

KOMATSU LTD
Form 6-K
November 01, 2006
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FORM 6-K
SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

Report of Foreign Private Issuer

**Pursuant to Rule 13a-16 or 15d-16 of
the Securities Exchange Act of 1934**

For the month of October 2006

COMMISSION FILE NUMBER: 1-7239

KOMATSU LTD.

Translation of registrant's name into English

3-6 Akasaka 2-chome, Minato-ku, Tokyo, Japan

Address of principal executive offices

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): _____

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): _____

Indicate by check mark whether by furnishing the information contained in this Form, the registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes No

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-_____

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INFORMATION TO BE INCLUDED IN REPORT

1. Two company announcements made on October 31, 2006.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

KOMATSU LTD.

(Registrant)

Date: October 31, 2006

By: /s/ Kenji Kinoshita
Kenji Kinoshita
Senior Executive Officer

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Komatsu Ltd.
 Corporate Communications Dept.
 Tel: +81-(0)3-5561-2616
 Date: October 31, 2006
 URL: <http://www.komatsu.com/>

Consolidated Interim Business Results

for the Fiscal Year Ending March 31, 2007 (U.S. GAAP)

1. Results for the First Half of the Fiscal Year Ending March 31, 2007

(Amounts are rounded to the nearest million yen)

(1) Consolidated Financial Results

| | Millions of yen & US dollars except per share amounts | | | | | |
|------------------------------------------------------------------------------------------------------|----------------------------------------------------------|--------------|------------------|---------|----------|----------------------------------|
| | First half ended | | First half ended | | Changes | The entire FY ended March 31, |
| | September 30, | | September 30, | | | |
| | 2006 | | 2005 | | Increase | 2006 |
| Yen | Dollar | Yen | Yen | (%) | Yen | |
| Net sales | 941,162 | 7,976 | 809,709 | 131,453 | 16.2% | 1,701,969 |
| Operating income | 122,249 | 1,036 | 89,013 | 33,236 | 37.3% | 176,768 |
| Income before income taxes, minority interests and equity in earnings of affiliated companies | 117,649 | 997 | 85,136 | 32,513 | 38.2% | 169,073 |
| Net income | 67,208 | 570 | 59,796 | 7,412 | 12.4% | 114,290 |
| Net income per share | | | | | | |
| (Yen & US cents) | | | | | | |
| Basic | ¥ 67.65 | 57.3¢ | ¥ 60.27 | ¥ 7.38 | | ¥ 115.13 |
| Diluted | ¥ 67.51 | 57.2¢ | ¥ 60.18 | ¥ 7.33 | | ¥ 114.93 |

Notes: 1) Consolidated financial information is prepared in accordance with generally accepted accounting principles in the United States of America. (U.S. GAAP)

2) The translation of Japanese yen amounts into US dollar amounts hereafter is included solely for convenience and has been made for the first half ended September 30, 2006 at the rate of ¥118 to \$1, the approximate rate of exchange at September 30, 2006.

3) Equity in earnings of affiliated companies:

First half period ended September 30, 2006: 1,316 million yen

First half period ended September 30, 2005: 536 million yen

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The entire fiscal year ended March 31, 2006: 2,705 million yen

4) The numbers of average common shares outstanding were as follows:

First half period ended September 30, 2006: 993,514,498

First half period ended September 30, 2005: 992,145,951

The entire fiscal year ended March 31, 2006: 992,733,616

5) Changes in accounting procedures since the last consolidated fiscal year: None.

6) Net income per share above is based on the provisions of Statement of Financial Accounting Standards No.128, Earnings per share.

7) Operating income stated hereafter represents the amount in conformity with U.S. GAAP, as Komatsu Ltd. changed its form of consolidated statement of income from single- to multiple-step, starting in the first half period ended September 30, 2006. The previous operating income for the fiscal year ended March 31, 2006 and for the first half period ended September 30, 2005, are presented in conformity with U.S. GAAP to ensure comparability. [In the past, Komatsu presented operating profit as the sum of segment profit (net sales less cost of sales and selling, general and administrative expenses) in conformity with Japanese accounting principles and practices.]

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(2) Consolidated Financial Position

| | As of September 30, 2006 | As of September 30, 2005 | As of March 31, 2006 |
|----------------------------------------|-----------------------------|-----------------------------|-------------------------|
| Total assets (Millions of yen) | 1,762,030 | 1,532,978 | 1,652,125 |
| Shareholders' equity (Millions of yen) | 683,198 | 552,442 | 622,997 |
| Shareholders' equity ratio (%) | 38.8 | 36.0 | 37.7 |
| Shareholders' equity per share (Yen) | 687.54 | 556.56 | 626.98 |

Note: The numbers of common shares outstanding were as follows:

September 30, 2006: 993,681,169

September 30, 2005: 992,599,364

March 31, 2006: 993,645,492

(3) Cash Flow

| | First half ended September 30, 2006 | First half ended September 30, 2005 | Millions of yen The entire FY ended March 31, 2006 |
|-------------------------------------------|-------------------------------------------|-------------------------------------------|-------------------------------------------------------------|
| Net cash provided by operating activities | 102,512 | 58,726 | 136,107 |
| Net cash used in investing activities | (72,062) | (19,311) | (81,792) |
| Net cash used in financing activities | (16,607) | (52,241) | (83,460) |
| Cash and cash equivalents, end of period | 84,100 | 85,076 | 69,997 |

(4) The Number of Consolidated Subsidiaries and Affiliated Companies Accounted for by the Equity Method

Number of consolidated subsidiaries: 159 companies

Number of affiliated companies accounted for by the equity method: 41 companies

(5) Changes in Group of Entities

Consolidated subsidiaries
Added: 3 companies

Removed: 1 company

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Affiliated Companies accounted for by the equity method

None

2. Projections for the Entire Fiscal Year ending March 31, 2007

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

Komatsu has revised the projections of October 12, 2006 as below.

Millions of yen

| | | Operating | Income before income | taxes, minority interests | Net income |
|------------------------|------------------|------------------|----------------------------------|----------------------------------|-------------------|
| | | | and equity in earnings of | from | |
| | | | affiliated companies from | discontinued | |
| | Net sales | income | continued operations | operations | Net income |
| The entire fiscal year | 1,868,000 | 231,000 | 220,000 | 10,000 | 145,000 |

Notes: 1) Forecast of net income per share (basic): 145.92 yen

2) Refer to Management Performance and Financial Conditions for preconditions of the projections above and other related issues.

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The Komatsu Group

(As of September 30, 2006)

Business Categories and Principal Products & Services

Construction and Mining Equipment

| | |
|-------------------------------------------|-----------------------------------------------------------------------------------------------|
| Excavating Equipment | Hydraulic excavators, mini excavators, and backhoe loaders |
| Loading Equipment | Wheel loaders, mini wheel loaders, and skid steer loaders |
| Grading and Roadbed Preparation Equipment | Bulldozers, motor graders, and vibratory rollers |
| Hauling Equipment | Off-highway dump trucks, articulated dump trucks, and crawler carriers |
| Forestry Equipment | Harvesters, forwarders, and feller bunchers |
| Tunneling Machines | Shield machines, tunnel-boring machines, and small-diameter pipe jacking machines (Iron Mole) |
| Recycling Equipment | Mobile debris crushers, mobile soil recyclers, and mobile tub grinders |
| Other Equipment | Railroad maintenance equipment |
| Engines and Components | Diesel engines, diesel generator sets, and hydraulic equipment |
| Casting Products | Steel castings and iron castings |

Industrial Machinery, Vehicles and Others

| | |
|----------------------------------------|-----------------------------------------------------------------------------------------------------|
| Metal Forging and Stamping Presses | Large presses, small and medium-sized presses, forging presses, and AC-Servo presses |
| Sheet-Metal Machines and Machine Tools | Press brakes, shears, laser cutting machines, fine plasma cutting machines, and crank shaft millers |
| Industrial Vehicles and Logistics | Forklift trucks, packing and transport |
| Defense Systems | Ammunition and armored personnel carriers |
| Outdoor Power Equipment | Chainsaws and trimmers/brushcutters |
| Others | Commercial-use prefabricated structures |

Electronics

| | |
|-------------------------------|------------------------------------------------------------------------------------------|
| Electronic Materials | Silicon wafers |
| Temperature Control Equipment | Thermoelectric modules and temperature-control equipment for semiconductor manufacturing |

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Management Policy

1. Basic Management Policy

The cornerstone of Komatsu's management is commitment to Quality and Reliability for maximization of its corporate value. This policy not only applies to its products and services but also extends to all other aspects of the Komatsu Group, including organizations, businesses, employees and management. It is the top management task of Komatsu to continue improving the Quality and Reliability of all these year after year.

2. Basic Policy for Dividends

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

3. Basic Policy for Trading Unit of Shares

Komatsu has a policy to decide on the trading unit of shares of the Company after considering the shareholder composition, liquidity, invested amounts and the like. Based on this policy, the Company changed the unit of trading from 1,000 to 100 shares effective August 1, 2006 in order to expand the number of individual shareholders and enhance the liquidity of its shares.

4. Mid to Long-Range Management Plan and Issues Ahead

The Komatsu Group (Komatsu Ltd. and its consolidated subsidiaries) is projecting that the construction and mining equipment market will continue to enjoy firm demand from growth in infrastructure and burgeoning resource development projects around the world. Under such an environment, the Group is well prepared to concert its efforts on the market introduction and sales promotion of its DANTOTSU (Unique and Unrivaled) products with advanced features in the areas of environmental friendliness, safety and IT. At the same time, the Group will also continue to expand its production capacity both in Japan and overseas.

In North America and Europe, following Japan and China, the Group has already launched the models equipped with KOMTRAX (Komatsu Machine Tracking System) as a standard feature. Therefore, we are making effective utilization of the information gained from KOMTRAX to reform its production, sales and inventories, and reinforce its product support capability. To further enhance its position in the global marketplace, the Group is focusing efforts to strengthen its production, sales and service capabilities in the Greater Asia region as an important, growth market.

In the industrial machinery, vehicles and others segment, related companies of the Komatsu Group will strive to improve profitability by launching products with original features and further distinguishing themselves from competitors. With respect to large presses, for which Komatsu anticipates a high level of orders to continue, the Company will expand its production capacity by steadfastly advancing the construction of a new plant scheduled for start up in January 2007.

In October this year, Komatsu transferred 51% of the outstanding shares of Komatsu Electronic Metals Co., Ltd. to SUMCO CORPORATION. The Komatsu Group will focus its management resources on an "industrial-use machinery business" in a broad sense of the term, such as construction and mining equipment, forklift trucks, presses and sheet-metal machinery, in order to further improve its business performance.

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

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

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To accomplish these two goals, the Komatsu Group is working on the second-stage Reform of Business Structure project. By centering on the value-chain renovation through IT utilization and further reinforcement of jobsite capabilities, the Komatsu Group is advancing the reform project on a global scale. Through such reform activities, the Komatsu Group will also emphasize human resource development with an eye to the future, because it is human resources that support sustainable corporate growth.

Komatsu Ltd., teaming up with other Group companies, is ensuring sound and transparent management by strengthening its corporate governance, while working to improve management efficiency.

5. Parent Company Information

Non applicable.

Table of Contents**Management Performance and Financial Conditions****1. Outline of Operations and Business Results**

For the interim period ended September 30, 2006, the Komatsu Group registered its fifth consecutive interim period of growth in consolidated interim sales and profits, which also represents the record-high 6-month figures. These results reflect a continued improvement of the construction and mining equipment business as well as a good performance of the industrial machinery, vehicles and others business.

Consolidated net sales for the interim period under review expanded 16.2% over the previous interim period, to ¥941.1 billion (US\$7,976 million, at US\$1=¥118). As demand for construction and mining equipment continued to expand around the world, the Komatsu Group stepped up sales of the construction and mining equipment business by not only expanding our production capacity, but also working to boost sales of renewed models compliant with new emission regulations of the United States, Europe and Japan, to increase prices and to reinforce product support capabilities. In the industrial machinery, vehicles and others business, the Group expanded sales of industrial machinery and forklift trucks, in particular, by capitalizing on strong private-sector capital outlays. Sales of the electronics business also improved over the interim period a year ago, as the silicon wafer market remained buoyant.

Operating income* reached ¥122.2 billion (US\$1,036 million) for the interim period, registering substantial growth of 37.3% from the previous interim period. Operating income ratio improved to 13.0%, up 2.0 percentage points from a year ago. Improved profitability is supported by not only expanded sales of the construction and mining equipment business and the industrial machinery, vehicles and others business, but also increased prices in Japan and overseas. Reflecting this outstanding improvement of operating income, income before income taxes climbed 38.2% over the last corresponding period, to ¥117.6 billion (US\$997 million). As a result, net income for the interim period advanced to ¥67.2 billion (US\$570 million), up 12.4% over the previous interim period.

Note: * Starting in the interim period under review, Komatsu presents operating income in accordance with U.S. GAAP. To ensure comparability, Komatsu is also indicating operating income for the corresponding period a year ago after reclassifying it in accordance with U.S. GAAP.

On a non-consolidated basis, interim sales expanded to ¥355.7 billion (US\$3,015 million), up 22.3% over the corresponding period a year ago, supported by strong sales of large presses which feature AC Servo technologies in addition to brisk exports of construction and mining equipment. Ordinary profit and net income for the interim period reached ¥45.5 billion (US\$386 million) and ¥30.7 billion (US\$260 million), up 85.6% and 117.2%, respectively, from the previous interim period. As a result, the Company recorded the fourth consecutive interim period of improvement in sales and profits.

Results by operation are summarized below. Segment profit by operation is based on net sales less cost of sales and selling, general and administrative expenses. Segment profit ratios are based on sales after eliminating inter-segment transactions.

Construction and Mining Equipment

Consolidated net sales of construction and mining equipment for the interim period advanced 20.1% over the corresponding period a year ago, to ¥738.6 billion (US\$6,260 million), against the backdrop of expanded market demand around the world. Mainly reflecting multiplied sales volume and increased selling prices, segment profit for the interim period accelerated 56.7% over the previous interim period, to ¥101.4 billion (US\$860 million). Segment profit ratio improved to 13.7%, up 3.2 percentage points.

[Sales of Construction and Mining Equipment by Region (Geographic Origin)]

Billions of yen

| First half ended | First half ended | Changes | The entire FY ended |
|--------------------|--------------------|----------|---------------------|
| September 30, 2006 | September 30, 2005 | Increase | March 31, 2006 |
| (A) | (B) | (A)-(B) | 1USD=¥114 |

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| | 1USD=¥115 | 1USD=¥110 | | 1EUR=¥138 | |
|--------------------------|--------------|-----------|-------|-----------|---------|
| | 1EUR=¥147 | 1EUR=¥136 | | | |
| Japan | 133.2 | 129.3 | 3.9 | 3.0% | 274.7 |
| The Americas | 245.0 | 196.5 | 48.4 | 24.7% | 421.1 |
| Europe & CIS | 135.5 | 105.7 | 29.7 | 28.1% | 224.2 |
| Asia & Oceania | 107.6 | 103.6 | 4.0 | 3.9% | 195.7 |
| China | 46.8 | 26.6 | 20.1 | 75.9% | 68.1 |
| The Middle East & Africa | 70.3 | 53.1 | 17.2 | 32.4% | 107.1 |
| Total | 738.6 | 615.0 | 123.6 | 20.1% | 1,291.2 |

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<Japan>

While Japanese public works remained slack, private-sector capital investments increased. In addition, robust exports of used equipment promoted market stock adjustment in Japan. As a result, demand for new equipment grew, especially from the rental equipment industry. Interim sales of construction and mining equipment in Japan improved from the previous interim period, supported by expanded sales of used equipment in addition to expanded sales of new equipment and increased selling prices.

In the rental equipment business, Komatsu worked to further enhance management efficiency in order to improve profitability. On October 1 this year, Komatsu combined 10 consolidated rental companies in Japan and established Komatsu Rental Japan Ltd.

<The Americas>

North American demand remained at a high level during the interim period, driven by non-residential construction projects, highway-related works, and burgeoning resource developments in both the United States and Canada, which overrode the slowdown of housing starts. In Latin America, demand advanced particularly for mining equipment. In these conditions, the Komatsu Group worked to promote sales of renewed models which are compliant with Tier 3 emission gas regulations, while concerting its efforts to increase selling prices. The Komatsu Group also worked to reinforce sales and product support capabilities to mines in both regions. Interim sales in both North and Latin Americas expanded over the interim period a year ago.

<Europe & CIS>

As European markets steadily expanded in tandem with growth of the European Union, the market recovery of Germany, the largest market of Europe, became very evident during the interim period. Sales in Europe for the interim period improved over the previous interim period, as the Komatsu Group worked to expand sales of large wheel loaders with enhanced performance and other products which are compliant with Stage 3 emission gas regulations, uplift production efficiency, and reinforce its distributor networks in eastern Europe, in addition to expanded markets. In CIS, demand was strong from aggressive resource development and from infrastructure development in metropolitan cities, and the Komatsu Group expanded sales. As a result, interim sales of Europe & CIS advanced over the previous interim period.

<China>

The Chinese market continued to sustain a high level of growth during the interim period under review, fueled by increased civil engineering works under the regional development policy of China's 11th five-year plan and by advances of urbanization, in addition to enhanced management of mining operation and development of new mines. Under such an environment, The Komatsu Group and distributors teamed up to improve efficiency of sales and production operations based on information, gained from IT deployment, concerning sales negotiations in progress and operating conditions of customers' machines. As a result, interim sales in China made a sizable gain over the corresponding period a year ago.

<Asia & Oceania>

During the interim period under review, Southeast Asian demand declined from the previous interim period as mainly affected by the skyrocketed oil prices. In Indonesia, the largest market of the region, demand in the mining sector decreased, but demand from the construction, agriculture and forestry industries expanded, showing some signs of market recovery. In Oceania, demand for mining equipment remained strong. As a result, while interim sales in Asia decreased from the previous interim period, those in Oceania advanced. Combined interim sales in Asia and Oceania advanced over the corresponding period a year ago.

<The Middle East & Africa>

Demand continued to expand in both regions, driven mainly by an increase in infrastructure development projects in Saudi Arabia and other oil producing countries as well as in Turkey, and burgeoned mining in African countries. The Komatsu Group concerted its efforts to carry out aggressive sales activities and improve and reinforce product support capabilities. As a result, interim sales accelerated over the corresponding period last year.

Table of Contents**Industrial Machinery, Vehicles and Others**

Interim sales of this business segment increased 5.2% over the previous interim period, to ¥147.8 billion (US\$1,253 million), supported by good business performance of industrial machinery and forklift trucks. Segment profit for the interim period reached ¥13.9 billion (US\$118 million), up 29.8% over the corresponding period last year. Segment profit ratio for the interim period improved to 9.4%, an increase of 1.8 percentage points.

Komatsu Forklift Co., Ltd. expanded interim sales by aggressively promoting sales of forklift trucks, centering on its flagship LEO NXT-V series, in the Middle East, CIS and other markets. In August this year, Komatsu bought 35% of the shares of Komatsu Forklift held by Linde AG of Germany, transforming Komatsu Forklift into a wholly owned subsidiary.

Interim sales of the industrial machinery business increased from the previous interim period, driven by excellent sales of large presses, sheet metal and metal forging machines, machine tools and other machines against the backdrop of strong private-sector capital investments centering on the automobile manufacturing industry. In addition, Komatsu Industries Corporation remodeled its flagship small AC Servo Press H1F series in September this year and worked to gain new orders.

Interim sales of the agricultural and forestry equipment business of Komatsu Zenoah Co. increased over the previous interim period, supported by expanded export sales. In September this year, Komatsu reached a basic agreement with Husqvarna AB of Sweden for the sale of this business of Komatsu Zenoah. Komatsu and Husqvarna have started negotiations for the formal contract.

Electronics

Interim sales from the electronics segment increased 1.1% over the previous interim period, to ¥54.6 billion (US\$463 million), supported by excellent performance of the silicon wafer business which offset a drop in sales as affected by the sale of the polycrystalline silicon and other businesses completed in the previous fiscal year. Segment profit for the interim period reached ¥9.7 billion (US\$83 million), registering a sharp increase of 75.1%, and segment profit ratio improved to 17.8%, up 7.5 percentage points from the previous interim period.

During the interim period under review, the silicon wafer market sustained good conditions. Komatsu Electronic Metals Co., Ltd. (KEM) boosted sales of 300-mm wafers for which KEM had expanded its production capacity, while recording excellent sales of 200-mm and smaller wafers. Sales of KEM for the interim period increased sharply over the corresponding period a year ago.

Komatsu accepted SUMCO CORPORATION's tender offer for KEM and transferred 51% of the shares of KEM held by Komatsu, while Komatsu had held 61.93% before the tender offer. (The transfer was completed on October 18, 2006.)

As a result of the completion of the tender offer, KEM and its subsidiaries are no longer consolidated subsidiaries of Komatsu. For the full fiscal year ending March 31, 2007, Komatsu will state the gain on the sale of KEM and the operation results of KEM and its subsidiaries as a separate line item, Net income from discontinued operations, in the Consolidated Statements of Income in accordance with Statement of Financial Accounting Standards No. 144.

2. Conditions of Consolidated Cash Flows

For the interim period under review, net cash provided by operating activities increased by ¥43.7 billion over the previous interim period, to ¥102.5 billion (US\$869 million), reflecting further improvements of business results which covered an increase in working capital against the backdrop of expanded market demand. Net cash used in investing activities totaled ¥72 billion (US\$611 million), up ¥52.7 billion over the previous interim period, due to aggressive investments made to expand production capacities and improve productivity in Japan and overseas. Net cash used in financing activities decreased by ¥35.6 billion from the previous interim period, to ¥16.6 billion (US\$141 million).

As a result, cash and cash equivalents totaled ¥84.1 billion (US\$713 million), an increase of ¥14.1 billion compared to the amount at the end of the previous interim period.

Trends of Cash Flow Indicators:

| First half ended | First half ended | The entire FY |
|------------------|------------------|---------------|
|------------------|------------------|---------------|

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| | September 30, | September 30, | ended March 31, |
|---------------------------------------------------------------|---------------|---------------|-----------------|
| | 2006 | 2005 | 2006 |
| Shareholders' equity ratio (%) | 38.8 | 36.0 | 37.7 |
| Shareholders' equity ratio at aggregate market value (%) | 115.0 | 100.1 | 135.0 |
| Years of debt redemption | 1.8 | 3.3 | 2.8 |
| Interest coverage ratio | 13.7 | 9.6 | 10.7 |
| Shareholders' equity ratio: Shareholders' equity/Total assets | | | |

Shareholders' equity ratio at aggregate market value: Aggregate market value of outstanding shares of common stock/Total assets

Years of debt redemption: Interest-bearing debt/Net cash provided by operating activities

Interest coverage ratio: Net cash provided by operating activities/Interest expense

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3. Business Risks

The Komatsu Group believes that it maintains its management strategy and resources to win against the competition based on available information. The Komatsu Group has identified, within a foreseeable scope as of the date of this news release, the following primary risk factors in the surrounding business and other environments.

1) Economic and market conditions

As the Komatsu Group engages in business on a global basis, its market and competitive conditions differ by region. The demand for Komatsu Group's products and business environment for the Komatsu Group could change substantially, affected by the regional market and political and economic conditions.

Both construction and mining equipment business and industrial machinery, vehicles and others business are generally economy-cyclical in advanced economic regions. Therefore, factors which are beyond the control of the Komatsu Group, such as housing starts, industrial production level, public investments in infrastructure development, and private-sector capital outlays, could affect demand for Komatsu Group's products, bring about an improper balance between inventory level and production capacity, and consequently force down the sales prices for Komatsu Group's products. Such changes in the business environment could produce lowered profitability and additional expenses, and could result in adverse effects on Komatsu Group's growth strategy and results of operations.

2) Foreign currency exchange rate fluctuation

Approximately 70% of Komatsu Group's total sales come from sales outside Japan, and a substantial portion of overseas sales is affected by foreign currency exchange rate fluctuations. In general, the Japanese yen's appreciation against other currencies negatively affects Komatsu Group's results of operations, while the yen's depreciation affects them positively. Foreign currency exchange rate fluctuations could also affect the comparative prices of products that the Komatsu Group and foreign competitors sell in the same market and costs of materials used in production. The Komatsu Group is working to alleviate the effect of such foreign currency exchange rate fluctuations by diversifying plant locations and placing production bases close to the market. The Komatsu Group also engages in hedging activities to minimize the effects of short-term foreign currency exchange rate fluctuations. However, the foreign currency exchange rate fluctuations beyond the projected fluctuation range could adversely affect Komatsu Group's results of operations.

3) Fluctuations in the financial markets

The Komatsu Group is working to improve efficiency of assets to reduce interest-bearing debt as much as possible. The Komatsu Group had short-and long-term interest-bearing debt of approximately ¥380 billion in total at September 30, 2006. While the effects of interest rate fluctuations are alleviated since interest rates for about half of such interest-bearing debts are fixed, an increase in interest rates will continue to result in an increase in interest expenses, reducing Komatsu Group's profit.

Fluctuations in the financial markets, such as fluctuations of the fair value of marketable securities and interest rates, could also increase the unfunded obligation of pension plans, which would result in an increase in periodic pension costs. Such increase in interest expenses and pension costs may adversely affect Komatsu Group's results of operations and financial conditions.

4) Local regulations

The Komatsu Group engages in business in many countries of the world, and is exposed to political and economic risks in each country where it operates. If the government of a given country enacts new regulations in the area of import/export duties, quotas, currency restrictions and taxation, etc., which are unfavorable for the Komatsu Group, the Komatsu Group may have to bear related costs in order to comply with such regulations. It is impossible for the Komatsu Group to predict such future costs, and they could negatively affect Komatsu Group's results of operations.

5) Environmental laws and regulations

Komatsu Group's operations and products need to comply with increasingly stringent environmental laws and regulations in the numerous countries in which the Komatsu Group operates. The Komatsu Group expends a significant amount of management resources to comply with regulations concerning the emissions levels of its manufacturing facilities and products. The Komatsu Group also expends a large amount of research and development expenses to develop products which meet such laws and regulations. However, if such laws and regulations are revised in the future, the Komatsu Group may have to bear more costs and capital expenditures to comply with newly set standards and the

increase of such costs could adversely affect Komatsu Group's results of operations.

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6) Product liability claims

The Komatsu Group works to sustain and ensure Quality and Reliability of its operations and products based on stringent standards established in-house. However, if any unexpected defect in Komatsu Group's equipment should result in accidents, it could cause product liability claims to be filed against the Komatsu Group. If they should not be covered by insurance, the Komatsu Group would have to bear the costs, which could consequently reduce Komatsu Group's profit.

7) Business alliances and collaborative relationships

The Komatsu Group has entered into various alliances and collaborative relationships with distributors, suppliers and other third parties to reinforce its international competitiveness. Through such arrangements, the Komatsu Group has built its procurement and sales networks around the world and is working to improve its product development, production, supply and service capabilities. While the Komatsu Group expects its alliances and collaborative relationships to be successful, if the Komatsu Group could not attain expected results or alliances and/or if collaborative relationships were terminated, such developments could adversely affect Komatsu Group's results of operations.

8) Procurement, production and other matters

Komatsu Group's procurement of parts and materials is exposed to the effects of commodity price fluctuations. The surging prices of commodities increase the costs of materials for Komatsu Group's products and production costs. At the same time, this market condition for commodities can result in a short supply of parts and materials, making it difficult for the Komatsu Group to engage in timely procurement and production and thus lowering Komatsu Group's production efficiency. For increased costs for materials, the Komatsu Group plans to reduce other costs and pass on the increased costs through prices of its products. Concerning the problems of timely procurement and production, the Komatsu Group plans to minimize the effects by promoting closer collaboration among all related divisions. However, the more-than-anticipated surging price of materials and prolonging tight supply and demand thereof could adversely affect Komatsu Group's results of operations.

9) Information security

The Komatsu Group might obtain information concerning customers and individuals in the course of business activities. The Komatsu Group also has confidential marketing and technological information. The Komatsu Group is paying the closest attention to confidentiality of such information. To safekeep such information from unauthorized access, tampering, destruction, leakage, losses and other damages, the Komatsu Group is implementing appropriate safety measures, including rational technological measures, while strengthening information management capabilities. If accidents should occur, such as a leakage of information concerning customers and individuals, the Komatsu Group would have to account for liability for damage, and such accidents could adversely affect Komatsu Group's reputation and confidence. Leakage and misuse of Komatsu Group's confidential marketing and technological information by a third party could adversely affect Komatsu Group's results of operations.

10) Natural calamity and accidents

As the Komatsu Group conducts global business, it operates and maintains development, production, sales and other business facilities in many countries. The Komatsu Group is exposed to the risk of negative effects on its results of operations, when natural disasters, such as earthquakes and floods, and accidents occur on an unpredictable scale, devastatingly damage one or more facilities to the extent that such facilities' operations cannot be recovered in a short period of time, and cause delays or disruption of procurement of materials and parts, production or sales and service activities.

Table of Contents**4. Outlook for the Fiscal Year ending March 31, 2007**

In its mainstay construction and mining equipment business, while there are some factors of concern, such as further slowing housing starts in North America, Komatsu anticipates that investments in energy-related fields and social infrastructure developments will continue to expand. In this light, Komatsu can expect to accelerate sales by meeting associated growth in demand for equipment. In the industrial machinery business, Komatsu also projects that sales will advance against the backdrop of steady capital investments. On a consolidated basis, Komatsu is working to renew the record-high sales, operating income, income before income taxes, and net income registered for the previous fiscal year.

As of today, Komatsu has revised the projections of October 12 concerning consolidated and non-consolidated business results for the fiscal year, ending March 31, 2007, as follows.

1) Consolidated

Billions of yen

| | FY ended March 31, 2006 Results | | | Changes (%) |
|-------------------------------------------------------------------------------------------------------------------------|------------------------------------|---------|-----------------------|----------------|
| | excluding KEM* | | Current projection | |
| | Results | (A) | (B) | (B)/(A) |
| Net sales | 1,701.9 | 1,631.5 | 1,868.0 | 14.5 |
| Segment profit | 176.4 | 165.9 | 237.0 | 42.9 |
| Operating income | | 164.8 | 231.0 | 40.2 |
| Income before income taxes, minority interests and equity in earnings of affiliated companies from continued operations | 169.0 | 157.1 | 220.0 | 40.0 |
| Net income from continued operations | 114.2 | 109.9 | 135.0 | |
| Net income from discontinued operations | | 4.3 | 10.0 | |
| Net income | 114.2 | 114.2 | 145.0 | 26.9 |

Note: Komatsu will state the gain on the sale of KEM and the operation results of KEM and its subsidiaries as a separate line item, Net income from discontinued operations, in the Consolidated Statements of Income. Similarly, the Company will also calculate and express the corresponding figures for previous fiscal years according to the multiple-step income statement.

2) Non-consolidated

Billions of yen

| | Results for FY ended | Current | Changes (%) |
|-----------------|----------------------|--------------|-------------|
| | March 31, 2006 | projection | |
| | (A) | (B) | (B)/(A) |
| Net sales | 627.3 | 738.0 | 17.6 |
| Ordinary profit | 60.6 | 88.0 | 45.1 |
| Net income | 32.6 | 71.0 | 117.6 |

Foreign exchange rates are premised at ¥115 to US\$1 and ¥146 to EUR1 for the fiscal year ending March 31, 2007.

5. Redistribution of Profits for the Interim Period Ended September 30, 2006

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Komatsu has set the interim dividends per share at ¥13 by increasing ¥5 from ¥8 paid for the corresponding period last year, based on its basic policy concerning redistribution of profits.

Furthermore, the Company plans to increase the annual dividends per share by ¥9, to ¥27 (i.e., ¥13 for the interim and ¥14 for the fiscal year-end dividends per share).

Cautionary Statement

The announcement set forth herein contains forward-looking statements which reflect management's current views 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 and similar terms and expressions that identify future events or expectations. Actual results may differ materially from those projected, and the events and results of such forward-looking assumptions cannot be assured.

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 the Company's principal products, owing to changes in the economic conditions in the Company's principal markets; changes in exchange rates or the impact of increased competition; unanticipated cost or delays encountered in achieving the Company's objectives with respect to globalized product sourcing and new Information Technology tools; uncertainties as to the results of the Company's research and development efforts and its ability to access and protect certain intellectual property rights; and, the impact of regulatory changes and accounting principles and practices.

Table of Contents**Condensed Consolidated Balance Sheets**

Millions of yen

| | As of September 30, 2006 (A) | As of September 30, 2005 (B) | Changes Increase (Decrease) (A)-(B) | As of March 31, 2006 |
|----------------------------------------------------------------|---------------------------------------|---------------------------------------|----------------------------------------------|----------------------------|
| Assets | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | ¥ 84,100 | ¥ 85,076 | ¥ (976) | ¥ 69,997 |
| Time deposits | 182 | 77 | 105 | 54 |
| Trade notes and accounts receivable | 432,452 | 351,397 | 81,055 | 397,998 |
| Inventories | 419,980 | 337,679 | 82,301 | 370,074 |
| Other current assets | 117,041 | 105,318 | 11,723 | 109,778 |
| Total current assets | 1,053,755 | 879,547 | 174,208 | 947,901 |
| Long-term trade receivables | 61,788 | 71,786 | (9,998) | 72,844 |
| Investments | 122,793 | 100,225 | 22,568 | 125,517 |
| Property, plant, and equipment - Less accumulated depreciation | 427,369 | 375,169 | 52,200 | 400,667 |
| Other assets | 96,325 | 106,251 | (9,926) | 105,196 |
| Total | 1,762,030 | 1,532,978 | 229,052 | 1,652,125 |
| Liabilities and Shareholders' Equity | | | | |
| Current liabilities: | | | | |
| Short-term debt (including current | | | | |
| maturities of long-term debt) | 209,645 | 184,994 | 24,651 | 182,710 |
| Trade notes and accounts payable | 348,154 | 286,527 | 61,627 | 304,776 |
| Income taxes payable | 33,270 | 23,593 | 9,677 | 37,004 |
| Other current liabilities | 177,131 | 154,479 | 22,652 | 164,353 |
| Total current liabilities | 768,200 | 649,593 | 118,607 | 688,843 |
| Long-term liabilities | 266,102 | 287,478 | (21,376) | 292,416 |
| Minority interests | 44,530 | 43,465 | 1,065 | 47,869 |
| Shareholders' equity: | | | | |
| Common stock | 67,870 | 67,870 | | 67,870 |
| Capital surplus | 136,414 | 136,172 | 242 | 136,137 |
| Retained earnings | 457,210 | 353,385 | 103,825 | 399,938 |
| Accumulated other comprehensive income (loss) * | 25,276 | (458) | 25,734 | 23,095 |
| Treasury stock | (3,572) | (4,527) | 955 | (4,043) |

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| | | | | |
|-----------------------------------------------------------------|----------------------|----------------------|-------------------|------------------|
| Total shareholders' equity | 683,198 | 552,442 | 130,756 | 622,997 |
| Total | ¥ 1,762,030 | ¥ 1,532,978 | ¥ 229,052 | ¥ 1,652,125 |
| | As of | As of | Changes | As of |
| | September 30, | September 30, | Increase | March 31, |
| | 2006 | 2005 | (Decrease) | 2006 |
| * Accumulated other comprehensive income (loss): | | | | |
| Foreign currency translation adjustments | ¥ 2,518 | ¥ (13,280) | ¥ 15,798 | ¥ (2,240) |
| Net unrealized holding gains on securities available for sale | 34,093 | 26,619 | 7,474 | 36,910 |
| Pension liability adjustments | (10,860) | (13,177) | 2,317 | (11,299) |
| Net unrealized holding gains (losses) on derivative instruments | (475) | (620) | 145 | (276) |
| Short & long-term debt | ¥ 376,817 | ¥ 389,375 | ¥ (12,558) | ¥ 377,913 |

Table of Contents**Condensed Consolidated Statements of Income**

Millions of yen

| | First half ended September 30, | First half ended September 30, | Changes Increase (Decrease) | | The entire FY ended March 31, |
|------------------------------------------------------------------------------------------------------|--------------------------------------|--------------------------------------|--------------------------------|------|-------------------------------------|
| | 2006 (A) | 2005 (B) | (A)-(B) | % | 2006 |
| Net sales | ¥ 941,162 | ¥ 809,709 | ¥ 131,453 | 16.2 | ¥ 1,701,969 |
| Cost of sales | 671,173 | 595,472 | 75,701 | | 1,247,656 |
| Selling, general and administrative expenses | 146,966 | 134,538 | 12,428 | | 277,860 |
| Other operating income (expenses) | (774) | 9,314 | (10,088) | | 315 |
| Operating income | 122,249 | 89,013 | 33,236 | 37.3 | 176,768 |
| Other income (expenses) | | | | | |
| Interest and dividend income | 4,179 | 3,357 | 822 | | 6,907 |
| Interest expense | (7,484) | (6,086) | (1,398) | | (12,733) |
| Other-net | (1,295) | (1,148) | (147) | | (1,869) |
| Other income (expenses) | (4,600) | (3,877) | (723) | | (7,695) |
| Income before income taxes, minority interests and equity in earnings of affiliated companies | 117,649 | 85,136 | 32,513 | 38.2 | 169,073 |
| Income taxes | 45,134 | 20,849 | 24,285 | | 47,021 |
| Minority interests in income of consolidated subsidiaries | (6,623) | (5,027) | (1,596) | | (10,467) |
| Equity in earnings of affiliated companies | 1,316 | 536 | 780 | | 2,705 |
| Net income | ¥ 67,208 | ¥ 59,796 | ¥ 7,412 | 12.4 | ¥ 114,290 |

Note: Starting from the first half period ended September 30, 2006, Komatsu changed its form of consolidated financial statement of income from single- to multiple-step. Operating income is expressed in conformity with U.S. GAAP.

Table of Contents**Consolidated Statement of Shareholders' Equity**

| | Millions of yen | | |
|---------------------------------------------------------------------------------------------------------|----------------------------------------------|----------------------------------------------|---------------------------------------------|
| | First half ended September 30, 2006 | First half ended September 30, 2005 | The entire FY ended March 31, 2006 |
| Common stock | | | |
| Balance, beginning of period | ¥ 67,870 | ¥ 67,870 | ¥ 67,870 |
| Balance, end of period | ¥ 67,870 | ¥ 67,870 | ¥ 67,870 |
| Capital surplus | | | |
| Balance, beginning of period | ¥ 136,137 | ¥ 135,792 | ¥ 135,792 |
| Sale of treasury stock | 36 | 380 | 345 |
| Issuance of stock acquisition rights | 265 | | |
| Stock issue cost | (24) | | |
| Balance, end of period | ¥ 136,414 | ¥ 136,172 | ¥ 136,137 |
| Retained earnings, appropriated for legal reserve | | | |
| Balance, beginning of period | ¥ 23,416 | ¥ 22,341 | ¥ 22,341 |
| Transfer from unappropriated retained earnings | 519 | 354 | 1,075 |
| Balance, end of period | ¥ 23,935 | ¥ 22,695 | ¥ 23,416 |
| Unappropriated retained earnings | | | |
| Balance, beginning of period | ¥ 376,522 | ¥ 277,196 | ¥ 277,196 |
| Net income | 67,208 | 59,796 | 114,290 |
| Cash dividends paid | (9,936) | (5,948) | (13,889) |
| Transfer to retained earnings appropriated for legal reserve | (519) | (354) | (1,075) |
| Balance, end of period | ¥ 433,275 | ¥ 330,690 | ¥ 376,522 |
| Accumulated other comprehensive income (loss) | | | |
| Balance, beginning of period | ¥ 23,095 | ¥ (21,485) | ¥ (21,485) |
| Aggregate adjustment for the period resulting from translation of foreign currency financial statements | 4,758 | 8,881 | 19,921 |
| Increase (decrease) in net unrealized holding gains on securities available for sale | (2,817) | 8,014 | 18,305 |
| Adjustment for the period of pension liability | 439 | 4,163 | 6,041 |
| Increase (decrease) in net unrealized holding losses on derivative instruments | (199) | (31) | 313 |
| Balance, end of period | ¥ 25,276 | ¥ (458) | ¥ 23,095 |
| Treasury stock | | | |
| Balance, beginning of period | ¥ (4,043) | ¥ (4,570) | ¥ (4,570) |
| Purchase of treasury stock | (432) | (1,711) | (2,027) |
| Sales of treasury stock | 903 | 1,754 | 2,554 |

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| | | | | | |
|-------------------------------------------|------------------|---|---------|---|---------|
| Balance, end of period | (3,572) | ¥ | (4,527) | ¥ | (4,043) |
| Total shareholders' equity | ¥ 683,198 | ¥ | 552,442 | ¥ | 622,997 |
| Disclosure of comprehensive income | | | | | |
| Net income | ¥ 67,208 | ¥ | 59,796 | ¥ | 114,290 |
| Other comprehensive income, net of tax | 2,181 | | 21,027 | | 44,580 |
| Comprehensive income | ¥ 69,389 | ¥ | 80,823 | ¥ | 158,870 |

Table of Contents**Condensed Consolidated Statements of Cash Flows**

| | Millions of yen | | | |
|-----------------------------------------------------------------------------------|-----------------------------------------------------|-----------------------------------------------------|----------------------------------------------|---------------------------------------------|
| | First half ended September 30, 2006 (A) | First half ended September 30, 2005 (B) | Changes Increase (Decrease) (A)-(B) | The entire FY ended March 31, 2006 |
| Operating activities | | | | |
| Net income | ¥ 67,208 | ¥ 59,796 | ¥ 7,412 | ¥ 114,290 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | |
| Depreciation and amortization | 38,759 | 34,388 | 4,371 | 72,640 |
| Deferred income taxes | 6,547 | (6,318) | 12,865 | (747) |
| Net loss (gain) from sale of investment securities and subsidiaries | 676 | (19,506) | 20,182 | (20,989) |
| Net loss (gain) on sale of property | 64 | (465) | 529 | (132) |
| Loss on disposal of fixed assets | 885 | 1,718 | (833) | 8,284 |
| Impairment loss on long-lived assets held for use | 2 | 1,809 | (1,807) | 4,899 |
| Pension and retirement benefits, net | 1,074 | 1,040 | 34 | 5,123 |
| Changes in assets and liabilities: | | | | |
| Increase in trade receivables | (17,936) | (20,821) | 2,885 | (58,821) |
| Increase in inventories | (45,207) | (28,084) | (17,123) | (52,228) |
| Increase in trade payables | 39,782 | 19,245 | 20,537 | 32,360 |
| Increase (decrease) in income taxes payable | (3,977) | 10,399 | (14,376) | 24,532 |
| Other, net | 14,635 | 5,525 | 9,110 | 6,896 |
| Net cash provided by operating activities | 102,512 | 58,726 | 43,786 | 136,107 |
| Investing activities | | | | |
| Capital expenditures | (63,945) | (50,100) | (13,845) | (112,915) |
| Proceeds from sale of property | 5,188 | 5,488 | (300) | 12,915 |
| Proceeds from sale of available for sale investment securities | 249 | 2,851 | (2,602) | 4,112 |
| Purchases of available for sale investment securities | (2,538) | (2,415) | (123) | (5,681) |
| Proceeds from sale of subsidiaries, net of cash disposed | | 25,195 | (25,195) | 26,610 |
| Acquisition of subsidiaries, net of cash acquired | (11,321) | 920 | (12,241) | (10,464) |
| Collection of loan receivables | 3,058 | 6,936 | (3,878) | 12,874 |
| Disbursement of loan receivables | (2,625) | (8,163) | 5,538 | (9,244) |
| Decrease (increase) in time deposits | (128) | (23) | (105) | 1 |
| Net cash used in investing activities | (72,062) | (19,311) | (52,751) | (81,792) |
| Financing activities | | | | |
| Proceeds from long-term debt | 7,446 | 12,230 | (4,784) | 51,432 |
| Repayments on long-term debt | (22,312) | (52,406) | 30,094 | (118,165) |
| Increase (decrease) in short-term debt, net | 13,476 | (1,022) | 14,498 | 7,108 |
| Repayments of capital lease obligations | (5,752) | (5,137) | (615) | (10,473) |
| Sale of treasury stock, net | 471 | 42 | 429 | 527 |
| Dividends paid | (9,936) | (5,948) | (3,988) | (13,889) |
| Net cash used in financing activities | (16,607) | (52,241) | 35,634 | (83,460) |

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| | | | | |
|--------------------------------------------------------------------|-----------------|----------|----------|----------|
| Effect of exchange rate change on cash and cash equivalents | 260 | 392 | (132) | 1,632 |
| Net increase (decrease) in cash and cash equivalents | 14,103 | (12,434) | 26,537 | (27,513) |
| Cash and cash equivalents, beginning of period | 69,997 | 97,510 | (27,513) | 97,510 |
| Cash and cash equivalents, end of period | ¥ 84,100 | ¥ 85,076 | ¥ (976) | ¥ 69,997 |

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Basis of Financial Statements (Consolidated)

1) Changes in group of entities

Consolidated subsidiaries

Added: 3 companies

Removed: (Exclusion) 1 company

Affiliated companies accounted for by the equity-method

None

2) Adopted new accounting standards

Starting from the first half period ended September 30, 2006, Komatsu adopted the Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment.

3) Reclassification

Starting from the first half period ended September 30, 2006, Komatsu changed its form of consolidated financial statement of income from single- to multiple-step.

4) Subsequent events

In accordance with the decision of board of directors of Komatsu Ltd. on September 12, 2006, the company applied for the tender offer by SUMCO CORPORATION (hereinafter referred to as SUMCO) for Komatsu Electronic Metals Co., Ltd. (hereinafter referred to as KEM). Since the tender offer by SUMCO was completed on October 11, 2006, Komatsu Ltd. transferred the shares of KEM on October 18, 2006 as mentioned below.

[Reason for the transfer of KEM's shares]

Komatsu's core focus is the comprehensive industrial machinery business, such as construction and mining machinery and industrial machinery. With respect to the electronics business, including the silicon wafer business operated by KEM, Komatsu's objectives had been to maintain the independent management of such business, and to seek to develop the business based on an alliance with a leading industrial partner.

KEM incorporated a joint venture company (Formosa Komatsu Silicon Corporation) with Taiwan Plastics Group in 1995, which has established a position as a top supplier of 200mm silicon wafers in Taiwan. Employing its dual manufacturing site system, in Japan and Taiwan, KEM has worked to strengthen its business and increase profitability.

Komatsu believes that KEM can expect further development of its business by becoming a member of the SUMCO Group through both an acceleration of capital investment in 300mm silicon wafers in Taiwan and synergy in the area of technology.

In addition, the transfer of the KEM shares to SUMCO will enable Komatsu to concentrate its management resources on its core focus of the comprehensive industrial machinery business. Komatsu will strengthen the operating base of its core focus even further and aims to actively expand its business.

[Profile of the company which was transferred]

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| | |
|--------------------------|---------------------------------------------------------------------------|
| Corporate name: | Komatsu Electronic Metals Co., Ltd. |
| Date of establishment: | April 18, 1960 |
| Head office: | 1324-2, Masuragahara, Omura, Nagasaki |
| Representative Director: | Takashi Abe |
| Business activities: | Manufacture and sale of silicon wafers |
| End of fiscal year: | March 31 |
| Major shareholder: | Komatsu Ltd. (61.93%) (as of March 31, 2006) |
| Manufacturing locations: | Nagasaki, Miyazaki, Taiwan (Formosa Komatsu Silicon Corp.) |
| Number of employees: | 2,758 (consolidated) |
| Net sales: | JPY86.6 billion (for the fiscal year ended March 31, 2006) (consolidated) |

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[Profile of the purchaser of KEM s shares]

| | |
|--------------------------|-------------------------------------------------------------------------------------|
| Corporate name: | SUMCO CORPORATION |
| Date of establishment: | July 30, 1999 |
| Head office: | 1-2-1, Shibaura, Minato-ku, Tokyo |
| Representative Director: | Kenjiro Shigematsu |
| Business activities: | Manufacture and sale of silicon wafers |
| End of fiscal year: | January 31 |
| Major shareholders: | Sumitomo Metal Industries, Ltd. (29.95%), MITSUBISHI MATERIALS CORPORATION (29.95%) |
| Manufacturing locations: | Saga, Imari, Yonezawa and other locations |
| Number of employees: | 5,554 (consolidated) |
| Net sales: | JPY220.5 billion (for the fiscal year ended January 31, 2006) (consolidated) |

[Details of the transfer of KEM s shares](consolidated)

Number of shares held by Komatsu group before the transfer: 18,882,900 (62.53% of total issued shares)

Number of shares transferred: 15,402,000 (Total Amount: 36,964 millions of yen)

Number of shares held by Komatsu group after the transfer: 3,480,900 (11.53% of total issued shares)

Table of Contents**Business Segment Information****1. Information by Business Segment**

(1) Sales and Segment Profit

Millions of yen

| | First half ended | | | First half ended | | | The entire FY ended | | |
|-----------------------------------------------------------------------------------------------|--------------------|---------|-----------|--------------------|---------|-----------|---------------------|----------|-----------|
| | September 30, 2006 | | | September 30, 2005 | | | March 31, 2006 | | |
| | Segment | | Segment | Segment | | Segment | Segment | | Segment |
| | Sales | Profit | Ratio (%) | Sales | Profit | Ratio (%) | Sales | Profit | Ratio (%) |
| Construction and Mining Equipment | 750,538 | 101,462 | 13.5 | 623,753 | 64,732 | 10.4 | 1,312,426 | 142,904 | 10.9 |
| Industrial Machinery, Vehicles and Others | 197,466 | 13,940 | 7.1 | 178,120 | 10,737 | 6.0 | 385,005 | 24,223 | 6.3 |
| Electronics | 54,660 | 9,752 | 17.8 | 54,064 | 5,569 | 10.3 | 110,601 | 13,244 | 12.0 |
| Subtotal | 1,002,664 | 125,154 | 12.5 | 855,937 | 81,038 | 9.5 | 1,808,032 | 180,371 | 10.0 |
| Corporate & Elimination | (61,502) | (2,131) | | (46,228) | (1,339) | | (106,063) | (3,918) | |
| Total | 941,162 | 123,023 | 13.1 | 809,709 | 79,699 | 9.8 | 1,701,969 | 176,453 | 10.4 |
| Other operating income (expenses) | | (774) | | | 9,314 | | | 315 | |
| Operating income | | 122,249 | | | 89,013 | | | 176,768 | |
| Interest and dividend income | | 4,179 | | | 3,357 | | | 6,907 | |
| Interest expense | | (7,484) | | | (6,086) | | | (12,733) | |
| Other-net | | (1,295) | | | (1,148) | | | (1,869) | |
| Income before income taxes, minority interests and equity in earnings of affiliated companies | | 117,649 | | | 85,136 | | | 169,073 | |

Note: Sales amount of every business segment includes inter-segment transactions as below:

| | First half ended | First half ended | The entire FY ended |
|-------------------------------------------|------------------|------------------|---------------------|
| | September 30, | September 30, | March 31, |
| | 2006 | 2005 | 2006 |
| Construction and Mining Equipment | 11,844 | 8,660 | 21,203 |
| Industrial Machinery, Vehicles and Others | 49,652 | 37,563 | 84,845 |
| Electronics | 6 | 5 | 15 |
| Total | 61,502 | 46,228 | 106,063 |

Table of Contents**2. Information by Region**

(1) Sales and Segment Profit

Millions of yen

| | First half ended | | | First half ended | | | The entire FY ended | | |
|-------------------------|--------------------|---------|-----------|--------------------|--------|-----------|---------------------|---------|-----------|
| | September 30, 2006 | | | September 30, 2005 | | | March 31, 2006 | | |
| | Segment | | | Segment | | | Segment | | |
| | Segment | Profit | | Segment | Profit | | Segment | Profit | |
| | Sales | Profit | Ratio (%) | Sales | Profit | Ratio (%) | Sales | Profit | Ratio (%) |
| Japan | 587,363 | 66,238 | 11.3 | 502,850 | 37,121 | 7.4 | 1,069,380 | 96,141 | 9.0 |
| The Americas | 285,044 | 31,465 | 11.0 | 233,708 | 22,911 | 9.8 | 495,822 | 39,069 | 7.9 |
| Europe | 150,102 | 12,239 | 8.2 | 118,002 | 8,065 | 6.8 | 249,597 | 20,386 | 8.2 |
| Others | 176,680 | 20,502 | 11.6 | 140,604 | 12,285 | 8.7 | 291,054 | 28,161 | 9.7 |
| Subtotal | 1,199,189 | 130,444 | 10.9 | 995,164 | 80,382 | 8.1 | 2,105,853 | 183,757 | 8.7 |
| Corporate & Elimination | (258,027) | (7,421) | | (185,455) | (683) | | (403,884) | (7,304) | |
| Total | 941,162 | 123,023 | 13.1 | 809,709 | 79,699 | 9.8 | 1,701,969 | 176,453 | 10.4 |

Note: Sales amount of each region segment includes inter-segment transactions.

(2) Assets

Millions of yen

| | As of September 30, 2006 | | As of September 30, 2005 | | As of March 31, 2006 | |
|-------------------------|--------------------------|-----------|--------------------------|-----------|----------------------|-----------|
| | Assets | Ratio (%) | Assets | Ratio (%) | Assets | Ratio (%) |
| Japan | 1,098,699 | 62.3 | 991,483 | 64.7 | 1,046,024 | 63.3 |
| The Americas | 446,394 | 25.3 | 371,947 | 24.3 | 411,091 | 24.9 |
| Europe | 173,693 | 9.9 | 128,184 | 8.4 | 151,664 | 9.2 |
| Others | 229,030 | 13.0 | 164,788 | 10.7 | 201,168 | 12.2 |
| Subtotal | 1,947,816 | 110.5 | 1,656,402 | 108.1 | 1,809,947 | 109.6 |
| Corporate & Elimination | (185,786) | (10.5) | (123,424) | (8.1) | (157,822) | (9.6) |
| Total | 1,762,030 | 100.0 | 1,532,978 | 100.0 | 1,652,125 | 100.0 |

Table of Contents**3. Overseas Sales**

(1) First half ended September 30, 2006

Millions of yen

| | The Americas | Europe | Others | Total |
|-------------------------------------------------------|---------------------|----------------|----------------|----------------|
| Overseas sales | 275,843 | 145,896 | 267,378 | 689,117 |
| Consolidated net sales | | | | 941,162 |
| Ratio of overseas sales to consolidated net sales (%) | 29.3 | 15.5 | 28.4 | 73.2 |

(2) First half ended September 30, 2005

Millions of yen

| | The Americas | Europe | Others | Total |
|-------------------------------------------------------|---------------------|---------------|---------------|--------------|
| Overseas sales | 225,500 | 114,272 | 220,162 | 559,934 |
| Consolidated net sales | | | | 809,709 |
| Ratio of overseas sales to consolidated net sales (%) | 27.8 | 14.1 | 27.2 | 69.1 |

(3) The entire fiscal year ended March 31, 2006

Millions of yen

| | The Americas | Europe | Others | Total |
|-------------------------------------------------------|---------------------|---------------|---------------|--------------|
| Overseas sales | 482,222 | 242,386 | 448,376 | 1,172,984 |
| Consolidated net sales | | | | 1,701,969 |
| Ratio of overseas sales to consolidated net sales (%) | 28.3 | 14.2 | 26.4 | 68.9 |

Notes: 1) Overseas sales represent the sales of the Company and its consolidated subsidiaries to customers in countries or regions other than Japan.

2) Area segments are separated by the geographic proximity. Main countries or areas of each segment above are as follows:

- a) The Americas: North America and Latin America
- b) Europe: Germany, U.K., and CIS
- c) Others: China, Australia, and Southeast Asia

Table of Contents**Consolidated Sales by Operation**

Millions of yen

| | First half ended | | First half ended | | Changes | | The entire FY ended | |
|--------------------------------------------------|--------------------|--------------|--------------------|-----------|---------------------|-------|---------------------|-----------|
| | September 30, 2006 | | September 30, 2005 | | Increase (Decrease) | | March 31, 2006 | |
| | (A) Sales | Ratio (%) | (B) Sales | Ratio (%) | (A)-(B) Sales | (%) | Sales | Ratio (%) |
| Construction and Mining Equipment | | | | | | | | |
| Japan | 133,277 | 14.2 | 129,371 | 16.0 | 3,906 | 3.0 | 274,792 | 16.2 |
| Overseas | 605,417 | 64.3 | 485,722 | 60.0 | 119,695 | 24.6 | 1,016,431 | 59.7 |
| | 738,694 | 78.5 | 615,093 | 76.0 | 123,601 | 20.1 | 1,291,223 | 75.9 |
| Industrial Machinery, Vehicles and Others | | | | | | | | |
| Japan | 92,794 | 9.8 | 93,328 | 11.5 | (534) | (0.6) | 198,756 | 11.6 |
| Overseas | 55,020 | 5.9 | 47,229 | 5.8 | 7,791 | 16.5 | 101,404 | 6.0 |
| | 147,814 | 15.7 | 140,557 | 17.3 | 7,257 | 5.2 | 300,160 | 17.6 |
| Electronics | | | | | | | | |
| Japan | 25,974 | 2.8 | 27,076 | 3.4 | (1,102) | (4.1) | 55,437 | 3.3 |
| Overseas | 28,680 | 3.0 | 26,983 | 3.3 | 1,697 | 6.3 | 55,149 | 3.2 |
| | 54,654 | 5.8 | 54,059 | 6.7 | 595 | 1.1 | 110,586 | 6.5 |
| Total | | | | | | | | |
| Japan | 252,045 | 26.8 | 249,775 | 30.9 | 2,270 | 0.9 | 528,985 | 31.1 |
| Overseas | 689,117 | 73.2 | 559,934 | 69.1 | 129,183 | 23.1 | 1,172,984 | 68.9 |
| | 941,162 | 100.0 | 809,709 | 100.0 | 131,453 | 16.2 | 1,701,969 | 100.0 |

Table of Contents**Marketable Securities****1. Marketable Securities**

Millions of yen

| | As of September 30, 2006 | As of September 30, 2005 | As of March 31, 2006 |
|------------------------------------------|-----------------------------|-----------------------------|-------------------------|
| Investment Securities available for sale | | | |
| Marketable equity securities | | | |
| Cost | 18,193 | 17,853 | 18,341 |
| Fair value | 76,931 | 64,006 | 81,744 |
| Unrealized holding gains, net | 58,738 | 46,153 | 63,403 |

Table of Contents**Financial Highlights of the Parent Company**

The following financial information is prepared based on the non-consolidated financial results of the parent company in accordance with generally accepted accounting principles and practices in Japan.

Millions of yen & US dollars
except per share amounts

| | First half ended September 30, | | First half ended September 30, | | Changes | | The entire FY ended March 31, |
|---------------------------------------|-----------------------------------|--------|-----------------------------------|---------|----------|---------|----------------------------------|
| | 2006 | | 2005 | | Increase | | 2006 |
| | Yen | Dollar | Yen | Yen | (%) | Yen | Yen |
| Net sales | 355,793 | 3,015 | 290,966 | 64,826 | 22.3 | 627,319 | |
| Japan | 103,581 | 878 | 99,525 | 4,056 | 4.1 | 217,353 | |
| Overseas | 252,211 | 2,137 | 191,440 | 60,770 | 31.7 | 409,965 | |
| Operating profit | 39,001 | 331 | 22,487 | 16,513 | 73.4 | 56,837 | |
| Ordinary profit | 45,546 | 386 | 24,544 | 21,001 | 85.6 | 60,662 | |
| Net income | 30,725 | 260 | 14,148 | 16,576 | 117.2 | 32,635 | |
| Net income per share (Yen & US cents) | | | | | | | |
| Basic | ¥ 30.91 | 26.2¢ | ¥ 14.26 | ¥ 16.65 | | ¥ 32.53 | |

Notes: 1) The translation of Japanese yen amounts into United States dollar amounts is included solely for convenience and has been made for the first half ended September 30, 2006 at the rate of ¥ 118 to \$1, the approximate rate of exchange at September 30, 2006.

2) The numbers of average common shares outstanding were as follows:

First half period ended September 30, 2006: 993,896,280

First half period ended September 30, 2005: 992,145,951

The entire fiscal year ended March 31, 2006: 992,733,616

Financial Position

| | As of September 30, | As of September 30, | As of March 31, |
|----------------------------|---------------------|---------------------|-----------------|
| | 2006 | 2005 | 2006 |
| Total assets (¥ million) | 920,942 | 831,611 | 859,957 |
| Net assets (¥ million) | 529,185 | 490,078 | 511,222 |
| Equity ratio (%) | 57.4 | 58.9 | 59.4 |
| Net assets per share (Yen) | 532.08 | 493.73 | 514.14 |

Note: The numbers of common shares outstanding were below:

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September 30, 2006: 994,058,863

September 30, 2005: 992,599,364

March 31, 2006: 993,645,492

Table of Contents**Projection for the Fiscal Year Ending March 31, 2007**

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

Millions of yen

| | Net sales | Ordinary profit | Net income |
|------------------------|-----------|-----------------|------------|
| The entire fiscal year | 738,000 | 88,000 | 71,000 |

Note: Forecast of net income per share (basic) of the entire fiscal year: 71.42 yen

| | Cash dividends per share (Yen) | | |
|---------------------------|--------------------------------|-------------------|----------------|
| | Interim 13.00 | Year-end 14.00 | Total 27.00 |
| Sales by Operation | | | |

Millions of yen

| | First half ended | | First half ended | | Changes | | The entire FY ended | |
|--------------------------------------------------|--------------------|-----------|--------------------|-----------|--------------------|--------|---------------------|-----------|
| | September 30, 2006 | | September 30, 2005 | | Increase(Decrease) | | March 31, 2006 | |
| | (A) Sales | Ratio (%) | (B) Sales | Ratio (%) | (A)-(B) Sales | (%) | Sales | Ratio (%) |
| Construction and Mining Equipment | | | | | | | | |
| Japan | 87,124 | 24.5 | 79,542 | 27.3 | 7,581 | 9.5 | 165,397 | 26.4 |
| Overseas | 244,490 | 68.7 | 183,712 | 63.1 | 60,778 | 33.1 | 388,093 | 61.9 |
| | 331,615 | 93.2 | 263,255 | 90.5 | 68,359 | 26.0 | 553,490 | 88.2 |
| Industrial Machinery, Vehicles and Others | | | | | | | | |
| Japan | 16,457 | 4.6 | 19,982 | 6.9 | (3,525) | (17.6) | 51,956 | 8.3 |
| Overseas | 7,720 | 2.2 | 7,728 | 2.7 | (7) | (0.1) | 21,872 | 3.5 |
| | 24,178 | 6.8 | 27,711 | 9.5 | (3,532) | (12.7) | 73,829 | 11.8 |
| Total | | | | | | | | |
| Japan | 103,581 | 29.1 | 99,525 | 34.2 | 4,056 | 4.1 | 217,353 | 34.6 |
| Overseas | 252,211 | 70.9 | 191,440 | 65.8 | 60,770 | 31.7 | 409,965 | 65.4 |
| | 355,793 | 100.0 | 290,966 | 100.0 | 64,826 | 22.3 | 627,319 | 100.0 |

(end)

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For Immediate Release

Komatsu Ltd.
Corporate Communications Dept.
Tel: +81-(0) 3-5561-2616
Date: October 31, 2006
No. 0036(2008)
URL: <http://www.komatsu.com/>

Komatsu Executes Agreement with TOYOBO

Concerning the Acquisition of Shares of NIPPEI TOYAMA

KOMATSU LTD. (President: Masahiro Sakane) (Komatsu) executed a Share Transfer Agreement today with TOYOBO CO., LTD. (President: Ryuzo Sakamoto) (TOYOBO) to acquire 20.4% of the shares of NIPPEI TOYAMA CORPORATION (President: Hiroyuki Horii) (NIPPEI TOYAMA) owned by TOYOBO. Upon completion of certain procedures, such as notifications and approvals, etc. under the competition laws of relevant jurisdictions, the share acquisition is scheduled to be completed by the end of December of this year.

Komatsu is positioning its expanded industrial machinery business, which is a combination of its construction and mining equipment business and its industrial machinery business, which is mainly comprised of stamping press machines used in the forming of automobile components, fabricating machineries and machine tools such as crankshaft millers, to be a core business of the Komatsu Group.

NIPPEI TOYAMA is highly regarded in the industry as a top manufacturer in the field of transfer machines used in the processing of automobile engines, various grinding machines, wire saws used in the semiconductor and solar application industries, and laser cutting machines, etc. The major customers for both NIPPEI TOYAMA and the industrial machinery business of Komatsu are the industries related to automobiles and semiconductors, and the synergies derived from the complementary effect of the product mix is strong. In addition, they each have manufacturing bases in the Hokuriku region of Japan. By this purchase of an equity interest and by becoming the largest shareholder of NIPPEI TOYAMA, Komatsu expects that synergies can be developed in the manufacturing area as well as in the research, development, sales and service areas.

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[Outline of NIPPEI TOYAMA CORPORATION]

Corporate name: NIPPEI TOYAMA CORPORATION
 Date of establishment: July 26, 1945
 Location: 6-26-2 Minami-Oi, Shinagawa-ku, Tokyo
 Representative Director: Hiroyuki Horii
 Capital: ¥6 billion
 Listing: Second section of the Tokyo Stock Exchange
 Net sales: ¥73.6 billion (Fiscal year ended March 31, 2006)
 Business activities: Manufacture and sales of machine tools, industrial machines, real estate sales, etc.
 Manufacturing bases: Toyama and Kanagawa, Japan
 Number of employees: 1,526 (Consolidated, as of March 31, 2006)

[Outline of TOYOBO CO., LTD.]

Corporate name: TOYOBO CO., LTD.
 Date of establishment: June 26, 1914
 Location: 2-2-8 Dojima Hama, Kita-ku, Osaka
 Representative Director: Ryuzo Sakamoto
 Capital: ¥43.3 billion
 Listing: First section of the Tokyo and Osaka Stock Exchange
 Net sales: ¥401.9 billion (Fiscal year ended March 31, 2006)
 Business activities: Manufacture and sales of plastics, functional materials, bio-science and medicals, and textiles
 Manufacturing bases: Tsuruga, Iwakuni, Shougawa and Inuyama, Japan
 Number of employees: 11,705 (Consolidated, as of March 31, 2006)

[Number of the Share Acquisition, Ownership Ratio and Acquisition Amount]

Number of shares owned prior to acquisition: 0 shares (ownership ratio: 0%)
 Number of shares acquired: 10,315,000 shares (ownership ratio: 20.4%)
 Acquisition amount: ¥9,180 million

[Outlook]

Komatsu believes this acquisition of the shares will have only a minimal impact on its business performance for the current fiscal year.

(End)