) to shareholders of record on March 31, 2008. In accordance with the Act, the approved dividend has not been reflected in the consolidated financial statements as of March 31, 2008. Dividends are reported in the consolidated statements of shareholders' equity when approved and paid.

The Act provides that a company can make dividends of earnings anytime with resolution of the shareholders. It also provides that a company can declare an interim dividend once a fiscal year according to its charter of corporation.

(4) Stock Option Plan

The Company intends to transfer treasury shares to directors and certain employees and certain directors of subsidiaries under an agreement granting the right for them to request such transfers at a predetermined price. The purchase price is set to equal an amount obtained by multiplying by 1.05 an average of the closing prices applicable to ordinary transactions of shares of the Company on the Tokyo Stock Exchange on all days for a month immediately preceding the month in which the date of grant of the right falls, provided that the exercise price shall not be less than the closing price of the shares of the Company on the Tokyo Stock Exchange on the date of the grant. Based on the resolutions of the shareholders' meeting on June 22, 2007, June 23, 2006 and June 24, 2005 and the Board of Directors on July 10, 2007 and on July 11, 2006, the Company issued 562 rights, 833 rights and 1,610 rights of its share acquisition rights during the years ended March 31, 2008, 2007 and 2006, respectively (The number of shares subject to be issued to one stock acquisition right shall be 1,000 shares.). The options vest 100% on each of the grant dates and are exercisable from September 1 and 3, 2008, August 1, 2007 and August 1, 2006, respectively.

For periods prior to April 1, 2006, Komatsu accounted for stock options using the intrinsic value method prescribed by APB opinion No. 25. Effective April 1, 2006, Komatsu adopted SFAS No. 123R for the year ended March 31, 2007 using the modified prospective method.

In accordance with SFAS No. 123R, Komatsu recognizes compensation expense using the fair value method. Compensation expenses during the years ended March 31, 2008 and 2007, were ¥711 million ($7,110 thousand) and ¥663 million, respectively, and were recoded in selling, general and administrative expenses. Compensation expenses after tax during the years ended March 31, 2008 and 2007, were ¥423 million ($4,230 thousand) and ¥394 million, respectively.

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

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

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

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

	Outstanding						Options Exercisable					
	Number of shares	Weighted average exercise price		Intrinsic value		Weighted average remaining contractual life	Number of shares	Weighted average exercise price		Intrinsic value		Weighted average remaining contractual life
Exercise Prices		Yen	U.S. dollars	Millions of yen	Thousands of U.S. dollars	years		Yen	U.S. dollars	Millions of yen	Thousands of U.S. dollars	years
¥ 445 - 650	370,000	¥ 563	$ 5.63	¥ 815	$ 8,150	1.1	370,000	¥ 563	$ 5.63	¥ 815	$ 8,150	1.1
¥ 651 - 900	370,000	673	6.73	774	7,740	4.3	370,000	673	6.73	774	7,740	4.3
¥ 901 - 1,350	855,000	1,126	11.26	1,401	14,010	5.3	855,000	1,126	11.26	1,401	14,010	5.3
¥1,351 - 2,325	687,000	2,325	23.25	302	3,020	6.3	687,000	2,325	23.25	302	3,020	6.3
¥2,326 - 3,700	562,000	3,661	36.61	—	—	7.4	—	—	—	—	—	—
¥ 445 - 3,700	2,844,000	1,784	17.84	3,293	32,930	5.3	2,282,000	1,322	13.22	3,293	32,930	4.8

The fair value of each share option award is estimated on the date of grant using a discrete-time model (a binomial model) for the year ended March 31, 2008 and 2007 and the Black-Sholes option pricing model for the years ended on or before March 31, 2006 based on the assumptions noted in the following table. Because a discrete-time model incorporates ranges of assumptions for inputs, those ranges are disclosed. Expected volatilities are based on implied volatilities from historical volatility of the Company's shares.

The Company uses historical data to estimate share option exercise and employee departure behavior used in the dicrete-time model. The expected term of share options granted is derived from the output of the option pricing model and represents the period of time that share options granted are expected to be outstanding. The risk-free rate for periods within the contractual term of the share option is based on the Japanese government bond yield curve in effect at the time of grant.

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

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

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

15. Other Comprehensive Income (Loss)

Other comprehensive income (loss) consists of changes in foreign currency translation adjustments, net unrealized holding gains (losses) on securities available for sale, pension liability adjustments and net unrealized holding gains (losses) on certain derivative instruments, and is included in the consolidated statements of shareholders' equity.

Accumulated other comprehensive income (loss) at March 31, 2008, 2007 and 2006, is as follows:

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

Tax effects allocated to each component of other comprehensive income (loss) and adjustments are as follows:

	Millions of yen		
	Pretax amount	Tax (expense) or benefit	Net of tax amount
2008:			
Foreign currency translation adjustments	**¥(43,661)**	**¥ —**	**¥(43,661)**
Net unrealized holding gains on securities available for sale:			
Unrealized holding gains or (losses) arising during the year	**(30,182)**	**15,098**	**(15,084)**
Less: reclassification adjustment for (gains) or losses included in net income	**22**	**(9)**	**13**
Net unrealized gains (losses)	**(30,160)**	**15,089**	**(15,071)**
Pension liability adjustments			
Unrealized holding gains or (losses) arising during the year	**(8,254)**	**3,337**	**(4,917)**
Less: reclassification adjustment for (gains) or losses included in net income	**1,699**	**(690)**	**1,009**
Net unrealized gains (losses)	**(6,555)**	**2,647**	**(3,908)**
Net unrealized holding gains (losses) on derivative instruments:			
Changes in fair value of derivatives	**1,726**	**(704)**	**1,022**
Net (gains) or losses reclassified into earnings	**(1,118)**	**456**	**(662)**
Net unrealized gains (losses)	**608**	**(248)**	**360**
Other comprehensive income (loss)	**¥(79,768)**	**¥ 17,488**	**¥(62,280)**
2007:			
Foreign currency translation adjustments	¥ 11,444	¥ —	¥ 11,444
Net unrealized holding gains on securities available for sale:			
Unrealized holding gains or (losses) arising during the year	5,014	(2,000)	3,014
Less: reclassification adjustment for (gains) or losses included in net income	(199)	82	(117)
Net unrealized gains (losses)	4,815	(1,918)	2,897
Pension liability adjustments	9,900	(4,044)	5,856
Net unrealized holding gains (losses) on derivative instruments:			
Changes in fair value of derivatives	(826)	337	(489)
Net (gains) or losses reclassified into earnings	937	(382)	555
Net unrealized gains (losses)	111	(45)	66
Other comprehensive income (loss)	¥ 26,270	¥ (6,007)	¥ 20,263
2006:			
Foreign currency translation adjustments	¥ 19,921	¥ —	¥ 19,921
Net unrealized holding gains on securities available for sale:			
Unrealized holding gains or (losses) arising during the year	31,038	(12,660)	18,378
Less: reclassification adjustment for (gains) or losses included in net income	(233)	160	(73)
Net unrealized gains (losses)	30,805	(12,500)	18,305
Pension liability adjustments	11,531	(5,490)	6,041
Net unrealized holding gains (losses) on derivative instruments:			
Changes in fair value of derivatives	(1,951)	796	(1,155)
Net (gains) or losses reclassified into earnings	2,479	(1,011)	1,468
Net unrealized gains (losses)	528	(215)	313
Other comprehensive income (loss)	¥ 62,785	¥(18,205)	¥ 44,580

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

16. Income Taxes

Income from continuing operations before income taxes, minority interests and equity in earnings of affiliated companies and income taxes for the years ended March 31, 2008, 2007 and 2006, were as follows:

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

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

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

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

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

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

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

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

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible and net operating losses available to be utilized. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods which the deferred tax assets are deductible, management believes it is more likely than not the companies will realize the benefits of these deductible differences and net operating loss carryforwards, net of the existing valuation allowances at March 31, 2008 and 2007. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced.

The Company and its domestic subsidiaries are subject to a National Corporate tax rate of 30%, an inhabitant tax of approximately 6% and a deductible Enterprise tax of approximately 8%, which in the aggregate resulted in a Japanese statutory income tax rate of approximately 40.8%. The inhabitant tax rate and Enterprise tax rate vary by local jurisdiction.

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

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

Realization of tax benefits on operating losses of subsidiaries during the year ended March 31, 2006, which represented 14.0% of the difference between the statutory and effective tax rate, related to the tax benefits recognized by Komatsu America Corp. amounting to ¥18,357 million on net operating loss carryforwards of its subsidiaries.

Foreign subsidiaries are subject to income taxes of the countries in which they operate. At March 31, 2008 and 2007, undistributed earnings of foreign subsidiaries aggregated ¥332,451 million ($3,324,510 thousand) and ¥239,400 million, respectively. At March 31, 2006, no deferred tax liabilities were recognized because the Company considered those earnings to be indefinitely reinvested. In the year ended March 31, 2007, the Company changed its policy to distribute a certain portion of undistributed earnings of foreign subsidiaries. As of March 31, 2008 and 2007, Komatsu recognized deferred tax liabilities of ¥1,140 million ($11,400 thousand) and ¥913 million, respectively, associated with those earnings. As of March 31, 2008 and 2007, Komatsu has not recognized deferred tax liabilities of ¥28,331 million ($283,310 thousand) and ¥16,785 million, respectively, for such portion of undistributed earnings of foreign subsidiaries that the Company intends to reinvest indefinitely. At March 31, 2008, the Company and certain subsidiaries had net operating loss carryforwards aggregating approximately ¥18,721 million ($187,210 thousand), which may be used as a deduction in determining taxable income in future periods. The period available to offset future taxable income varies in each tax jurisdiction as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
Within 5 years	¥ 4,039	$ 40,390
6 to 20 years	6,881	68,810
Indefinite periods	7,801	78,010
Total	¥18,721	$187,210

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

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

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

17. Rent Expenses

Komatsu leases office space and equipment and employee housing under cancelable and non-cancelable lease agreements. Rent expenses under cancelable and non-cancelable operating leases amounted to ¥15,911 million ($159,110 thousand), ¥15,035 million and ¥13,856 million, respectively, for the years ended March 31, 2008, 2007 and 2006. Lease contracts for equipment that qualify as capital leases in conformity with SFAS No. 13 have been capitalized. At March 31, 2008, the future minimum lease payments under non-cancelable operating leases and capital leases are as follows:

	Millions of yen			Thousands of U.S. dollars		
Year ending March 31	Capital leases	Operating lease commitments	Total	Capital leases	Operating lease commitments	Total
2009	¥ 30,858	¥ 3,845	¥ 34,703	$ 308,580	$ 38,450	$ 347,030
2010	19,922	2,853	22,775	199,220	28,530	227,750
2011	16,289	1,668	17,957	162,890	16,680	179,570
2012	12,288	948	13,236	122,880	9,480	132,360
2013	7,853	615	8,468	78,530	6,150	84,680
Thereafter	2,337	2,594	4,931	23,370	25,940	49,310
Total minimum lease payments	¥ 89,547	¥ 12,523	¥102,070	$ 895,470	$ 125,230	$1,020,700
Less: amounts representing interest	(7,671)			(76,710)		
Present value of net minimum capital lease payments	¥ 81,876			$ 818,760		

18. Net Income per Share

A reconciliation of the numerators and denominators of the basic and diluted net income per share computations is as follows:

	Millions of yen			Thousands of U.S. dollars
	2008	2007	2006	**2008**
Income from continuing operations	**¥203,826**	¥153,264	¥109,141	**$2,038,260**
Income from discontinued operations less applicable income taxes	**4,967**	11,374	5,149	**49,670**
Net income	**¥208,793**	¥164,638	¥114,290	**$2,087,930**

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

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

19. Commitments and Contingent Liabilities

At March 31, 2008, Komatsu was contingently liable for discounted and transferred receivables on a recourse basis with the financial institutions of ¥9,746 million ($97,460 thousand) (Note 5).

Komatsu provides guarantees to third parties of loans of the employees, affiliated companies and other companies. The guarantees relating to the employees are mainly made for their housing loans. The guarantees of loans relating to the affiliated companies and other companies are made to enhance the credit of those companies.

For each guarantee provided, Komatsu would have to perform under a guarantee, if the borrower defaults on a payment within the contract terms. The contract terms are from 10 years to 30 years in the case of employees with housing loans, and from 1 year to 8 years in the case of loans relating to the affiliated companies and other companies. The maximum amount of undiscounted payments Komatsu would have had to make in the event of default is ¥65,050 million ($650,500 thousand) at March 31, 2008. The fair value of the liabilities recognized for Komatsu's obligations as guarantors under those guarantees at March 31, 2008 were insignificant. Certain of those guarantees were secured by collateral and insurance issued to the Company.

Management of Komatsu believes that losses from those contingent liabilities, if any, would not have a material effect on the consolidated financial statements.

Commitments for capital investment outstanding at March 31, 2008, aggregated approximately ¥24,700 million ($247,000 thousand).

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

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

Komatsu also issues contractual product warranties under which it generally guarantee the performance of products delivered and services rendered for a certain period or term. Change in accrued product warranty cost for the years ended March 31, 2008 and 2007 is summarized as follows:

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

20. Derivative Financial Instruments

Risk Management Policy

Komatsu is exposed to market risk primarily from changes in foreign currency exchange and interest rates with respect to debt obligations, international operations and foreign currency denominated credits and debts. In order to manage these risks that arise in the normal course of business, Komatsu enters into various derivative transactions for hedging pursuant to its policies and procedures. Komatsu does not enter into derivative financial transactions for trading or speculative purposes.

Komatsu has entered into interest rate swap and cap agreements, partly concurrent with currency swap agreements for the purpose of managing the risk resulting from changes in cash flow or fair value that arise in their interest rate and foreign currency exposure with respect to certain short-term and long-term debts.

Komatsu operates internationally which expose Komatsu to the foreign exchange risk against existing assets and liabilities and transactions denominated in foreign currencies (principally the U.S. dollar and the Euro). In order to reduce these risks, Komatsu executes forward exchange contracts and option contracts based on its projected cash flow in foreign currencies.

Komatsu is exposed to credit-related losses in the event of nonperformance by counterparties to derivative financial instruments, but Komatsu does not expect any counterparties to fail to meet their obligations because of the high credit rating of the counterparties.

Fair Value Hedges

Komatsu uses derivative financial instruments designated as fair value hedges to manage primarily interest rate and foreign exchange risks associated with debt obligations. Principally interest rate swaps and cross-currency swaps are used to hedge such risk for debt obligations. Changes in fair value of the hedged debt obligations and derivative instruments designated as fair value hedge are offset and recognized in other income (expenses). For the years ended March 31, 2008, 2007 and 2006, hedge ineffectiveness resulting from fair value hedging activities was not material to Komatsu's result of operations. During the same period, no fair value hedges were discontinued.

Cash Flow Hedges

Komatsu uses derivative financial instruments designated as cash flow hedges to manage Komatsu's foreign exchange risks associated with forecasted transactions and Komatsu's interest risks associated with debt obligations. For transactions denominated in foreign currencies, Komatsu typically hedges forecasted and firm commitment exposures to the variability in cash flow basically up to one year. For the variable rate debt obligations, Komatsu enters into interest rate swap contracts to manage the changes in cash flows. Komatsu records the changes in fair value of derivative instruments designated as cash flow hedges in other comprehensive income (loss). These amounts are reclassified into earnings through other income (expenses) when the hedged items impact earnings. Approximately ¥318 million ($3,180 thousand) of existing income included in accumulated other comprehensive income (loss) at March 31, 2008 will be reclassified into earnings within twelve months from that date. No cash flow hedges were discontinued during the years ended March 31, 2008 as a result of anticipated transactions that are no longer probable of occurring.

Undesignated Derivative Instruments

Komatsu has entered into interest rate swap contracts not designated as hedging instruments under SFAS No. 133 as a means of managing Komatsu's interest rate exposures for short-term and long-term debts. Forward contracts and option contracts not designated as hedging instruments under SFAS No. 133 are also used to hedge certain foreign currency exposures. The changes in fair value of such instruments are recognized currently in earnings.

Notional Principal Amounts of Derivative Financial Instruments

Notional principal amounts of derivative financial instruments outstanding at March 31, 2008 and 2007 are as follows.

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

21. The Fair Value of Financial Instruments

(1) Cash and Cash Equivalents, Time Deposits, Trade Notes and Accounts Receivables, Other Current Assets, Short-Term Debt, Trade Notes and Accounts Payables, and Other Current Liabilities

The carrying amount approximates fair value because of the short maturity of these instruments.

(2) Investment Securities

The fair values of investment securities available for sale for which it is practicable to estimate fair value are based on quoted market prices.

(3) Installment Receivables

The fair values of installment receivables are based on the present value of future cash flows through maturity, discounted using estimated current interest rates. The fair values computed on such a basis approximate the carrying amounts (Note 5).

(4) Long-Term Debt

The fair values of each of the long-term debts are based on the quoted price in the most active market or the present value of future cash flows associated with each instrument discounted using the current borrowing rate for similar debt of comparable maturity.

(5) Derivative Financial Instruments

The fair values of derivative financial instruments, consisting principally of foreign currency contracts and interest swap agreements, are estimated by obtaining quotes from brokers.

The carrying amounts and the estimated fair values of the financial instruments, including financial instruments not qualifying as hedge, as of March 31, 2008 and 2007, are summarized as follows:

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

Limitations

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could affect the estimates.

22. Business Segment Information

Under SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, in deciding how to allocate resources and in assessing performance. The operating segments are managed separately because each operating segment represents a strategic business unit that offers different products and services.

Komatsu operates on a worldwide basis with two operating segments: 1) Construction and mining equipment, 2) Industrial Machinery, Vehicles and Others.

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

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

Segment profit is determined in a manner that is consistent with Japanese accounting principles by subtracting the cost of sales and selling, general and administrative expenses from net sales attributed to the operating segment. Segment profit is used by the chief operating decision maker in deciding how to allocate resources and in assessing performance, and excludes certain general corporate administration and finance expenses, such as costs of executive management, corporate development, corporate finance, human resources, internal audit, investor relations, legal and public relations. Segment profit also excludes certain non-recurring charges which may otherwise relate to operating segments, including impairments of long lived assets and goodwill.

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

Operating segments:

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

Transfers between segments are made at estimated arm's-length prices. Identifiable assets are those assets used in the operations of each segment. Unallocated corporate assets consist primarily of cash and cash equivalents and marketable investment securities maintained for general corporate purposes. Amortization for the years ended March 31, 2008, 2007 and 2006 do not include amortization of long-term prepaid expenses of ¥1,036 million ($10,360 thousand), ¥913 million and ¥1,225 million. Further depreciation and amortization for the years ended March 31, 2007 and 2006 do not include those for discontinued operations of ¥6,375 million and ¥14,013 million. The term "Capital investment" should be distinguished from the term "Capital expenditures" as used in the consolidated statements of cash flows. The term "Capital investment" is defined to refer to the acquisition of property, plant and equipment including properties under capital leases on an accrual basis which reflects the effects of timing differences between acquisition dates and payment dates.

Geographic information:

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

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

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

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

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

There were no sales to a single major external customer for the years ended March 31, 2008, 2007 and 2006.

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

The following information shows net sales and segment profit recognized by geographic origin for the years ended March 31, 2008, 2007 and 2006. In addition to the disclosure requirements under SFAS No. 131, Komatsu discloses this information as supplemental information in light of the disclosure requirements of the Japanese Financial Instruments and Exchange Law, which a Japanese public company is subject to:

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

Transfers between segments are made at estimated arm's-length prices. Identifiable assets are those assets used in the operations of each segment. Unallocated corporate assets consist primarily of cash and cash equivalents and investment securities maintained for general corporate purposes.

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

23. Supplementary Information to Balance Sheets

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

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

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

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

24. Supplementary Information to Statements of Income

The following information shows research and development expenses and advertising costs, for the years ended March 31, 2008, 2007 and 2006. Research and development expenses, and advertising costs are charged to expense as incurred and are included in cost of sales and selling, general and administrative expenses in consolidated statements of income.

	Millions of yen			Thousands of U.S. dollars
	2008	2007	2006	**2008**
Research and development expenses	**¥ 49,673**	¥ 46,306	¥ 44,560	**$496,730**
Advertising costs	**4,410**	4,482	3,978	**44,100**

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

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

For the fiscal year ended March 31, 2008, Komatsu recognized an impairment loss of ¥2,447 million ($24,470 thousand), related to property, plant and equipment and intangible assets subject to amortization at certain domestic and foreign subsidiaries, as profitability of the assets of each subsidiary was expected to be low in the future and Komatsu estimated the carrying amounts would not be recovered by the future cash flows.

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

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

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

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

25. Valuation and Qualifying Accounts

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

	Millions of yen			Thousands of U.S. dollars
Allowance for doubtful receivables	**2008**	2007	2006	**2008**
Balance at beginning of fiscal period	**¥ 11,808**	¥ 11,786	¥ 14,664	**$ 118,080**
Additions				
Charged to costs and expenses	**3,003**	2,653	160	**30,030**
Charged to other accounts	**208**	—	—	**2,080**
Deductions	**3,549**	2,631	3,038	**35,490**
Balance at end of fiscal period	**¥ 11.470**	¥ 11,808	¥ 11,786	**$ 114,700**

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

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

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

The management of Komatsu is responsible for establishing and maintaining adequate internal control over financial reporting. Komatsu's internal control over financial reporting is a process designed to provide reasonable assurances regarding the reliability of its financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. Komatsu's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of Komatsu, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of Komatsu are being made only in accordance with authorizations of management and directors of Komatsu and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of Komatsu's assets that could have a material effect on its financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Komatsu's internal control over financial reporting as of March 31, 2008. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control — Integrated Framework.

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

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

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

Kunio Noji
President and CEO

Kenji Kinoshita
Director and Senior Executive Officer
CFO

June 30, 2008

The Board of Directors and Shareholders
Komatsu Ltd.:

We have audited the accompanying consolidated balance sheets of Komatsu Ltd. and subsidiaries as of March 31, 2008 and 2007, and the related consolidated statements of income, shareholders' equity and cash flows for each of the years in the three-year period ended March 31, 2008 expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Komatsu Ltd. and subsidiaries as of March 31, 2008 and 2007, and the results of their operations and their cash flows for each of the years in the three-year period ended March 31, 2008, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of March 31, 2008, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated June 30, 2008 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

The accompanying consolidated financial statements as of and for the year ended March 31, 2008 have been translated into United States dollars solely for convenience of the reader. We have audited the translation and, in our opinion, the consolidated financial statements, expressed in yen, have been translated into dollars on the basis set forth in Note 1 to the consolidated financial statements.

KPMG AZSA & Co.

Tokyo, Japan
June 30, 2008

The Board of Directors and Shareholders
Komatsu Ltd.:

We have audited the internal control over financial reporting of Komatsu Ltd. and subsidiaries as of March 31, 2008, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Komatsu Ltd. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of March 31, 2008, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

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

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Komatsu Ltd. and subsidiaries as of March 31, 2008 and 2007, and the related consolidated statements of income, shareholders' equity and cash flows for each of the years in the three-year period ended March 31, 2008, expressed in Japanese yen, and our report dated June 30, 2008 expressed an unqualified opinion on those consolidated financial statements.

KPMG AZSA & Co.

Tokyo, Japan
June 30, 2008

Directors, Auditors and Officers

(As of June 24, 2008)

Board of Directors

Masahiro Sakane
Chairman of the Board

Kunio Noji
President and Chief Executive Officer

Yoshinori Komamura
Director and Senior Executive Officer
President, Construction & Mining Equipment Marketing Division

Yasuo Suzuki
Director and Senior Executive Officer
President, Industrial Machinery General Headquarters

Kenji Kinoshita
Director and Senior Executive Officer
Chief Financial Officer
Supervising CSR and Corporate Communications & Investor Relations

Masahiro Yoneyama
Director
Representative of All China Operations

Susumu Isoda
Director
President, Komatsu Utility Co., Ltd.

Morio Ikeda
Outside Director
Advisor, Shiseido Company, Limited

Kensuke Hotta
Outside Director
Chairman and Representative Director, Hotta Partners Inc.

Noriaki Kano
Outside Director
Professor Emeritus, Tokyo University of Science

Corporate Auditors

Masafumi Kanemoto
Corporate Auditor (Full time)

Masaji Kitamura
Corporate Auditor (Full time)

Takaharu Dohi
Outside Corporate Auditor
Attorney at law

Makoto Okitsu
Outside Corporate Auditor
Advisor, Teijin Limited

Hiroyuki Kamano
Outside Corporate Auditor
Partner, Kamano Sogo Law Offices

Executive Officers

Mamoru Hironaka
Senior Executive Officer
Vice President, Construction & Mining Equipment Marketing Division
President, Product Support Division

Masao Fuchigami
Senior Executive Officer
President, Research Division
Supervising Design & Development and Quality Assurance

Taizo Kayata
Senior Executive Officer
President, Overseas Marketing, Construction & Mining Equipment Marketing Division

Nobukazu Kotake
Senior Executive Officer
President, Development Division

Susumu Yamanaka
Senior Executive Officer
President, Defense Systems Division

Masakatsu Hioki
Senior Executive Officer
Supervising Compliance, Legal Affairs, Human Resources, Education and Safety & Health Care

Tetsuji Ohashi
Senior Executive Officer
President, Production Division
Supervising e-KOMATSU

Shinichiro Komiya
Executive Officer
President, Japanese Marketing, Construction & Mining Equipment Marketing Division

Fusao Seki
Executive Officer
General Manager, Corporate Communications and CSR
Supervising General Affairs

Koji Yamada
Executive Officer
Vice President, Industrial Machinery General Headquarters
President, Large Press Business Division

Tetsuro Kajiya
Executive Officer
President, Procurement Division

Kazuhiko Iwata
Executive Officer
President, Global Mining Business, Construction & Mining Equipment Marketing Division

Nobuki Hasegawa
Executive Officer
General Manager, Construction Equipment Technical Center 2, Development Division

Mikio Fujitsuka
Executive Officer
President, Global Retail Finance Business Division

Ichiro Sasaki
Executive Officer
Awazu Plant Manager, Production Division

Noriyuki Sudo
Executive Officer
President, Rental and Used Equipment Business, Construction & Mining Equipment Marketing Division

Fujitoshi Takamura
Executive Officer
General Manager, Construction Equipment Technical Center 1, Development Division

Yoshisada Takahashi
Executive Officer
Osaka Plant Manager, Production Division

Tadashi Okada
Executive Officer
General Manager, Corporate Planning Division
Supervising Environment and Audit

Masahiro Uegaki
Executive Officer
Mooka Plant Manager and Ibaraki Plant Manager, Production Division

Kazunori Kuromoto
Executive Officer
President, AHS (Autonomous Haulage System) Business, Construction & Mining Equipment Marketing Division

Mitsuru Ueno
Executive Officer
President, Engines & Hydraulics Business Division and Oyama Plant Manager

Komatsu Group Investment Holdings

(As of March 31, 2008)

Company	Subscribed capital in millions		Participation (%)
Komatsu Ltd.	**¥67,870**		**—**

Consolidated Subsidiaries

Company	Subscribed capital in millions (except for* in thousands)		Participation (%)
Komatsu Hokkaido Ltd.	¥400		100.0
Komatsu Niigata Ltd.	¥80		100.0
Komatsu Tokyo Ltd.	¥950		100.0
Komatsu Tokai Ltd.	¥50		100.0
Komatsu Kinki Ltd.	¥1,700		100.0
Komatsu Hyogo Ltd.	¥613		90.0
Komatsu Chugoku Ltd.	¥984		100.0
Komatsu Nishi-Nihon Ltd.	¥200		100.0
Komatsu Castex Ltd.	¥4,979		100.0
Komatsu Used Equipment Corp.	¥290	(4.8)	100.0
Komatsu Rental Japan Ltd.	¥1,034		100.0
BIGRENTAL Co., Ltd.	¥1,000		57.9
Komatsu Diesel Co.,Ltd.	¥50		100.0
Komatsu Business Support Ltd.	¥20		100.0
Komatsu Cabtec Co.,Ltd.	¥300		100.0
Komatsu All Parts Support Ltd.	¥30		100.0
Komatsu Utility Co.,Ltd.	¥13,033		100.0
Komatsu Industries Corporation	¥990		100.0
Komatsu Machinery Corporation	¥600		100.0
NIPPEI TOYAMA CORPORATION	¥6,014		97.7
Komatsu Logistics Corp.	¥1,080		100.0
Komatsu House Ltd.	¥1,436	(1.8)	100.0
Komatsu General Services Ltd.	¥160		100.0
Komatsu Engineering Corp.	¥140		100.0
Komatsu Electronics,Inc. (KELK)	¥390		100.0
Komatsu America Corp. (KAC)	US$1,027		100.0
Komatsu Latin-America Corp.(KLC)	US$18	(100.0)	100.0
Komatsu do Brasil Ltda. (KDB)	BRL55	(100.0)	100.0
Komatsu Cummins Chile Ltda. (KCC)	US$13	(81.8)	81.8
Komatsu Cummins Chile Arrienda S.A.	US$3	(100.0)	100.0
Komatsu Financial Limited Partnership (KFLP)	—	(100.0)	100.0
Komatsu Equipment Company (KEC)	US$1	(100.0)	100.0
Modular Mining Systems,Inc.(MMS)	US$16*	(100.0)	100.0
Hensley Industries,Inc.	US$2*	(100.0)	100.0
Komatsu Europe International N.V. (KEISA)	Euro45		100.0
Komatsu Europe Coordination Center N.V. (KECC)	Euro1,250*	(100.0)	100.0
Komatsu UK Ltd. (KUK)	£23	(50.0)	100.0
Komatsu Hanomag GmbH (KOHAG)	Euro19	(49.3)	100.0
Komatsu Mining Germany GmbH (KMG)	Euro5		100.0
Komatsu Deutschland GmbH (KDG)	Euro6	(100.0)	100.0
Komatsu France S.A. (KFSA)	Euro5	(100.0)	100.0
Komatsu Utility Europe S.p.A. (KUE)	Euro6	(90.0)	100.0
Komatsu Italia S.p.A. (KIT)	Euro4	(100.0)	100.0
Komatsu Forest AB	SKR397		100.0
Komatsu CIS LLC	RUB114		100.0
Komatsu Financial Europe N.V. (KFE)	Euro40	(100.0)	100.0
Komatsu Southern Africa (Pty) Ltd. (KSAf)	ZAR1*		80.0
Komatsu Middle East FZE (KME)	AED2		100.0
Komatsu Asia & Pacific Pte Ltd. (KAP)	S$28		100.0
PT Komatsu Indonesia (KI)	RP192,780		94.9
PT Komatsu Undercarriage Indonesia (KUI)	US$10	(100.0)	100.0
PT Komatsu Marketing & Support Indonesia (KMSI)	US$5	(100.0)	100.0
Bangkok Komatsu Co.,Ltd. (BKC)	BHT620	(74.8)	74.8
Komatsu Australia Pty.Ltd. (KAL)	A$21	(40.0)	60.0
Komatsu (China) Ltd. (KC)	US$34		100.0
Komatsu (Changzhou) Construction Machinery Corp. (KCCM)	US$21	(10.0)	85.0
Komatsu Shantui Construction Machinery Co.,Ltd. (KSC)	US$21	(30.0)	60.0
Komatsu Financial Leasing China Ltd.	RMB280	(100.0)	100.0
Komatsu Forklift U.S.A. Inc. (KFI)	US$44	(100.0)	100.0
Komatsu Finance America Inc. (KFA)	US$140	(100.0)	100.0

Company	Subscribed capital in millions (except for* in thousands)	Participation (%)	

Affiliated Companies Accounted for by the Equity Method

Komatsu Saitama Ltd.	¥635		40.0
Sanuki Lease Ltd.	¥765	(1.0)	35.0
Komatsu Cummins Engine Co.,Ltd. (KCEC)	¥1,400		50.0
Qualica Ltd.	¥1,234		20.0
Gigaphoton,Inc.	¥5,000		50.0
L&T-Komatsu Limited (LTK)	Rp1,200	(50.0)	50.0
Cummins Komatsu Engine Company (CKEC)	—	(50.0)	50.0
PT Komatsu Astra Finance	US$25	(50.0)	50.0
Komatsu Australia Corporate Finance Pty. Ltd.	A$20	(50.0)	50.0

Notes:
1. In addition to the above list, there are 105 consolidated subsidiaries.
2. Similarly, there are 32 additional affiliated companies accounted for by the equity method.
3. Participation represents the percentage of voting stock concerning consolidated subsidiaries. The figures contained in parentheses represent the percentage of indirect ownership by other Komatsu Group companies and are included in the overall participation percentage.
4. Komatsu Financial Limited Partnership is a limited partnership in compliance with the regulations of the U.S. state of Delaware. Net assets equivalent of common stock in the company totals US$369 million. Investment was made through our subsidiary Komatsu America Corp.
5. Cummins Komatsu Engine Company is a general partnership in compliance with the regulations of the U.S. state of Indiana. Our cumulative investment in the company totals US$2 million through our subsidiary Komatsu America Corp.
6. BIGRENTAL Co., Ltd., NIPPEI TOYAMA CORPORATION, Komatsu CIS LLC, Komatsu Financial Europe N.V. and Komatsu Financial Leasing China Ltd. became consolidated subsidiaries in the year ended March 31, 2008.
7. Komatsu Zenoah Co. was merged with Komatsu Forklift Co.,Ltd. and Komatsu Forklift Co.,Ltd. was renamed Komatsu Utility Co.,Ltd. in April 2007.

Corporate Information

(As of March 31, 2008)

Outline

Name	Komatsu Ltd.
Head Office	2-3-6 Akasaka, Minato-ku, Tokyo 107-8414, Japan
Date of Establishment	May 13, 1921
Common Stock Outstanding	Consolidated: ¥67,870 million (US$679 million) based on U.S. GAAP Non-consolidated: ¥70,120 million (US$701 million)
Number of Employees	Consolidated: 39,267 Non-consolidated: 6,873

Shareholder Information

Shares of Common Stock Issued and Outstanding	998,744,060 shares
Number of Shareholders	206,985
Number of Shares per Trading Unit	100
Securities Code	6301 (Japan)
Stock Listings	Tokyo and Osaka
Transfer Agent for Common Stock	Mitsubishi UFJ Trust and Banking Corporation 4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8212, Japan
Depositaries (ADRs)	Depositary Receipts Services, Citibank, N.A. 388 Greenwich Street, 14th Floor, New York, NY 10013, U.S.A. Ticker Symbol: KMTUY

Major Shareholders (Top Ten)

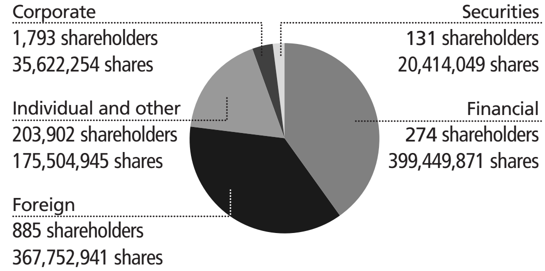
As of March 31, 2008

Name of shareholders	Number of shares held (in thousands)	Equity ratio (%)
Japan Trustee Services Bank, Ltd. (Trust Account)	68,240	6.8
The Master Trust Bank of Japan, Ltd. (Trust Account)	65,591	6.5
Taiyo Life Insurance Company	47,164	4.7
Nippon Life Insurance Company	33,283	3.3
State Street Bank and Trust Company	32,423	3.2
NATS CUMCO	18,172	1.8
Sumitomo Mitsui Banking Corporation	17,835	1.7
State Street Bank and Trust Company 505103	16,503	1.6
NIPPONKOA Insurance Co., Ltd.	13,962	1.4
Trust & Custody Services Bank, Ltd. (Trust Account Y)	11,875	1.1

Note: Equity ratio is calculated by subtracting treasury shares.

Breakdown of Shareholders

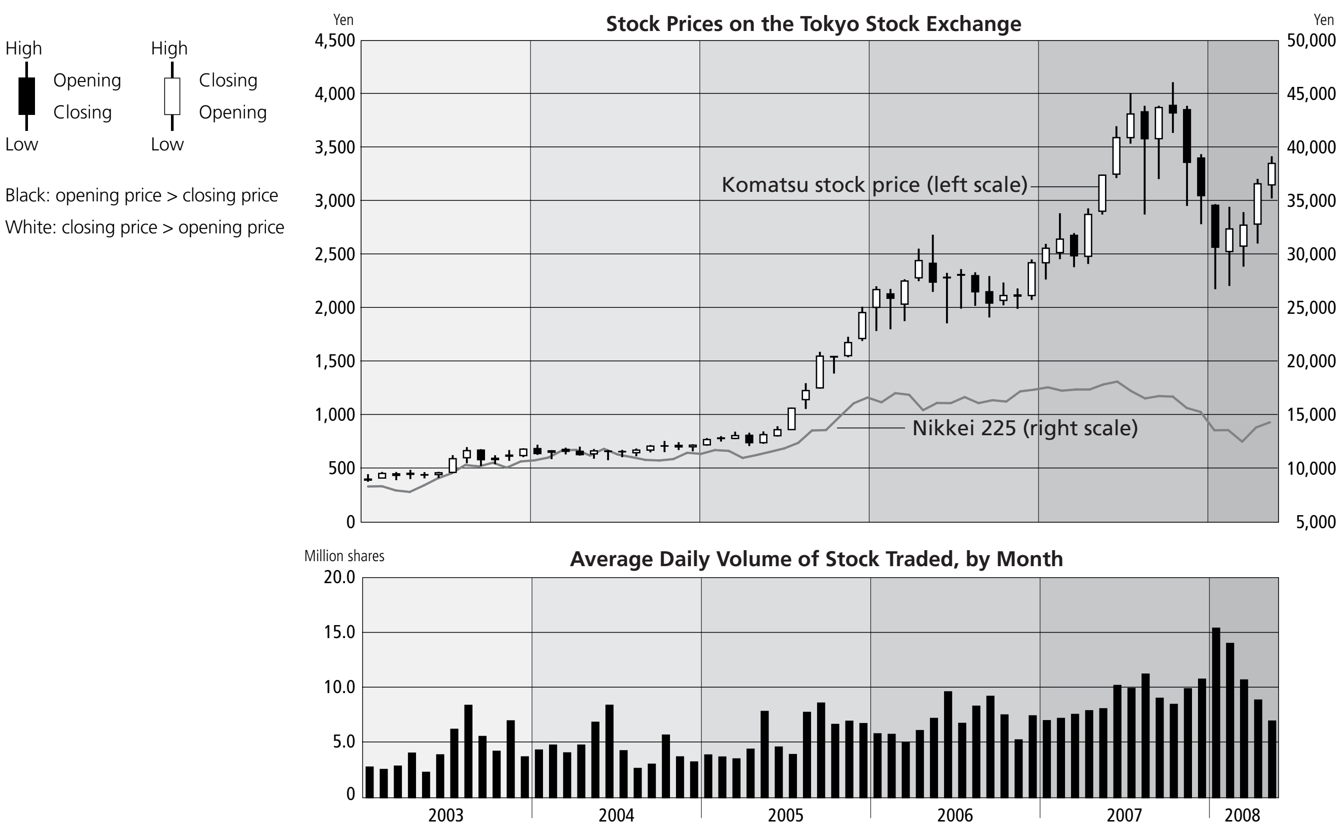
As of March 31, 2008



Note: Percentage figures are shown after dropping the last two places of decimals.

Tokyo Stock Price Range

As of May 31, 2008



Note : Calendar years (January–December)

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