KOMATSU LTD
Form 20-F
September 19, 2003
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SECURITIES AND EXCHANGE COMMISSION

FORM 20-F

(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, 2003

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

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.

998,744,060

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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 which financial statement item the registrant has elected to follow. Item 17 ¨ Item 18 x.

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.

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PART I

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PART I

Item 1. Identity of Directors, Senior Management and Advisers

Not applicable

Item 2. Offer Statistics and Expected Timetable

Not applicable

Item 3. Key Information

A. Selected financial data

The following data for each of the fiscal years ended March 31, 1999 2003 has been derived from the Company s audited consolidated financial statements. It should be read in conjunction with the Company s audited consolidated balance sheets as of March 31, 2002 and 2003, the related consolidated statements of income, shareholders equity and cash flows for the three years ended March 31, 2001 2003 and the notes thereto that appear elsewhere in this annual report

	(Yen in millions. except per share amounts)				
	1999	**2000**	**2001**	**2002**	**2003**
Income Statement Data:					
Net Sales	1,061,597	1,055,654	1,096,369	1,035,891	1,089,804
Income (loss) before income taxes	(9,604)	19,395	20,064	(106,724)	12,905
Income taxes	2,061	9,950	13,715	(21,930)	5,968
Net income (loss)	(12,378)	13,395	6,913	(80,621)	3,009
Per Share Data:					
Net income (loss)					
_ Basic	(12.77)	13.85	7.24	(84.46)	3.09
_ Diluted	(12.77)	13.76	7.24	(84.46)	3.09
Cash dividends					
Yen	8.00	6.00	6.00	6.00	6.00
U.S.$	0.06	0.05	0.06	0.05	0.05
Depreciation and amortization	52,150	61,500	63,915	59,894	68,822
Capital expenditures	114,874	57,728	79,310	74,468	70,473
Research and development expenses	45,712	42,460	45,282	44,083	39,027

	(Yen in millions)				
Balance Sheets Data:					
Total Assets	1,524,600	1,375,280	1,403,195	1,340,282	1,306,354
Shareholder s Equity	495,643	490,454	474,257	395,143	395,366
Number of Shares issued at year-end	968,921,701	968,921,701,	958,921,701	958,921,701	998,744,060

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Yen Exchange Rates per U.S. Dollar:		(Yen) Average*	High	Low	Period-End
Year ended March 31					
	1999	128.10	108.83	147.14	118.43
	2000	110.02	101.53	124.45	102.73
	2001	111.65	104.19	125.54	125.54
	2002	125.63	115.89	134.77	132.70
	2003	121.10	115.71	133.40	118.07
2003					
	February		117.14	121.30	118.22
	March		116.47	121.42	118.07
	April		118.25	120.55	119.07
	May		115.94	119.50	119.50
	June		117.46	119.87	119.87
	July		117.24	120.55	120.42

* The average yen exchange rates represent average noon buying rates on the last business day of each month during the respective period.

Attached hereto and incorporated in full by reference are pages 34 and 35 of the Company s 2003 Annual Report to Shareholders pertaining to the Ten-year Summary .

(The most recent practicable exchange rate into United States dollars of Japanese yen was ¥120.42=U.S.$1 as of July 31, 2003.)

B. Capitalization and indebtedness

Not applicable

C. Reasons for the offer and use of proceeds

Not applicable

D. Risk factors

Komatsu s operation in the cyclical construction industry may adversely affect its growth and results of operations.

Komatsu s business depends on general activity levels in the construction industry. Historically, these industries have been cyclical. Komatsu s business is subject to many factors beyond Komatsu s control, such as adverse geopolitical, political and economic developments in its existing markets, the response of Komatsu s competitors to adverse cyclical conditions and dealer inventory management. In addition, Komatsu s operating profits are susceptible to a number of industry-specific factors, including prevailing levels of construction, especially housing starts, and levels of industrial production, public spending on infrastructure, real estate values, and interest and inflation rates.

In addition, downturns in demand for construction and mining equipment could occur, resulting in Komatsu having excess inventories and production capacity, which could result in reduced prices for new and used equipment. These downturns may continue over an extended period of time and may result in losses to Komatsu during the affected periods.

A decrease or delay in government funding in Japan of public construction and maintenance may cause Komatsu s revenues and profits to decrease.

Many of Komatsu s customers in Japan depend substantially on government funding of public highway and housing construction and maintenance and other infrastructure projects. Any decrease or delay in government funded public construction and maintenance and other infrastructure projects in Japan could cause Komatsu s revenues and profits to decrease.

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As a global manufacturer, Komatsu s results are affected by foreign currency exchange fluctuations.

Local currency denominated financial results for each of Komatsu s subsidiaries around the world are translated into Yen by applying the average market rate during each financial period recorded in Komatsu s consolidated profit and loss statement. Local currency denominated assets and liabilities are translated into Yen by applying the market rate at the end of each financial period and are recorded on Komatsu s consolidated balance sheets. As approximately 58.0% of Komatsu s sales are from sales outside of Japan, a significant portion of Komatsu s sales results are subject to foreign currency exchange fluctuations. In addition, foreign currency fluctuations may affect the relative prices at which Komatsu and foreign competitors sell products in the same market, as well as affect the cost of imported materials that are used in the production of Komatsu s products. Although Komatsu engages in hedging transactions to minimize the negative effects of short-term foreign currency fluctuations, involving currencies such as the U.S. dollar, euro and the Yen, mid-to-long term volatile changes of the exchange rate levels may adversely affect Komatsu s financial results and conditions.

Komatsu operates in a highly competitive industry in which its competitors may offer new or better products and services or lower prices, which could result in a loss of customers and a decrease in Komatsu s revenue.

The construction and mining industry is highly competitive. Komatsu currently faces strong competition in product performance, price and service. Komatsu competes with other global full-line suppliers of construction and mining equipment that are capable of fulfilling most customer needs. If competition in the construction and mining industry were to intensify or if Komatsu s current competitors were to enhance their products or lower their prices for competing products, Komatsu may lose sales or be required to lower the prices it charges for its products. This may reduce revenue from Komatsu s construction and mining equipment products and related services, lower Komatsu s gross margins or cause Komatsu to lose market share. And, as new construction and mining equipment using cutting-edge technology develops and gains acceptance in the market place, Komatsu may encounter additional competitors that develop such technology. Accordingly, it is possible that new competitors or alliance among existing competitors may emerge and rapidly acquire significant market share in the construction and mining equipment business.

Komatsu is exposed to political, economic and other risks associated with a multinational business.

Komatsu operates its business in numerous countries and is subject to the political, economic and other risks that are inherent in operating on a multinational scale. These risks include those of adverse government regulation, including the imposition of import and export duties and quotas, currency restrictions, expropriation and potentially burdensome taxation. Similar to other multinational companies, it is difficult for Komatsu to predict with any degree of certainty the costs of compliance or other liability related to such laws and regulations in the future and such future costs could adversely affect Komatsu s business, financial position and results of operations.

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Komatsu is subject to extensive environmental laws and regulations, and the costs relating to complying with, existing or future laws and regulations could adversely affect Komatsu s business and results of operations.

Komatsu s operations and products are subject to increasingly stringent environmental laws and regulations in the numerous countries in which Komatsu operates. Such regulations govern, among other things, emissions into the air, discharges into water, the use, handling and disposal of hazardous substances, waste disposal and the remediation of soil and groundwater contamination. Komatsu regularly expends significant amounts of resources to comply with regulations concerning the emissions levels of its manufacturing facilities and its equipment products. Komatsu expects to make additional environmental and related capital expenditures in connection with reducing the emissions of its existing facilities and manufactured equipment in the future, depending on the level and timing of new standards. The costs of complying with these or any other current or future environmental regulation may be significant to Komatsu.

Komatsu may face product liability claims due to the nature of its business and its products if Komatsu s insurance does not cover these liabilities, Komatsu may incur significant costs which could reduce its profitability.

Komatsu manufactures heavy machinery used by its customers at excavation and construction sites and on roads. Any defect in, or improper operation of, Komatsu s equipment can result in personal injury and death, and damage to or destruction of property, any of which could cause product liability claims to be filed against Komatsu. While Komatsu believes that it has sufficient insurance coverage for these product liability claims, the amount and scope of its insurance coverage may not be adequate to cover all losses or liabilities that Komatsu may incur in the event of a product liability claim, as these claims are unforeseeable. Any liabilities not covered by insurance could reduce Komatsu s profitability or have an adverse effect on its financial condition.

An increase in pension costs could adversely affect Komatsu s results of operations.

Recent fluctuations in the financial markets such as fair value of marketable securities and interest rates have affected the valuation of the assets in Komatsu s defined benefit pension plans and defined benefit obligations, which has resulted in an under-funding of Komatsu s defined benefit pension plans and the recognition of a minimum pension liability on its balance sheet. No assurances can be made that future fluctuations in the financial markets will not result in additional under-funding of Komatsu s defined benefit pension plans and require contributions by Komatsu that could adversely affect its financial position on a long-term basis.

Decline in profitability in the electronics segment due to prevailing market conditions may affect Komatsu s results of operations.

Komatsu s profitability in respect of its electronics segment may be adversely affected by sharp changes in the semiconductor sector and a decrease in the sales volume and/or sale prices of wafer products due to fluctuations in supply and demand, and intensified competition from other electronics manufacturers.

Komatsu s alliances with other entities may not produce successful results.

Komatsu has entered into various alliances with other entities. Komatsu enters into these alliances to reinforce its international competitiveness. While Komatsu expects its alliances to be successful, if differences were to arise among the parties due to managerial, financial or other reasons, such alliances may result in losses, which in turn could adversely affect Komatsu s results of operations and financial conditions.

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Item 4. Information on the Company

A. History and Development of the Company

The Company is a corporation (kabushiki kaisha) under the laws of Japan. Its registered office is located at 2-3-6 Akasaka, Minato-ku, Tokyo 107-8414, Japan, and its telephone number is +81-3-5561-2629 (Corporate Accounting Department).

The Company was incorporated in 1921 under the laws of Japan. Shortly after its formation, the Company commenced the production and marketing of sheet-forming presses and, in the 1940 s, the Company began producing and marketing bulldozers.

The following are important events in the development of Komatsu s business during recent years.

In December 1998, the Company completed a take-over bid for Komatsu Zenoah Co. (Komatsu Zenoah) on the Japanese stock market by successfully increasing its equity share from 30.4% to 51.7%, giving it the status of a subsidiary.

In April 1999, Komatsu MEC Corp., a wholly-owned subsidiary of the Company and an unlisted manufacturer of wheel loaders and other construction machines, and Komatsu EST Corp., a majority-owned manufacturer of motor graders, were merged with the Company.

In April 2000, Komatsu sold 65% of the outstanding shares of Komatsu Soft Ltd. to Toyo Information Systems Inc.

In June 2000, the Company acquired the shares of Komatsu Forklift Co., Ltd. (Komatsu Forklift), and converted Komatsu Forklift into its subsidiary.

In October 2000, Komatsu sold its equity holdings in Komatsu Construction Co., Ltd. (Komatsu Construction), with 69.15% of the shares of common stock outstanding, to Takamatsu Corporation Co., Ltd.

In March 2002, the Company entered into a basic agreement with Volvo Construction Equipment (Volvo CE) for cooperation on production and development of construction equipment components.

In May 2002, the Company reached a global alliance agreement with Linde AG (Linde) of Germany, under which the agreement two companies will transform Komatsu Forklift into their jointly-owned company.

In October 2002, the Company acquired all of the minority interests, representing 48.5% and 45.7% of the issued and outstanding shares, of its existing consolidated subsidiaries, Komatsu Forklift and Komatsu Zenoah respectively, through stock for stock exchanges.

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In July 2003, the Company sold to Linde 31,011,000 shares of Komatsu Forklift s common stock, so that Linde held 35% of equity in Komatsu Forklift.

Principal capital expenditures

Komatsu s capital expenditures in the fiscal years ended March 31, 2001, 2002, and 2003, were ¥79,310 million, ¥74,468 million, and ¥70,473 million, respectively.

Capital expenditures in fiscal year ended March 31, 2003 (Fiscal 2003) decreased 5.4% from the previous year. Komatsu invested in the development of new products and the automation and streamlining of production facilities and systems, with particular focus on construction equipment and other machinery.

Komatsu s investments were financed principally from funds on hand.

B. Business Overview

Komatsu is a worldwide, integrated manufacturing and sales organization engaged in the manufacture, development, marketing and sale of industrial equipment and products. For Fiscal 2003, Komatsu recorded worldwide net sales of ¥1,089,804 million (U.S.$9,236 million) and a net income of ¥3,009 million (U.S.$26 million).

For the purpose of this report, Komatsu s business activities are divided into three categories: construction and mining equipment, electronics, and others.

Construction and Mining Equipment Segment

The construction and mining equipment segment is Komatsu s largest operating segment. Net sales of construction and mining equipment totaled ¥767,840 million (U.S.$6,507 million) for Fiscal 2003, a 5.0% increase from the previous year, and represented 70.5% of Komatsu s total net sales.

While sales to customers in Japan decreased by 9.4% to ¥235,851 million (U.S.$1,999 million), sales to customers outside Japan increased by 13.0% to ¥531,989 million (U.S.$4,508 million) in Fiscal 2003. Sales to customers in Japan represented 30.7% of total sales of construction and mining equipment, down 4.9% from the previous year, while the proportion of sales to customers outside Japan increased by 4.9% to 69.3% of total sales of construction and mining equipment.

Operating income for the construction and mining equipment segment improved substantially, to ¥28,990 million (U.S.$246 million) for the year, as a result of reduced in various personnel expenses, procurement costs and engineering costs of Komatsu, in addition to expanded overseas sales, compared with ¥881 million for the previous year. Thus, this mainstay business made the first steady step toward new growth.

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Komatsu s products of Construction and Mining Equipment Segment is set forth below:

Categories	Main products
Excavating Equipment	Hydraulic excavators and backhoe loaders
Loading Equipment	Wheel loaders and skid steer loaders
Grading and Roaded Preparation Equipment	Bulldozers, motor graders and vibratory rollers
Hauling Equipment	Rigid-type dump trucks, articulated-type dump trucks and crawler carriers
Tunneling Machines	Shield machines, tunnel-boring machines and small-diameter pipe jacking machines
Recycling Equipment	Mobile debris crushers, mobile soil stabilizers and mobile tub grinders
Other Equipment	Rough-terrain cranes, reach tower cranes and railroad maintenance equipment
Engines and Components	Diesel engines, diesel generator sets and hydraulic equipment
Casting Products	Steel castings and iron castings

The construction and mining equipment product line also includes a variety of utility equipment mini to small machines (e.g., mini hydraulic excavators, mini wheel loaders, backhoe loaders, skid steer loaders, and other similar products) for landscaping and general construction.

GALEO: Genuine Answer for Land & Equipment Optimization, Komatsu s international brand of construction and mining equipment

New Growth Strategy for the Construction and Mining Equipment Business

While the Japanese market for construction equipment is undergoing structural changes, the North American and European markets are cyclical in general and stable from the medium-to-long-range perspective. With additional demand anticipated from infrastructure developments in China, Southeast Asia, the Middle East and some other regions, Komatsu can continue to expect growth as a whole.

Given this environment, Komatsu in Japan and each of the regional headquarters will take a central role in reinforcing the competitiveness of their operations, drawing on global sales and service networks. At the same time, Komatsu will strive to expand the parts business and get involved in new and promising areas related to working gears, such as special application equipment and attachments, the environment and components.

In Japan, Komatsu will continue to promote its efforts to expand downstream businesses in the after-sales markets, such as rental, used equipment and parts and services, as Komatsu continue launching new products. Komatsu are determined to develop an integrated business model for the circulation of new, rental and used equipment in Japan as soon as possible and thereby become a pacesetter for the global construction and mining equipment industry of the future.

JAPAN. The ongoing fall in Japanese demand slowed in the last half of Fiscal 2003. However, a sharp drop in construction investment resulting from reduced pubic-sector investment and economic uncertainty continued to have a negative impact on customers attitudes toward investment in equipment and led to a considerable 15% drop in annual demand, the sixth consecutive year of decline since the last peak in 1996.

While Komatsu continued to launch new equipment, centering on GALEO-series models, and worked to secure sales, it also focused efforts on developing demand and strengthening its involvement in the downstream after-sales markets, such as rental used equipment and parts and services. In the rental business, Komatsu promoted the rental of comprehensive equipment and facilities for civil engineering work through affiliated rental companies established primarily by Komatsu distributors. In the used equipment business, as export demand for Japanese used equipment remained buoyant, especially to other Asian countries, Komatsu aggressively held auctions under the leadership of Komatsu Used Equipment Corp (Komatsu Used Equipment).

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In the parts and service business, Komatsu launched sales of Komatsu All Support in Japan, a contract package with an extensive range of coverage from repair and maintenance to insurance against theft and accidents and promoted the product steadfastly on the market. In response to structural changes in the Japanese market, Komatsu worked to further improve operational efficiency by reassessing its sales operations, leading to greater area coverage by each distributor and other initiatives. However, all these efforts fell short of making up for declining demand, and domestic sales for the year decreased from the previous year.

Holding Japan s Largest Auction for Used Equipment

Exports of used equipment from Japan continued to expand during the year, driven by thriving demand for used equipment, particularly in Southeast Asia and the Middle East, coupled with stock adjustments in the market for construction equipment resulting from the shrinking Japanese construction market. Komatsu Used Equipment, responsible for the purchase and sale of used equipment, strengthened cooperation with Japan s largest sales and service network of distributors, worked to widen its product offerings, actively held auctions. During the year, Komatsu Used Equipment relocated its Kobe Auction Center to the port area of Kobe and expanded the center s scale. In March 2003, the company held Japan s largest scale auction, attracting some 500 Japanese and foreign customers, and sold over 900 machines during two days of auction.

Promoting the Further Growth of Utility (Compact) Equipment Business

Effective October 1, 2002, Komatsu transformed Komatsu Zenoah which is responsible for the production of utility equipment such as mini excavators, into a wholly-owned subsidiary through a stock-for-stock exchange. And, in April 2003, Komatsu transferred its Japanese development and marketing capabilities for utility equipment to Komatsu Zenoah in order to build an integrated framework for the utility equipment business. Komatsu is going to step up its capabilities in product development and improve the cost-competitiveness of the utility business, centering on Komatsu Zenoah s flagship line of mini excavators.

Developing World s Largest High-Speed Diesel Engine

During the year, Industrial Power Alliance, Ltd. (IPA), a jointly-owned R&D company for industrial application diesel engines with Cummins Inc. (Cummins), a leading U.S. engine manufacturer, succeeded in developing the world s largest high-speed diesel engine, which features a total displacement of 78 liters with V18 cylinders and massive output of 3,500hp/1,900rpm. IPA designed this engine based on the Cummins QSKV91, a 60-liter engine with V16 cylinders, and upgraded it using Komatsu s design expertise in higher-strength cylinder heads and power cylinders. As a result, the engine generates 30% more power than the original. With 12 turbochargers and a dual circuit after-cooling system, the engine can be used at altitudes of up to 4,920 meters (16,142 feet). The Komatsu 930E off-highway dump truck, powered by this engine, is classified as having the world s largest payload of 320 tons, and Komatsu is going to enhance the product competitiveness of 930E for the reinforcement of its involvement in the mining equipment market.

THE AMERICAS. North America demand for construction equipment declined for the fourth consecutive year, and Komatsu s sales also decreased compared with the previous year. In addition to building an efficient business framework by merging subsidiaries engaged in the construction equipment, mining equipment and utility equipment businesses, Komatsu America Corp. (Komatsu America) established the North American Development Center and a training center in order to build up its product development and customer support capabilities. The company also strengthened the capabilities of its distributors and stepped up the market introduction of GALEO-series equipment. In the utility equipment business, Komatsu America worked to expand

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sales of backhoe loaders produced at the Newberry Plant in North Carolina, which embarked on full-scale production in 2002, and skid steer loaders developed and produced by Komatsu Utility Europe S.p.A (Komatsu Utility Europe) in Italy for the North American market. In the mining equipment business, demand for Komatsu America s mainstay off-highway dump trucks fell sharply. In response, Komatsu America carried out aggressive sales of equipment, including large bulldozers and wheel loaders, while striving to expand sales of repair and maintenance contracts.

Strengthening Product Support Capabilities for Distributors and Customers

In May 2002, Komatsu America opened a training center equipped with the latest facilities in Cartersville, Georgia, for distributors and customers. While keeping in harmony with the surrounding natural environment, the new center, built on a large site of 210,000 square meters (42 acres), houses lecture rooms and a field training area, and offers a distance learning system through the Internet for customers. Komatsu America will continue to improve training content, including a program for mining equipment, in order to further reinforce its customer support capabilities.

Reinforcing the G.E.T. Business

G.E.T.: Ground Engaging Tools, a category that includes teeth, adapters, cutting edges, buckets, and other earthmoving equipment wear parts

In June 2002, Komatsu America increased its equity holdings from 60% to 100% in Komatsu KVX LLC (Komatsu KVX), a company engaging in the production and sale of teeth, cutting edges and other adapters for construction and mining equipment, and transformed it into a wholly-owned subsidiary. In the construction and mining equipment market, the percentage of hydraulic excavators, wheel loaders and other equipment with buckets has been growing in use. Komatsu America expects further increases in demand for buckets and other wear parts in the after-sale market. Back in 2000, Komatsu purchased Hensley Industries, Inc., (Hensley Industries) one of the largest G.E.T. manufacturers in the world, and has since worked to expand the G.E.T. business by broadening its product lineup. Now as a wholly-owned subsidiary of Komatsu America, Komatsu KVX is better positioned to facilitate cooperation with Hensley Industries as well as to strengthen development, production and sales capabilities in North America. At a same time, Komatsu America intends to develop the global G.E.T. market through the Komatsu s global sales and service networks to further improve its customer services.

EUROPE. In Europe, demand plummeted in the largest European market of Germany and France while remaining fairly strong in other countries. Nevertheless, overall European demand registered negative growth continuing on from the previous year. Despite such an environment of lackluster demand, Komatsu successfully implemented strategic sales of bulldozers and dump trucks exported from Japan. All major subsidiaries of Komatsu continued to record sales expansion compared with the previous year.

Komatsu UK Ltd. (Komatsu UK) And Komatsu Hanomag AG (Komatsu Hanomag) of Germany launched new models in their lines of hydraulic excavators and wheel loaders, respectively, carried out aggressive sales and service operations and improved sales for the year. Komatsu Utility Europe received excellent market responses for its skid steer loaders developed in 2001, increased its market share even as demand for compact equipment declined, and registered expanded sales for the year. Komatsu Mining Germany GmbH (Komatsu Mining Germany) recorded successful sales of PC8000 super-large hydraulic excavators and other excavator models, which contributed to improved business results.

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Stepping up the Reinforcement of the Business Structure in Europe

While Komatsu UK, Komatsu Hanomag and Komatsu Utility Europe maintained marketing as well as development and production capabilities for their respective product lines in the past, Komatsu Europe International N.V. (Komatsu Europe International), Komatsu s European regional headquarters, took over their marketing functions and further reinforced product strategies and their sales networks in April 2003. In April 2002, Komatsu Utility Europe established Komatsu Italia S.p.A. (Komatsu Italia), a wholly-owned sales subsidiary in Italy, and at the end of March 2003, Komatsu Europe International established Komatsu Germany GmbH (Komatsu Germany) as a wholly-owned sales subsidiary in the largest European market of Germany. By integrating the operations of these and other Komatsu companies, Komatsu Europe International is accelerating the pace of building regionally tailored sales and service networks.

CHINA. Against the backdrop of skyrocketing market demand driven by buoyant construction investment, Komatsu recorded expanded sales for the year, supported in particular by excellent sales of hydraulic excavators produced by Komatsu Shantui Construction Machinery Co., Ltd. (Komatsu Shantui Construction Machinery). In August 2002, the Komatsu increased its equity holdings in Komatsu Shantui Construction Machinery to 60% and transformed it into a consolidated subsidiary of Komatsu. In 2003, Komatsu Shantui Construction Machinery embarked on the production and sales of the new GALEO-series PC200 hydraulic excavator. Also during Fiscal 2003, Komatsu established two joint-ownership companies with a Chinese partner and Japanese suppliers to locally produce cabs and such sheet metal parts as booms and arms while working to strengthen its capabilities in parts procurement and further reduce production costs in China. At the same time, Komatsu (Changzhou) Construction Machinery Corp. (Komatsu (Changzhou) Construction Machinery), a subsidiary producing mainly wheel loaders, improved business results by capitalizing on an expanded market, and Komatsu (Changzhou) Foundry Corporation (Komatsu (Changzhou) Foundry) emphasized its efforts toward expanding sales and reducing costs, posting profits for the first time since its establishment.

Komatsu (China) Ltd., (Komatsu (China)) the regional headquarters for the Komatsu s Chinese operations, focused its efforts on improving and reinforcing the sales and after-sales service capabilities of its distributors through the use of its technical training center in Changzhou, Jiangsu. Komatsu (China) will continue striving to expand the production capacity of the Chinese plants, increase their local procurement of parts, broaden their product range, and develop and reinforce the local distributor network. Through these efforts, Komatsu is going to build an efficient business structure to meet needs in the rapidly expanding Chinese market.

Demonstrating Komatsu s Integrated Capability at the baumaChina2002 Trade Show

In November 2002, the world s largest trade show for construction equipment, bauma, was held for the first time in China. Held at the Shanghai New International Expo Centre, baumaChina 2002 attracted more than 30,000 visitors from 58 countries.

Under the leadership of Komatsu (China) and the slogan Integrated Capability and Market-Driven Responses in China, the Komatsu exhibited its flagship equipment, including hydraulic excavators made by Komatsu Shantui Construction Machinery, wheel loaders by Komatsu (Changzhou) Construction Machinery, and bulldozers and small hydraulic excavators produced in Japan. In addition to displaying a sectional model of a Komatsu transmission, a major component, Komatsu made a special effort to highlight its customer support capabilities in China. The exhibit demonstrated the Komatsu s comprehensive commitment to the Chinese market and attracted the keen attention of many customers.

SOUTHEAST ASIA AND OCEANIA. In Southeast Asia, demand remained stable in Indonesia, the region s largest market, and demand in Thailand expanded significantly. Against this backdrop, Komatsu registered strong sales of GALEO-series equipment, making a considerable gain in Komatsu s hydraulic excavator market share. Capitalizing on its strong production capabilities and solid relationships with distributors built over many years, Komatsu boosted sales in Fiscal 2003.

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Bangkok Komatsu Co., Ltd. (Bangkok Komatsu), established in 1996 to exclusively produce 20-ton class hydraulic excavators, reached the cumulative production and sales record of 2,000 units in November 2002. Overcoming the devastating effects of the currency crisis of 1997, Bangkok Komatsu has worked to expand export sales and has grown into a production base exporting PC200 excavators to 27 countries in Southeast Asia, North America and other regions.

In Oceania, the Australian economy improved steadily supported by good housing starts, which led to expanded demand for construction equipment. Komatsu carried out aggressive sales of GALEO-series hydraulic excavators and other equipment and gained a larger share of the market. In the mining equipment business, Komatsu continued to offer customer-focused product support and thus won a large order for equipment and posted higher sales for the year.

THE MIDDLE EAST AND AFRICA. During the year, demand for construction equipment made a big advance in the Middle East, fueled by buoyant infrastructure development in such areas as roadways and dams. In Africa, while demand for mining equipment was strong, overall demand for construction and mining equipment declined from the previous year.

In the Middle East, Komatsu implemented aggressive sales and service operations in order to win business related to a growing number of projects. In Africa, where demand declined, Komatsu carried out customer-focused marketing especially with regard to customers for mining equipment. Komatsu exports earthmoving equipment from Japan to these regions, where there is demand for a wide range of equipment, such as hydraulic excavators, bulldozers, wheel loaders and dump trucks. In this way, Komatsu effectively capitalized on its advantages as a manufacturer of a full line of offerings and advanced sales in all these regions for Fiscal 2003.

Electronics Segment

Komatsu s products of Electronics Segment is set forth below:

Categories	Main products
Electronic Materials	Silicon Wafers, polycrystalline silicon and monosilane gas
Semiconductor Process Equipment	Excimer laser
Temperature-Control Equipment	Thermoelectric modules and semiconductor manufacturing-related thermoelectric devices
Communication Equipment and Control Equipment	Network information terminals, LAN peripheral equipment, mobile tracking and communication terminals and vehicle controllers

The core business of Komatsu s electronics segment consists of its semiconductor materials operations, which includes the production of silicon wafers for the semiconductor industry; polycrystalline silicon, the raw material used in the production of silicon wafers; and silane gas, which is used in the manufacture of polycrystalline silicon and in applications in the electronics industry. The electronics segment also produces LCD manufacturing equipment, excimer lasers and various electronic equipment and devices. Komatsu s electronics segment accounted for ¥85,182 million (U.S.$722 million), or 7.8%, of Komatsu s total net sales for Fiscal 2003, representing a 11.0% increase in these sales over the prior fiscal year. Sales in Japan increased 3.9% to ¥44,758 million (U.S.$379 million), while sales outside Japan increased 20.0% to ¥40,424 million (U.S.$343 million). The operating loss for this business segment improved to ¥849 million (U.S.$7 million) for Fiscal 2003 from ¥14,925 million for Fiscal 2002, accomplishing a sizeable recovery in profitability.

In the silicon wafers business, Komatsu changed its policy for Komatsu Silicon America, Inc. (Komatsu Silicon America), which had discontinued production, from reuse as a manufacturing facility for silicon wafers and decided in Fiscal 2002 to sell off or dispose of the company s assets. In the polycrystalline silicon business, Komatsu fundamentally reduced the production capacity of Advanced Silicon Materials LLC (ASiMI) by consolidating its production lines. By facilitating the pace of restructuring of business in each area, Komatsu completed preparations for the self-driven recovery of each business and worked to improve profitability.

Komatsu Electronic Metals Co., Ltd. (Komatsu Electronic Metals)

The silicon wafer market returned to a recovery track, supported partly by restocking on the part of semiconductor manufacturers in the first half period of Fiscal 2003, but the upturn lasted only through the summer of 2002, subsequently falling and remaining sluggish thereafter.

To secure profits and reinforce its business structure within such an environment, Komatsu Electronic Metals worked to enhance its product competitiveness, principally of its mainstay 200mm (8-inch) wafers, and improve production efficiency for discrete wafers. At the same time, Komatsu Electronic Metals implemented customer-tailored sales and service operations. As a result, the company was able to post improved earnings for the year compared with the previous year. Formosa Komatsu Silicon Corporation (Formosa Komatsu Silicon), a manufacturing subsidiary in Taiwan, expanded its sales channels in both Taiwan and other Asian regions, increased its ratio of prime wafers and included high-value-added annealed wafers in its product offerings. Through these focused efforts on securing profits, Formosa Komatsu Silicon managed to put its operations into the black in the second half of Fiscal 2003. As a result of all these achievements, Komatsu Electronic Metals substantially improved Fiscal 2003 consolidated business results, with sales of ¥62,764 million (U.S.$532 million), up 20.0% over the previous year, and ordinary profit of ¥1,831 million (U.S.$16 million) also entering the black, and made important contributions to the improved earnings of the electronics business of Komatsu.

Note: The consolidated sales and ordinary profit of Komatsu Electronic Metals above are calculated in conformity with accounting principles generally accepted in Japan and disclosed by Komatsu Electronic Metals.

Making flexible Investment in the Phased Production of 300mm Wafers

With respect to next-generation of mainstream 300mm (12-inch) silicon wafers, Komatsu Electronic Metals currently has a combined monthly production capacity of about 10,000 pieces at the Miyazaki Plant for polished wafers and Nagasaki Plant for single crystal manufacturing and epitaxial wafers. Komatsu Electronic Metals is investing in facilities funded by internal cash flow in order to increases, in phases, its monthly production capacity to about 45,000 pieces in Fiscal 2006.

To sustain the silicon wafers business, it is indispensable for Komatsu Electronic Metals to not only reinforce the competitiveness of the 300mm wafers but also maintain and improve its mass-production technology and supply capability for these products. As Komatsu Electronic Metals continues to strengthen its financial position, it is going to work to make an effective allocation of management resources while considering the possibility of forming an alliance.

Advanced Silicon Materials LLC (ASiMI)

ASiMI determined that a supply-and-demand gap for polycrystalline silicon, a raw material for silicon wafers, would not be solved in the short-term and thus reduced its production capacity by consolidating its plants at the end of the previous fiscal year. As a result, Fiscal 2003, ASiMI focused on the production of such relatively high-margin products as FZ and CZ rods and silane gas at its Butte Plant in Montana, where the company has consolidated production. The market environment for polycrystalline silicon remained depressed and sales for Fiscal 2003 declined from the previous year. While ASiMI had to register a loss for the year, it improved its profitability substantially from the previous year, which it regards as its worst year, as it recorded expanded sales of high-margin silane gas coupled with the benefits of reduced fixed costs resulting from the consolidation of plants.

Jointly-Owned Company Established to Produce and Sell Polycrystalline Silicon for Solar Applications

In September 2002, ASiMI established Solar Grade Silicon LLC (Solar Grade Silicon), a 50-50 jointly-owned company with Silicon Technologies AS (Silicon Technologies), a subsidiary of Renewable Energy Corporation (REC) of Norway, to produce and sell polycrystalline silicon for solar applications. For this jointly-owned company, ASiMI contributed its temporarily closed Moses Lake Plant in Washington in kind, while REC provided financing for technology development and a majority of the working capital through Silicon Technologies. REC and Silicon Technologies are taking leading roles in managing the jointly-owned company and ASiMI plans to reduce its equity holdings gradually to 25% in two years.

Komatsu Electronics, Inc. (Komatsu Electronics)

Komatsu Electronics strove to expand sales of temperature-control equipment for semiconductor manufacturing, in particular boosting export sales of DI-Water Heaters to Taiwan in the first half of Fiscal 2003. In the second half, however, the market again became sluggish and the company experienced slack sales. Sales of thermoelectric modules remained poor, reflecting prolonged depressed conditions in the North American fiberoptic telecommunications market. Komatsu Electronics continued efforts to reduce fixed and production costs fell short of improving its profitability.

<u>Others Segment</u>

Komatsu s products of Others Segment is set forth below:

Categories	Main products
Metal Forging and Stamping Presses	Large presses, small and medium-sized presses and forging presses
Sheet-Metal Machines and Machine Tools	Press brakes, shears, laser cutting machines, fine plasma cutting machines and crankshaft millers
Industrial Vehicles and Logistics	Forklift trucks, packing and transport
Others	Defense system (ammunition and armored personnel carriers), outdoor power equipment, prefabricated office and recycling plants

This segment includes a variety of other activities conducted within Komatsu, consisting primarily of the manufacture and sale of a wide range of products and services, including metal forging and stamping presses, machine tools, sheet-metal machines, industrial robots, ammunition, logistics, diesel engines, metal casting, hydraulic equipment, armored vehicles, compressors and diesel generators. Komatsu engages in the design of manufacturing and distribution logistics solutions as well as the production of business systems through separate subsidiaries and affiliates.

Sales from other operations totaled ¥236,782 million (U.S.$2,007 million) for Fiscal 2003, consisting of Japanese sales of ¥177,391 million (U.S.$1,503 million) and overseas sales of ¥59,391 million (U.S.$503 million), increased 1.5% and 12.0% from the previous year, respectively.

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In addition to forklift trucks, industrial machinery such as sheet metal machinery and presses, and agricultural and forestry equipment such as brushcutters, Komatsu aggressively launched new, distinctive products, including a variety of equipment for Japan s Defense Agency, drawing on the Komatsu s principal strength in machinery businesses. Komatsu worked to improve competitive strength and expanded sales while continuing to focus its efforts on reducing fixed costs Groupwide. As a result, operating income for this segment improved ¥3,865 million from the previous year, to ¥8,841 million (U.S.$75 million).

Komatsu Forklift

Komatsu Forklift carried out successive launchings of new products during Fiscal 2003, including the LEO-NXT engine-driven forklift truck in its mainstay series and the 39X battery-driven forklift trucks made by Linde of Germany, with which Komatsu has an alliance. The company carried out aggressive sales promotions for these new high-quality products. As a result, even though general Japanese demand remained sluggish, Komatsu Forklift sustained domestic sales at about the same level as those in the previous fiscal year. Overseas, the company advanced export sales, particularly to China and Southeast Asia, while its U.S. subsidiary improved earnings substantially. Komatsu Forklift also continued to work to reduce fixed costs and accomplished an increase in both sales and profits.

Reinforcing the International Competitiveness of the Forklift Truck Business

In October 2002, Komatsu Forklift, listed on the Tokyo Stock Exchange(TSE), became a wholly-owned subsidiary of Komatsu through a stock-for-stock exchange in order for the company to build a more dynamic, unified organization and worked to improve the profitability of the forklift truck business and its corporate value.

In November 2002, to strengthen the international competitiveness of the forklift truck business, Komatsu reached an agreement with Linde concerning a joint ownership company in the forklift truck business. Based on this agreement, Linde acquired 13.3% of the equity shares of Komatsu Forklift in December of the same year. Linde has a view of increasing its stake to a maximum of 48% in the future.

As Komatsu Forklift extends its sales network globally, the company is working to build a framework in which the company can provide customers and distributors with comprehensive equipment and services more efficiently, including competitive Komatsu-brand products that incorporate technologies for the battery-driven vehicles of the Linde Group.

Industrial Machinery

Komatsu Industries Corporation (Komatsu Industries) made a big gain in sales of small and medium-sized presses in the sluggish Japanese market by expanding sales of the small H1F-series Hybrid AC Servo Press and other models. The company also posted firm increases in export sales of presses, especially to China and Southeast Asia. Regarding its sheet metal machinery line, which faced worsened market conditions, the company focused management resources on the development and sale of such strategic products as the Gatling Press Center and twister fine plasma cutting machines. The company also continued to promote sales of products made by TRUMPF GmbH + Co. KG (TRUMPF), with which it has an alliance. As a result, Komatsu Industries recorded the third consecutive year of expanded sales and profits.

Komatsu Machinery Corp. (Komatsu Machinery) also accomplished an increase in both sales and profits. Komatsu Machinery faced intensified global competition in sales of machine tools such as the crankshaft and camshaft millers that it supplies mainly to the automobile

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manufacturing industry but was able to keep the decline in sales from the previous year minimal. In comparison, the company expanded sales of semiconductor manufacturing-related equipment, making an important contribution to improved profit.

Sales of large presses by the Company declined from the previous year, as global competition further intensified among Japanese and overseas press builders.

Ahead of the Competition, with the AC Servo Press Series Boasting Unique Features in the Multipurpose Press Market

Komatsu Industries H1F series, a multipurpose press, incorporates a hybrid mechanism that combines the AC servo drive and a link mechanism and thus offers a larger pressing capability with a smaller capacity motor. Other special features include the CNC (Computer Numerical Control) free-motion capability of the slide as well as the micron-specific slide positioning capability achieved by Komatsu Industries original full-closed feedback method. The result is outstanding in both productivity and machining precision. Furthermore, it has reduced noise and running costs thanks to energy and resource savings. Therefore, as a small, high-cost-performance, micron-precision machine for multiple applications, it has won high praise, particularly from customers engaging in high-precision machining, like punching holes in thin plates and high-precision casting.

Komatsu Zenoah

Although domestic demand slipped overall in the agricultural and forestry equipment business, Komatsu Zenoah expanded sales of EZ-Start brushcutters and chainsaws, which feature significant improvements in ignition. Komatsu Zenoah also boosted sales of an innovative new knapsack-type brushcutter that features a rotating swivel gear case and an engine unit for an extended degree of freedom of maneuverability. Overseas, the company increased sales for the year, while North American demand declined but export demand for Europe, China and Southeast Asia advanced steadily. With respect to its two-stroke engines, which are competitive in the area of environmental friendliness, Komatsu Zenoah worked to expand the business in North America, the largest market in the world. As a result, Komatsu Zenoah achieved record-high sales in the agricultural and forestry equipment business.

Working for Further Growth of the Agricultural and Forestry Equipment Business

In 2002, Komatsu Zenoah reached an agreement with TechTronic Industries Company Limited (TTI) of Hong Kong for collaboration in the development and production of outdoor power equipment for agricultural and forestry applications, with a focus on two-stroke, high-output, low-emission engines.

Based on Komatsu Zenoah s patented technologies meeting emission control regulations as well as high-output technologies, TTI will produce small two-stroke engines either in China or North America. A plan calls for mounting these engines on garden equipment like trimmers, brushcutters and blowers, which are marketed under different brand names in North America and other regions.

The high-output, lightweight, low-emission engines that TTI is going to produce meet the demanding requirements of North American and European emission control regulations. This collaboration with TTI can extend also to battery-powered garden equipment that utilizes TTI s technologies. The two companies plan to continue to hold discussions on a variety of topics to build on their collaboration and generate synergies.

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Net Sales Information

The financial information (other than net sales figures by geographic segment) is produced and discussed in this report as presented in Komatsu s audited consolidated financial statements. Net sales figures by geographic region presented and discussed herein reflect sales of Komatsu s products according to the geographic location of purchasers, rather than the geographic location of the Komatsu entity generating such sales. Net sales data by the geographic location of the Komatsu entity generating the sale is set forth in Note 20 to Komatsu s audited consolidated financial statements, included elsewhere in this report. Operating income by business segment is presented before corporate overhead and inter-segment eliminations.

The following table sets forth Komatsu s net sales by Operating Segments for the years ended March 31, 2003, 2002, and 2001, respectively:

Net Sales by Operating Segments

	Fiscal Year Ended 3/31/2003		Fiscal Year Ended 3/31/2002		Fiscal Year Ended 3/31/2001	
			(Millions of Yen)			
Construction and Mining Equipment	¥ 767,840	70.5%	¥ 731,340	70.6%	¥ 718,147	65.5%
Electronics	85,182	7.8%	76,769	7.4%	117,745	10.7%
Others	236,782	21.7%	227,782	22.0%	260,477	23.8%
Total	¥ 1,089,804	100.0%	¥ 1,035,891	100.0%	¥ 1,096,369	100.0%

The following table sets forth Komatsu s net sales recognized by sales destination for the years ended March 31, 2003, 2002, and 2001, respectively:

Net Sales by Geographic Markets

	Fiscal Year Ended 3/31/2003		Fiscal Year Ended 3/31/2002		Fiscal Year Ended 3/31/2001	
			(Millions of Yen)			
Japan	¥ 458,000	42.0%	¥ 478,187	46.2%	¥ 586,865	53.5%
Americas	251,371	23.1%	262,341	25.3%	241,091	22.0%
Europe	145,455	13.3%	128,029	12.4%	126,479	11.5%
Asia (excluding Japan) & Oceania	176,177	16.2%	126,363	12.2%	117,136	10.7%
Middle East & Africa	58,801	5.4%	40,971	3.9%	24,798	2.3%
Total	¥ 1,089,804	100.0%	¥ 1,035,891	100.0%	¥ 1,096,369	100.0%

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Sales and Distribution

Komatsu s international and domestic sales and distribution functions in its construction and mining equipment segment, its principal and largest business segment, are conducted primarily through a network of subsidiaries, affiliates and independent distributors, and to a lesser extent by the partners of jointly-owned companies. While Komatsu s construction and mining equipment sales and distribution operations in Japan focus principally on retail sales to customers, Komatsu uses its extensive Japanese sales distributor network to offer rental programs to its customers, especially within its construction and utility equipment businesses.

Overseas Markets:

Global Sales and Service Operations

Komatsu s overseas sales of construction and mining equipment are made through a sales and service network consisting of approximately 200 distributors. The distributors are supplied through trading companies and the Company s subsidiaries and affiliated companies, supported by Komatsu s liaison offices in major cities around the world. The subsidiaries and affiliated companies are located in Australia, Belgium, Brazil, Chile, France, the Federal Republic of Germany, Hong Kong, India, Indonesia, Italy, Mexico, Norway, Poland, the Republic of China, the Republic of South Africa, Russian Federation, Singapore, Spain, Thailand, United Arab Emirates, United Kingdom, the United States of America, and Vietnam. The subsidiaries and affiliated companies provide additional inventory and technical assistance to the distributors while facilitating the delivery of emergency spare parts.

Parts Supply Operations

To ensure smooth and efficient parts supply to customers, Komatsu operates P-WINS, a worldwide information network. The service is available on an around-the-clock basis. Each system provides information by a dedicated line to permit on-line real-time processing of customer orders for parts in order to ensure fast delivery.

Reman (Re-manufacturing)

Komatsu offers speedy on-site replacement of major components of construction and mining equipment that have reduced operational rate as a result of failure or aging, with high-quality and reasonably priced remanufactured CR units. At our eight Reman centers around the world, major components and engines for generators are reconditioned into CR units under rigorous quality control and delivered to many customers.

CR unit: Certified Remanufacturing unit

Training Centers

To fully utilize the potential of Komatsu equipment, Komatsu maintains training centers around the world. These centers provide diversified, advanced training to customers and their operators, Komatsu distributors and Komatsu employees.

Domestic Market:

Sales Operations

Komatsu s construction equipment is sold directly or through distributors or dealers. In response to strong rental needs from customers, Komatsu also has been committed to enhancing customer satisfaction through rental companies of distributors and dealers in the Komatsu.

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Service Operations

The Komatsu service network covers approximately 500,000 units of equipment sold in Japan. Distributors and dealers form the core of the service network providing total customer-support service that involves before- and after-sales service.

Patents and Licenses

Komatsu owns a substantial number of patents and utility model registrations, as well as applications for patents and utility model registrations in Japan. It also owns a substantial number of patents and applications for patents in other countries where its products are marketed. Moreover, Komatsu manufactures a variety of products under licensing agreements with other various companies.

While Komatsu considers its patents and licenses, collectively, to be important for the operation of its business, it does not consider any one of its patents or licenses or any related group of them to be so important that its expiration or termination would materially affect Komatsu s business as a whole, nor does it believe that any category of its activities is materially dependent upon patents or licenses, or patent or license protection. Komatsu also owns and maintains a substantial number of trademarks and trade names that are registered or otherwise protected under the laws of various jurisdictions.

Competition

Substantially all of the products manufactured by Komatsu face highly competitive conditions both in domestic and overseas markets. Competitors include a large number of companies in and outside Japan, which vary in size, area of distribution and range of products. To address such intense competition, Komatsu places great emphasis on the high quality and performance of its products and related services.

While industry sales statistics for many of Komatsu s products are not available, either for Japan alone or on a worldwide basis, Komatsu believes that on the basis of both sales and production it is the largest manufacturer of construction and mining equipment in Japan and the second largest in the world after Caterpillar Inc. (Caterpillar), a United States corporation. Further, Komatsu believes that it is the largest manufacturer of large-sized presses in Japan.

Regulation

Komatsu s business segments are subject to various regulations throughout the world, which include restrictions on noise and emissions from construction and mining equipment, as well as various environmental controls regulating the manufacturing processes. Komatsu s operations and products are designed to comply with all applicable environmental regulations currently in effect for the relevant jurisdictions.

Komatsu expect to remain in substantial compliance with existing applicable environmental control regulations and does not expect that the cost of complying with foreseeable requirements will have a material effect upon its financial position and the results of the operations. In 1992, Komatsu issued the Earth Environment Charter, a comprehensive corporate policy statement representing Komatsu s commitment to comply with all applicable regulations and industry standards for the protection of the environment. An excerpt the Earth Environment Charter is set forth below. Since then, Komatsu has made progress in our efforts to reduce industrial waste, increase energy savings (*i.e.* reduction of CO2 emission), and recycling of materials.

Komatsu has started publication of these achievements in our   Environmental Report   in Fiscal 2000.

Komatsu Earth Environment Charter (2003 revision) Corporate Principles (Extracted)

1. Contributions to Realization of Sustainable Society

The Komatsu Group recognizes conservation of the earth   s environment for a sustainable society as among the most important tasks for mankind in the 21st century. The Komatsu Group endeavors to contribute to this task by actively integrating environmental conservation into all of its business activities. The Komatsu Group reaffirms its long-term commitment to this effort as an important management priority.

2. Simultaneous Realization of Environmental and Economic Performance

The Komatsu Group is committed to improving both environmental performance and economic efficiency, as a group of companies working toward superior manufacturing for customer satisfaction. To this end, the Komatsu constantly takes up the challenge of advancing technologies to develop creative products that improve both environmental performance throughout the product   s life cycle and the product   s economic performance at the same time.

3. Observance of Corporate Social Responsibility

Each company of the Komatsu Group seeks to be a respected corporate citizen of the host local community in nations around the world. Each company strives to fulfill its corporate social responsibilities, including compliance with applicable laws and regulations on environmental conservation, as well as voluntary involvement and participation in community programs to address environmental concerns, and through dialogue and coordination with regulatory authorities, local leaders, and the public. Each of the individual Komatsu Group companies is responsible for fulfilling its independent legal obligations.

Komatsu manages the energy it consumes for production activities in the form of electric power, gas and fuel oil by using an index that converts production value to units of energy. The original target was to reduce energy consumption by 15% by Fiscal 2011 from the Fiscal 1991 level. During Fiscal 2001, Komatsu raised the reduction of the energy consumption target to 25%.

Komatsu is committed to implementing a program to eliminate all types of waste generated during the production process and reuse it as raw materials in other fields as part of its Zero Emissions activities. During Fiscal 2003, Komatsu Forklift and Komatsu Electronic Metals achieved Zero Emissions. A testament to the company   s dedication can be seen the fact that it has achieved, with respect to five plants of construction mining equipment in Japan, its original goal plan of reducing all bury-or-burn waste to zero* by Fiscal 2012 up to Fiscal 2002. The Oyama Plant, the model plant for this initiative, achieved the coveted Zero Emissions level in November 2000.

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* The recycle rate (recycle volume divided by generated waste) of 99% or more has been defined as the zero level.

Sources of Supply

The construction equipment and industrial machinery produced by Komatsu are composed of various types of parts and as it is not necessarily efficient in production to manufacture all of such component parts inside Komatsu, Komatsu only produces the major components internally and purchases other parts such as electrical components, tires, hoses, and batteries, etc. from the

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manufacturers who specialize in manufacturing these products, and Komatsu procures the rest of the parts such as metal forgings, machine components, sheet metal parts and various accessories from Komatsu s business partners. Komatsu believes that it has adequate and reliable supply sources for its material parts and raw materials, and that it has appropriate alternate sources available consistent with prudent business practices. Komatsu does not believe that prices for material parts and raw materials are particularly volatile.

C. Organizational Structure

The following list shows the principal subsidiaries: As of March 31, 2003

Name of Company	Country of Incorporation	Ownership (%)
Komatsu Forklift Co., Ltd.	Japan	86.7
Komatsu Electronic Metals Co., Ltd.	Japan	63.2
Komatsu Zenoah Co.	Japan	100.0
Komatsu Castex Ltd.	Japan	100.0
Komatsu Kinki, Ltd	Japan	100.0
Komatsu House, Ltd	Japan	88.5
Komatsu Logistics Corp.	Japan	97.1
Komatsu Industries Corporation	Japan	100.0
Komatsu Chugoku, Ltd	Japan	100.0
Komatsu Tokyo Ltd.	Japan	100.0
Komatsu Machinery Corporation	Japan	100.0
Komatsu Hokkaido Ltd.	Japan	100.0
Komatsu Electronics, Inc.	Japan	100.0
Komatsu America Corp.	U.S.A.	100.0
Hensley Industries, Inc.	U.S.A.	100.0
Komatsu do Brasil Ltda.	Brazil	100.0
Advanced Silicon Materials LLC.	U.S.A.	100.0
Komatsu Europe International N.V.	Belgium	100.0
Komatsu UK Ltd.	UK	100.0
Komatsu Hanomag AG	Germany	100.0
Komatsu Mining Germany GmbH	Germany	100.0
Komatsu Utility Europe S.p.A.	Italy	100.0
Komatsu Asia & Pacific Pte Ltd	Singapore	100.0
P T Komatsu Indonesia Tbk	Indonesia	55.1
Bangkok Komatsu Co., Ltd.	Thailand	74.8
Komatsu (China) Ltd.	Republic of China	100.0
Komatsu (Changzhou) Construction Machinery Corp.	Republic of China	85.0
Komatsu Shantui Construction Machinery Corp.	Republic of China	60.0

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D. Property, Plants and Equipment

Komatsu s manufacturing operations are conducted in 30 principal plants, 12 of which are located in Japan. As of March 31, 2003, the 30 plants had an aggregate manufacturing floor space of 1,557 thousand square meters (16,762 thousand square feet). In addition, Komatsu uses additional floor space at such plants and elsewhere for laboratories, office buildings, and employee housing and welfare facilities. Komatsu could increase its production by, among other methods, requesting that its employees work overtime or by increasing the number of shifts working at its plants.

Almost Komatsu s manufacturing facilities and the land on which they are located are owned by Komatsu. A portion of the property owned by Komatsu is subject to mortgages or other types of liens which have been established on separate items of property. At March 31, 2003, the net book value of the property owned by Komatsu was ¥400,087 million, of which ¥31,160 million was subject to encumbrances.

The name and location of Komatsu s principal plants, their approximate aggregate floor space, and the principal products manufactured therein as of March 31, 2003, are as follows:

	Floor Space		
Name and Location	**Square meter**	**thousand sq. ft**	**Principal products**
In Japan			
Awazu Plant Komatsu	244,000	2,626	Small and medium-sized bulldozers, Small hydraulic excavators, Mini excavators, Small and medium- sized wheel loaders
Komatsu Plant Komatsu	44,000	474	Tunneling equipment
Osaka Plant Hirakata	138,000	1,485	Large bulldozers, Medium and large-sized hydraulic excavators, Recycling equipments
Oyama Plant Oyama	193,000	2,078	Diesel engines, Hydraulic equipment
Mooka Plant Mooka	66,000	710	Large wheel loaders, Dump trucks, Road-building machines, Rough- terrain cranes
Komatsu Castex Ltd. Himi	57,000	614	Steel castings, Iron castings, Pattern for casting Iron castings, Aluminum alloy castings, Pattern for casting
Komatsu Zenoah Co. Kawagoe and Koriyama	55,000	591	Mini-excavators, Skid steer loaders, Outdoor power equipment, Compact 2-stroke engines, Hydraulic equipment
Komatsu Forklift Co., Ltd.	75,000	807	Forklift trucks, Automated conveyance systems, etc

Oyama			
Komatsu Electronic Metals Co., Ltd.	72,000	775	Silicon wafers for semiconductors
Nagasaki and Miyazaki			

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Komatsu Electronics, Inc. Hiratsuka	1,000	11	Thermoelectric modules, Temperature control equipment
Overseas			
Komatsu America Corp., Tennessee, USA and Quebec, Canada South Carolina, USA and Illinois, USA	147,901	1,592	Medium-sized hydraulic excavators, Medium-sized wheel loaders, Motor graders, Cranes, Small and medium- sized wheel loaders, Backhoe loaders, Large wheel loaders, Large dump trucks
Hensley Industries, Inc. Texas, USA	20,000	215	Buckets, Teeth, Adapters
Komatsu Mexicana S.A. de C.V. Sahagún, Mexico	22,000	237	Attachments for construction equipment
Komatsu do Brasil Ltda. Suzano, São Paulo, Brazil	57,000	614	Medium-sized hydraulic excavators, Small and medium-sized Bulldozers, Wheel loaders
Advanced Silicon Materials LLC. Montana, USA	29,000	312	Silane gas, Polycrystalline silicon products
Komatsu UK Ltd. Birtley, UK	60,000	646	Medium and large-sized hydraulic excavators
Komatsu Hanomag AG Hannover, Germany	77,000	829	Small and medium-sized wheel loaders, Mini wheel loaders, Compactors
Komatsu Utility Europe S.p.A. Este, Italy	34,000	366	Mini excavators, Backhoe loaders, Skid steer loaders
Komatsu Mining Germany GmbH Düsseldorf, Germany	23,269	250	Super-large hydraulic excavators
P.T. Komatsu Indonesia Tbk Jakarta, Indonesia	45,546	490	Medium-sized hydraulic excavators, Small and medium-sized bulldozers, Small and medium-sized wheel loaders, Motor graders, Dump trucks
Komatsu (Changzhou) Construction Machinery Corporation Jiangsu, China	14,000	151	Wheel loaders, Motor graders, Medium-sized hydraulic excavators, Dump trucks

Komatsu (Changzhou) Foundry Corporation Jiangsu, China	26,000	280	Iron castings and parts for construction equipment and industrial vehicles, Foundry molds
Bangkok Komatsu Co. Ltd. Chonburi, Thailand	13,464	145	Medium-sized hydraulic excavators
Formosa Komatsu Silicon Corporation Mailiao, Yunlin, Taiwan	12,080	130	Silicon wafers for semiconductors

The head office of the Company is located in a ten-story office building in Tokyo, which is leased from Komatsu Building Co., Ltd., a 100%-owned consolidated subsidiary of the Company.

Item 5. Operating and Financial Review and Prospects

A. Operating results

Overview

The statements contained in this Overview section are based on management s current expectations. With the exception of historical information contained herein, the statements presented in this Overview section are forward-looking statements involving numerous risks and uncertainties that could significantly affect expected results. Actual results may differ materially.

During Fiscal 2003, the business environment for construction and mining equipment continued to deteriorate in Japan as compared to Fiscal 2002, as construction spending by the Japanese government and corporations continued to decrease. By contrast, overseas sales increased, as Komatsu gained market share by launching new excavator products in the GALEO-series and undertaking regionally tailored sales and service activities in the various overseas markets. More specifically, in North America, Komatsu established a training center to provide specialized training to end users and distributors. In Europe, Komatsu established wholly-owned subsidiaries in Italy and Germany for the purpose of distributing its products. In China, Komatsu engaged in various marketing efforts, including attending the construction equipment trade show bauma held in Shanghai, China.

In addition, Komatsu gained market share by capturing the demand for construction and mining equipment in China, Southeast Asia and the Middle East.

With respect to electronics, Komatsu experienced a recovery in profitability as Komatsu integrated its production lines and improved cost effectiveness by reducing expenses. For Fiscal 2003, the silicon wafer business recovered through the summer of 2002, which was partly supported by the restocking of such products by semiconductor manufacturers. Demand for thermoelectric modules continued to be stagnant, reflecting prolonged depressed market conditions in the North American fiberoptic telecommunications market.

The business environment for other Komatsu s products, such as forklift trucks and industrial machinery improved for Fiscal 2003. The launch by Komatsu of new and distinctive industrial machinery, such as sheet metal machinery and presses, and agricultural and forestry equipment contributed to this improvement.

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Continuing to concentrate its efforts on the Reform of Business Structure project, which focuses on implementing strategies for Komatsu s main operating segment Construction and Mining equipment Komatsu reduced its selling, general and administrative expenses and production costs substantially. In addition, to further reinforce the foundation of its construction and mining equipment business, Komatsu launched regionally tailored and aggressive marketing campaigns around the world.

Foreign Exchange Rate Fluctuations. Sales outside of Japan represented approximately 58.0% and 53.8% of Komatsu s consolidated net revenues in Fiscal 2003 and Fiscal 2002, respectively. Among such sales to customers located outside of Japan, a significant proportion has been denominated in foreign currencies such as U.S. dollars and Euro. As such, an appreciation in the value of the Yen against the foreign currencies could have an adverse effect on Komatsu s results of operations and financial conditions. To minimize exposure to such foreign exchange rate fluctuations, Komatsu has made an effort to localize its sale and production operations. Komatsu also enters into forward exchange contracts, as described in Item 11., to further reduce its foreign exchange risks.

General

The following table sets forth selected consolidated financial and operating data, including data expressed as a percentage of total consolidated net sales for the periods indicated, and the change in each consolidated financial and operating data between the indicated fiscal years:

	Millions of Yen Year Ended March 31,						Millions of U.S. dollars	% change	
	2003		2002		2001		2003	2003 vs. 2002	2002 vs. 2001
Revenues									
Net sales	¥ 1,089,804	100.0%	¥ 1,035,891	100.0%	¥ 1,096,369	100.0%	9,236	5.2%	-5.5%
Interest and other income	13,436	1.2%	34,278	3.3%	30,718	2.8%	114	-60.8%	11.6%
Total	1,103,240	101.2%	1,070,169	103.3%	1,127,087	102.8%	9,349	3.1%	-5.1%
Cost and expenses									
Cost of sales	815,557	74.8%	792,748	76.5%	804,700	73.4%	6,912	2.9%	-1.5%
Selling, general and administrative	241,069	22.1%	256,364	24.7%	263,854	24.1%	2,043	-6.0%	-2.8%
Interest	14,693		16,842		22,194		125		
Impairment loss on long-lived assets			52,242		4,337				
Special termination benefit			30,131						
Other	19,016		28,566		11,938		161		
Total	1,090,335	100.1%	1,176,893	113.6%	1,107,023	101.0%	9,240	-7.4%	6.3%
	12,905	1.2%	(106,724)	-10.3%	20,064	1.8%	109		

Income (loss) before income taxes, minority interests and equity in earnings									
Income taxes	5,968	0.5%	(21,930)	-2.1%	13,715	1.3%	51		
Income (loss) before minority interests and equity in earnings	6,937		(84,794)		6,349		59		
Minority interests in (income) loss of consolidated Subsidiaries	(2,877)		3,775		179		(24)		
Equity in earnings (losses) of affiliated companies	(786)		398		385		(7)		
Income (loss) before cumulative effect of accounting change	3,274		(80,621)		6,913		28		
Cumulative effect of accounting change	(265)						(2)		
Net income (loss)	3,009	0.3%	(80,621)	-7.8%	6,913	0.6%	26		

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Comparison of Fiscal 2003 with Fiscal 2002

Net sales. Consolidated net sales for the fiscal year ended March 31, 2003 increased by 5.2% (or ¥53,913 million) from ¥1,035,891 million to ¥1,089,804 million (U.S.$9,236 million) as compared to the fiscal year ended March 31, 2002. This increase was primarily due to increased overseas sales of construction and mining equipment (which was partially offset by decreases in domestic sales resulting from the downturn in the Japanese economy), as Komatsu gained overseas market share by launching new excavator products in the GALEO-series and improving its sales and services activities by aggressively engaging in marketing activities that focused on the needs of its customers in each overseas region through its regional headquarters. In North America, Komatsu established a training center to provide specialized training to end users and distributors. In Europe, Komatsu established wholly-owned subsidiaries in Italy and Germany for the purpose of distributing its products. In China, Komatsu attended the construction equipment trade show bauma to increase its exposure in such region.

The average Yen/U.S. dollar exchange rates were 121 and 126 for the fiscal years ended March 31, 2003 and 2002, respectively. The average Yen/Euro exchange rates were 121 and 111 for the fiscal years ended March 31, 2003 and 2002, respectively. As the appreciation of the Yen to U.S. dollar was substantially offset by the depreciation of the Yen to the Euro, foreign currency exchange rates did not materially affect Komatsu s net sales in Fiscal 2003 as compared to Fiscal 2002.

Interest and other income. Consolidated interest and other income for the fiscal year ended March 31, 2003 decreased by 60.8% (or ¥20,842 million) from ¥34,278 million to ¥13,436 million (U.S.$114 million) as compared to the fiscal year ended March 31, 2002. This decrease was primarily due to the decrease on gain on sale of primarily real property.

Total Revenue. As a result of the above factors, consolidated total revenue for the fiscal year ended March 31, 2003 increased by 3.1% (or ¥33,071 million) from ¥1,070,169 million to ¥1,103,240 million (U.S.$9,349 million) as compared to the fiscal year ended March 31, 2002.

Cost of Sales. Consolidated cost of sales for the fiscal year ended March 31, 2003 increased by 2.9% (or ¥22,809 million) from ¥792,748 million to ¥815,557 million (U.S.$6,912 million) as compared to the fiscal year ended March 31, 2002. This 2.9% increase in cost of sales was lower than the 5.2% increase in net sales, primarily due to Komatsu s efforts to manage and reduce production costs consisting of variable production costs, such as procurement costs and engineering costs, as well as fixed costs, such as personnel and related costs, rent and depreciation costs.

Selling, General and Administrative Expenses. Consolidated selling, general and administrative expenses for the fiscal year ended March 31, 2003 decreased by 6.0% (or ¥15,295 million) from ¥256,364 million to ¥241,069 million (U.S.$2,043 million) as compared to the fiscal year ended March 31, 2002, due primarily to reductions in (i) fixed costs, such as personnel, rent and depreciation, (ii) research and development expenses and (iii) advertising expenses. As a percentage of net sales, selling, general and administrative expenses decreased by 2.6% to 22.1% for the fiscal year ended March 31, 2003 from 24.7% for the fiscal year ended March 31, 2002.

Consolidated research and development expenses for the fiscal year ended March 31, 2003 decreased by 11.5% (or ¥5,056 million) from ¥44,083 million to ¥39,027 million (U.S.$331 million) as compared to the fiscal year ended March 31, 2002. This decrease in consolidated research and development expenses during Fiscal 2003 resulted primarily from the fact that during its previous fiscal year Komatsu had substantially completed its research and development activities to develop construction and mining equipment in the GALEO-series. For additional detail as to expenditures on research and development activities, see Item 5.C.

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Advertising expenses accounted for 1.4% of consolidated selling, general and administrative expenses during the fiscal year ended March 31, 2003 as compared with 2.0% for the fiscal year ended March 31, 2002. Consolidated advertising expenses for the fiscal year ended March 31, 2003 decreased by 32.7% (or ¥1,673 million) from ¥5,119 million to ¥3,446 million (U.S.$29 million) as compared to the fiscal year ended March 31, 2002. This decrease in consolidated advertising expenses resulted primarily from Komatsu s cost management efforts and the fact that no advertising expenses were incurred in connection with Komatsu s 80th anniversary during Fiscal 2003.

Impairment loss on long-lived assets. No consolidated impairment loss on long-lived assets was incurred for the fiscal year ended March 31, 2003 while impairment loss of ¥52,242 million was incurred for the fiscal year ended March 31, 2002. In Fiscal 2002, Komatsu s management decided to sell or dispose of these facilities instead of holding them for future use. In connection therewith, Komatsu recorded impairment losses of ¥24,983 million. In addition, Komatsu recorded impairment losses of ¥27,259 million on production facilities operated by another electronics subsidiary, ASiMI, due to the decline in market demand for electronic equipment.

Special termination benefit. No consolidated special termination benefit was incurred for the fiscal year ended March 31, 2003 while ¥30,131 million was incurred for the fiscal year ended March 31, 2002 due primarily to the fact that Komatsu did not incur any costs for voluntary retirement of its employees or transfer of its employees to affiliated companies in Japan during Fiscal 2003 as it did in Fiscal 2002.

Other Expenses. Consolidated other expenses for the fiscal year ended March 31, 2003 decreased by 33.4% (or ¥9,550 million) from ¥28,566 million to ¥19,016 million as compared to the fiscal year ended March 31, 2002. Other expenses include expenses such as loss on marketable securities, loss on disposal or sale of its fixed assets, foreign exchange loss, etc. This decrease was primarily due to the decrease in loss on marketable securities and loss on disposal or sale of fixed assets.

Total Expenses. As a result of the above factors, consolidated total expenses for the fiscal year ended March 31, 2003 decreased by 7.4% (or ¥86,558 million) from ¥1,176,893 million to ¥1,090,335 million (U.S.$9,240 million) as compared to the fiscal year ended March 31, 2002.

Income (loss) Before Income Taxes, Minority Interests and Equity in Earnings. Consolidated income (loss) before income taxes, minority interests and equity in earnings of affiliates for the fiscal year ended March 31, 2003 increased by ¥119,629 million from a loss of ¥106,724 million to an income of ¥12,905 million (U.S.$109 million) as compared to the fiscal year ended March 31, 2002 as a result of the significant reduction in operating costs such as impairment losses and special termination benefits.

Total Income Taxes. Total consolidated income taxes for the fiscal year ended March 31, 2003 increased by ¥27,898 million from a negative tax provision of ¥21,930 million to a positive tax provision of ¥5,968 million (U.S.$51 million). This increase was due primarily to the fact that Komatsu recognized a positive income before income taxes in Fiscal 2003 in contrast to Fiscal 2002 when significant losses were recognized by Komatsu. The actual effective tax rate for the year ended March 31, 2003 was 46.2% while the standard tax rate was 41.7%. The higher percentage in actual effective tax rate was due mainly to permanent non-deductible expenses.

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Income (loss) Before Minority Interests and Equity Earnings. Consolidated income (loss) before minority interests and equity earnings for the fiscal year ended March 31, 2003 increased by ¥91,731 million from a loss of ¥84,794 million to an income of ¥6,937 million (U.S.$59 million) as compared to the fiscal year ended March 31, 2002. This increase was due primarily to the decrease in total expenses.

Minority Interests. Consolidated minority interests for the fiscal year ended March 31, 2003 decreased by ¥6,652 million from ¥3,775 million to a loss of ¥2,877 million (U.S.$24 million) as compared to the fiscal year ended March 31, 2002. This decrease was primarily attributable to the fact that Komatsu s subsidiaries in the electronics business realized a profit during Fiscal 2003.

Equity in Earnings of Affiliated Companies. Consolidated equity in earnings of affiliated companies for the fiscal year ended March 31, 2003 decreased by ¥1,184 million from ¥398 million to a loss of ¥786 million (U.S.$7 million) as compared to the fiscal year ended March 31, 2002. This decrease was primarily due to losses generated by certain affiliated companies in Japan that are accounted for by the equity method, as the economic conditions in Japan failed to improve in Fiscal 2003 and governmental and corporate spending for construction projects requiring products manufactured by Komatsu s affiliated companies decreased.

Net Income. As a result of the factors indicated above, the consolidated net income for the fiscal year ended March 31, 2003 increased by ¥83,630 million from a loss of ¥80,621 million to an income of ¥3,009 million (U.S.$26 million) as compared to the fiscal year ended March 31, 2002.

Performance by Operating Segments

Construction and Mining Equipment

Sales in the Construction and Mining Equipment segment for the fiscal year ended March 31, 2003 increased by 5.0% (or ¥36,500 million) from ¥731,340 million to ¥767,840 million (U.S.$6,507 million) as compared to the fiscal year ended March 31, 2002. This increase was due primarily to increased sales in the overseas market. Construction and mining equipment net sales accounted for 70.5% of Komatsu s worldwide net sales in Fiscal 2003, down 0.1% from 70.6% as compared to Fiscal 2002. While sales in Japan decreased by 9.4% to ¥235,851 million (U.S.$1,999 million) in Fiscal 2003 from ¥260,351 million in Fiscal 2002, sales outside Japan increased by 13.0% to ¥531,989 million (U.S.$4,508 million) in Fiscal 2003. Sales in Japan represented 30.7% of total sales of construction and mining equipment, down 4.9% from the previous fiscal, while the proportion of sales outside Japan increased by 4.9% to 69.3%.

The 5.0% increase in net sales in the Construction and Mining Equipment was primarily due to the 13.0% increase in overseas sales. This 13.0% increase in overseas sales resulted from Komatsu s gain in overseas market share reflecting the successful launch of new excavator products in the GALEO-series and the launch of various regionally tailored sales and service activities in the overseas market.

By contrast, in Japan, demand for construction equipment fell sharply from the previous year, because of continuing reductions in public investments. Given this situation, the Company introduced model renewals in its mainstay lines with the intention of expanding sales and promoted the reassessment of its sales operations. These efforts and expanded sales of used equipment fell short of making up for the large drop in demand.

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In North America, one of Komatsu s major market, demand for construction and mining equipment continued to slide for the fourth consecutive year, affected particularly by a sharp drop in demand for mining equipment. However, overseas sales for the year increased over the previous fiscal year, supported by an increase in sales in China, Southeast Asia and Oceania of excavator products in the GALEO-series, an increase in sales of construction equipment in the Middle East resulting from the increase in construction of roadways and dams and an increase in sale of mining equipment in Africa.

Operating income for the Construction and Mining Equipment segment for the fiscal year ended March 31, 2003 increased by ¥28,109 million from ¥881 million to ¥28,990 million (U.S.$246 million) as compared to the fiscal year ended March 31, 2002. Operating income in this segment increased by a substantially higher percentage than the 5.0% increase in net sales primarily because of (i) the reductions in various personnel expenses, procurement costs and engineering costs of Komatsu in Japan, and (ii) the increase in overseas sales of higher value-added construction and mining equipment.

Electronics

Sales in the Electronics segment for the fiscal year ended March 31, 2003 increased by 11.0% (or ¥8,413million) from ¥76,769 million to ¥85,182 million (U.S.$722 million) as compared to the fiscal year ended March 31, 2002. This increase was due primarily to increased silicon wafers sales as semiconductor manufacturers restocked their supply of such products during Fiscal 2003. Sales in Japan increased by 3.9% to ¥44,758 million (U.S.$379 million), and sales outside Japan increased by 20.0% to ¥40,424 million (U.S.$343 million). Electronics accounted for 7.8% of Komatsu s net sales in Fiscal 2003, compared with 7.4% in fiscal 2002.

In the overseas and Japanese electronics industry, demand for thermoelectric modules for use in fiber optic communication networks was low as it was during Fiscal 2002, and the sales of temperature-control equipment for semiconductor manufacturing declined due to reductions in investment. Although the silicon wafers market did not show clear signs of recovery generally, Komatsu s sales of silicon wafers increased primarily due to expanded distribution of more competitive higher value-added products and improved production efficiencies. More specifically, Komatsu expanded its sales distribution channels in Taiwan and other Asian regions and included higher-value added silicon wafers in its product offerings. In the Japanese electronics segment, Komatsu improved its production technology and supply capabilities for silicon wafer products.

Operating losses for the Electronics segment for the fiscal year ended March 31, 2003 decreased significantly by 94.3% (or ¥14,076 million) from ¥14,925 million to ¥849 million (U.S.$7 million) as compared to the fiscal year ended March 31, 2002. This decrease in operating losses was primarily due to improved production efficiencies, product shift to prime silicon wafers and other higher value-added silicon wafers and reductions in Komatsu s overall costs resulting from the recognition of significant impairment losses during the prior fiscal year and the integration of production lines in ASiMI. Formosa Komatsu Silicon broke even for the first time and recorded a profit during the second half of Fiscal 2003.

Others

Sales in the Others segment for the fiscal year ended March 31, 2003 increased by 4.0% (or ¥9,000 million) from ¥227,782 million to ¥236,782 million (U.S.$2,007 million) as compared to the fiscal year ended March 31, 2002. This increase was due primarily to increased sales of sheet metal forming machinery, agricultural and forestry machines and forklift trucks.

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In the industrial machinery business, sales of large-scale metal forging and stamping presses used in automobile factories to form automobile roofs and doors declined, reflecting intensified global competition among Japanese and foreign press manufacturers. Meanwhile, in the sheet metal forming machinery business and the agricultural and forestry machine business, sales increased for products with unique features, such as the knapsack-type brushcutters in the forestry machine business that feature a rotating swivel gear case and a engine unit that allows for greater maneuverability and the H1F series presses in the sheet metal forming machinery business that incorporate a hybrid mechanism that combines the AC servo drive and a link mechanism thereby offering a large pressing capability with a smaller capacity motor. Also, sales of forklift trucks increased over the previous year supported by the launch of new models and aggressive sales activities.

Operating income for the Other segment for the fiscal year ended March 31, 2003 increased by 77.7% (or ¥3,865 million) from ¥4,976 million to ¥8,841 million (U.S.$75 million) as compared to the fiscal year ended March 31, 2002. This increase in operating income was due primarily to increased sales of improved competitive products and Group-wide cost reduction efforts. This 77.7% increase in operating income was substantially higher than the 4.0% increase in net sales, primarily because of the reduction in fixed costs such as personnel expenses, rent and depreciation, as well as the successful launch by Komatsu of higher value-added products, such as forklift trucks.

Performance by Geographic Segments

The following information regarding geographic segments is derived by the geographic origin from which the sales were made. For example, if a product were manufactured in Japan but were sold to a customer in the Americas, net sales derived from such transactions would be recorded in Japan (*i.e.*, the origin from which such product was sold.)

Japan

Sales in Japan for the fiscal year ended March 31, 2003 decreased by 1.0% (or ¥5,739 million) from ¥564,537 million to ¥558,798 million (U.S.$4,736 million) as compared to the fiscal year ended March 31, 2002. Net sales remained essentially unchanged primarily due to the continuing decline in demand for construction equipment in Japan which was almost equally offset by the increase in overseas sales of products manufactured in Japan.

Operating income for Japan for the fiscal year ended March 31, 2003 increased by ¥25,618 million from ¥130 million to ¥25,748 million (U.S.$218 million) as compared to the fiscal year ended March 31, 2002. Although net sales remained substantially the same, operating income increased as Komatsu reduced its various personnel expenses, procurement costs and engineering costs.

Americas

Sales in the Americas for the fiscal year ended March 31, 2003 decreased by 3.7% (or ¥9,760 million) from ¥267,111 million to ¥257,351 million (U.S.$2,181 million) as compared to the fiscal year ended March 31, 2002.

Fiscal 2003 was the fourth consecutive year in which demand for construction and mining equipment declined in North America. This decrease in demand led to decreased sales in mining equipment, which was substantially offset by increased sales of construction equipment. However, due to the appreciation of the Yen, Yen-equivalent of U.S. dollar-denominated sales in the Americas resulted in this 3.7% decrease in sales during Fiscal 2003.

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Operating losses for the Americas for the fiscal year ended March 31, 2003 decreased by 81.9% (or ¥8,649 million) from ¥10,562 million to ¥1,913 million (U.S.$16 million) as compared to the fiscal year ended March 31, 2002, primarily due to the substantial improvement in operating income in the electronic segment resulting from a larger percentage of net sales being derived from higher value-added products and the reduction in fixed costs through the consolidation of its plants.

Europe

Sales in Europe for the fiscal year ended March 31, 2003 increased by 22.2% (or ¥23,974 million) from ¥108,191 million to ¥132,165 million (U.S.$1,120 million) as compared to the fiscal year ended March 31, 2002. This 22.2% increase in net sales was due primarily to Komatsu s successful introduction of new construction equipment in Europe, such as hydraulic excavators and wheel loaders, notwithstanding the overall decrease in demand for construction equipment in the European market generally, and the increase in the Yen equivalent of Euro-denominated sales resulting from the appreciation of the Euro as compared to the Yen during this period. The average Yen/Euro exchange rates were 121 and 111 for the fiscal years ended March 31, 2003 and 2002, respectively

Operating income for Europe for the fiscal year ended March 31, 2003 decreased by 9.2% (or ¥284 million) from ¥3,077 million to ¥2,793 million (U.S.$24 million) as compared to the fiscal year ended March 31, 2002, primarily due to the fact that a smaller percentage of net sales were derived from higher value-added construction equipment products.

Others

Sales in the Others segment for the fiscal year ended March 31, 2003 increased by 47.3% (or ¥45,438 million) from ¥96,052 million to ¥141,490 million (U.S.$1,199 million) as compared to the fiscal year ended March 31, 2002. This increase was due primarily to the increase in demand for construction equipment in China, Southeast Asia, Oceania and the Middle East.

Operating income (loss) for the Others segment for the fiscal year ended March 31, 2003 increased by ¥9,325 million from a loss of ¥354 million to a income of ¥8,971 million (U.S.$76 million) as compared to the fiscal year ended March 31, 2002, due primarily to the increase in demand for construction and mining equipment in China and the steady increase in demand for such equipment in Southeast Asia, Oceania, and the Middle East. In the electronics segment, Formosa Komatsu Silicon broke even for the first time and recorded a profit during the second half of Fiscal 2003.

Comparison of Fiscal 2002 with Fiscal 2001

Net sales. Consolidated net sales for the fiscal year ended March 31, 2002 decreased by 5.5% (or ¥60,478 million) from ¥1,096,369 million to ¥1,035,891 million (U.S.$7,789 million) as compared to the fiscal year ended March 31, 2001. This decrease was due primarily to the severe business environment for construction and mining equipment and a significant reduction in construction investment during Fiscal 2002 in Japan, which resulted in a 20% decline in over-all demand for construction and mining equipment in Japan as compared to the previous fiscal year, and weak demand for construction and mining equipment in the North American and European markets. This decrease was substantially offset by expanded overseas sales of construction equipment in China, expanded overseas sales of mining equipment in Oceania, Indonesia and

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Africa, and an increase in sales of bulldozers for agricultural development in the Middle East. In addition, the increase in the Yen equivalent of U.S. dollar-denominated sales in the Americas resulting from the depreciation of the Yen as compared to the U.S. dollar also offset this decrease by ¥46,044 million. The average Yen/U.S. dollar exchange rates were 126 and 112 for the fiscal years ended March 31, 2002 and 2001, respectively. The average Yen/Euro exchange rates were 111 and 100 for the fiscal years ended March 31, 2002 and 2001, respectively.

Interest and other income. Consolidated interest and other income for the fiscal year ended March 31, 2002 increased by 11.6% (or ¥3,560 million) from ¥ 30,718 million to ¥34,278 million (U.S.$258 million) as compared to the fiscal year ended March 31, 2001. This increase was primarily due to the income Komatsu gained from the sales of its property during Fiscal 2002 and the cancellation of its electric supply contract in the United States, which was partially offset by a decrease in gain on sale of marketable securities.

Total Revenue. As a result of the above factors, consolidated total revenue for the fiscal year ended March 31, 2002 decreased by 5.1% (or ¥56,918 million) from ¥1,127,087 million to ¥1,070,169 million (U.S.$8,046 million) as compared to the fiscal year ended March 31, 2001.

Cost of Sales. Consolidated cost of sales for the fiscal year ended March 31, 2002 decreased by 1.5% (or ¥11,952 million) from ¥804,700 million to ¥792,748 million (U.S.$5,961 million) as compared to the fiscal year ended March 31, 2001. Cost of sales decreased by only 1.5% even though net sales decreased by 5.5% due to the decrease in production and sales volume in the electronics segment.

Selling, General and Administrative Expenses. Consolidated selling, general and administrative expenses for the fiscal year ended March 31, 2002 decreased by 2.8% (or ¥7,490 million) from ¥263,854 million to ¥256,364 million (U.S.$1,928 million) as compared to the fiscal year ended March 31, 2001, due primarily to the reduction in Komatsu s fixed costs such as personnel expenses, rent and depreciation, as part of Komatsu s overall cost management efforts. As a percentage of net sales, selling, general and administrative expenses decreased by 0.6% to 24.7% for the fiscal year ended March 31, 2002 from 24.1% for the fiscal year ended March 31, 2001.

Impairment loss on long lived-assets. Consolidated impairment loss on long-lived assets for the fiscal year ended March 31, 2002 increased by ¥47,905 million from ¥4,337 million to ¥52,242 million (U.S.$393 million) as compared to the fiscal year ended March 31, 2001. This increase was due primarily to the fact that Komatsu recognized impairment losses of fixed assets of its electronics business related subsidiaries in the United States. More specifically, in 2001, Komatsu recorded an impairment loss of ¥ 4,337 million on the facilities of its wholly-owned electronic subsidiary Komatsu Silicon America with the intention to use such facilities as part of its operation. However, due to the continued negative market conditions in Fiscal 2002, Komatsu s management decided to sell or dispose of these facilities instead of hold them for future use during Fiscal 2002. In connection therewith, Komatsu recorded additional impairment losses of ¥24,983 million during Fiscal 2002. In addition, in Fiscal 2002 Komatsu also recorded impairment losses of ¥27,259 million on production facilities operated by another electronics subsidiary, ASiMI, due to the decline in market demand for electronic equipment.

Special termination benefit. Consolidated special termination benefit for the fiscal year ended March 31, 2002 increased by ¥30,131 million from ¥0 million to ¥30,131 million (U.S.$227 million) as compared to the fiscal year ended March 31, 2001. This increase was due primarily to costs associated with the implementation of the voluntary retirement program and transfer of employees to affiliated companies in Japan.

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Other Expenses. Consolidated other expenses for the fiscal year ended March 31, 2002 increased by 139.3% (or ¥16,628 million) from ¥11,938 million to ¥28,566 million as compared to the fiscal year ended March 31, 2001. Other expenses include expenses such as loss on marketable securities, loss on disposal or sale of its fixed assets, foreign exchange loss, etc. This increase was primarily due to an increase in loss on marketable securities of ¥8,696 million and loss on disposal or sale of its fixed assets of ¥1,637 million.

Total Expenses. As a result of the above factors, consolidated total expenses for the fiscal year ended March 31, 2002 increased by 6.3% (or ¥69,870 million) from ¥1,107,023 million to ¥1,176,893 million (U.S.$8,849 million) as compared to the fiscal year ended March 31, 2001.

Income (loss) Before Income Taxes, Minority Interests and Equity in Earnings. Consolidated income (loss) before income taxes, minority interests and equity in earnings of affiliates for the fiscal year ended March 31, 2002 decreased by ¥126,788 million from an income of ¥20,064 million to a loss of ¥106,724 million (U.S.$802 million) as compared to the fiscal year ended March 31, 2001, due to the recognition of significant impairment losses and costs associated with the early retirement of its personnel in Japan.

Total Income Taxes. Total consolidated income taxes for the fiscal year ended March 31, 2002 decreased by ¥35,645 million from a positive tax provision of ¥13,715 million to a negative tax provision of ¥21,930 million (U.S.$165 million) in line with the loss Komatsu recognized for Fiscal 2002. The actual effective tax rate for the year ended March 31, 2002 was 20.6% while the standard tax rate was 41.7%. This lower percentage of the actual effective tax rate was due mainly to the valuation allowance provided for net operating loss being carried forward in Fiscal 2002.

Income (loss) Before Minority Interests and Equity Earnings. Consolidated income (loss) before minority interests and equity earnings for the fiscal year ended March 31, 2002 decreased by ¥91,143 million from an income of ¥6,349 million to an loss of ¥84,794 million (U.S.$638 million) as compared to the fiscal year ended March 31, 2001. This decrease was due primarily to impairment loss on long-lived assets and special termination benefit, both of which significantly increased for Fiscal 2002 as compared to Fiscal 2001.

Minority Interests. Consolidated minority interests for the fiscal year ended March 31, 2002 increased by ¥3,596 million from ¥179 million to ¥3,775 million (U.S.$28 million) as compared to the fiscal year ended March 31, 2001. This increase was primarily attributable to the increase in loss of subsidiaries in the electronics business.

Equity in Earnings of Affiliated Companies. Consolidated equity in earnings of affiliated companies for the fiscal year ended March 31, 2002 increased by 3.4% (or ¥13 million) from ¥385 million to ¥398 million (U.S.$3 million) as compared to the fiscal year ended March 31, 2001.

Net Income. As a result of the factors indicated above, the consolidated net income for the fiscal year ended March 31, 2002 decreased by ¥87,534 million from an income of ¥6,913 million to an loss of ¥80,621 million (U.S.$606 million) as compared to the fiscal year ended March 31, 2001.

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Performance by Operating Segments

Construction and Mining Equipment

Sales in the Construction and Mining Equipment segment for the fiscal year ended March 31, 2002 increased by 1.8% (or ¥13,193 million) from ¥718,147 million to ¥731,340 million (U.S.$5,499 million) as compared to the fiscal year ended March 31, 2001. This increase was due primarily to expanded overseas sales in geographic segments other than North America and Europe. In China, Komatsu expanded sales of its excavators as a result of increased governmental and corporate spending for construction and mining equipment. In addition, Komatsu expanded its sales of mining equipment in Oceania, Indonesia and Africa, and expanded its sales of bulldozers for agricultural development in the Middle East. Construction and mining equipment net sales accounted for 70.6% of Komatsu s worldwide net sales in Fiscal 2002, up 5.1% from 65.5% as compared to Fiscal 2001. While sales in Japan decreased by 14.8% to ¥260,351 million (U.S.$1,958 million) in Fiscal 2002 from ¥305,593 million in Fiscal 2001, sales outside Japan increased 14.2% to ¥470,989 million (U.S.$3,541 million) in Fiscal 2002. Sales in Japan represented 35.6% of total sales of construction and mining equipment, down 7% from Fiscal 2001, while the proportion of sales outside Japan increased to 64.4%.

Japanese demand for construction equipment fell in Fiscal 2002, as customers desire to invest in equipment was adversely affected by cutbacks in public investment by the Japanese government. Expanded sales resulting from the introduction of renewed main models, such as construction excavator PC200 of the GALEO-series, fell short of compensating for the large fall in overall demand in the market. In North America, a leading market for construction equipment, demand continued to decline for the third consecutive year. In Europe, the market for construction equipment contracted after its continued expansion over the last few years. In spite of the declined sales in these markets, overseas sales improved in Fiscal 2002, supported by expanded sales generated in other overseas regions, such as China and the Middle East, and strong sales of mining equipment.

Operating income from the Construction and Mining Equipment segment for the fiscal year ended March 31, 2002 decreased by 96.0% (or ¥21,322 million) from ¥22,203 million to ¥881 million (U.S.$7 million) as compared to the fiscal year ended March 31, 2001. This decrease was due primarily to the decrease in over-all demand for construction equipment in Japan.

Electronics

Sales in the Electronics segment for the fiscal year ended March 31, 2002 decreased by 34.8% (or ¥40,976 million) from ¥117,745 million to ¥76,769 million (U.S.$577 million) as compared to the fiscal year ended March 31, 2001. This decrease was due primarily to the unfavorable economic conditions of the international IT-related market. Sales in Japan decreased 42.1% to ¥43,085 million (U.S.$324 million), and sales outside of Japan decreased 22.2% to ¥33,684 million (U.S.$253 million). The Electronics segment accounted for 7.4% of Komatsu s net sales in Fiscal 2002, compared with 10.7% in Fiscal 2001.

In the electronics business, reflecting the unfavorable conditions of the international IT-related market, demand for silicon wafers and polycrystalline silicon decreased as the raw material for silicon wafers decreased significantly both in Japan and overseas. Sales of FA equipment and LAN-related peripherals were sluggish, sales of thermoelectric modules for use in fiber optic communication networks suffered from a significant drop in demand and sales of temperature-control semiconductor manufacturing equipment were adversely affected by reduced capital investment in the industry.

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Operating income for the Electronics segment for the fiscal year ended March 31, 2002 decreased by ¥17,812 million from a gain of ¥2,887 million to a loss of ¥14,925 million (U.S.$112 million) as compared to the fiscal year ended March 31, 2001. This decrease in operating income was primarily due to the decrease in production volume and sales prices in the electronic business.

Others

Sales in the Others segment for the fiscal year ended March 31, 2002 decreased by 12.6% (or ¥32,695 million) from ¥260,477 million to ¥227,782 million (U.S.$1,713 million) as compared to the fiscal year ended March 31, 2001. This decrease was due primarily to the decline in sales of recycling equipment and other related equipment, and forklift trucks.

Sales of large-scale metal forging and stamping presses used in automobile factories to form automobile roofs and doors grew in the industrial machinery business during Fiscal 2002, supported by expanded investment by Japanese automobile manufactures to install such machinery mainly in their overseas plants. Sales of sheet metal forming machinery and agricultural and forestry machines increased due to the successful introduction of certain products that have unique features, such as the twister fine plasma-cutting machines which allows for curb-line cutting or EZ-start brushcutters that start easily, despite the difficult business conditions. On the other hand, sales of forklift trucks declined considerably from the previous fiscal year due to reduced demand for industrial vehicles in Japan and the overseas market.

Operating income for the Others segment for the fiscal year ended March 31, 2002 decreased by 22.9% (or ¥1,474 million) from ¥6,450 million to ¥4,976 million (U.S.$37 million) as compared to the fiscal year ended March 31, 2001. This decrease in operating income was greater than the decrease in sales.

Performance by Geographic Segments

The following information regarding geographic segments is derived by the geographic origin from which the sales were made. For example, if a product were manufactured in Japan but were sold to a customer in the Americas, net sales derived from such transactions would be recorded in Japan (*i.e.*, the origin from which such product was sold.)

Japan

Sales in Japan for the fiscal year ended March 31, 2002 decreased by 14.7% (or ¥97,488 million) from ¥662,025 million to ¥564,537 million (U.S.$4,245 million) as compared to the fiscal year ended March 31, 2001. This decrease was due primarily to a decrease in demand for construction equipment in Japan and the exclusion of sales of Komatsu Construction, as it became an unconsolidated subsidiary in October 2000.

Operating income for Japan for the fiscal year ended March 31, 2002 decreased by 99.6% (or ¥29,123 million) from ¥29,253 million to ¥130 million (U.S.$1 million) as compared to the fiscal year ended March 31, 2001 due primarily to the decrease in over-all demand for construction equipment in Japan and a decrease in production and sales volume in electronic products.

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Americas

Sales in the Americas for the fiscal year ended March 31, 2002 increased by 10.3% (or ¥24,929 million) from ¥242,182 million to ¥267,111 million (U.S.$2,008 million) as compared to the fiscal year ended March 31, 2001. This increase was due primarily to (i) the fact that certain sales and manufacturing affiliates in the construction and mining business became consolidated subsidiaries of Komatsu and (ii) the increase in the Yen equivalent of U.S. dollar-denominated sales resulting from the depreciation of the Yen, which was significantly offset by the decrease in sales of construction and mining equipment resulting from the overall decline in demand for such products. Net sales in the Americas accounted for 25.8% of Komatsu s net sales worldwide in Fiscal 2002, up from 22.1% in Fiscal 2001.

Operating losses for the Americas for the fiscal year ended March 31, 2002 increased by 358.8% (or ¥8,260 million) from ¥2,302 million to ¥10,562 million (U.S.$79 million) as compared to the fiscal year ended March 31, 2001, due primarily to the fact that operating losses were recognized in the electronics segment which was adversely affected by the global market saturation of silicon wafers notwithstanding the increased sales in the construction and mining segment and the increase in the Yen equivalent of U.S. dollar-denominated sales resulting from the appreciation of the U.S. dollar during this period.

Europe

Sales in Europe for the fiscal year ended March 31, 2002 decreased by 3.6% (or ¥4,066 million) from ¥112,257 million to ¥108,191 million (U.S.$813 million) as compared to the fiscal year ended March 31, 2001. This decrease was due primarily to the decrease in demand for construction and mining equipment in Europe which had increased consistently in previous years. Net sales in Europe comprised 10.4% of Komatsu s net sales worldwide in Fiscal 2002, up from 10.2% in Fiscal 2001.

Operating income for Europe for the fiscal year ended March 31, 2002 decreased by 48.2% (or ¥2,868 million) from ¥5,945 million to ¥3,077 million (U.S.$23 million) as compared to the fiscal year ended March 31, 2001 due primarily to the decrease in production and sales volume in construction and mining equipment in Europe.

Others

Sales in the Others segment for the fiscal year ended March 31, 2002 increased by 20.2% (or ¥16,147 million) from ¥79,905 million to ¥96,052 million (U.S.$722 million) as compared to the fiscal year ended March 31, 2001. This increase was due primarily to increased sales of construction equipment and enhanced sales and service activities in China, increased sales of mining equipment in Oceania, Indonesia and South Africa, and increased sales of large-scale bulldozers in the Middle East. Net sales in the Others segment comprised 9.3% of Komatsu s worldwide net sales in Fiscal 2002, up from 7.3% in Fiscal 2001.

Operating losses for the Others segment for the fiscal year ended March 31, 2002 decreased by ¥718 million from an income of ¥364 million to a loss of ¥354 million (U.S.$3 million) as compared to the fiscal year ended March 31, 2001. These operating losses for the Others segment for Fiscal 2002 resulted primarily from operating losses incurred by Formosa Komatsu Silicon notwithstanding the increased operating income derived from sales of construction and mining equipment in this geographic segment.

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B. Liquidity and capital resources

Komatsu s principal source of liquidity is cash flow from operations, with additional liquidity to be provided through borrowings, including new lines of credit, securitization of accounts receivables and capital market funding, such as the issuance of commercial paper.

For Fiscal 2003 Komatsu s working capital increased by 41.4% from the previous year from ¥167,581 million to ¥236,941 million (U.S.$2,008 million) as Komatsu completed the payment of its accrued retirement benefit liabilities resulting from its early retirement program implemented as part of the Reform of Business Structure project during Fiscal 2002 and Komatsu increased its cash reserve by issuing long-term debt thereby providing Komatsu greater financial flexibility under the current economic conditions. The current ratio (current assets divided by current liabilities) in Fiscal 2003 increased by 17.7% from the previous year to 146.0% from 128.3% in Fiscal 2002, as Komatsu repaid its short-term bank borrowings. The Company and certain of its consolidated subsidiaries have lines of credit with certain financial institutions in the amount of ¥49,037 million (U.S.$416 million) as of March 31, 2003. Of this amount, the Company and certain of its consolidated subsidiaries have unused committed lines of credit totaling ¥42,597 million (U.S.$361 million) as of March 31, 2003. In addition, Komatsu has accounts receivable securitization programs which provide additional liquidity. These securitization programs are described in further detail in Item 5.E.

Komatsu believes that it can satisfy its future capital expenditures, debt obligations and working capital requirements mainly from cash flow from operating activities and roll over of short-term loans. As of March 31, 2003, net cash provided by operating activities was ¥48,257 million (U.S.$409 million). Komatsu expects the continuing sluggish economy in Komatsu s principal markets and a sustained decrease in demand for Komatsu s products to reduce cash flow from operating activities for the fiscal year ending March 31, 2004. If cash flow from operating activities is insufficient to meet Komatsu s liquidity needs, Komatsu intends to supplement its liquidity through financing activities.

Komatsu s capital expenditures in Fiscal 2003 decreased by 5.4% from the previous year to ¥70,473 million (U.S.$597 million). Komatsu decreased its capital expenditures by focusing its capital expenditures in the development of new machinery and equipment, and developing newer more advanced models of its existing product lines of machinery and equipment. Commitments for capital expenditures outstanding as of March 31, 2003 totaled approximately ¥5,600 million (U.S.$47 million). In the Construction and Mining Equipment segment, which is a mature industry, Komatsu has already developed worldwide production and distribution capabilities. Accordingly, Komatsu does not anticipate that it will need to incur significant capital expenditures or other investments to expand its production in this segment in the near future.

As of March 31, 2003, Komatsu had a cash balance of ¥76,152 million (U.S.$645 million). As of such date, Komatsu s consolidated total debt was ¥525,009 million (U.S.$4,449 million), of which ¥214,292 million (U.S.$1,816 million) was short-term debt (including current portions of long-term debt). As of March 31, 2003, ¥103,336 million of Komatsu s long-term debt was scheduled to mature in Fiscal 2004, ¥51,101 million in Fiscal 2005, and ¥259,467 million in Fiscal 2006 and thereafter. Annual maturities of long-term debt subsequent to March 31, 2003, excludes SFAS No. 133 market value adjustments of ¥888 million ($7,525 thousand).

More specifically, as of June 30, 2003, Komatsu Finance America Inc. (KFA) had outstanding U.S.$515 million of notes issued under its U.S.$1,200 million Euro Medium Term Note Program (EMTN Program). Under the EMTN Program, the Company, KFA, Komatsu

Finance (Netherlands) B.V. (KFN) and Komatsu Australia Holdings Pty., Ltd. (Komatsu Australia Holdings) may from time to time issue notes denominated in various currencies up to an aggregate amount of U.S.$1,200 million. The notes issued under the EMTN Program are scheduled to mature on various dates through February 2007. As of June 30, 2003, KFN had outstanding EUR83 million of notes issued under the EMTN program, which are scheduled to mature on various dates through October 2004.

In December 1998, KFA issued U.S.$188 million of senior notes, of which U.S.$117 million is scheduled to mature in December 2003 and U.S.$71 million is scheduled to mature in December 2005. KFA used the net proceeds from the issuance and sale of these notes for working capital and other general corporate purposes of KFA and its U.S. affiliates (including, without limitation, the repayment of certain short-term indebtedness.)

In March 1999, the Company issued ¥35,000 million of unsecured bonds, scheduled to mature in March 2006. The Company used the net proceeds from the issuance and sale of these bonds for an acquisition of Komatsu Silicon America, previously a wholly-owned subsidiary of Komatsu Electronic Metals, and an additional investment in Komatsu Silicon America and ASiMI. Komatsu Silicon America and ASiMI repaid bank loans using their own paid-in capital. And ¥27,447 million of 1.8% convertible unsecured bonds scheduled to mature in March 2004.

In December 2002, the Company issued ¥20,000 million of unsecured bonds, scheduled to mature in September 2007 and ¥10,000 million of unsecured bonds, scheduled to mature in August 2009 to provide itself with more cash flexibility under the current economic conditions.

Komatsu s ability to use external sources of financing will depend, to some extent, on its credit rating. Komatsu believes that it is well positioned to raise capital in the public markets. However, a downgrade of any of the ratings of Komatsu s debt may increase the cost of future borrowings or may make it more difficult for Komatsu to access the public debt markets. In connection with a credit rating agency s review of Komatsu s debt ratings, a credit rating agency may give considerable weight to the continued sluggish economy in Japan and general economic conditions and the lack of growth in Komatsu s principal markets.

Cash Flow

Cash and cash equivalents as of March 31, 2003 were ¥76,152 million (U.S.$645 million), an increase of ¥30,760 million over the previous fiscal year end. Net cash provided by operating activities decreased by 20.0% (or ¥12,064 million) from ¥60,321 million to ¥48,257 million (U.S.$409 million) as compared to the fiscal year ended March 31, 2002. This decrease was due primarily to the fact that Komatsu used cash and cash equivalents to complete the process of funding its retirement benefit liabilities incurred as a part of the Reform of Business Structure project carried out during the Fiscal Year 2002.

Net cash used in investing activities decreased by 112.7% (or ¥19,085 million) from ¥16,933 million to ¥36,018 million (U.S.$305 million) as compared to the fiscal year ended March 31, 2002. This decrease was due primarily to investments in production and sales facilities as well as purchase of leased assets.

Net cash provided by financing activities increased by ¥59,301 million from a loss of ¥40,455 million to a gain of ¥18,846 million (U.S.$160 million) as compared to the fiscal year ended March 31, 2002. This increase primarily reflects the proceeds Komatsu received from the issuance of ¥30,000 million straight bonds.

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C. Research and development, patents and licenses, etc.

Corporate Policy

Komatsu promotes research and development (R&D) activities in its business domains, including construction and mining equipment, electronics and industrial machinery, with the goal of (i) improving the productivity of the customers who purchase Komatsu products and (ii) substantially enhancing the functionality and reducing the cost of its products through the development of technologies designed to preserve or improve the earth s environment and social environs.

Komatsu s R&D expenses for the fiscal year ended March 31, 2003 decreased by 11.5% (or ¥5,056 million) from ¥44,083 million to ¥39,027 million (U.S.$331 million) as compared to the fiscal year ended March 31, 2002. This decrease resulted primarily from the fact that Komatsu during its previous fiscal years had already substantially completed its R&D activities to develop construction and mining equipment in the GALEO-series. Out of the total aggregate R&D expenses, the Construction and Mining Equipment segment, the Electronics segment and the Others segment accounted for ¥23,602 million, ¥5,766 million and ¥9,659 million, respectively.

Komatsu s consolidated R&D expenditures for the years ended March 31, 2002 and 2001 amounted to ¥44,083 million and ¥45,282 million, respectively.

Construction and Mining Equipment Segment

Komatsu has set up R&D centers in Japan and overseas with the objective of developing construction and mining equipment capable of adapting to various climatic and terrain conditions. Joint research programs are conducted by these R&D centers. In addition, these R&D centers regularly exchange personnel to take advantage of synergetic benefits derived from the sharing and exchange of technological expertise, experience and research data. In recent years, under the overriding mission of helping to raise our customers productivity, Komatsu s research and development activities are focused on the following medium-to-long-term goals:

Information technology

Komatsu has and continues to focus its research on developing (i) monitoring systems using state-of-the-art sensors and diagnostic equipment, and telecommunications technologies to accurately determine the location and working conditions of its machines (i.e., whether it is due for maintenance or repair services, etc.); (ii) a system to conduct diagnoses of its machines through remote-control technologies; and (iii) artificial intelligence.

Environmental preservation technology

In addition to meeting the Tier II emission control regulations for diesel engines, the Komatsu Group has and continues to strive to reduce environmental hazards and promote the effective utilization of natural resources while realizing cost-efficiencies. To this end, we conduct R&D activities in energy conservation, component recycling and reuse, and the evaluation of environmental hazards through lifecycle assessment (LCA) techniques. In addition, based on Komatsu s philosophy that environmental considerations should apply not only to ecology but also to people s living and working environment, Komatsu has applied considerable research efforts on developing safer machines, reducing noise and vibration generated by its machines while in operation and improving the working conditions for operators of its machines.

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The principal products that benefited from R&D activities during Fiscal 2003 are as follows:

Manufactured and sold by the Company

Hydraulic excavators:	PC120-6,PC130-6, PC128US-2, PC138US-2, PC160-7, PC228US-3, PC308USLC-3, PC1250-7, PC1800-6
Bulldozers:	D65EX-15, D85EX-15, D85PX-15, D275AX-5
Wheel loaders:	WA400-5, WA430-5, D600-3, A800-3
Dump trucks:	HD465-7, HD605-7
Motor grader:	GD655-3
Mobile debris crushers:	BR480RJ-1, R1000JG-1
Engines:	Engines conforming to the Tier II emission control regulations; water-emulsified fuel engines for stationary power generators and related fuel production equipment

Manufactured and sold by Komatsu America Corp.

Hydraulic excavator:	PC270-7
Wheel loaders:	WA380-5, WA400-5

Manufactured and sold by Komatsu UK Ltd.

Hydraulic excavators:	PW130-6, PW150-6, PW170-6, PC240-7, PW200-7, PW220-7

Manufactured and sold by Komatsu Hanomag AG

Wheel loader:	WA400-5

Manufactured and sold by Komatsu Mining Germany GmbH

Super-large hydraulic excavator:	PC5500-6

Manufactured and sold by Komatsu Utility Europe S.p.A.

Skid steer loaders:	SK818, SK1020

Electronics Segment

Research and development is conducted into materials and equipment for use mainly in the semiconductor and telecommunications fields.

In the semiconductor field, in order to respond to the growing demand of electronic manufacturers for higher-grade silicon wafers capable of greater density, capacity, and miniaturization in semiconductors, Komatsu has focused its R&D activities on the following: (i) high-purity silicon monocrystals, heat treatment and high-quality epitaxial wafers as well as wafer evaluation techniques and (ii) next-generation wafers including 300 mm (12-inch) wafers. Through such R&D activities, Komatsu seeks to produce monocrystal silicon wafers with a lower defect rate, high-quality epitaxial annealed wafers, and super-flat, high-purity wafers. These R&D activities were conducted principally by Komatsu Electronic Metals. Meanwhile, research has also been conducted in the field of semiconductor manufacturing, such as temperature control equipment including high-temperature chemical circulators, low-temperature equipment for etchers, and the essential components of high-performance thermoelectric module heat-exchange units. These R&D activities have been carried out by Komatsu Electronics.

In the telecommunications field, Komatsu Electronics conducted research into super-small thermo-modules for use in optical communications. The Company conducted research on network devices, information terminals (including data transmission terminals mounted in vehicles) as well as vehicle positioning systems.

Other Business Segments

Recent R&D activities have been focused on (i) large presses and sheet-metal forging machines, principally undertaken by Komatsu Industries, (ii) machine tools, undertaken by Komatsu Machinery, (iii) industrial vehicles, undertaken by Komatsu Forklift and (iv) agricultural and forestry equipment, undertaken by Komatsu Zenoah.

In industrial machinery, R&D activities have focused on ways to enhance the function of the industrial machinery and the automation of peripheral equipment to respond to growing user needs for higher productivity and flexibility in large presses and sheet-metal forging equipment. Such equipment included large transfer presses with new mechanisms for slide motion, large AC servo-presses, and small AC servo-presses (HIF Series), as well as an additional type of crankshaft miller (GPM190F) in the GPM series.

With respect to industrial vehicles, new forklift models were developed in the following product lines: the LEO-NXT Series of engine-powered forklifts, the AR Series of battery-powered forklifts, and the ARION Plus Series of battery-powered forklifts. These new models have lower energy costs for operation and can operate in smaller spaces.

In the field of agricultural and forestry equipment, Komatsu developed easy-to-operate products such as the BK2650 backpack-type rotary grass cutter, easy-start chainsaws (G2500EZ, G3500EZ, G3700EZ, and G4200EZ), and scale-model engines for hobby use (G231/260PU/PUM).

D. Trend information

Development and Results of Business Operations

During Fiscal 2003, the Japanese economy showed some signs of improvement fueled largely by expanded exports during the first six months, while public-sector investments remained sluggish throughout the year. During the last six months of Fiscal 2003, uncertainty of the economy increased, reflecting prolonged bearish conditions of the stock market and other negative factors. Overseas, the economy expanded in China and other Asian countries, while it fell short of generating full momentum for recovery in the United States. European economies continued to slow down as a whole.

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Under these conditions, Komatsu focused on the recovery of profits and business performance as the most important management task, and continued to concentrate its efforts in the Reform of Business Structure project. Through this project, Komatsu strives to implement the New Growth Strategy for the Construction and Mining Equipment Business, reduce fixed costs, and substantially reduce variable production costs.

To further reinforce the foundation of its construction and mining equipment business from a global perspective, Komatsu launched regionally tailored and aggressive marketing efforts around the world under the leadership of the Company in Japan, and the regional headquarters in the Americas, Europe, Southeast Asia and Oceania, and China. In the major markets of Japan, North America and Europe, demand continued to slip reflecting the stagnant condition of the economy in these respective areas, resulting in very difficult conditions for Komatsu. Meanwhile, in China, where demand surged, both production and sales expanded markedly. In Southeast Asia, Oceania, the Middle East, Africa and other markets, Komatsu capitalized on its advantage as a full-line manufacturer and generated significant gains in sales. Successful sales of the GALEO-series, which Komatsu has steadily introduced around the world since 2001, contributed to the expansion of market share for Komatsu in North America, Europe and other overseas regions.

Komatsu s electronics businesses, especially the silicon wafer business, took on a note of business recovery.

Komatsu steadfastly improved earnings of forklift trucks, industrial machinery and agricultural and forestry equipment with successful sales of new products with unique advantages.

Forward Looking Information

Komatsu anticipates that difficult business conditions will improve. With respect to its core business of selling construction and mining equipment, the Company expects an increase in demand for equipment in China and the Commonwealth of Independent States and demand from reconstruction of post-war Iraq. There are also signs of market recovery in the United States and Europe.

E. Off-Balance Sheet Arrangements

Komatsu has several accounts receivable securitization programs and such securitizations are expected to become an important source of funds for Komatsu in the future. As of March 31, 2003, Komatsu had securitized accounts receivable totaling ¥135,670 million (U.S.$1,150 million) (or 28.7% of total accounts receivable at that date). Of this amount, ¥29,344 million related to receivables generated by Komatsu s Japanese operations and ¥106,326 million related to receivables generated by Komatsu s North American operations. As of March 31, 2002, Komatsu had securitized accounts receivable totaling ¥159,393 million (or 32.1% of total accounts receivable at that date). Of this amount, ¥41,441 million related to receivables generated by Komatsu s Japanese operations and ¥117,952 million related to receivables generated by Komatsu s North American operations.

The receivables that are securitized are deducted from the consolidated balance sheet when they are sold. Komatsu has entered into contractual arrangements with special purpose companies solely for the purpose of securitizing its receivables.

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A downgrading or worsening of the quality of Komatsu s receivables portfolio could prevent it from using the receivables securitization program.

F. Contractual Obligations

The following table sets forth Komatsu s contractual obligations as of March 31, 2003.

	Total	Less than 1 year	1-3years	3-5 years	More than 5 years
	(Millions of Yen)				
Contractual Obligations:					
Short-term Debt Obligations	¥ 111,993	¥ 111,993	¥	¥	¥
Long-term Debt Obligations	413,904	103,336	166,752	97,838	45,978
Capital (Finance) Leases Obligations	44,157	16,052	19,496	6,292	2,317
Operating Leases Obligations	9,374	1,737	2,872	1,925	2,840
Total	¥ 579,428	¥ 233,118	¥ 189,120	¥ 106,055	¥ 51,135

Annual maturities of long-term debt subsequent to March 31, 2003 excluded SFAS No.133 market value adjustments of ¥888 million.

G. Critical Accounting Policies

Komatsu prepares the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America. As such, Komatsu is required to make certain estimates, judgments and assumptions that Komatsu believes are reasonable based upon the information available. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of expenses during the periods presented. By their nature, these estimates and assumptions are subject to an inherent degree of uncertainty, and are based on Komatsu s historical experience, terms of existing contracts, Komatsu s observance of trends in the industry, information provided by its customers and information available from other outside sources, as appropriate. For a summary of the significant accounting policies, including the critical accounting policies discussed below, please see Note 1 to the Consolidated Financial Statements.

The significant accounting policies which Komatsu believes are the most critical for the full understanding and evaluation of Komatsu s reported financial results are as follows:

Allowance For Doubtful Receivables

Komatsu estimates the collectibility of its trade receivables. A considerable amount of judgment is required in assessing the final realization of these receivables including the current financial position of each customer. Komatsu has attempted to reserve for expected losses based on the credit information including past experience and believes that the reserve to be adequate. However, it is possible that accuracy of the estimation process could be materially impacted due to change in the composition of the receivables.

Deferred Tax Assets

During the process of preparing the consolidated financial statements, Komatsu estimates income taxes in each of the jurisdictions in which Komatsu operates. This process involves Komatsu estimating the current tax exposure and assessing net operating loss carryforwards and temporary differences resulting from differing treatment of items for tax and accounting purposes.

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These carryforwards and temporary differences result in deferred tax assets and liabilities, which are included within Komatsu s consolidated balance sheet. Komatsu must then assess the likelihood that Komatsu s deferred tax assets will be recovered from future taxable income and available tax planning strategies, and, to the extent Komatsu believes that recovery is not likely, Komatsu must establish a valuation allowance. When the actual results differ from these estimates, Komatsu may need to adjust the valuation allowance which could materially affect Komatsu s financial position and results of operations.

Valuation of Long-Lived Assets

Komatsu s long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to management s best estimate of future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment loss to be recognized is measured by the amount by which the carrying amount of the assets exceed the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. The undiscounted cash flow projections used to make assessment involves significant judgments. Fair value is measured based on the discounted cash flow model or independent appraisal. In the event that there are changes in strategy and market conditions, the assessment of the ability to recover the carrying amount of long-lived assets would change.

Fair Value of 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.

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

Pension Liabilities and Expenses

The amounts of Komatsu s pension obligation and net period pension cost are dependent on certain assumptions used to calculate such amounts. Those assumptions are described in Note 10 to the consolidated financial statements and include the discount rate, expected rate of return on plan assets and rates of increase in compensation. In accordance with generally accepted accounting principles, actual results that differ from the assumptions are accumulated and amortized over future service years of employees and therefore, generally affect Komatsu s recognized expense and recorded obligation in such future periods. While Komatsu believes that its assumptions are appropriate, in the event that there are significant differences in the actual results or significant changes in the assumptions, the pension obligation and the future expenses would be impacted.

H. New Accounting Standards

In June 2001, the FASB issued SFAS No. 143, Accounting for Asset Retirement Obligations. This statement addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The Company will adopt SFAS No. 143 for the fiscal year beginning April 1, 2003, and it is not expected to have a material effect on the Company s consolidated financial position or results of operations.

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In July 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities. The Statement requires that a liability for costs associated with exit or disposal activities be recognized in the period in which the costs are incurred if a reasonable estimate of fair value can be made. Under prior accounting guidance, a liability would be recognized when management committed to an exit plan. The requirements under SFAS 146 are effective prospectively for exit or disposal activities initiated after December 31, 2002. Restatement of previously issued financial statements is not permitted. The adoption of this Statement did not have a material effect on the Company s consolidated financial position and results of operations.

In November 2002, the Emerging Issue Task Force (EITF) reached a final consensus on EITF 00-21, Revenue Arrangements with Multiple Deliverables. EITF 00-21 addresses certain aspects of the accounting of revenue arrangements with multiple deliverables by a vendor. The Issue outlines an approach to determine when a revenue arrangement for multiple deliverables should be divided into separate units of accounting and, if separation is appropriate, how the arrangement consideration should be allocated to the identified accounting units. The consensus reached in the Issue will be effective for the Company in its financial statements beginning July 1, 2003. The Company will adopt EITF 00-21 for the fiscal year beginning April 1, 2003. The effect, if any, of adopting this statement has not been determined.

In November 2002, the FASB issued Interpretation No. 45 (FIN 45), Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others, an interpretation of FASB Statements Nos. 5, 57 and 107 and a rescission of FASB Interpretation No.34. This Interpretation elaborates on the disclosures to be made by a guarantor in its financial statements about its obligations under guarantees issued. The Interpretation also clarifies that a guarantor is required to recognize, at inception of a guarantee, a liability for the fair value of the obligation undertaken. The initial recognition and measurement provisions of the Interpretation are applicable to guarantees issued or modified after December 31, 2002. The Interpretation has not had a material effect on the Company s consolidated financial position and results of operations.

In January 2003, the FASB issued Interpretation No. 46 (FIN 46), Consolidation of Variable Interest Entities (VIEs), which addresses consolidation by business enterprises of variable interest entities that either: (1) do not have sufficient equity investment at risk to permit the entity to finance its activities without additional subordinated financial support, or (2) the equity investors lack an essential characteristic of a controlling financial interest. The Company does not anticipate the adoption of this Interpretation will have any impact on its financial position or results of operations as it presently does not have investments in such VIEs.

In April 2003, the FASB issued No. 149 (Amendment of Statement 133 on Derivative Instruments and Hedging Activities). This Statement amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities under FASB Statement No. 133, (Accounting for Derivative Instruments and Hedging Activities). This Statement is effective for contracts entered into or modified after June 30, 2003, and for hedging relationships designated after June 30, 2003. All provisions of this Statement will be applied prospectively. The effect of adopting this statement is not expected to be material to the consolidated financial position or results of operations.

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Item 6. Directors, senior management and employees

A. Directors and senior management

All Directors and Statutory Auditors are elected by a general meeting of shareholders to serve terms of approximately one year and four years, respectively, according to the statutory maximum. However, a Director or a Statutory Auditor may serve any number of consecutive terms.

The Board of Directors elects from its members a number of Representative Directors, who have the power severally to represent the Company in all matters, and from among them, a President. At its discretion, the Board of Directors may also elect a Chairman, Executive Vice Presidents, Executive Managing Directors and Managing Directors from among its members. At the present time, the Chairman and the President are Representative Directors.

The Statutory Auditors of the Company are not required to be, and are not, certified public accountants. Each Statutory Auditor audits the performance of duties by Directors, and may at any time request the Directors to report on the business activities of the Company, and may investigate the business as well as the financial situation of the Company. Certain powers are provided under the Commercial Code of Japan to enable the Statutory Auditors to carry out these functions. Further, each Statutory Auditor continues to perform the function of examining the annual financial documents and the rendering of an opinion thereon for the general meeting of shareholders. The Statutory Auditors may not at the same time be Directors, managers or employees of the Company or of any of its subsidiaries.

Set forth below are the names of the Company s Directors and Statutory Auditors (as of June 26, 2003), their positions and offices with the Company, and the dates when they assumed such positions.

Name **(Date of birth)**	**Current Positions** **with the Company**		**Date of Office**
Toshitaka Hagiwara	Chairman of the Board	Jun.1990	Director
(June 15, 1940)	(Representative Director)	Jun.1995	Managing Director
		Jun.1997	Executive Managing Director
		Jun.1999	Executive Vice President
		Jun.1999	Rep. Director
		Jun.2003	Chairman of the Board
Masahiro Sakane	President and Chief Executive Officer	Jun.1989	Director
(Jan. 7, 1941)	(Representative Director)	Jun.1994	Managing Director
		Jun.1997	Executive Managing Director

		Jun.1999	Executive Vice President
		Jun.1999	Rep. Director
		Jun.2001	President (Rep. Director)
		Jun.2003	Chief Executive Officer
Kazuhiro Aoyagi	Director	Jun.1993	Director
(Apr. 14, 1943)	Senior Executive Officer,	Jun.1998	Managing Director
	General Manager,	Jun.1999	Senior Executive Officer
	Corporate Planning Supervising External Corporate Affairs	Jun.2001	Executive Managing Director
		Apr.2003	General Manager of Corporate Planning

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Kunio Noji (Nov. 17, 1946)	Director, Senior Executive Officer, President, Construction & Mining Equipment Marketing Division	Jun.1997 Jun.1999 Jun.2000 Jun.2001 Apr.2003	Director Executive Officer Senior Executive Officer Managing Director President of Construction & Mining Equipment Marketing Division
Kunihiko Komiyama (May. 5, 1945)	Director Senior Executive Officer, President, Development Division, and President Engines & Hydraulics Business Division Supervising Research & Development Operations	Jun.1996 Jun.1999 Jun.2002 Apr.2003	Director Senior Executive Officer Managing Director President of Development Division
Satoru Anzaki (Mar. 3, 1937)	Director	Mar.1985 Nov.1988 Jun.1991 Jun.1995 Jun.2001 Jun.2003	Director Managing Director Executive Managing Director President (Rep. Director) Chairman of the Board Director
Toshio Morikawa (Mar. 3, 1933)	Director Advisor, Sumitomo Mitsui Banking Corporation	Jun.1999	Director
Hajime Sasaki (Mar. 3, 1933)	Director Chairman of the Board, NEC Corporation	Jun.2003	Director
Norimichi Kitagawa (July 22, 1940)	Standing Auditor	Jun.1993 Jun.1997 Jun.1999 Jun.2001	Director Managing Director Executive Managing Director Statutory Auditor
Masafumi Kanemoto (May. 11, 1947)	Standing Auditor	Jun.2002	Statutory Auditor
Masahiro Yoshiike (Mar. 23, 1940)	Auditor President, Taiyo Life Insurance Company	Jun.1997	Statutory Auditor
Takaharu Dohi (Jul. 12, 1933)	Auditor	Jun.1999	Statutory Auditor

There are no family relationships between any of the Directors or Statutory Auditors of the Company.

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Measures to Strengthen Corporate Governance

Komatsu has worked to ensure neutrality and soundness of management previously through the Board of Auditors having two external and two internal auditor-members. In 1999, the Company reorganized the Board of Directors, reducing the number of board members. Under the new organization since then, board members have been able to discuss selected management issues more thoroughly and effectively for quicker decision-making. At the same time, the Company invited a director from outside the Komatsu to ensure transparency and objectivity of management. The Company also established the Compensation Committee staffed mainly by people from outside the Komatsu.

To further enhance the neutrality, transparency and objectivity of the Board of Directors, the Company increased the number of external directors from one to two upon approval by the annual shareholders meeting held in June 2003.

Furthermore, the Company is working to ensure that all employees of the Komatsu observe Komatsu s Code of Worldwide Business Conduct stipulated and published since 1998, in addition to the laws and regulations.

Komatsu is determined to further strive for not only improvement of management efficiency but also establishment of corporate ethics and assurance of soundness of management in order to maximize the corporate value of the Komatsu. And through these efforts, Komatsu will work to become a company which will enjoy larger trust of shareholders and all other stakeholders.

Interest of Management in Certain Transactions

None

B. Compensation

Aggregate Compensation

The aggregate compensation, including bonuses but excluding retirement allowances, paid by the Company in Fiscal 2003 to all Directors and Statutory Auditors as a group for services in all capacities, was ¥313 million.

Bonuses

In accordance with customary Japanese business practices, annual bonuses are paid to the Directors and Statutory Auditors of the Company out of the profit of the Company available for dividends, as such profit is determined in accordance with the Japanese Commercial Code. Such bonuses are approved by the shareholders of the Company at a meeting customarily held in June of each year. Bonuses so paid are not deductible by the Company for tax purposes and for financial reporting purposes are reported under selling, general and administrative expenses as a charge against income for the year in which they are paid. For Fiscal 2003, the Company s Directors and Statutory Auditors did not receive any bonus payments in their capacities as such although they did receive their customary bonus payments in their capacities as employees of the Company. Such arrangement was approved by the Company s Shareholders at the General Meeting of Shareholders held on June 26, 2002.

Retirement Allowance

The Company has a severance payment plan for Directors and Statutory Auditors. The plan provides for lump-sum severance payments based on pertinent rules of the Company. The amount of provision made for such severance payments, as charged to operating income, for the year ended March 31, 2003 was ¥149 million.

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Options to Purchase Securities from Registrant or Subsidiaries

On June 26, 2002, the shareholders of the Company authorized the acquisition by the Company of 10,000,000 shares of its common stock, for a total consideration of up to ¥5,000 million, through the period ending on the date of the Company s next annual general meeting of shareholders. The Company intends to transfer such treasury shares to the Directors and certain employees, under agreements granting such Directors or such employees the right to acquire a certain number of the treasury shares, at a contractually fixed price. The purchase price will be equal to the amount obtained by multiplying 1.05 by the average of closing prices applicable to ordinary transactions of Company shares on TSE during the month immediately preceding the month in which the date of grant of the rights occurs provided that the exercise price shall not be less than the closing price of Company shares on TSE as of the date of the grant. According to the agreement, the option price is ¥445 per share and the option exercise period runs from August 1, 2003 to July 31, 2008.

The following table sets forth the number of shares of the Company s common stock allocated to each of the Company s Directors under the Company s stock option plan, during Fiscal 2003.

Name	Number of shares	Name	Number of shares
Satoru Anzaki	80,000	Masahiro Sakane	80,000
Toshitaka Hagiwara	70,000	Kazuhiro Aoyagi	60,000
Kunio Noji	40,000	Kunihiko Komiyama	40,000
Tetsuya Katada	20,000		

The following table shows the common stock option plan.

Years granted (Year ended March 31)	Total number of shares to be called for common stock (in thousands)	Exercise price per share
2001	1,200	758
2002	1,100	559
2003	950	445

Option to exercise the issuance of common stocks warrant

On June 26, 2003, the shareholders of the Company authorized the Company to issue rights to acquire new shares to the Directors and certain employees in the form of stocks options. This issuance of common stocks warrant of the Company up to a maximum of 1,280 rights, that will result in 1,280,000 shares by granting the right to convert 1,000 stocks per a stock warrant**.**

C. Board practices

See Item 6A Directors and senior management

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D. Employees

Number of employees by business segment

	Total	Construction and Mining Equip.	Electronics	Others	Corporate
2003	30,666	20,791	3,106	6,335	434
2002	30,760	20,407	3,227	6,721	405
2001	32,002	20,345	3,578	7,625	454

The Company has a labor contract with the Komatsu Labor Union (KLU) covering conditions of employment. This contract, which provides that all employees except management and certain other enumerated personnel must become union members, has been renegotiated every two years and its present term runs until July 31, 2005. The employees of the Company s principal Japanese subsidiaries are covered by separate labor contracts between such subsidiaries and the unions representing their employees. These contracts contain provisions generally similar to those contained in the Company s contract with KLU. Certain overseas employees of the Company and subsidiaries are also covered by labor contracts between the employer and unions in the relevant locale representing the employees.

E. Share ownership

The following table lists the number of shares owned by the Directors and Statutory Auditors of the Company as of March 31, 2003. This table does not include the shares related to unexercised stock options.

Name	Position	Number of shares (in thousands)
Toshitaka Hagiwara	Chairman of the Board	55
Masahiro Sakane	President	60
Kazuhiro Aoyagi	Senior Executive Officer	40
Kunio Noji	Senior Executive Officer	29
Kunihiko Komiyama	Senior Executive Officer	31
Satoru Anzaki	Director	135
Hajime Sasaki	Director	2
Norimichi Kitagawa	Statutory Auditor	33
Masafumi Kanemoto	Statutory Auditor	14
Masahiro Yoshiike	Statutory Auditor	2

Item 7. Major Shareholders and Related Party Transactions

A. Major Shareholders

The following table shows the number of Company shares held by holders of 5% or more of Company shares and their percentage ownership as of March 31, 2003.

Name of major shareholders	Shares owned	Percentage
	(in thousands)	
The Taiyo Mutual Life Insurance Company	56,864	5.7%
Japan Trustee Services Co., Ltd.	54,262	5.4%
NATS CUMCO	50,578	5.1%

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NATS CUMCO is the share nominee of CITIBANK, N.A. (CITIBANK) which is a trustee of the Company s American Depositary Receipts (ADR).

The Taiyo Mutual Life Insurance Company changed its trade name to Taiyo Life Insurance Company on April 1, 2003.

The major shareholders of 5% or more of the Company shares and their percentage ownership as of March 31, 2002 and 2001 are as follows,

As of March 31, 2002

Name of major shareholders	Shares owned	Percentage
	(in thousands)	
The Taiyo Mutual Life Insurance Company	55,224	5.8%
NATS CUMCO	55,056	5.7%

As of March 31, 2001

Name of major shareholders	Shares owned	Percentage
	(in thousands)	
NATS CUMCO	55,735	5.8%
The Taiyo Mutual Life Insurance Company	55,224	5.8%

The Company s major shareholders do not have different voting rights.

As of March 31, 2003, 81 residents of the United States held approximately 13.1% of the outstanding shares of record.

To the best knowledge of the Company, the Company is not, directly or indirectly, controlled by another corporation or other entity, by the Government of Japan or by any foreign government, nor to the best of its knowledge does any person own more than ten percent of the Company s Common Stock, except as described below.

Brandes Investment Partners

Brandes Investment Partners filed the Report of Change No.5 of the substantial share holding report with the Director of the Kanto Local Finance Bureau of the Ministry of Finance in Japan on May 24, 2001 in accordance with Paragraph 1 of Article 27-25 of the Securities and Exchange Law of Japan. Their report showed that they held 116,471,776 shares, or 12.1% of the Company s shares, as of April 27, 2001.

On July 16, 2003, Brandes Investment Partners filed the Report of Change No.8 of the substantial share holding report with the Director of the Kanto Local Finance Bureau of the Ministry of Finance in Japan. Their report showed that they held 94,927,318 shares, or 9.7% of the Company s shares, as of June 30, 2003.

Franklin Templeton Investment Group

Franklin Templeton Group, which consists of 9 investment institutions, filed as a group the Report of Change No.4 of the substantial share holding report with the Director of the Kanto Local Finance Bureau of the Ministry of Finance in Japan on January 5, 2003, in compliance with Paragraph 2 of Article 27-26 of the Securities and Exchange Law of Japan.

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Their report showed that they held 50,771,335 shares, or 5.1% of the Company s shares, as of December 31, 2002.

The number and the percentage of the Company shares held by Brandes Investment Partners and Franklin Templeton Investment Group who are beneficial owners of 5% or more of the Company shares are not contained in the foregoing table because we are unable to identify the owners of record of the shares held by them.

B. Related party transactions

Since the beginning of Komatsu s last full fiscal year, Komatsu has not transacted with, nor does Komatsu currently plan to transact with a related party. In this paragraph, a related party includes: (a) enterprises that directly or indirectly through one or more intermediaries, control or are controlled by, or are under common control with, Komatsu; (b) associates; (c) individuals owning, directly or indirectly, an interest in the voting power of Komatsu that gives them significant influence over Komatsu, and close members of any such individual s family; (d) key management personnel, namely those persons having authority and responsibility for planning, directing and controlling the activities of Komatsu, including directors and senior management of companies and close members of such individual s families; (e) enterprises for which a substantial interest in the voting power is owned, directly or indirectly, by any person described in (c) or (d) or over which such a person is able to exercise significant influence. This item includes enterprises owned by directors or known major shareholders of Komatsu and enterprises that have a member of key management personnel in common with Komatsu. Close members of an individual s family are those that may be expected to influence, or be influenced by, that person in their dealings with Komatsu. An associate is an unconsolidated enterprise in which Komatsu has a significant influence or which has significant influence over Komatsu. Significant influence over an enterprise is the power to participate in the financial and operating policy decisions of the enterprise but is less than control over those policies. Shareholders beneficially owing a 10% interest in the voting power of Komatsu are presumed to have a significant influence on Komatsu.

C. Interests of experts and counsel

None

Item 8 Financial Information

A. Consolidated Statements and Other Financial Information

Refer to consolidated Financial Statements and Notes to Consolidated Financial Statements.

Legal Proceedings

Komatsu is involved in or subject to various ordinary, routine litigation and legal proceedings incidental to the normal conduct of its business, including with respect to regulatory matters. The outcome of these matters is not expected to have a material adverse effect on Komatsu s financial condition, liquidity or results of operations.

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Dividend Policy

Concerning cash dividends to shareholders, the Company maintains a basic policy of redistributing profits by taking payout ratios into account and linking returns more directly with business results, while ensuring sufficient internal reserves for reinvestment. Based on this policy, we have set Fiscal 2003 year-end per share dividends at ¥3.0 for the second half, with total annual per share dividends to be set at ¥6.0.

Retained earnings will be used for expanding the scale of business of Komatsu and strengthening its business base through effective investments in the fields where we enjoy technological superiority, aiming at global operations in construction and mining machinery, and development and launch of new products to meet more sophisticated needs.

B. Significant changes

In July 2003, the Company sold to Linde 31,011,000 shares of Komatsu Forklift s commom stock, so that Linde held 35% of equity in Komatsu Forklift.

Item 9 The Offer and Listing

A. Offer and listing details

The shares of common stock of the Company are listed on TSE and four other stock exchanges in Japan: Osaka, Nagoya, Fukuoka and Sapporo.

ADS s, each representing 4 shares of common stock, have been issued by CITIBANK of New York, as Depositary for the ADR s evidencing the ADS s, and are traded in the United States on the over-the-counter market.

European Depositary Receipts are listed on the Luxemburg Stock Exchange.

Global Bearers Certificates are listed on the Frankfurt Stock Exchange.

As of June 30, 2003, 998,744,060 shares of common stock were outstanding. On the same date, 15,045,925 ADS s (equivalent to 60,183,700 shares of common stock, or approximately 6.0% of the total number of shares of common stock outstanding on that date) were outstanding and were held by 13 record holders of ADR s.

The following table sets forth for the periods indicated the reported high and low sales prices of the Company s stock on TSE and the reported high and low sales prices of ADS s.

Period	TSE (Japanese Yen)		ADS (U.S. dollars)	
	High	**Low**	**High**	**Low**
The fiscal year ended March 31, 1999	745	505	23.260	16.170
The fiscal year ended March 31, 2000	820	444	27.490	16.700
The fiscal year ended March 31, 2001	803	465	30.125	16.500
The fiscal year ended March 31, 2002				
1st quarter	705	516	22.900	17.000
2nd quarter	582	355	18.250	12.100
3rd quarter	469	369	14.300	11.900
4th quarter	500	375	14.700	11.250

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The fiscal year ended March 31, 2003				
1st quarter	493	393	15.000	13.000
2nd quarter	462	365	15.000	12.150
3rd quarter	437	351	13.900	11.250
4th quarter	461	383	15.150	12.700
2003 February	461	411	15.150	13.600
2003 March	461	397	15.100	13.450
2003 April	481	408	15.700	13.700
2003 May	460	414	15.400	14.200
2003 June	463	418	15.500	14.100
2003 July	618	462	20.200	15.360

B. Plan of distribution

Not applicable.

C. Markets

See Item 9A Offer and listing details

D. Selling shareholders

Not applicable.

E. Dilution

Not applicable.

F. Expenses of the issue

Not applicable.

Item 10 Additional Information

A. Share capital

Not applicable

B. Memorandum and articles of corporation

See Item 19, Exhibit (1).

C. Material contracts

(1) In March 2002, the Company entered into an agreement with Volvo CE for cooperation on production and development of construction equipment components.

(2) In April 2002, the Company concluded a basic understanding with Hitachi Construction Machinery Co., Ltd. (Hitachi Construction Machinery) to commence studies for future collaboration in production and procurement, primarily of components used in construction and mining equipment, with the prime objective of further enhancing cost competitiveness. As a result of the studies conducted by the two companies under this agreement, in October 2002 Komatsu concluded a basic agreement with Hitachi Construction Machinery on the specific areas in which to pursue collaboration.

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(3) In May 2002, the Company and Komatsu Forklift concluded the share-exchange agreement outlined below for the purpose of ensuring more flexible management in the forklift business, in which global competition is growing increasingly intense..

Nature of share exchange: The share exchange transformed Komatsu Forklift into a wholly-owned subsidiary of the Company, and the Company into the parent company owning 100% of its stock.

Date of share exchange: October 1, 2002

Method of share exchange: the Company issued a total of 23,690,638 new shares of common stock, and allotted them to all shareholders recorded in Komatsu Forklift s register of shareholders on the day immediately preceding the date of the share exchange. However, there was no allotment of the Company s common stock with respect to the 63,917,151 shares of Komatsu Forklift s stock held by the Company.

Share-exchange ratio: One share of the Company s stock for 0.394 of a share of Komatsu Forklift s stock. (Allotment of 0.394 of a Company share for 1 Komatsu Forklift share.)

(4) In May 2002, the Company and Komatsu Zenoah concluded the share-exchange agreement outlined below for the purpose of further deepening collaboration in development and production capabilities, and of further enhancing operating efficiency and maintaining cost-competitiveness

Nature of share exchange: The share exchange transformed Komatsu Zenoah into a wholly-owned subsidiary of the Company, and the Company into the parent company owning 100% of its stock.

Date of share exchange: October 1, 2002

Method of share exchange: the Company issued a total of 16,131,721 new shares of common stock, and allotted them to all shareholders recorded in Komatsu Zenoah s register of shareholders on the day immediately preceding the date of the share exchange. However, there was no allotment of the Company s common stock with respect to the 29,185,541 shares of Komatsu Zenoah s stock held by the Company.

Share-exchange ratio: One share of the Company s stock for 0.658 of a share of Komatsu Zenoah s stock. (Allotment of 0.658 of a Company share for 1 Komatsu Zenoah share.)

(5) In May 2002, the Company concluded a basic agreement with Linde to further tighten the building of a global cooperative relationship in forklift business that had been agreed in May 2000 between the two companies and Komatsu Forklift and to include the transformation of Komatsu Forklift into a jointly-owned company. In accordance with that basic agreement, in November 2002 the Company and Linde concluded the agreement.

(6) In July 2002, Komatsu concluded to acquire additional 20% share in Komatsu Shantui Construction Machinery through Komatsu s wholly-owned subsidiary Komatsu (China), with the result that in August 2002, the Company s and Komatsu (China) s combined holding in Komatsu Shantui Construction Machinery rose to 60%.

(7) In September 2002, ASiMI, Komatsu s consolidated subsidiary in the United States, concluded a agreement with Silicon Technologies, a subsidiary of REC of Norway, establishing the jointly-owned company, Solar Grade Silicon, for the purpose of the manufacture and sale of polycrystalline silicon for solar cells. Upon the establishment of the company, ASiMI s Moses Lake Plant was contributed as an

investment in kind. ASiMI s initial holding is 50%, but it plans to steadily reduce this to 25% within three years.

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D. Exchange controls

The Foreign Exchange and Foreign Trade Law of Japan, as amended (Foreign Exchange Law), and the cabinet orders and ministerial ordinances thereunder, regulate certain transactions involving a non-resident of Japan or a foreign investor, including issuance of securities by a resident of Japan outside of Japan, transfer of securities between a resident of Japan and a non-resident of Japan, inward direct investment by a foreign investor, and a payment from Japan to a foreign country or by a resident of Japan to a non-resident of Japan.

Non-residents of Japan include individuals who are not resident in Japan and corporations whose principal offices are located outside of Japan. Generally, branches and other offices of Japanese corporations located outside of Japan are regarded as non-residents of Japan, but branches and other offices of non-resident corporations located within Japan are regarded as residents of Japan. Foreign investors are defined to be: (i) individuals not resident in Japan; (ii) corporations which are organized under the laws of foreign countries or whose principal offices are located outside of Japan; (iii) corporations of which not less than 50 percent of the voting rights are held directly or indirectly by (i) or (ii) above; and (iv) any corporation in which: (a) a majority of the officers are non-resident individuals; or (b) a majority of the officers having the power to represent the corporation are non-resident individuals.

The following is a summary of the pertinent regulations under the Foreign Exchange Law insofar as they affect debt securities of the Company, shares of the Company s Common Stock or Depositary Receipts representing such shares.

Debt Securities

The Foreign Exchange Law requires that a resident of Japan whose debt securities are being issued or offered outside of Japan file a post facto report of capital transaction with the Minister of Finance. Under the Foreign Exchange Law, payment of the principal of and interest on these debt securities (including any additional amounts payable pursuant to the terms of the securities) may in general be made by the issuer without any restrictions. The Foreign Exchange Law gives the Minister of Finance the power in certain limited and exceptional circumstances to require prior approval for any such capital transaction (or for such payment).

On March 28, 1996, the Company, KFA and KFN (the Issuers) established and registered the U.S.$1,000 million EMTN Program on the London Stock Exchange. The aggregate nominal amount of the Notes under the Program was increased to U.S.$1,200 million on April 1, 1999, and Komatsu Australia Holdings joined the Program as an additional Issuer on March 31, 2000. Under this program, each of the Issuers may from time to time issue notes denominated in any currency.

Acquisition of Shares

The Foreign Exchange Law requires that a resident of Japan whose shares are being issued or offered outside of Japan file a post facto report of capital transaction with the Minister of Finance

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In general, the acquisition of shares in a Japanese corporation listed on any stock exchange in Japan or traded on the over-the-counter market in Japan (the listed shares) from a resident of Japan by a non-resident of Japan requires the resident of Japan to file a post facto report with the Minister of Finance of the transaction. The Foreign Exchange Law gives the Minister of Finance the power in certain limited and exceptional circumstances to require prior approval for any such acquisition.

If a foreign investor intends to acquire the listed shares and as a result of such acquisition the aggregate of the shares in the relevant corporation already held by that foreign investor and certain related parties (as specified under the Foreign Exchange Law) and the number of such shares proposed to be acquired by that foreign investor would be 10 percent or more of the total issued shares, such foreign investor will generally be subject to a post facto reporting requirement or a prior notification requirement to the Minister of Finance and any other competent Minister, depending on the business purposes of the issuer. According to the Komatsu s business purposes stipulated in its Articles of Incorporation, the foreign investor who acquires 10 percent or more of the total issued shares will be subject to the prior notification requirement. In case the prior notification requirement is applicable, the Minister of Finance and the competent Minister will ultimately have a power to order the alternation or suspension of the acquisition in certain special circumstances.

Under the Foreign Exchange Law and the regulations thereunder currently in effect, a holder of bonds with share acquisition rights or share acquisition rights which were issued or offered outside of Japan may acquire the listed shares upon the conversion or exercise of such share acquisition rights without being subject to any of the aforesaid prior notification and/or post facto reporting requirements.

Dividends and Proceeds of Sale

Under the Foreign Exchange Law and regulations thereunder, dividends paid on the shares of a Japanese corporation (including those in the form of Depository Receipts) held by non-residents of Japan and the proceeds of any sale of such shares within Japan may in general be converted into any foreign currency and repatriated abroad. The acquisition of shares by non-resident shareholders by way of stock splits is not subject to any of the prior notification and/or post facto reporting requirements. See Taxation Section for information about the applicable withholding tax.

Exercise or Transfer of Subscription Rights

The acquisition by a foreign investor of shares in a Japanese corporation upon the exercise of subscription rights in respect of share subscription rights or bonds with share subscription rights issued in Japan is subject to the formalities and restrictions described in the second paragraph under Acquisitions of Shares above. However, if a foreign investor wishes to dispose of, rather than exercise, any subscription rights, he may sell the rights inside or outside of Japan without material restriction.

Depositary Receipts

When shares are deposited with a Depositary located outside of Japan and Depositary Receipts are issued in exchange therefor, the Depositary is treated like any other foreign investor acquiring Shares.

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E. Taxation

Debt Securities

Except as mentioned below, under the Japanese tax laws currently in effect, the interest on debt securities or corporate bonds (shasai) issued by a Japanese corporation is generally subject to the withholding of Japanese income tax and, in the case of a corporation (other than a non-Japanese corporation having no permanent establishment in Japan), to corporation tax, and premium (if any) on such debt securities is generally subject to Japanese income or corporation tax, depending on the status of the recipient.

Under Japanese tax laws currently in effect, the payment of interest on debt securities issued outside Japan by a Japanese corporation (on or after April 1, 1998 and on or before March 31, 2004) and the difference, if any, between the issue price and the amount payable upon redemption of such debt securities will not be subject to the withholding of Japanese income tax, if such interest or difference is payable outside of Japan to a non-resident of Japan or non-Japanese corporation (hereinafter referred as Non-Residents or Non-Resident collectively) which (in the case of interest) has submitted documents certifying its non-Japanese residency in accordance with the requirements set out in Japanese tax laws, provided that certain conditions are also met at the time of offering. Furthermore, such payment will not be subject to any other Japanese income or corporation tax, unless Non-Resident has a permanent establishment in Japan and the payment is attributable to the business of such Non-Resident carried on in Japan through such permanent establishment. The Convention Between Japan and the United States of America for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income of March 1, 1971, as presently in effect (the Tax Convention), provides that the interest income of a United States resident or corporation from debt securities may be taxable by Japan if and to the extent that interest is paid by a resident of Japan or otherwise is from sources within Japan.

Under the Tax Convention, the maximum rate of Japanese tax on interest income of United States residents or corporations is 10 percent unless the recipient has a permanent establishment in Japan and the debt securities in respect of which such interest is paid are effectively connected with such permanent establishment, in which case such income will be taxed at the normal rates provided by the Japanese income or corporate tax laws.

There are no Japanese taxes payable on conversion of convertible bonds into shares of Common Stock or Depository Receipts.

Gains derived from the sales of debt securities of the Company outside of Japan by Non-Residents, will not be subject to Japanese income or corporation taxes, except in limited circumstances. Gains derived by a Non-Resident from the sale in Japan of debt securities of the Company will be exempt from Japanese taxes on income if the Non-Resident does not have a permanent establishment in Japan.

Japanese inheritance and gift taxes at progressive rates may be payable by an individual who has acquired debt securities of the Company as legatee, heir or donee.

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Common Stock and Depositary Receipts

Generally, Non-Residents are subject to Japanese withholding tax (at the rate of 10 percent until December 31, 2003, 7 per-cent from January 1, 2004 through March 31, 2008 and thereafter at the rate of 15 percent) on dividends paid by Japanese corporations. Stock splits are not subject to Japanese income tax.

Pursuant to the Tax Convention the maximum rate of Japanese withholding tax that may be imposed on dividends paid by a Japanese corporation to a United States resident individual or, subject to certain limited exceptions, a United States corporation is 15 percent unless such United States resident individual or United States corporation has a permanent establishment in Japan and the shares with respect to which the dividends are paid are effectively connected with the permanent establishment. The Tax Convention between United States and Japan will be amended in the near future and the amendment may affect the treatment of dividends stated above.

Gains derived from the sale outside of Japan of Common Stock or Depositary Receipts by a Non-Resident, will not be in general subject to Japanese taxes on income.

Gains derived from the sale in Japan of Common Stock or Depositary Receipts by Non-Residents are in general exempt from Japanese income or corporation taxes, unless the Non-Resident has a permanent establishment in Japan.

Japanese inheritance and gift taxes, at progressive rates, may be payable by an individual who acquires Common Stock or Depositary Receipts as a legatee, heir or donee.

F. Dividends and paying agents

Not Applicable

G. Statements by experts

Not applicable

H. Documents on display

The company files reports and other information, including Form 20-F and Annual Reports to Securities and Exchange Commission. These reports may be inspected at the following place.

Securities and Exchange Commission

450 Fifth Street, NW, Washington, D.C. 20549

I. Subsidiary Information

Not applicable

Item 11. Quantitative and Qualitative Disclosures About Market Risk

Market Risk Exposure

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

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

Foreign Exchange Risk

To reduce foreign exchange risks against foreign currency denominated assets and liabilities, the companies execute forward exchange contracts and option contracts in a range of 50% to 100% based on their projected cash flow in foreign currencies. Furthermore, to reduce foreign exchange risks in relation to medium-term and long-term foreign currency denominated assets and liabilities and to fix related costs, the companies have executed such forward contracts for a portion of their bonds and loans.

The following table provides information concerning derivative financial instruments of the companies in relation to foreign currency exchange transactions existing as of March 31, 2003, which are translated into yen at the rate used on that date, together with the related weighted average contractual exchange rates as of March 31, 2003. As of March 31, 2003, the notional amount of option contracts is ¥4,133 million (U.S.$35 million).

	Millions of yen (except average contractual rates)				
Forwards to sell Foreign currencies	**U.S.$/Yen**	**EUR/Yen**	**U.S.$/EUR**	**Others**	**Total**
Contract amounts	¥ 19,421	¥ 8,747	¥ 1,473	¥ 1,621	¥ 31,262
Average contractual rates	119.01	122.71	0.95		

Forwards to buy foreign currencies	**Yen/Yuan**	**GBP/EUR**	**Yen/ZAR**	**Yen/AUD**	**Yen/EUR**	**U.S.$/EUR**	**Others**	**Total**
Contract amounts	¥ 10,822	¥ 7,024	¥ 4,083	¥ 3,341	¥ 2,859	¥ 2,579	¥ 7,062	¥ 37,770
Average Contractual rates	14.24	0.68	12.00	69.85	126.22	1.00		

	Thousands of U.S. dollars				
Forwards to sell Foreign currencies	**U.S.$/Yen**	**EUR/Yen**	**U.S.$/EUR**	**Others**	**Total**
Contract amounts	$ 164,585	$ 74,127	$ 12,483	$ 13,737	$ 264,932

Forwards to buy foreign currencies	**Yen/Yuan**	**GBP/EUR**	**Yen/ZAR**	**Yen/AUD**	**Yen/EUR**	**U.S.$/EUR**	**Others**	**Total**
Contract amounts	$ 91,712	$ 59,525	$ 34,602	$ 28,314	$ 24,229	$ 21,856	$ 59,847	$ 320,085

Interest Rate Risk

To reduce risks and hedge the cash flow, the companies engage in certain interest rate swaps, cross-currency swaps and cap option transactions for interest payment and interest receipt. Certain interest rate swap contracts are not qualified as hedge and are recorded at the fair value and the resultant gains are recognized as income.

The following tables provide information concerning derivatives and other financial instruments of the companies that are sensitive to changes in interest rates, mainly including interest rate swaps, cross-currency swaps and debt obligations excluding capital lease obligations. For debt obligations, the tables present principal cash flows and related weighted average interest rates by expected maturity dates. For interest rate and cross-currency swaps, the following tables present notional amounts and weighted average receive and pay interest rates. As of March 31, 2003, the notional amount and its average strike rate of interest cap transactions are ¥31,412 million (U.S.$266 million) and 5.5%, respectively.

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

	Millions of yen							
	Average		Expected maturity date					
	Interest rate	Total	2004	2005	2006	2007	2008	Thereafter
U.S. dollar bonds	6.97%	¥ 22,597	¥ 14,063	¥	¥ 8,534	¥	¥	¥
Japanese yen convertible debentures/debentured bonds	1.73%	92,447	27,447		35,000		20,000	10,000
Euro medium-term notes	1.84%	53,209	13,925	21,872	10,795	6,617		
Loans, principally from banks	2.72%	204,577	33,244	18,374	53,899	47,806	17,469	33,785
Total		¥ 372,830	¥ 88,679	¥ 40,246	¥ 108,228	¥ 54,423	¥ 37,469	¥ 43,875

Interest rate and cross-currency swaps

	Millions of yen								
	Average interest rate			Expected maturity date					
	Receive	Pay	Total	2004	2005	2006	2007	2008	Thereafter
Japanese yen interest rate swap	0.41%	1.12%							