KOMATSU LTD
Form 20-F/A
July 19, 2007
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 20-F/A

Amendment No. 1

(Mark One)

¨ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

or

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended March 31, 2007

or

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

or

¨ **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Date of event requiring this shell company report

COMMISSION FILE NUMBER: 1-7239

KABUSHIKI KAISHA KOMATSU SEISAKUSHO

(Exact name of registrant as specified in its charter)

KOMATSU LTD.

(Translation of registrant s name into English)

JAPAN

(Jurisdiction of incorporation or organization)

2-3-6 Akasaka, Minato-ku, Tokyo 107-8414, Japan

(Address of principal executive offices)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
None	N/A

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

Common Stock*

---

*4,108,564 American Depositary Shares evidenced by American Depositary Receipts, each American Depositary Share representing 4 shares of Common Stock of Komatsu.

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the period covered by the annual report.

994,368,068 shares (excluding 4,375,992 shares of Treasury Stock)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x, No ¨

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes ¨, No x

Note Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x, No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨

Indicate by check mark which financial statement item the registrant has elected to follow. Item 17 ¨, Item 18 x.

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of theExchange Act). Yes ¨, No x

Table of Contents

In this document, Komatsu Ltd. is hereinafter referred to as the Company, and together with its consolidated subsidiaries, as Komatsu.

Cautionary Statement with respect to forward-looking statements:

This Annual Report contains forward-looking statements that reflect management s views and assumptions in the light of information currently available with respect to certain future events, including expected financial position, operating results and business strategies. These statements can be identified by the use of terms such as will, believes, should, projects, plans, expects and similar terms and expressions that identify events or expectations. Actual results may differ materially from those projected, and the events and results of such forward-looking assumptions cannot be assured. Any forward-looking statements speak only as of the date of this Annual Report, and the Company assumes no duty to update such statements.

Factors that may cause actual results to differ materially from those predicted by such forward-looking statements include, but are not limited to, unanticipated changes in demand for Komatsu s principal products, owing to changes in the economic conditions in Komatsu s principal markets; changes in exchange rates or the impact of increased competition; unanticipated costs or delays encountered in achieving Komatsu s objectives with respect to globalized product sourcing and new information technology tools; uncertainties as to the results of Komatsu s research and development efforts and its ability to access and protect certain intellectual property rights; the impact of regulatory changes and accounting principles and practices; and the introduction, success and timing of business initiatives and strategies.

Table of Contents

Table of Contents

EXPLANATORY NOTE 1

Item 18. FINANCIAL STATEMENTS 2

Item 19. EXHIBITS 3

Table of Contents

EXPLANATORY NOTE

This Amendment No. 1 to the Annual Report on Form 20-F for the fiscal year ended March 31, 2007 of Komatsu Ltd. is filed to amend the original Annual Report on Form 20-F for the fiscal year ended March 31, 2007 filed on July 5, 2007 for the purpose of correcting the Reports of Independent Registered Public Accounting Firm, which are set forth on pages F-2 and F-3.

Table of Contents

Item 18. Financial Statements

See Consolidated Financial Statements which are filed as part of this Amendment No. 1 to Annual Report on Form 20-F.

Table of Contents

Item 19. Exhibits

12 a.	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 of CEO of the Company
12 b.	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 of CFO of the Company
13 a.	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 of CEO of the Company
13 b.	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 of CFO of the Company

Table of Contents

SIGNATURES

The registrant hereby certifies that it meets all of its requirements for filing on Form 20-F as amended by this Form 20-F/A (Amendment No. 1) and that it has duly caused and authorized the undersigned to sign this Amendment No. 1 to the Annual Report on Form 20-F on its behalf.

KOMATSU LTD.

Date: July 19, 2007

By: /s/ KENJI KINOSHITA
Name: Kenji Kinoshita
Position: Director, Senior Executive Officer and Chief Financial Officer

Table of Contents

KOMATSU LTD. AND CONSOLIDATED SUBSIDIARIES

INDEX TO

CONSOLIDATED FINANCIAL STATEMENTS

Reports of Independent Registered Public Accounting Firm	F-2 and F-3
Consolidated Balance Sheets as of March 31, 2007 and 2006	F-4 and F-5
Consolidated Statements of Income for the Years Ended March 31, 2007, 2006 and 2005	F-6
Consolidated Statements of Shareholders Equity for the Years Ended March 31, 2007, 2006 and 2005	F-7
Consolidated Statements of Cash Flows for the Years Ended March 31, 2007, 2006 and 2005	F-8
Notes to Consolidated Financial Statements	F-9 to F-41

Table of Contents

Report of Independent Registered Public Accounting Firm

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, 2007 and 2006, 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, 2007, 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, 2007 and 2006, and the results of their operations and their cash flows for each of the years in the three-year period ended March 31, 2007, 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 effectiveness of the Company s internal control over financial reporting as of March 31, 2007, 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 29, 2007 expressed an unqualified opinion on management s assessment of, and the effective operation of, internal control over financial reporting.

The accompanying consolidated financial statements as of and for the year ended March 31, 2007 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.

/s/ KPMG AZSA & Co.

Tokyo, Japan

June 29, 2007

Table of Contents

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders

Komatsu Ltd.:

We have audited management s assessment, included in the Management s Report on Internal Control over Financial Reporting, which appears in Item 15, that Komatsu Ltd. and subsidiaries maintained effective internal control over financial reporting as of March 31, 2007, 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. Our responsibility is to express an opinion on management s assessment and an opinion on the effectiveness of 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, evaluating management s assessment, testing and evaluating the design and operating effectiveness of internal control, and 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, management s assessment that Komatsu Ltd. and subsidiaries maintained effective internal control over financial reporting as of March 31, 2007, is fairly stated, in all material respects, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also, in our opinion, Komatsu Ltd. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of March 31, 2007, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Komatsu Ltd. and subsidiaries as of March 31, 2007 and 2006, 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, 2007, expressed in Japanese yen, and our report dated June 29, 2007 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG AZSA & Co.

Tokyo, Japan

June 29, 2007

Table of Contents

Consolidated Balance Sheets

Komatsu Ltd. and Consolidated Subsidiaries

March 31, 2007 and 2006

Assets	Millions of yen 2007	2006	Thousands of U.S. dollars (Note 1) 2007
Current assets			
Cash and cash equivalents (Note 10)	**¥ 92,199**	¥ 69,997	**$ 781,347**
Time deposits	**54**	54	**458**
Trade notes and accounts receivable, less allowance for doubtful receivables of ¥11,808 million ($100,068 thousand) in 2007 and ¥11,786 million in 2006 (Notes 1, 5 and 25)	**478,063**	397,998	**4,051,381**
Inventories (Notes 1 and 6)	**437,894**	370,074	**3,710,966**
Assets held for sale (Note 4)	**16,321**		**138,314**
Deferred income taxes and other current assets (Notes 1, 7, 16, 20, 21, 23 and 25)	**119,214**	109,778	**1,010,288**
Total current assets	**1,143,745**	947,901	**9,692,754**
Long-term trade receivables (Note 5)	**73,669**	72,844	**624,314**
Investments			
Investments in and advances to affiliated companies (Notes 1 and 8)	**36,688**	21,726	**310,915**
Investment securities (Notes 1, 7 and 21)	**108,173**	94,744	**916,720**
Other	**10,285**	9,047	**87,162**
Total investments	**155,146**	125,517	**1,314,797**
Property, plant and equipment less accumulated depreciation (Notes 1, 9, 10 and 17)	**388,393**	400,667	**3,291,466**
Goodwill (Notes 1 and 11)	**20,594**	22,000	**174,525**
Other intangible assets (Notes 1 and 11)	**25,243**	25,418	**213,924**
Deferred income taxes and other assets (Notes 1, 16, 20, 21 and 25)	**37,192**	57,778	**315,186**
	¥ 1,843,982	¥ 1,652,125	**$ 15,626,966**

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

Table of Contents

Liabilities and Shareholders Equity	Millions of yen 2007	2006	Thousands of U.S. dollars (Note 1) 2007
Current liabilities			
Short-term debt (Note 12)	**¥ 102,248**	¥ 98,130	**$ 866,508**
Current maturities of long-term debt (Notes 10, 12, 17 and 21)	**72,486**	84,580	**614,288**
Trade notes and accounts payable	**365,065**	304,776	**3,093,771**
Income taxes payable (Note 16)	**54,933**	37,004	**465,534**
Liabilities held for sale (Note 4)	**7,919**		**67,110**
Deferred income taxes and other current liabilities (Notes 1, 16, 20 and 21)	**182,529**	164,353	**1,546,857**
Total current liabilities	**785,180**	688,843	**6,654,068**
Long-term liabilities			
Long-term debt (Notes 10, 12, 17 and 21)	**174,340**	195,203	**1,477,458**
Liability for pension and retirement benefits (Notes 1 and 13)	**37,783**	45,148	**320,195**
Deferred income taxes and other liabilities (Notes 1, 16, 20 and 21)	**50,188**	52,065	**425,322**
Total long-term liabilities	**262,311**	292,416	**2,222,975**
Minority interests	**19,774**	47,869	**167,576**
Commitments and contingent liabilities (Note 19)			
Shareholders equity (Notes 1 and 14)			
Common stock:			
Authorized 3,955,000,000 shares in 2007 and 2006			
Issued 998,744,060 shares in 2007 and 2006			
Outstanding 993,786,759 shares in 2007 and 993,645,492 shares in 2006	**67,870**	67,870	**575,169**
Capital surplus	**137,155**	136,137	**1,162,331**
Retained earnings:			
Appropriated for legal reserve	**24,267**	23,416	**205,653**
Unappropriated	**517,450**	376,522	**4,385,169**
Accumulated other comprehensive income (loss) (Notes 1, 7, 13 and 15)	**33,501**	23,095	**283,907**
Treasury stock at cost, 4,957,301 shares in 2007 and 5,098,568 shares in 2006 (Note 14)	**(3,526)**	(4,043)	**(29,882)**
Total shareholders equity	**776,717**	622,997	**6,582,347**
	¥ 1,843,982	¥ 1,652,125	**$ 15,626,966**

Table of Contents

Consolidated Statements of Income

Komatsu Ltd. and Consolidated Subsidiaries

Years ended March 31, 2007, 2006 and 2005

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2007	2006 (Note 1)	2005 (Note 1)	2007
Net sales (Notes 1 and 8)	**¥ 1,893,343**	¥ 1,612,140	¥ 1,356,071	**$ 16,045,280**
Cost of sales (Notes 17 and 24)	**1,356,511**	1,185,240	1,009,859	**11,495,856**
Selling, general and administrative expenses (Notes 17 and 24)	**287,086**	262,399	252,011	**2,432,933**
Impairment loss on long-lived assets held for use (Note 1)	**81**	4,791	4,200	**686**
Impairment loss on goodwill (Note 1 and 11)		3,041		
Other operating income (expenses) (Note 24)	**(4,924)**	6,759	5,861	**(41,729)**
Operating income	**244,741**	163,428	95,862	**2,074,076**
Other income (expenses) (Note 24)	**(8,250)**	(7,649)	(3,993)	**(69,915)**
Interest and dividend income	**8,532**	6,824	5,138	**72,305**
Interest expense	**(15,485)**	(12,208)	(10,611)	**(131,229)**
Other net	**(1,297)**	(2,265)	1,480	**(10,991)**
Income from continuing operations before income taxes, minority interests and equity in earnings of affiliated companies	**236,491**	155,779	91,869	**2,004,161**
Income taxes (Notes 1 and 16)				
Current	**76,102**	45,751	16,056	**644,932**
Deferred	**3,643**	(1,781)	18,229	**30,873**
Total	**79,745**	43,970	34,285	**675,805**
Income from continuing operations before minority interests and equity in earnings of affiliated companies	**156,746**	111,809	57,584	**1,328,356**
Minority interests in income of consolidated subsidiaries	**(6,580)**	(5,335)	(2,603)	**(55,763)**
Equity in earnings of affiliated companies	**3,098**	2,667	887	**26,254**
Income from continuing operations	**153,264**	109,141	55,868	**1,298,847**
Income from discontinued operations less applicable income taxes, minority interests and equity in earnings of affiliated companies (Note 4)	**11,374**	5,149	3,142	**96,390**
Net income	**¥ 164,638**	¥ 114,290	¥ 59,010	**$ 1,395,237**
		Yen		U.S. cents
Per share data (Notes 1 and 18):				
Income from continuing operations:				

Basic	¥ **154.25**	¥ 109.94	¥ 56.34	¢ **130.72**
Diluted	**153.97**	109.75	56.30	**130.48**
Income from discontinued operations:				
Basic	**11.45**	5.19	3.17	**9.70**
Diluted	**11.43**	5.18	3.17	**9.69**
Net income:				
Basic	**165.70**	115.13	59.51	**140.42**
Diluted	**165.40**	114.93	59.47	**140.17**
Cash dividends per share (Note 1)	**23.00**	14.00	9.00	**19.49**

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

Table of Contents

Consolidated Statements of Shareholders Equity

Komatsu Ltd. and Consolidated Subsidiaries

Years ended March 31, 2007, 2006 and 2005

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2007	2006	2005	2007
Common stock				
Balance, beginning of year	**¥ 67,870**	¥ 67,870	¥ 67,870	**$ 575,169**
Balance, end of year	**¥ 67,870**	¥ 67,870	¥ 67,870	**$ 575,169**
Capital surplus				
Balance, beginning of year	**¥ 136,137**	¥ 135,792	¥ 135,675	**$ 1,153,703**
Sales of treasury stock	**394**	345	117	**3,339**
Issuance of stock acquisition rights (Notes 1 and 14)	**663**			**5,619**
Others	**(39)**			**(330)**
Balance, end of year	**¥ 137,155**	¥ 136,137	¥ 135,792	**$ 1,162,331**
Retained earnings, appropriated for legal reserve				
Balance, beginning of year	**¥ 23,416**	¥ 22,341	¥ 21,629	**$ 198,441**
Transfer from unappropriated retained earnings	**851**	1,075	712	**7,212**
Balance, end of year	**¥ 24,267**	¥ 23,416	¥ 22,341	**$ 205,653**
Unappropriated retained earnings				
Balance, beginning of year	**¥ 376,522**	¥ 277,196	¥ 227,825	**$ 3,190,864**
Net income	**164,638**	114,290	59,010	**1,395,237**
Cash dividends paid	**(22,859)**	(13,889)	(8,927)	**(193,720)**
Transfer to retained earnings appropriated for legal reserve	**(851)**	(1,075)	(712)	**(7,212)**
Balance, end of year	**¥ 517,450**	¥ 376,522	¥ 277,196	**$ 4,385,169**
Accumulated other comprehensive income (loss)				
Balance, beginning of year	**¥ 23,095**	¥ (21,485)	¥ (23,794)	**$ 195,720**
Other comprehensive income for the year, net of tax (Note 15)	**20,263**	44,580	2,309	**171,721**
Adjustment to initially apply SFAS No. 158, net of tax (Note 13)	**(9,857)**			**(83,534)**
Balance, end of year	**¥ 33,501**	¥ 23,095	¥ (21,485)	**$ 283,907**
Treasury stock				
Balance, beginning of year	**¥ (4,043)**	¥ (4,570)	¥ (3,698)	**$ (34,263)**
Purchase of treasury stock	**(632)**	(2,027)	(1,624)	**(5,356)**
Sales of treasury stock	**1,149**	2,554	752	**9,737**
Balance, end of year	**¥ (3,526)**	¥ (4,043)	¥ (4,570)	**$ (29,882)**

Total shareholders equity	**¥ 776,717**	¥ 622,997	¥ 477,144	**$ 6,582,347**
Disclosure of comprehensive income				
Net income for the year	**¥ 164,638**	¥ 114,290	¥ 59,010	**$ 1,395,237**
Other comprehensive income for the year, net of tax (Note 15)	**20,263**	44,580	2,309	**171,721**
Comprehensive income for the year	**¥ 184,901**	¥ 158,870	¥ 61,319	**$ 1,566,958**

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

Table of Contents

Consolidated Statements of Cash Flows

Komatsu Ltd. and Consolidated Subsidiaries

Years ended March 31, 2007, 2006 and 2005

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2007	2006	2005	2007
Operating activities				
Net income	**¥ 164,638**	¥ 114,290	¥ 59,010	**$ 1,395,237**
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	**72,709**	72,640	69,020	**616,178**
Deferred income taxes	**4,334**	(747)	19,409	**36,729**
Net gain from sale of investment securities and subsidiaries	**(19,101)**	(20,989)	(162)	**(161,873)**
Net gain on sale of property	**(13)**	(132)	(11,269)	**(110)**
Loss on disposal of fixed assets	**2,121**	8,284	4,311	**17,975**
Impairment loss on long-lived assets held for use	**81**	4,899	4,200	**686**
Pension and retirement benefits, net	**1,078**	5,123	3,662	**9,136**
Changes in assets and liabilities:				
Increase in trade receivables	**(93,141)**	(58,821)	(33,266)	**(789,331)**
Increase in inventories	**(73,448)**	(52,228)	(42,418)	**(622,441)**
Increase in trade payables	**70,693**	32,360	39,261	**599,093**
Increase (decrease) in income taxes payable	**19,680**	24,532	(721)	**166,780**
Other, net	**12,493**	6,896	10,332	**105,873**
Net cash provided by operating activities	**162,124**	136,107	121,369	**1,373,932**
Investing activities				
Capital expenditures	**(122,860)**	(112,915)	(72,873)	**(1,041,187)**
Proceeds from sale of property	**17,626**	12,915	31,780	**149,373**
Proceeds from sale of available for sale investment securities	**1,844**	4,112	2,593	**15,627**
Purchases of available for sale investment securities	**(6,737)**	(5,681)	(4,690)	**(57,093)**
Proceeds from sale of subsidiaries, net of cash disposed	**35,368**	26,610		**299,729**
Acquisition of subsidiaries and equity investees, net of cash acquired	**(24,621)**	(10,464)	(148)	**(208,652)**
Collection of loan receivables	**5,736**	12,874	17,485	**48,610**
Disbursement of loan receivables	**(5,974)**	(9,244)	(12,375)	**(50,627)**
Decrease (increase) in time deposits	**(2)**	1	497	**(17)**
Net cash used in investing activities	**(99,620)**	(81,792)	(37,731)	**(844,237)**
Financing activities				
Proceeds from long-term debt	**44,781**	51,432	29,331	**379,500**
Repayments on long-term debt	**(74,943)**	(118,165)	(47,489)	**(635,110)**
Increase (decrease) in short-term debt, net	**22,526**	7,108	(19,924)	**190,898**
Repayments of capital lease obligations	**(11,411)**	(10,473)	(9,954)	**(96,703)**
Sale (purchase) of treasury stock, net	**517**	527	(872)	**4,381**
Dividends paid	**(22,859)**	(13,889)	(8,927)	**(193,720)**
Net cash used in financing activities	**(41,389)**	(83,460)	(57,835)	**(350,754)**

Effect of exchange rate change on cash and cash equivalents	**1,087**	1,632	301	**9,211**
Net increase (decrease) in cash and cash equivalents	**22,202**	(27,513)	26,104	**188,152**
Cash and cash equivalents, beginning of year	**69,997**	97,510	71,406	**593,195**
Cash and cash equivalents, end of year	**¥ 92,199**	¥ 69,997	¥ 97,510	**$ 781,347**

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

Table of Contents

Notes to Consolidated Financial Statements

Komatsu Ltd. and Consolidated Subsidiaries

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 and electronics products including temperature-control equipments.

The consolidated net sales of Komatsu for the year ended March 31, 2007, consisted of the following: Construction and mining equipment 82.8%, Industrial Machinery, Vehicles and Others 15.7%, Electronics 1.5%.

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, 2007, 74.3% were generated outside Japan, with 28.4% in the Americas, 17.1% in Europe and CIS, 6.8% in China, 13.4% in Asia (excluding Japan and China) and Oceania, and 8.6% 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, 2007, is included solely for the convenience of readers and has been made at the rate of ¥118 to $1, the approximate rate of exchange prevailing at the Federal Reserve Bank of New York on March 30, 2007. 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. Certain reclassifications have been made to prior year amounts to conform with current year presentation.

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 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.

Table of Contents

(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, the Company 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. 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 26 years for buildings and 7 years for machinery and equipment. Effective rates of depreciation for buildings, machinery and equipment for the years ended March 31, 2007, 2006 and 2005, were as follows:

	2007	2006	2005
Buildings	**8%**	8%	8%
Machinery and equipment	**27%**	26%	25%

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, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Aggregate cost	**¥ 81,618**	¥ 72,700	**$ 691,678**
Accumulated depreciation	**26,145**	26,864	**221,568**

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.

Table of Contents

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.

(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.

(10) Product Warranties

Komatsu establishes a liability for estimated product warranty cost after sales. 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, Employer s 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 the Company 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) Stock-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 compensation expense using the fair value method. Compensation expense is measured at grant-date fair value of the stock option and charged to expense over the vesting period.

For the years ended March 31, 2006 and 2005, Komatsu had 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 was at least equal to the market price on the date of grant.

The following table summarizes pro forma net income of Komatsu if compensation expense for stock options granted under the plan had been determined in accordance with the fair value based method prescribed by SFAS No. 123R for the years ended March 31, 2006 and 2005:

	Millions of yen	
	2006	**2005**
Net income, as reported	¥ 114,290	¥ 59,010
Compensation expense	699	256
Pro forma net income	113,591	58,754

		Yen	
Net income per share, basic and diluted:		**2006**	**2005**
Basic earnings per share	As reported	¥ 115.13	¥ 59.51
	Pro forma	114.42	59.25
Diluted earnings per share	As reported	114.93	59.47
	Pro forma	114.23	59.21

Table of Contents

(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 used effectively 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 s management has made a number of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses presented in these financial statements prepared in conformity with U.S. generally accepted accounting principles. 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 February 2006, the FASB issued SFAS No.155, Accounting for Certain Hybrid Financial Instruments an amendment of SFAS No.133 and 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. SFAS No.155 permits fair value re-measurement for any hybrid financial instrument that contains an embedded derivative, and establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative. SFAS No.155 is effective for the fiscal periods beginning after September 15, 2006 and is required to be adopted by Komatsu in the fiscal year beginning April 1, 2007. Komatsu is currently evaluating the effect that the adoption of SFAS No.155 will have on its consolidated results of operations and financial condition but expects it will not have a material impact.

In March 2006, the FASB issued SFAS No.156, Accounting for Servicing of Financial Assets an amendment of FASB Statement No.140. SFAS No.156 amends SFAS No.140 to clarify the accounting for servicing assets and servicing liabilities. Among other provisions, the new accounting standard requires all separately recognized servicing assets and servicing liabilities to be initially measured at fair value, if practicable. SFAS No.156 is effective for the fiscal periods beginning after September 15, 2006 and is required to be adopted by Komatsu in the fiscal year beginning April 1, 2007. Komatsu is currently evaluating the effect that the adoption of SFAS No.156 will have on its consolidated results of operations and financial condition but expects it will not have a material impact.

Table of Contents

In June 2006, the FASB issued Interpretation No.48 (FIN 48), Accounting for Uncertainty in Income Taxes an interpretation of SFAS No.109, Accounting for Income Taxes. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in financial statements in accordance with SFAS No.109. This interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for the fiscal periods beginning after December 15, 2006 and is required to be adopted by Komatsu in the fiscal year beginning April 1, 2007. Komatsu is currently evaluating the effect that the adoption of FIN 48 will have on its consolidated results of operations and financial condition but expects it will not have a material impact.

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. 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. Komatsu is currently evaluating the effect that the adoption of SFAS No.159 will have on its consolidated results of operations and financial condition but expects it will not have a material impact.

(19) Reclassification

For the year ended March 31, 2007, Komatsu changed its form of consolidated statements of income from single- to multiple-step.

The consolidated statement of income for the years ended March 31, 2006 and 2005 have been reclassified to conform to the presentation for the year ended March 31, 2007.

This reclassification had no effect on the consolidated balance sheets or statements of cash flows.

(20) Discontinued Operation

Throughout the notes to consolidated financial statements, the amounts of discontinued operations related to consolidated statements of income have been excluded from 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, 2007, 2006 and 2005, are as follows:

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	2007
Additional cash flow information:				
Interest paid	**¥ 15,513**	¥ 12,963	¥ 10,687	**$ 131,466**
Income taxes paid	**75,058**	26,929	16,642	**636,085**
Noncash investing and financing activities:				
Capital lease obligations incurred	**¥ 23,584**	¥ 23,713	¥ 16,146	**$ 199,864**

3. Acquisition and Divestiture

In July, 2005, the Company s wholly-owned subsidiary, Komatsu America Corp.(KAC), completed the sale of 75% of its ownership interest in Advanced Silicon Materials LLC (ASiMI) to Solar Grade Silicon Holdings Inc., a U.S. subsidiary of Renewable Energy Corporation AS, a Norwegian company and retained a 25% ownership interest. Simultaneously with the sale, the ownership interests in ASiMI were classified into Class A Units and Class B Units with the Class A Units having sole voting rights. Also simultaneously with the sale, Komatsu Electronic Metals Co., Ltd. entered into a long term materials supply agreement with ASiMI. KAC s retained 25% ownership interest in ASiMI in the form of Class B Units which do not have voting rights but whose consent is required for certain matters, including a liquidation of ASiMI and certain actions relating to the long term materials supply agreement. Ownership of the Class B Units does not entitle KAC to share prospectively in the underlying profits and losses of ASiMI.

As a result of such sale, Komatsu recognized a gain of ¥18,340 million which is included in other operating income (expenses) in the accompanying consolidated statement of income for the year ended March 31, 2006. The results of operations of ASiMI were included in Electronics segment through the date of sale. The value ascribed to the retained 25% non-voting interest held is not material to the accompanying consolidated financial statements and is being accounted for on the cost basis.

Komatsu has evaluated the terms and conditions of its remaining 25% ownership interest and ongoing supply agreement in conjunction with the provisions of EITF Issue No. 03-13, Applying the Conditions in Paragraph 42 of SFAS No. 144 in Determining Whether to Report Discontinued Operations and has concluded such interests represent significant continuing involvement in the business of ASiMI as contemplated by EITF Issue No. 03-13 and, accordingly, has not presented the financial position and results of operations of ASiMI as a discontinued operation in the accompanying consolidated financial statements.

Table of Contents

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) 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 January 30, 2007, the Company signed a definitive agreement to sell the outdoor power equipment (OPE) business of Komatsu Zenoah Co. allocated to a reporting unit in the industrial machinery, vehicles and others segment 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. The concerned sale was completed on April 2, 2007. In accordance with SFAS No. 144, the gain on sale of KEM s shares and operating results, less applicable income taxes, minority interests and equity earnings of affiliated companies, related to KEM and its subsidiaries as well as the 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, minority interests and equity in earnings of affiliated companies 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, 2007, 2006 and 2005 are as follows:

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	2007
Net sales	**¥ 63,416**	¥ 89,829	¥ 78,717	**$ 537,424**
Income before income taxes, minority interests and equity in earnings of affiliated companies (including gain on sale of KEM s shares of ¥18,769 million in 2007)	**29,544**	13,294	6,834	**250,373**
Income taxes	**14,566**	3,051	1,759	**123,441**
Minority interests in income of consolidated subsidiaries	**(3,613)**	(5,132)	(1,985)	**(30,619)**
Equity in earnings of affiliated companies	**9**	38	52	**77**
Income from discontinued operations less applicable income taxes, minority interests and equity in earnings of affiliated companies	**¥ 11,374**	¥ 5,149	¥ 3,142	**$ 96,390**

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

	Millions of yen	Thousands of U.S. dollars
Assets held for sale	2007	2007
Trade notes and accounts receivable	**¥ 9,088**	**$ 77,017**
Inventories	**3,567**	**30,229**
Property, plant and equipment	**1,874**	**15,881**
Other assets	**1,792**	**15,187**
Total	**¥ 16,321**	**$ 138,314**

Liabilities held for sale	Millions of yen 2007	Thousands of U.S. dollars 2007
Short-term debt	¥ 1,294	$ 10,966
Trade notes and accounts payable	4,242	35,949
Other Liabilities	2,383	20,195
Total	¥ 7,919	$ 67,110

Table of Contents

5. Trade Notes and Accounts Receivable

Receivables at March 31, 2007 and 2006 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Trade notes	**¥136,837**	¥ 98,085	**$ 1,159,636**
Accounts receivable	**353,034**	311,699	**2,991,813**
Total	**489,871**	409,784	**4,151,449**
Less: allowance	**(11,808)**	(11,786)	**(100,068)**
Trade receivables-current	**¥478,063**	¥397,998	**$ 4,051,381**
Long-term trade receivables	**¥ 73,669**	¥ 72,844	**$ 624,314**

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 Forklift 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, 2007 and 2006, lease receivables comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Minimum lease payments receivable	**¥22,935**	¥20,298	**$ 194,365**
Unearned income	**(2,212)**	(1,842)	**(18,746)**
Net lease receivables	**¥20,723**	¥18,456	**$ 175,619**

Cash flows received from the sale of trade notes and accounts receivable for the years ended March 31, 2007, 2006 and 2005 were ¥355,627 million ($3,013,788 thousand), ¥382,669 million and ¥339,469 million.

The Company and 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 the Company and its consolidated 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 the

Company and its consolidated 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, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Total amount of trade receivables that are managed and securitized	**¥ 748,478**	¥ 654,638	**$ 6,343,034**
Assets transferred	**(184,938)**	(172,010)	**(1,567,271)**
Total amount of trade receivable on balance sheet	**¥ 563,540**	¥ 482,628	**$ 4,775,763**

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, 2007 and 2006 were as follows:

	2007	2006
Weighted-average life	**30 months**	31 months
Prepayment speed over the life	**0.7%**	0.6%
Expected credit losses over the life	**1.0%**	1.6%

The carrying amount of retained interest was ¥202 million ($1,712 thousand) liability and ¥817 million liability as of March 31, 2007 and 2006, respectively. The impacts of 10% and 20% changes to the key assumptions on the fair value of retained interest as of March 31, 2007 are immaterial.

Table of Contents

6. Inventories

At March 31, 2007 and 2006, inventories comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Finished products, including finished parts held for sale	**¥ 294,154**	¥ 243,164	**$ 2,492,830**
Work in process	**85,687**	78,869	**726,161**
Materials and supplies	**58,053**	48,041	**491,975**
Total	**¥ 437,894**	¥ 370,074	**$ 3,710,966**

7. Investment Securities

Investment securities at March 31, 2007 and 2006, 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, 2007 and 2006, are as follows:

	Millions of yen			
		Gross unrealized holding		
	Cost	Gains	Losses	Fair value
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**
At March 31, 2006				
Investment securities available for sale:				
Marketable equity securities	¥ 18,341	¥ 63,514	¥ 111	¥ 81,744
Other investment securities at cost	13,000			13,000
Current portion of other investment securities at cost	415			415
	¥ 31,756	¥ 63,514	¥ 111	¥ 95,159

	Thousands of U.S. dollars			
		Gross unrealized holding		
	Cost	Gains	Losses	Fair value

At March 31, 2007				
Investment securities available for sale:				
Marketable equity securities	**$ 208,381**	**$ 577,686**	**$ 483**	**$ 785,584**
Other investment securities at cost	**131,136**			**131,136**
Current portion of other investment securities at cost	**3,534**			**3,534**
	$ 343,051	**$ 577,686**	**$ 483**	**$ 920,254**

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 ¥1,844 million ($15,627 thousand), ¥4,112 million and ¥2,593 million for the years ended March 31, 2007, 2006 and 2005, respectively.

Net realized gains on sale of investment securities available for sale during the years ended March 31, 2007, 2006 and 2005, amounted to gains of ¥344 million ($2,915 thousand), gains of ¥18 million and losses of ¥126 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.

Table of Contents

8. Investments in and Advances to Affiliated Companies

At March 31, 2007 and 2006, investments in and advances to affiliated companies comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Investments in capital stock	**¥ 32,647**	¥ 16,559	**$ 276,669**
Advances	**4,041**	5,167	**34,246**
Total	**¥ 36,688**	¥ 21,726	**$ 310,915**

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 ¥679 million ($5,754 thousand), ¥130 million and ¥80 million during the years ended March 31, 2007, 2006 and 2005, respectively.

Trade notes and accounts receivable from affiliated companies at March 31, 2007 and 2006, were ¥30,919 million ($ 262,025 thousand) and ¥27,763 million, respectively.

Short-term loans receivable from affiliated companies at March 31, 2007 and 2006, were ¥2,764 million ($23,424 thousand) and ¥2,064 million, respectively.

Trade notes and accounts payable to affiliated companies at March 31, 2007 and 2006, were ¥9,164 million ($77,661 thousand) and ¥7,560 million, respectively.

Net sales for the years ended March 31, 2007, 2006 and 2005, included net sales to affiliated companies in the amounts of ¥54,731 million ($463,822 thousand), ¥56,916 million and ¥54,446 million, respectively.

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

As of March 31, 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 ¥6,068 million ($51,424 thousand).

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 established market. The carrying amount and the quoted market value of the equity securities at March 31, 2007 were ¥13,288 and ¥20,294 million, respectively.

Summarized financial information for affiliated companies at March 31, 2007 and 2006, and for the years ended March 31, 2007, 2006 and 2005, is as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Current assets	**¥ 163,411**	¥ 98,735	**$ 1,384,839**
Net property, plant and equipment less accumulated depreciation	**64,245**	35,992	**544,449**
Investments and other assets	**18,785**	7,272	**159,195**
Total assets	**¥ 246,441**	¥ 141,999	**$ 2,088,483**
Current liabilities	**¥ 139,661**	¥ 77,376	**$ 1,183,568**
Noncurrent liabilities	**33,515**	23,625	**284,025**
Shareholders equity	**73,265**	40,998	**620,890**
Total liabilities and shareholders equity	**¥ 246,441**	¥ 141,999	**$ 2,088,483**

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	2007
Net sales	**¥ 197,434**	¥ 176,250	¥ 175,593	**$ 1,673,169**
Net income	**¥ 6,486**	¥ 4,700	¥ 2,511	**$ 54,966**

Table of Contents

9. Property, Plant and Equipment

The major classes of property, plant and equipment at March 31, 2007 and 2006, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	**2006**	**2007**
Land	**¥ 78,437**	¥ 83,119	**$ 664,720**
Buildings	**278,214**	278,696	**2,357,746**
Machinery and equipment	**561,416**	611,725	**4,757,763**
Construction in progress	**8,250**	14,737	**69,915**
Total	**926,317**	988,277	**7,850,144**
Less: accumulated depreciation	**(537,924)**	(587,610)	**(4,558,678)**
Net property, plant and equipment	**¥ 388,393**	¥ 400,667	**$ 3,291,466**

10. Pledged Assets

At March 31, 2007, assets pledged as collateral for long-term debt and guarantees for debt are as follows:

	Millions of yen	Thousands of U.S. dollars
Cash and cash equivalents	¥ 881	$ 7,466
Property, plant and equipment less accumulated depreciation	500	4,237
Total	¥ 1,381	$ 11,703

The above assets were pledged against the following liabilities:

	Millions of yen	Thousands of U.S. dollars
Appearing in the consolidated balance sheets as:		
Long-term debt	¥ 500	$ 4,237
Guarantees for debt	881	7,466
Total	¥ 1,381	$ 11,703

11. Goodwill and Other Intangible Assets

The information for intangible assets other than goodwill at March 31, 2007 and 2006 are as follows:

	Millions of yen					
	2007			2006		
	Gross carrying amount	**Accumulated amortization**	**Net carrying amount**	**Gross carrying amount**	**Accumulated amortization**	**Net carrying amount**
Other intangible assets subject to amortization:						
Software	**¥ 23,541**	**¥ (11,553)**	**¥ 11,988**	¥ 26,941	¥ (16,751)	¥ 10,190
Other	**11,776**	**(3,714)**	**8,062**	10,476	(2,692)	7,784
Total	**35,317**	**(15,267)**	**20,050**	37,417	(19,443)	17,974
Other intangible assets not subject to amortization			**5,193**			7,444
Total other intangible assets			**¥ 25,243**			¥ 25,418

Table of Contents

	Thousands of U.S. dollars 2007		
	Gross carrying amount	Accumulated amortization	Net carrying amount
Other intangible assets subject to amortization:			
Software	**$ 199,500**	**$ (97,907)**	**$ 101,593**
Other	**99,797**	**(31,475)**	**68,322**
Total	**299,297**	**(129,382)**	**169,915**
Other intangible assets not subject to amortization			**44,009**
Total other intangible assets			**$ 213,924**

The aggregate amortization expense of other intangible assets subject to amortization for the year ended March 31, 2007, 2006 and 2005 were ¥5,656 million ($47,932 thousand), ¥5,665 million and ¥6,440 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, 2007, 2006 and 2005.) 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
2008	¥ 4,517	$ 38,280
2009	4,186	35,475
2010	3,567	30,229
2011	2,503	21,212
2012	1,513	12,822

The changes in carrying amounts of goodwill for the year ended March 31, 2007 and 2006 were as follow:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Balance at beginning of the year	**¥ 22,000**	¥ 21,277	**$ 186,441**
Goodwill acquired during the year	**124**	3,904	**1,051**
Impairment loss		(3,581)	
Recognition of deferred income taxes	**(1,387)**		**(11,754)**
Foreign exchange impact	**57**	400	**482**
Other	**(200)**		**(1,695)**
Balance at end of the year	**¥ 20,594**	¥ 22,000	**$ 174,525**

At March 31, 2007, the amounts of goodwill allocated to the construction and mining equipment segment and the industrial machinery, vehicles and others segment were ¥20,569 million ($174,314 thousand) and ¥25 million ($211 thousand), respectively.

For the fiscal year ended March 31, 2007, Komatsu recognized ¥1,387 million ($11,754 thousand) 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, 2006, Komatsu recognized an impairment loss of ¥3,041 million, on goodwill allocated to a reporting unit in the construction and mining equipment segment due to unfavorable business circumstance where the net assets of the reporting unit was located. In addition, an impairment loss of ¥540 million was recognized in the electronics segment. The impairment losses were recognized based on the difference by which the net book value of the reporting unit to which the goodwill was assigned exceeded the estimated fair value of the same reporting unit as determined based on estimated future discounted cash flows.

Goodwill acquired during the fiscal year ended March 31, 2006 principally resulted from the acquisition of additional shares of PT Komatsu Indonesia Tbk, and was allocated to the construction and mining equipment segment and the industrial machinery, vehicles and others segment.

Table of Contents

12. Short-Term and Long-Term Debt

Short-term debt primarily consists of short-term bank loans. The weighted-average annual interest rates applicable to short-term debt outstanding at March 31, 2007 and 2006, were 5.0% and 3.8%, respectively. The Company and certain consolidated subsidiaries have entered into contracts for committed credit lines totaling ¥43,192 million ($366,034 thousand) and have unused committed lines of credit amounting to ¥36,438 million ($308,797 thousand) with certain financial institutions at March 31, 2007, which are available for full and immediate borrowings. The Company is party to a committed ¥80,000 million ($677,966 thousand) commercial paper program of which the entire amount was unused as of March 31, 2007. Financing under this program is available upon the satisfaction of certain customary procedural requirements. Long-term debt at March 31, 2007 and 2006, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Long-term debt with collateral (Note 10):			
Banks, insurance companies and other financial institutions, maturing serially through 2007 2012, weighted-average rate 9.7%	**¥ 339**	¥ 417	**$ 2,873**
Long-term debt without collateral:			
Banks, insurance companies and other financial institutions, maturing serially through 2007 2017, weighted-average rate 2.2%	**86,914**	137,226	**736,559**
Euro Medium-Term Notes maturing serially through 2007 2012, weighted-average rate 5.1%	**64,486**	57,071	**546,492**
1.07% Unsecured Bonds due 2007	**20,000**	20,000	**169,492**
1.45% Unsecured Bonds due 2009	**10,000**	10,000	**84,746**
Capital lease obligations (Note 17)	**55,882**	47,692	**473,576**
Other	**9,205**	7,377	**78,008**
Total	**246,826**	279,783	**2,091,746**
Less: current maturities	**(72,486)**	(84,580)	**(614,288)**
Long-term debt	**¥ 174,340**	¥ 195,203	**$ 1,477,458**

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, 2007, 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. Komatsu Finance America Inc. issued ¥26,500 million ($224,576 thousand) during fiscal year ended March 31, 2007, and ¥12,000 million during fiscal year ended March 31, 2006 of Euro Medium-Term Notes with various interest rates and maturity dates. Komatsu Europe Coordination Center N.V. issued ¥13,500 million ($114,407 thousand) during fiscal year ended March 31, 2007, and ¥6,500 million during fiscal year ended March 31, 2006 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 ($847,458 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.

Table of Contents

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. The companies have never received such a request.

Annual maturities of long-term debt subsequent to March 31, 2007, excluding market value adjustments for balances subject to qualifying fair value hedges of ¥1,581 million ($13,398 thousand) are as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2008	¥ 73,528	$ 623,119
2009	83,191	705,008
2010	50,594	428,763
2011	17,450	147,881
2012	21,018	178,119
2013 and thereafter	2,626	22,254
Total	¥ 248,407	$ 2,105,144

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 required 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 March 31, 2007 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 will adopt the provisions of measurement date in the year ending March 31, 2008. The change in the measurement date of defined benefit pension and other postretirement benefit plans is not expected to have a material impact on Komatsu s consolidated results of operations and financial condition as Komatsu already uses a measurement date of March 31 for substantially all of its plans.

The incremental effects of adopting the provisions of SFAS No. 158 on the accompanying consolidated balance sheet at March 31, 2007 are presented in the following table.

	Millions of yen			Thousands of U.S. dollars		
	Before Application of SFAS No. 158	Adjustments	After Application of SFAS No. 158	Before Application of SFAS No. 158	Adjustments	After Application of SFAS No. 158
Deferred income taxes and other assets	¥ 37,125	¥ 67	¥ 37,192	$ 314,618	$ 568	$ 315,186
Deferred income taxes and other current liabilities	181,577	952	182,529	1,538,788	8,068	1,546,856
Liability for pension and retirement benefits	28,795	8,988	37,783	244,026	76,169	320,195
Minority interests	19,758	16	19,774	167,440	136	167,576
Accumulated other comprehensive income (loss)	(5,443)	(9,857)	(15,300)	(46,127)	(83,534)	(129,661)

Table of Contents

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
	2007	2006	2007
Change in benefit obligation:			
Benefit obligation, beginning of year	**¥ 150,897**	¥ 146,617	**$ 1,278,788**
Service cost	**7,081**	7,454	**60,008**
Interest cost	**3,770**	3,565	**31,949**
Actuarial loss (gain)	**(1,661)**	4,625	**(14,076)**
Plan amendment	**434**		**3,678**
Acquisition		66	
Divestiture	**(4,937)**	(3,180)	**(41,839)**
Benefits paid	**(10,102)**	(9,975)	**(85,610)**
Foreign currency exchange rate change	**1,277**	1,725	**10,822**
Benefit obligation, end of year	**¥ 146,759**	¥ 150,897	**$ 1,243,720**
Change in plan assets:			
Fair value of plan assets, beginning of year	**¥ 115,630**	¥ 97,959	**$ 979,915**
Actual return on plan assets	**5,249**	16,294	**44,483**
Employer contribution	**5,039**	8,007	**42,703**
Divestiture		(1,583)	
Benefits paid	**(6,449)**	(6,343)	**(54,653)**
Foreign currency exchange rate change	**724**	1,296	**6,137**
Fair value of plan assets, end of year	**¥ 120,193**	¥ 115,630	**$ 1,018,585**
Funded status, end of year	**¥ (26,566)**	¥ (35,267)	**$ (225,135)**
Prepaid benefit cost	**¥ 624**		**$ 5,288**
Other current liability	**(196)**		**(1,661)**
Accrued benefit liability	**(26,994)**		**(228,762)**
	¥ (26,566)		**$ (225,135)**
Amounts recognized in accumulated other comprehensive income (loss) at March 31, 2007:			
Actuarial loss	**¥ 12,080**		**$ 102,373**
Prior service cost	**7,851**		**66,534**
	¥ 19,931		**$ 168,907**
Funded status of the plans at March 31, 2006:			
Funded status		¥ (35,267)	
Unrecognized net loss		21,749	
Unrecognized prior service cost		2,018	
Net amounts recognized		¥ (11,500)	
Amounts recognized in the consolidated balance sheet at March 31, 2006 consists of:			
Prepaid benefit cost		¥ 6,967	
Accrued benefit liability		(37,452)	
Intangible assets included in other assets		2,018	

Amounts included in accumulated other comprehensive income (loss), gross of tax	16,967
Net amounts recognized	¥ (11,500)

The accumulated benefit obligations for all defined benefit plans were ¥138,085 million ($1,170,212 thousand) and ¥142,338 million, respectively, at March 31,2007 and 2006.

Table of Contents

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
	2007	2006	2007
Plans with accumulated benefit obligations in excess of plan assets:			
Accumulated benefit obligations	**¥ 118,701**	¥ 136,491	**$ 1,005,941**
Plan assets	**97,092**	108,104	**822,814**
Plans with projected benefit obligations in excess of plan assets:			
Projected benefit obligations	**¥ 133,583**	¥ 150,506	**$ 1,132,059**
Plan assets	**106,637**	115,188	**903,703**

Components of net periodic pension cost

Net periodic cost of the companies defined benefit plans for the years ended March 31, 2007, 2006 and 2005, consisted of the following components:

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	2007
Service cost Benefits earned during the year	**¥ 7,081**	¥ 7,454	¥ 6,719	**$ 60,008**
Interest cost on projected benefit obligation	**3,770**	3,565	3,866	**31,949**
Expected return on plan assets	**(3,339)**	(2,947)	(2,619)	**(28,296)**
Net amortization	**1,187**	2,951	3,171	**10,059**
Net periodic cost	**¥ 8,699**	¥ 11,023	¥ 11,137	**$ 73,720**

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	¥ 1,577	$ 13,364
Prior service cost	630	5,339

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

Measurement date

The Company and certain subsidiaries use a measurement date of March 31 for substantially all of its defined benefit plans.

Assumptions

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

	Domestic plans		Foreign plans	
	2007	**2006**	**2007**	**2006**
Discount rate	**1.9%**	2.0%	**5.6%**	5.3%
Assumed rate of increase in future compensation levels (Point-based benefit system)	**3.7%**	3.7%		
Assumed rate of increase in future compensation levels	**2.3%**	2.4%	**4.1%**	4.3%

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

	Domestic plans			Foreign plans		
	2007	**2006**	**2005**	**2007**	**2006**	**2005**
Discount rate	**2.0%**	2.0%	2.2%	**5.3%**	5.9%	6.2%
Assumed rate of increase in future compensation levels (Point-based benefit system)	**3.7%**	3.9%	3.9%			
Assumed rate of increase in future compensation levels	**2.4%**	2.4%	2.3%	**4.3%**	4.4%	4.1%
Expected long-term rate of return on plan assets	**2.0%**	1.9%	1.9%	**7.6%**	7.7%	8.4%

Table of Contents

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, 2007 and 2006 were as follows:

	2007	2006
Equity securities	**46.3%**	45.9%
Debt securities	**36.3%**	33.7%
Life insurance company general accounts	**15.4%**	18.2%
Others	**2.0%**	2.2%
Total	**100.0%**	100.0%

In order to secure long-term comprehensive earnings, the Company and certain subsidiaries investment policies are designed to ensure adequate plan assets to provide future payments of pension benefits to eligible participants. Taking into account the expected long-term rate of return on plan assets, the Company and certain subsidiaries formulate a basic portfolio comprised of the judged optimum combination of equity and debt securities. Plan assets are invested in individual equity and debt securities 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 ¥13 million (0.02% of the Company s total plan assets) at March 31, 2007. Equity securities include common stock of the Company and certain of its domestic listed subsidiaries in the amount of ¥41 million (0.05% of the Company s total plan assets) at March 31, 2006.

Cash flows

(1) Contributions

The Company and certain subsidiaries expect to contribute ¥4,347 million ($36,839 thousand) to their benefit plans in the year ending March 31, 2008.

(2) Estimated future benefit payments

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

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2008	¥ 12,787	$ 108,364
2009	12,535	106,229
2010	12,956	109,797
2011	12,088	102,441
2012	12,779	108,297
Through 2013-2017	¥ 42,966	$ 364,119

Table of Contents

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. These benefits are currently unfunded.

Accumulated postretirement benefit obligation and funded status of the U.S. subsidiaries plans at March 31,2007 and 2006:

	Millions of yen		Thousands of U.S. dollars
	2007	**2006**	**2007**
Accumulated postretirement benefit obligation	**¥ 11,614**	¥ 12,224	**$ 98,424**
Funded status, end of year	**¥ (11,614)**	¥ (12,224)	**$ (98,424)**
Current liability	**¥ (756)**		**$ (6,407)**
Accrued benefit liability	**(10,858)**		**(92,017)**
	¥ (11,614)		**$ (98,424)**
Amounts recognized in accumulated other comprehensive income (loss) at March 31, 2007:			
Actuarial loss	**¥ 1,733**		**$ 14,686**
Prior service cost	**3,534**		**29,949**
	¥ 5,267		**$ 44,635**
Funded status of the postretirement benefit plan at March 31, 2006:			
Funded status		¥ (12,224)	
Unrecognized net loss		4,561	
Unrecognized prior service cost		1,976	
Accrued benefit liability		¥ (5,687)	

Components of net periodic postretirement benefit cost

Net periodic postretirement benefit cost of the U.S. subsidiaries plans for the years ended March 31, 2007, 2006 and 2005, included the following components:

	Millions of yen			Thousands of U.S. dollars
	2007	**2006**	**2005**	**2007**
Service cost	**¥ 329**	¥ 266	¥ 253	**$ 2,788**

Interest cost	**608**	625	663	**5,153**
Net amortization	**419**	369	353	**3,551**
Net periodic postretirement benefit cost	**¥ 1,356**	¥ 1,260	¥ 1,269	**$ 11,492**

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	¥ 226	$ 1,915
Prior service cost	148	1,254

Table of Contents

Information with respect to the plans is as follows:

Measurement date

The U.S. subsidiaries use December 31 as a measurement date for their post retirement benefit plan.

Assumptions

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

	2007	2006
Discount rate	**5.5%**	5.3%

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

	2007	2006	2005
Discount rate	**5.3%**	5.8%	6.3%

At March 31, 2007 and 2006, 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.

Cash flows

(1) Contributions

The U.S. subsidiaries expect to contribute ¥749 million ($6,347 thousand) to their post retirement benefit plan participant in the year ending March 31, 2008.

(2) Estimated future benefit payments

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

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2008	¥ 749	$ 6,347
2009	760	6,441
2010	781	6,619
2011	796	6,746
2012	811	6,873
2013-2017	¥ 4,322	$ 36,627

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, 2007, 2006 and 2005, 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, 2007, 2006 and 2005, 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 foreign 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.

Table of Contents

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, 2007, would have been increased by ¥103,189 million ($874,483 thousand) with a corresponding decrease in unappropriated retained earnings. At March 31, 2007 and 2006, affiliated companies owned 1,010,200 and 1,134,000 shares which represent 0.10% and 0.11% 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 ¥305,568 million ($2,589,559 thousand), included in the Company s general books of account as of March 31, 2007 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 22, 2007, payment of a cash dividend totaling ¥17,898 million ($151,678 thousand) to shareholders of record on March 31, 2007. In accordance with the Act, the approved dividend has not been reflected in the consolidated financial statements as of March 31, 2007. 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

On June 24, 2005, the Board of Directors authorized the acquisition of 1,700,000 shares of the Company s common stock for the total consideration not exceeding ¥1,800 million by July 29, 2005. On June 25, 2004, the Board of Directors authorized the acquisition of 1,500,000 shares of the Company s common stock for the total consideration not exceeding ¥1,200 million by July 30, 2004. The Company intends to transfer such 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 23, 2006, June 24, 2005 and June 25, 2004 and the Board of Directors on July 11, 2006, the Company issued 833 rights, 1,610 rights and 1,430 rights of its share acquisition rights during the years ended March 31, 2007, 2006 and 2005, respectively. The options vest 100% on each of the grant dates and are exercisable from August 1, 2007, August 1, 2006 and August 1, 2005, 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 of ¥663 million ($5,619 thousand). As a result, income from continuing operations before income taxes, minority interests and equity in earnings of affiliated companies, and net income are decreased by ¥663 million ($5,619 thousand) and ¥394 million ($3,339 thousand) respectively for the year ended March 31, 2007. The impact on the net income per share is immaterial.

For the years ended March 31, 2006 and 2005, no compensation expense was recognized using the intrinsic value method as the exercise price was at least equal to the market price on the date of grant.

The Company transfers treasury stock without issuance of new stock when the share acquisition rights are exercised.

Table of Contents

The following table summarizes information about stock option activity for the years ended March 31, 2007, 2006 and 2005:

	2007			2006		2005	
	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	**3,665,000**	**¥ 848**	**$ 7.19**	6,409,000	¥ 665	6,460,000	¥ 659
Granted	**833,000**	**2,325**	**19.70**	1,610,000	1,126	1,430,000	673
Exercised	**(845,000)**	**855**	**7.25**	(4,254,000)	678	(491,000)	542
Cancelled or Expired	**(5,000)**	**2,325**	**19.70**	(100,000)	820	(990,000)	700
Outstanding at end of year	**3,648,000**	**1,182**	**10.02**	3,665,000	848	6,409,000	665
Exercisable at end of year	**2,820,000**	**846**	**7.17**	2,055,000	630	4,979,000	662

The intrinsic values were ¥1,180 million ($10,000 thousand), ¥2,093 million and ¥83 million for the years ended March 31, 2007, 2006 and 2005, respectively.

The information for options outstanding and options exercisable at March 31, 2007 is as follows.

	Outstanding						Options Exercisable					
		Weighted average exercise price		Intrinsic value		Weighted average remaining contractual life		Weighted average exercise price		Intrinsic value		Weighted average remaining contractual life
Exercise Prices	Number of shares	Yen	U.S. dollars	Millions of yen	Thousands of U.S. dollars	years	Number of shares	Yen	U.S. dollars	Millions of yen	Thousands of U.S. dollars	years
¥ 445 - 650	750,000	¥ 556	$ 4.71	¥ 1,443	$ 12,229	1.8	750,000	¥ 556	$ 4.71	¥ 1,443	$ 12,229	1.8
¥ 651 - 900	800,000	673	5.70	1,446	12,254	5.3	800,000	673	5.70	1,446	12,254	5.3
¥ 901 - 1,350	1,270,000	1,126	9.54	1,719	14,568	6.3	1,270,000	1,126	9.54	1,719	14,568	6.3
¥1,351 - 2,325	828,000	2,325	19.70	129	1,093	7.3						
¥ 445 - 2,325	3,648,000	1,182	10.02	4,737	40,144	5.4	2,820,000	846	7.17	4,608	39,051	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, 2007 and the Black-Sholes option pricing model for the years ended March 31, 2006 and 2005 based on the assumptions noted in the following table. Because a discrete-time model incorporates ranges of assumptions for inputs, those ranges are disclosed. Expected volatilities are based on implied volatilities from historical volatility of the Company s shares.

The Company uses historical data to estimate share option exercise and employee departure behavior used in the discrete-time model. The expected term of share options granted 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.

	2007	2006	2005
Grant-date fair value	**¥801 ($6.79)**	¥ 434	¥ 179
Expected term	**6 years**		
Expected life		8 years	8 years
Risk-free rate	**0.52% 2.00%***	1.12%	1.65%
Expected volatility	**39.00%**	40.00%	30.00%
Expected dividend yield	**1.27%**	1.24%	1.56%

* Interest rate corresponding to discount periods is applied to risk-free rate, that is 0.52% in 1 year, 0.79% in 2 years, 1.03% in 3 years, 1.26% in 4 years, 1.44% in 5 years, 1.60% in 6 years, 1.72% in 7 years, 1.83% in 8 years, 1.94% in 9 years and 2.00% in 10 years.

At the shareholders meeting held on June 22, 2007, the resolution on the stock acquisition right to be issued as stock options was approved as follows:

The maximum number of stock acquisition rights to be issued shall be 562. The number of shares subject to be issued to one stock acquisition right shall be 1,000 shares, and the maximum number of ordinary shares of the Company shall be 562,000 shares.

Table of Contents

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, 2007, 2006 and 2005, is as follows:

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	2007
Foreign currency translation adjustments:				
Balance, beginning of year	**¥ (2,240)**	¥ (22,161)	¥ (26,825)	**$ (18,983)**
Aggregate adjustment for the year resulting from translation of foreign currency financial statements	**11,444**	19,921	4,664	**96,983**
Balance, end of year	**¥ 9,204**	¥ (2,240)	¥ (22,161)	**$ 78,000**
Net unrealized holding gains on securities available for sale:				
Balance, beginning of year	**¥ 36,910**	¥ 18,605	¥ 15,491	**$ 312,796**
Net increase	**2,897**	18,305	3,114	**24,552**
Balance, end of year	**¥ 39,807**	¥ 36,910	¥ 18,605	**$ 337,348**
Pension liability adjustments:				
Balance, beginning of year	**¥ (11,299)**	¥ (17,340)	¥ (11,861)	**$ (95,754)**
Adjustment for the year	**5,856**	6,041	(5,479)	**49,627**
Adjustment to initially apply SFAS No. 158	**5,443**			**46,127**
Balance, end of year	**¥**	¥ (11,299)	¥ (17,340)	**$**
Pension liability adjustments After application of SFAS No. 158:				
Adjustment to initially apply SFAS No. 158	**¥ (15,300)**	¥	¥	**$ (129,661)**
Balance, end of year	**¥ (15,300)**	¥	¥	**$ (129,661)**
Net unrealized holding gains (losses) on derivative instruments:				
Balance, beginning of year	**¥ (276)**	¥ (589)	¥ (599)	**$ (2,339)**
Net increase	**66**	313	10	**559**
Balance, end of year	**¥ (210)**	¥ (276)	¥ (589)	**$ (1,780)**
Total accumulated other comprehensive income (loss)				
Balance, beginning of year	**¥ 23,095**	¥ (21,485)	¥ (23,794)	**$ 195,720**
Other comprehensive income for the year	**20,263**	44,580	2,309	**171,721**
Adjustment to initially apply SFAS No. 158	**(9,857)**			**(83,534)**
Balance, end of year	**¥ 33,501**	¥ 23,095	¥ (21,485)	**$ 283,907**

Table of Contents

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
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
2005:			
Foreign currency translation adjustments	¥ 4,664	¥	¥ 4,664
Net unrealized holding gains on securities available for sale:			
Unrealized holding gains or (losses) arising during the year	5,635	(2,299)	3,336
Less: reclassification adjustment for (gains) or losses included in net income	(342)	120	(222)
Net unrealized gains (losses)	5,293	(2,179)	3,114
Pension liability adjustments	(9,139)	3,660	(5,479)
Net unrealized holding gains (losses) on derivative instruments:			
Changes in fair value of derivatives	(480)	196	(284)
Net (gains) or losses reclassified into earnings	497	(203)	294
Net unrealized gains (losses)	17	(7)	10
Other comprehensive income (loss)	¥ 835	¥ 1,474	¥ 2,309

	Thousands of U.S. dollars		
	Pretax amount	Tax (expense) or benefit	Net of tax amount
2007:			
Foreign currency translation adjustments	**$ 96,983**	**$**	**$ 96,983**
Net unrealized holding gains on securities available for sale:			
Unrealized holding gains or (losses) arising during the year	**42,492**	**(16,949)**	**25,543**
Less: reclassification adjustment for (gains) or losses included in net income	**(1,686)**	**695**	**(991)**
Net unrealized gains (losses)	**40,806**	**(16,254)**	**24,552**
Pension liability adjustments	**83,898**	**(34,271)**	**49,627**
Net unrealized holding gains (losses) on derivative instruments:			
Changes in fair value of derivatives	**(7,000)**	**2,856**	**(4,144)**
Net (gains) or losses reclassified into earnings	**7,940**	**(3,237)**	**4,703**
Net unrealized gains (losses)	**940**	**(381)**	**559**
Other comprehensive income (loss)	**$ 222,627**	**$ (50,906)**	**$ 171,721**

Table of Contents

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, 2007, 2006 and 2005, were as follows:

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	2007
Income from continuing operations before income taxes, minority interests and equity in earnings of affiliated companies:				
Domestic	**¥ 111,220**	¥ 56,082	¥ 46,340	**$ 942,542**
Foreign	**125,271**	99,697	45,529	**1,061,619**
	¥ 236,491	¥ 155,779	¥ 91,869	**$ 2,004,161**
Income taxes:				
Current				
Domestic	**¥ 44,295**	¥ 29,740	¥ 7,343	**$ 375,381**
Foreign	**31,807**	16,011	8,713	**269,551**
	76,102	45,751	16,056	**644,932**
Deferred				
Domestic	**681**	2,287	15,109	**5,771**
Foreign	**2,962**	(4,068)	3,120	**25,102**
	3,643	(1,781)	18,229	**30,873**
Total	**¥ 79,745**	¥ 43,970	¥ 34,285	**$ 675,805**

Total income taxes recognized for the years ended March 31, 2007, 2006 and 2005 were applicable to the following:

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	2007
Income from continuing operations	**¥ 79,745**	¥ 43,970	¥ 34,285	**$ 675,805**
Income from discontinued operations	**14,566**	3,051	1,759	**123,441**
Other comprehensive income (loss):				
Net unrealized holding gains on securities available for sale	**1,918**	12,500	2,179	**16,254**
Pension liability adjustments	**4,044**	5,490	(3,660)	**34,271**
Net unrealized holding gains (losses) on derivative instruments	**45**	215	7	**381**
Amount credited directly to accumulated other comprehensive income (loss) upon adoption of SFAS No. 158	**(5,560)**			**(47,119)**
Total income taxes	**¥ 94,758**	¥ 65,226	¥ 34,570	**$ 803,033**

Table of Contents

Temporary differences and tax loss carryforwards which gave rise to deferred tax assets and liabilities at March 31, 2007 and 2006, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Deferred tax assets:			
Allowances provided, not yet recognized for tax	¥ 4,044	¥ 5,139	$ 34,271
Accrued expenses	47,855	40,983	405,551
Property, plant and equipment	9,561	8,194	81,025
Inventories	9,388	10,752	79,559
Net operating loss carryforwards	20,926	31,310	177,339
Research and development expenses	386	4,903	3,271
Other	18,659	20,018	158,128
Total gross deferred tax assets	110,819	121,299	939,144
Less valuation allowance	(30,879)	(35,490)	(261,686)
Total deferred tax assets	¥ 79,940	¥ 85,809	$ 677,458
Deferred tax liabilities:			
Unrealized holding gains on securities available for sale	¥ 27,944	¥ 26,034	$ 236,814
Deferral of profit from installment sales	315	398	2,669
Property, plant and equipment	11,645	12,262	98,686
Undistributed earnings of foreign subsidiaries and affiliated companies accounted for by the equity method	3,633	3,557	30,789
Total deferred tax liabilities	¥ 43,537	¥ 42,251	$ 368,958
Net deferred tax assets	¥ 36,403	¥ 43,558	$ 308,500

Net deferred tax assets and liabilities as of March 31, 2007 and 2006 are reflected on the consolidated balance sheets under the following captions:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Deferred income taxes and other current assets	¥ 49,717	¥ 48,750	$ 421,331
Deferred income taxes and other assets	20,335	30,298	172,331
Deferred income taxes and other current liabilities	(24)	(16)	(204)
Deferred income taxes and other liabilities	(33,625)	(35,474)	(284,958)
	¥ 36,403	¥ 43,558	$ 308,500

The valuation allowance was ¥50,273 million as of March 31, 2004. The net changes in the total valuation allowance for the years ended March 31, 2007, 2006 and 2005 were a decrease of ¥4,611 million ($39,076 thousand), a decrease of ¥21,118 million and an increase of ¥6,335 million, respectively.

Subsequently recognized tax benefits relating to the valuation allowance for deferred tax assets in the amount of ¥719 million ($6,093 thousand) as of March 31, 2007 will be allocated to goodwill and other intangible assets.

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, 2007 and 2006. 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 combined statutory income tax rate of approximately 40.8%. The inhabitant tax rate and Enterprise tax rate vary by local jurisdiction.

Table of Contents

The differences between the combined statutory tax rates and the effective tax rates for the years ended March 31, 2007, 2006 and 2005, are summarized as follows:

	2007	2006	2005
Combined statutory tax rate	**40.8%**	40.8%	40.8%
Increase (decrease) in tax rates resulting from:			
Increase in valuation allowance	**0.7**	5.5	7.4
Expenses not deductible for tax purposes	**2.4**	3.5	3.4
Realization of tax benefits on operating losses of subsidiaries	**(2.2)**	(14.0)	(5.6)
Income of foreign subsidiaries taxed at lower than Japanese normal rate	**(6.2)**	(5.5)	(7.1)
Tax credit for research and development expenses	**(1.5)**	(2.2)	
Other, net	**(0.3)**	0.1	(1.6)
Effective tax rate	**33.7%**	28.2%	37.3%

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 carry-forwards of its subsidiaries.

Foreign subsidiaries are subject to income taxes of the countries in which they operate. At March 31, 2007 and 2006, undistributed earnings of foreign subsidiaries aggregated ¥239,400 million ($2,028,814 thousand) and ¥171,391 million, respectively. At March 31, 2005, no deferred tax liabilities were recognized because the Company considered those earnings to be indefinitely reinvested. In the year ended March 31, 2006, the Company changed its policy to distribute a certain portion of undistributed earnings of a foreign subsidiary. As of March 31, 2007 and 2006, Komatsu recognized deferred tax liabilities of ¥913 million ($7,738 thousand) and ¥1,090 million, respectively, associated with those earnings. As of March 31, 2007 and 2006, Komatsu has not recognized deferred tax liabilities of ¥16,785 million ($142,246 thousand) and ¥11,551 million, respectively, for such portion of undistributed earnings of foreign subsidiaries that the Company intends to reinvest indefinitely. At March 31, 2007, the Company and certain subsidiaries had net operating loss carryforwards aggregating approximately ¥49,810 million ($422,119 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	¥ 6,155	$ 52,161
6 to 20 years	34,691	293,992
Indefinite periods	8,964	75,966
Total	¥ 49,810	$ 422,119

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 ¥6,740 million ($57,119 thousand), ¥6,370 million and ¥5,588 million, respectively, for the years ended March 31, 2007, 2006 and 2005. Lease contracts for equipment that qualify as capital leases in conformity with SFAS No. 13 have been capitalized. At March 31, 2007, the future minimum lease payments under non-cancelable operating leases and capital leases are as

follows:

Year ending March 31	Millions of yen			Thousands of U.S. dollars		
	Capital leases	Operating lease commitments	Total	Capital leases	Operating lease commitments	Total
2008	¥ 21,931	¥ 3,220	¥ 25,151	$ 185,856	$ 27,288	$ 213,144
2009	14,631	2,247	16,878	123,992	19,042	143,034
2010	12,326	1,603	13,929	104,457	13,585	118,042
2011	7,029	1,005	8,034	59,568	8,517	68,085
2012	2,745	701	3,446	23,262	5,941	29,203
Thereafter	2,494	2,853	5,347	21,136	24,178	45,314
Total minimum lease payments	¥ 61,156	¥ 11,629	¥ 72,785	$ 518,271	$ 98,551	$ 616,822
Less: amounts representing interest	(5,274)			(44,695)		
Present value of net minimum capital lease payments	¥ 55,882			$ 473,576		

Table of Contents

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
	2007	2006	2005	2007
Income from continuing operations	**¥153,264**	¥109,141	¥55,868	**$ 1,298,847**
Income from discontinued operations less applicable income taxes, minority interests and equity in earnings of affiliated companies	**11,374**	5,149	3,142	**96,390**
Net income	**¥164,638**	¥114,290	¥59,010	**$ 1,395,237**

	Number of shares		
	2007	2006	2005
Weighted average common shares outstanding, less treasury stock	**993,597,436**	992,733,616	991,662,555
Dilutive effect of:			
Stock options	**1,788,951**	1,697,534	660,966
Weighted average diluted common shares outstanding	**995,386,387**	994,431,150	992,323,521

	Yen			U.S. cents
	2007	2006	2005	2007
Income from continuing operations:				
Basic	**¥154.25**	¥109.94	¥56.34	**¢ 130.72**
Diluted	**153.97**	109.75	56.30	**130.48**
Income from discontinued operations:				
Basic	**¥ 11.45**	¥ 5.19	¥ 3.17	**¢ 9.70**
Diluted	**11.43**	5.18	3.17	**9.69**
Net income:				
Basic	**¥165.70**	¥115.13	¥59.51	**¢ 140.42**
Diluted	**165.40**	114.93	59.47	**140.17**

19. Commitments and Contingent Liabilities

At March 31, 2007, Komatsu was contingently liable for discounted and transferred receivables on a recourse basis with the financial institutions of ¥11,671 million ($98,907 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 5 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 ¥57,063 million ($483,585 thousand) at March 31, 2007. The fair value of the liabilities recognized for Komatsu s obligations as guarantors under those guarantees at March 31, 2007 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, 2007, aggregated approximately ¥12,900 million ($ 109,322 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, 2007 and 2006 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	**2006**	**2007**
Balance at beginning of year	**¥ 26,582**	¥ 21,251	**$ 225,271**
Addition	**39,756**	22,051	**336,915**
Utilization	**(37,862)**	(17,575)	**(320,864)**
Other	**523**	855	**4,432**
Balance at end of year	**¥ 28,999**	¥ 26,582	**$ 245,754**

Table of Contents

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 expense. For the years ended March 31, 2007, 2006 and 2005, 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 ¥189 million ($1,602 thousand) of existing loss included in accumulated other comprehensive income (loss) at March 31, 2007 will be reclassified into earnings within twelve months from

that date. No cash flow hedges were discontinued during the years ended March 31, 2007 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, 2007 and 2006 are as follows.

	Millions of yen		Thousands of U.S. dollars
	2007	**2006**	**2007**
Forwards and options:			
Sale of foreign currencies	**¥ 82,015**	¥ 69,675	**$ 695,042**
Purchase of foreign currencies	**41,778**	35,656	**354,051**
Option contracts (purchased)	**2,532**	2,128	**21,458**
Interest rate swap, cross-currency swap and interest rate cap agreements	**253,372**	212,882	**2,147,220**

Table of Contents

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, 2007 and 2006, are summarized as follows:

	Millions of yen		Thousands of U.S. dollars	

	2007		2006		2007	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Investment securities	**¥ 108,590**	**¥ 108,590**	¥ 95,159	¥ 95,159	**$ 920,254**	**$ 920,254**
Long-term debt, including current portion	**246,826**	**244,921**	279,783	276,630	**2,091,746**	**2,075,602**
Derivatives:						
Forwards and options						
Assets	**614**	**614**	367	367	**5,203**	**5,203**
Liabilities	**1,079**	**1,079**	1,446	1,446	**9,144**	**9,144**
Interest rate swap, cross-currency swap and interest rate cap agreements						
Assets	**285**	**285**	1,511	1,511	**2,415**	**2,415**
Liabilities	**2,192**	**2,192**	3,041	3,041	**18,576**	**18,576**

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 three operating segments: 1) Construction and mining equipment, 2) Industrial Machinery, Vehicles and Others, 3) Electronics.

Table of Contents

The following tables present certain information regarding Komatsu s operating segments and geographic information at March 31, 2007, 2006 and 2005, and for the years then ended:

Operating segments:

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	2007
Net sales:				
Construction and Mining Equipment				
Customers	**¥ 1,567,723**	¥ 1,291,223	¥ 1,061,161	**$ 13,285,788**
Intersegment	**20,253**	21,203	15,199	**171,636**
Total	**1,587,976**	1,312,426	1,076,360	**13,457,424**
Industrial Machinery, Vehicles and Others				
Customers	**298,022**	279,497	248,487	**2,525,610**
Intersegment	**99,229**	82,196	62,155	**840,924**
Total	**397,251**	361,693	310,642	**3,366,534**
Electronics				
Customers	**27,598**	41,420	46,423	**233,882**
Intersegment	**13**	15	26	**110**
Total	**27,611**	41,435	46,449	**233,992**
Elimination	**(119,495)**	(103,414)	(77,380)	**(1,012,670)**
Consolidated	**¥ 1,893,343**	¥ 1,612,140	¥ 1,356,071	**$ 16,045,280**
Segment profit:				
Construction and Mining Equipment	**¥ 220,606**	¥ 142,904	¥ 78,427	**$ 1,869,542**
Industrial Machinery, Vehicles and Others	**29,555**	22,470	15,440	**250,466**
Electronics	**2,137**	3,045	5,414	**18,110**
Total	**252,298**	168,419	99,281	**2,138,118**
Corporate expenses and elimination	**(2,552)**	(3,918)	(5,080)	**(21,627)**
Consolidated segment profit	**249,746**	164,501	94,201	**2,116,491**
Impairment loss on long lived assets held for use	**81**	4,791	4,200	**686**
Impairment loss on goodwill		3,041		
Other operating income (expenses)	**(4,924)**	6,759	5,861	**(41,729)**
Operating income	**244,741**	163,428	95,862	**2,074,076**
Interest and dividend income	**8,532**	6,824	5,138	**72,305**
Interest expense	**(15,485)**	(12,208)	(10,611)	**(131,229)**
Other net	**(1,297)**	(2,265)	1,480	**(10,991)**
Consolidated income from continuing operations before income taxes	**¥ 236,491**	¥ 155,779	¥ 91,869	**$ 2,004,161**
Identifiable assets:				
Construction and Mining Equipment	**¥ 1,423,744**	¥ 1,167,336	¥ 979,087	**$ 12,065,627**
Industrial Machinery, Vehicles and Others	**302,314**	259,951	215,679	**2,561,983**
Electronics	**15,266**	120,984	142,679	**129,373**
Corporate assets and elimination	**102,658**	103,854	111,623	**869,983**

Consolidated	**¥ 1,843,982**	¥ 1,652,125	¥ 1,449,068	**$ 15,626,966**
Depreciation and amortization:				
Construction and Mining Equipment	**¥ 57,444**	¥ 50,399	¥ 46,630	**$ 486,814**
Industrial Machinery, Vehicles and Others	**7,751**	6,742	7,304	**65,686**
Electronics	**226**	261	1,748	**1,915**
Consolidated	**¥ 65,421**	¥ 57,402	¥ 55,682	**$ 554,415**
Capital investment:				
Construction and Mining Equipment	**¥ 111,003**	¥ 99,622	¥ 64,547	**$ 940,703**
Industrial Machinery, Vehicles and Others	**18,541**	14,155	10,585	**157,127**
Electronics	**136**	157	1,775	**1,153**
Consolidated	**¥ 129,680**	¥ 113,934	¥ 76,907	**$ 1,098,983**

Table of Contents

Transfers between segments are made at estimated arm s-length prices. Segment profit represents net sales less cost of sales and selling, general and administrative expenses. 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. Depreciation and amortization for the years ended March 31, 2007, 2006 and 2005 do not include amortization of long-term prepaid expenses of ¥913 million ($7,737 thousand), ¥1,225 million and ¥1,416 million, and do not include those for discontinued operations of ¥6,375 million ($54,026 thousand), ¥14,013 million and ¥11,922 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.

Certain amounts in the segment information do not reflect discontinued operations. Accordingly, segment information for the years ended March 31, 2006 and 2005 has been reclassified to conform to the presentation for the year ended March 31, 2007. Industrial Machinery, Vehicles and Others segment does not include net sales to customers of discontinued operations amounting to ¥22,067 million ($187,008 thousand), ¥20,663 million and ¥17,968 million and segment profit amounting to ¥1,730 million ($14,661 thousand), ¥1,753 million and ¥1,417 million for the years ended March 31, 2007, 2006 and 2005, respectively. Electronics segment does not include net sales to customers of discontinued operations amounting to ¥41,349 million ($350,415 thousand), ¥69,166 million and ¥60,749 million and segment profit amounting to ¥9,288 million ($78,712 thousand), ¥10,199 million and ¥6,305 million for the years ended March 31, 2007, 2006 and 2005, respectively.

Geographic information:

Net sales to customers recognized by sales destination for the years ended March 31, 2007, 2006 and 2005 are as follows:

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	2007
Net sales:				
Japan	**¥ 487,103**	¥ 482,825	¥ 479,007	**$ 4,127,992**
The Americas	**537,836**	477,718	355,561	**4,557,932**
Europe and CIS	**324,071**	232,329	195,281	**2,746,364**
China	**129,443**	89,667	51,987	**1,096,975**
Asia (excluding Japan, China) and Oceania	**252,768**	213,719	190,458	**2,142,102**
Middle East and Africa	**162,122**	115,882	83,777	**1,373,915**
Consolidated net sales	**¥ 1,893,343**	¥ 1,612,140	¥ 1,356,071	**$ 16,045,280**

Net sales recognized by geographic origin and property, plant and equipment at March 31, 2007, 2006 and 2005, and for the years then ended are as follows:

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	2007
Net sales:				
Japan	**¥ 739,206**	¥ 682,260	¥ 628,304	**$ 6,264,458**
U.S.A.	**527,680**	465,726	356,063	**4,471,864**
Europe	**298,509**	212,844	175,678	**2,529,737**

Others	**327,948**	251,310	196,026	**2,779,221**
Total	**¥ 1,893,343**	¥ 1,612,140	¥ 1,356,071	**$ 16,045,280**
Property, plant and equipment:				
Japan	**¥ 282,050**	¥ 298,807	¥ 275,065	**$ 2,390,254**
U.S.A.	**60,609**	48,871	50,451	**513,636**
Europe	**25,808**	19,563	17,660	**218,712**
Others	**19,926**	33,426	23,484	**168,864**
Total	**¥ 388,393**	¥ 400,667	¥ 366,660	**$ 3,291,466**

No individual country within Europe 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, 2007, 2006 and 2005.

Table of Contents

The following information shows net sales and segment profit recognized by geographic origin for the years ended March 31, 2007, 2006 and 2005. 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 Securities and Exchange Law, which a Japanese public company is subject to:

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	2007
Net sales:				
Japan				
Customers	**¥ 739,206**	¥ 682,260	¥ 628,304	**$ 6,264,458**
Intersegment	**396,361**	297,784	231,812	**3,358,991**
Total	**1,135,567**	980,044	860,116	**9,623,449**
The Americas				
Customers	**527,792**	466,049	356,284	**4,472,814**
Intersegment	**38,221**	22,596	19,015	**323,906**
Total	**566,013**	488,645	375,299	**4,796,720**
Europe				
Customers	**298,509**	212,844	175,678	**2,529,737**
Intersegment	**34,450**	29,760	21,787	**291,949**
Total	**332,959**	242,604	197,465	**2,821,686**
Others				
Customers	**327,836**	250,987	195,805	**2,778,271**
Intersegment	**20,678**	19,250	9,404	**175,237**
Total	**348,514**	270,237	205,209	**2,953,508**
Elimination	**(489,710)**	(369,390)	(282,018)	**(4,150,083)**
Consolidated	**¥ 1,893,343**	¥ 1,612,140	¥ 1,356,071	**$ 16,045,280**
Segment profit:				
Japan	**¥ 140,193**	¥ 89,913	¥ 51,734	**$ 1,188,076**
The Americas	**51,842**	38,966	24,652	**439,339**
Europe	**32,104**	20,315	11,943	**272,068**
Others	**38,033**	22,539	11,807	**322,313**
Corporate and elimination	**(12,426)**	(7,232)	(5,935)	**(105,305)**
Consolidated	**¥ 249,746**	¥ 164,501	¥ 94,201	**$ 2,116,491**
Identifiable assets:				
Japan	**¥ 1,065,487**	¥ 1,046,024	¥ 1,014,317	**$ 9,029,551**
The Americas	**481,144**	411,091	340,270	**4,077,492**
Europe	**221,012**	151,664	125,891	**1,872,983**
Others	**237,839**	201,168	142,897	**2,015,585**
Corporate assets and elimination	**(161,500)**	(157,822)	(174,307)	**(1,368,645)**
Consolidated	**¥ 1,843,982**	¥ 1,652,125	¥ 1,449,068	**$ 15,626,966**

Overseas sales:				
The Americas	**¥ 537,836**	¥ 477,718	¥ 355,561	**$ 4,557,932**
Europe	**324,071**	232,329	195,281	**2,746,364**
Others	**544,333**	419,268	326,222	**4,612,992**
Total	**¥ 1,406,240**	¥ 1,129,315	¥ 877,064	**$ 11,917,288**

Transfers between segments are made at estimated arm s-length prices. Segment profit represents net sales less cost of sales and selling, general and administrative expenses. 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.

Table of Contents

23. Supplementary Information to Balance Sheets

At March 31, 2007 and 2006, deferred income taxes and other current assets were comprised of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Prepaid expenses	**¥ 3,663**	¥ 4,282	**$ 31,042**
Short-term loans receivable:			
Affiliated companies	**2,764**	2,064	**23,424**
Other	**2,220**	2,106	**18,813**
Total	**¥ 4,984**	¥ 4,170	**$ 42,237**
Deferred income taxes	**49,717**	48,750	**421,331**
Other	**60,850**	52,576	**515,678**
Total	**¥ 119,214**	¥ 109,778	**$ 1,010,288**

24. Supplementary Information to Statements of Income

The following information shows research and development expenses and advertising costs, for the years ended March 31, 2007, 2006 and 2005. 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
	2007	2006	2005	2007
Research and development expenses	**¥ 46,306**	¥ 44,560	¥ 41,123	**$ 392,424**
Advertising costs	**4,482**	3,978	3,697	**37,983**

Shipping and handling costs included in selling, general and administrative expenses for the years ended March 31, 2007, 2006 and 2005, were as follows:

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	2007
Shipping and handling costs	**¥ 44,065**	¥ 35,735	¥ 30,941	**$ 373,432**

Other operating income (expense) for the years ended March 31, 2007, 2006 and 2005, were comprised of the following:

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	2007
Gain from sale of subsidiaries	**¥**	¥ 18,484	¥	**$**
Gain on sale of property			11,942	
Loss on disposal or sale of fixed assets	**(2,015)**	(8,176)	(3,966)	**(17,076)**
Other	**(2,909)**	(3,549)	(2,115)	**(24,653)**
Total	**¥ (4,924)**	¥ 6,759	¥ 5,861	**$ (41,729)**

Table of Contents

Other income (expenses) for the years ended March 31, 2007, 2006 and 2005, were comprised of the following:

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	2007
Interest income				
Installment receivables	¥ **945**	¥ 1,112	¥ 1,511	$ **8,008**
Other	**6,729**	5,028	3,142	**57,026**
Dividends	**858**	684	485	**7,271**
Interest expense	**(15,485)**	(12,208)	(10,611)	**(131,229)**
Net gain (loss) from sale of investment securities	**344**	18	(126)	**2,915**
Exchange gain or loss, net	**(903)**	(1,941)	2,318	**(7,653)**
Other	**(738)**	(342)	(712)	**(6,253)**
Total	¥ **(8,250)**	¥ (7,649)	¥ (3,993)	$ **(69,915)**

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	2007	2006	2005	2007
Balance at beginning of fiscal period	**¥ 11,786**	¥ 14,664	¥ 15,222	$ **99,881**
Additions				
Charged to costs and expenses	**2,653**	160	3,175	**22,483**
Deductions	**2,631**	3,038	3,733	**22,296**
Balance at end of fiscal period	**¥ 11,808**	¥ 11,786	¥ 14,664	$ **100,068**

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	2007	2006	2005	2007
Balance at beginning of fiscal period	**¥ 35,490**	¥ 56,608	¥ 50,273	$ **300,763**
Additions				
Charged to costs and expenses	**1,715**	8,546	6,829	**14,534**
Charged to other accounts	**341**	3,129	4,649	**2,889**
Deductions	**6,667**	32,793	5,143	**56,500**
Balance at end of fiscal period	**¥ 30,879**	¥ 35,490	¥ 56,608	$ **261,686**

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

26. Subsequent Event

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

Name and Line of Business of the Sub-Subsidiary Sold

Name:	Zenoah Co., Ltd.
Line of Business:	Manufacture and sale of outdoor power equipment

Name of the Acquisition Company

Name:	Husqvarna Japan Ltd.

Sale Price

Sale Price:	¥18,250 million

Gain on sale

Gain on sale (Pre-Tax):	Approximately ¥8.4 billion

Table of Contents

EXHIBIT INDEX

Exhibit number	Title	Subsequently Numbered Page
Exhibit (12) a.	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 of CEO of the Company	1
Exhibit (12) b.	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 of CFO of the Company	2
Exhibit (13) a.	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 of CEO of the Company	3
Exhibit (13) b.	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 of CFO of the Company	4