KOMATSU LTD
Form 20-F
July 25, 2002

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

For the fiscal year ended March 31, 2002

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.

958,921,701

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 XX, No ________

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

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 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. 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.

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, 1998 - 2002 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, 2001 and 2002, the related consolidated statements of income, shareholders' equity and cash flows for the three years ended March 31, 2000 - 2002 and the notes thereto that appear elsewhere in this annual report

	(Yen in millions, except per share			
	1998	1999	2000	2
Income Statement Data:				
Net Sales	1,104,077	1,061,597	1,055,654	1,0
Operating income	43,098	4,281	17,318	
Income before income taxes	40,252	(9,604)	19,395	
Income taxes	20,841	2,061	9,950	
Net income	19,241	(12,378)	13,395	
Per Share Data:				
Net income				
_ Basic	19.60	(12.77)	13.85	
_ Diluted	19.32	(12.77)	13.76	
Cash dividends declared				
	8.00	7.00	6.00	
US$	(5.90 cents)	(5.89 cents)	(5.77cents)	(5.09
Depreciation and amortization	48,629	52,150	61,500	
Capital expenditures	123,026	114,874	57,728	
Research and development expenses	44,058	45,712	42,460	

	(Yen in millions, except per share amounts)				
	1998	1999	2000	2001	
Balance					
Net working capital (a)	212,096	256,039	221,517	203,233	
Long-term debt	196,898	292,250	245,289	238,349	
Shreholders' equity	524,201	495,643	490,454	474,257	
Total assets	1,561,662	1,524,600	1,375,280	1,403,195	
Number of shares issued at year-end	969,842,701	968,921,701	968,921,701	958,921,701	95
Shareholders' equity per share:	540.50	511.54	507.26	497.12	

(a) Includes receivables due after one year

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				(Yen)
	Average*	High	Low	Period-End
Yen Exchange Rates per U.S. Dollar:				
Year ended March 31				
1998	123.57	111.42	133.99	133.29
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
2002				
January		130.93	134.64	134.06
February		132.26	134.77	133.96
March		127.07	133.46	132.70
April		128.13	133.40	128.45
May		123.08	128.66	124.13
June		119.38	125.64	119.85

* 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 32 and 33 of the Company's 2002 Annual Report to Shareholders pertaining to the "Ten-year Summary", which pages comprise part of the Consolidated Financial Statements attached hereto.

(The most recent practicable exchange rate into United States dollars of Japanese yen was (Yen)119.85=U.S.$1 as of June 28, 2002.)

B. Capitalization and indebtedness

Not applicable

C. Reasons for the offer and use of proceeds

Not applicable

D. Risk factors

Business Risk

The market conditions for Komatsu's individual businesses differ by region and change widely depending upon economic and competitive conditions. The profitability of Komatsu's global construction and mining equipment business, as its core operation, is affected primarily by the following factors:

.. Further intensification of competition in the Japanese market, where demand has declined considerably since 1997.
.. Further reduction in demand in the North American market brought about by greater-than-expected economic deceleration.
.. A considerable decline in demand in the European market, owing to economic slowdown.
.. A delay in the recovery of demand for mining equipment.
.. Significant increases in R&D expenses for construction and mining equipment in order to meet more stringent environmental protection regulations.
.. Greater-than-expected fluctuation in foreign exchange rates (especially vis-a-vis the U.S. dollar and the Euro).

With regard to the electronics business, Komatsu expects no financial burden resulting from sizable investments for the time being. However, Komatsu considers that the following factors could affect profitability: sharp changes in the semiconductor market and declining sales prices due to unbalanced supply and demand, along with intensified competition.

Although the profitability of Komatsu's other businesses is also affected by changes in their respective markets, this is not expected to have a significant impact on Komatsu's overall performance.

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.

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.

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 joint-venture company.

Principal capital expenditures

Komatsu's capital expenditures in the fiscal years ended March 31, 2000, 2001, and 2002, were (Yen)57,728 million, (Yen)79,310 million, and (Yen)74,468 million, respectively.

Capital expenditures in fiscal year ended March 31, 2002 ("fiscal 2002") decreased 6.1% from the previous year. The decrease resulted mainly from the Company being highly focused on the level and specific need for capital expenditures and limiting capital expenditures accordingly.

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 2002, Komatsu recorded worldwide net sales of (Yen)1,035,891 million (US$7,789 million) and a net loss of (Yen)80,621 million (US$606 million).

For the purposes of this report, Komatsu's business activities are divided into three categories: construction and mining equipment, electronics, and other operations.

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 (Yen)731,340 million (US$5,499 million) for fiscal 2002, a 1.8% increase from the previous year, and represented 70.6% of Komatsu's total net sales.

While sales to customers in Japan decreased by 14.8% to (Yen)260,351 million (US$1,958 million), sales to customers outside Japan increased by 14.2% to (Yen)470,989 million (US$3,541 million) in fiscal 2002. Sales to customers in Japan represented 35.6% of total sales of construction and mining equipment, down 7.0% from the previous year, while the proportion of sales to customers outside Japan increased by 7.0% to 64.4% of total sales of construction and mining equipment. Operating income from construction and mining equipment for the year dropped sharply primarily due to reduced sales in the Japanese market. Operating income was also reduced due to one-time expenses resulting from reforms in the business structure. These reforms focused on reducing the number of facilities and corporate entities in the Komatsu Group and the integration of redundant functions in order to induce greater efficiency and the development of a more cost efficient and responsive management structure.

Komatsu anticipates an improvement in earnings for fiscal 2003 and beyond, as a result of the positive effects from the reforms in business structure, such as fewer expenses and a considerable reduction in the number of personnel, largely by means of the voluntary retirement program implemented toward the end of fiscal 2002. Additionally, Komatsu is working to improve profits by implementing the Growth Strategy for the Construction and Mining Equipment Business. In line with this move, the Company reorganized the construction and mining equipment business to establish the Construction and Mining Equipment Marketing Division in April 2002. The new division is taking a central role in ensuring customer-driven attitudes among all employees, reinforcing its involvement in the downstream markets after the sales of new machines, expanding market shares and profits overseas, and enhancing the productivity of overseas plants. At the same time, in order to achieve a V-shaped recovery of profits the Company is striving to ensure the successful progress of alliances with other industry participants that are designed to reinforce its cost competitiveness and improve the efficiency of its management resources. For example, with respect to the construction and mining equipment

business, Komatsu has reached an agreement with Volvo Construction Equipment for cooperation on production and development of construction equipment components under which, among other things, Komatsu designed wheel loader cabs will be produced at a Volvo plant in Sweden.

Komatsu's line of construction and mining equipment includes hydraulic excavators, backhoe loaders, wheel loaders, skid steer loaders, bulldozers, motor graders, vibratory rollers, dump trucks, crawler carriers, shield machines, tunnel-boring machines, small-diameter pipe jacking machines, mobile debris crushers, mobile soil stabilizers, mobile tub grinders, rough-terrain cranes, reach tower cranes, railroad maintenance equipment, diesel engines, diesel generator sets, hydraulic equipment, 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.

JAPAN. Japanese demand for construction equipment fell sharply from the previous year, influenced by cutbacks in public investment as part of urgent measures to accelerate structural reforms as well as by reduced private-sector construction investment under the sluggish economy. In addition, customers' reluctance to invest was compounded by uncertainty caused by the bankruptcies of large-scale general contractors. In particular, with demand rapidly faltering in the last half of the period, fiscal 2002 demand registered an over 50% drop in terms of the value of factory shipments of construction equipment for the Japanese market when compared to the last peak period of fiscal 1997.

Komatsu worked to expand sales by teaming up with its distributors nationwide for aggressive sales promotions simultaneous with the market launchings of more than 20 new models in the GALEO series, including a renewed model of its flagship PC200 hydraulic excavator. Komatsu also stepped up its involvement in downstream markets. However, its efforts fell short of making up for the sizable fall in demand for new equipment, and domestic sales declined sharply from the previous year.

Accelerating Involvement in Downstream
Markets and Utilizing IT

With domestic demand for construction equipment continuing to decline, Komatsu is accelerating its involvement in downstream markets, working to develop new demand for parts, services, and rental and used equipment businesses to achieve a V-shaped recovery in its construction and mining equipment business. The Company leads Japan in the number of machines being used by customers and believes that it is thus well positioned to utilize IT to strengthen its involvement and expand business in each downstream market.

Regarding its GALEO-series equipment, Komatsu has included the KOMTRAX machine operations management system as standard equipment in mainstay models. The KOMTRAX system enables remote management of machine operations based on information transmitted from the machines concerning their location and operating and machine conditions. Utilizing KOMTRAX and other IT-based systems and its nationwide service network, Komatsu is planning to provide contract packaged products designed to meet a variety of customer needs. Komatsu is working to expand the product mix of contract services, ranging from the reduction of running costs and unexpected trouble, such as theft and accidents, to a comprehensive plan to meet the diversified needs of customers.

In the rental business, Komatsu is working to expand sales by promoting the comprehensive rental of civil engineering equipment, which includes products used in the construction site other than construction equipment, largely through affiliated rental companies to meet more needs of customers. Komatsu is also working to further improve earnings by reducing costs through streamlined operations and concentrated purchasing.

While sales of new equipment have been sluggish in Japan, the used equipment business has been expanding year after year, reflecting Japanese customers' attitudes toward maintaining excessive inventories and buoyant overseas demand for used equipment. Komatsu is working to strengthen its power to control the distribution of used equipment operations and build a global circulation system as important tasks. The Company has established the Used Equipment Business Department and reinforced the trading capabilities of Komatsu Used Equipment Corp. ("Komatsu Used Equipment"), the major player in the Komatsu Group in this area. Furthermore, the Company is working to secure high-quality used equipment from affiliated rental companies and customers by utilizing the KOMTRAX system in order to expand business.

Thriving Auctions for Used Equipment

Since 1994, Komatsu Used Equipment has regularly held auctions for used equipment by inviting broker companies from Japan and abroad. Held more than 40 times to date, these auctions have witnessed a steady increase in the numbers of visitors, units exhibited and deals made. In March 2002, the company held auctions in Kobe, Fukuoka and Yokohama, attracting a cumulative total of some 600 broker firms from Japan, Southeast Asia, North America and other regions, and consummated record-high sales of some 1,800 units.

Deciding to Transform Komatsu Zenoah. into a Wholly Owned Subsidiary

The Company resolved to transform Komatsu Zenoah into a wholly owned subsidiary of Komatsu as of October 1, 2002, through a stock-for-stock exchange.

Komatsu Zenoah occupies an important position in the Komatsu Group's global strategy in the utility (compact) equipment business, which promises continued growth. By transforming the company into a wholly owned subsidiary, Komatsu aims to further enhance management efficiency while maintaining the cost competitiveness of the business by facilitating the collaboration of development and production capabilities.

THE AMERICAS. In North America, while construction investment and housing starts remained steady, demand for construction equipment declined for three successive years. While carrying out well-defined measures focusing on products and distributors, Komatsu implemented aggressive sales activities by introducing new equipment in the GALEO series. As a result, sales in the Americas improved compared with the previous year. The Company also facilitated inventory reductions among its distributors and began to see their orders increase later in the year. In the mining equipment business, demand for coal increased from its low point in the first half of the year, reflecting increased prices and other factors, and Komatsu expanded sales of large bulldozers to coal mines and achieved steady sales of super-large, electric-drive dump trucks to copper mines. In the utility (compact) equipment business, Komatsu embarked on the production of backhoe loaders at a new plant in Newberry, South Carolina, during the last half of the period, while launching sales of new skid steer loaders developed by Komatsu Utility Europe S.p.A. ("Komatsu Utility Europe"). As a result, the Company believes that it is now prepared to take advantage of a future recovery of demand in North America, the world's largest market for utility (compact) equipment.

Consolidating Local Subsidiaries for Lean Organization

Following the consolidation of Komatsu Utility Corporation into Komatsu

America International Company in August 2001, Komatsu has initiated the consolidation of five U.S. subsidiaries as part of the Reform of Business Structure project in progress on a Group-wide basis. The five subsidiaries are: Komatsu America Corp., Komatsu America International, Komatsu Mining Systems, Inc., Komatsu Reman North America, Inc., and DataKom Publishing Corporation. Through this consolidation, in which Komatsu America Corp. will be the surviving company, Komatsu intends to facilitate a capacity cost cutback and thus improve profitability by reducing the number of management and administrative personnel. Komatsu also intends to ensure quicker decision making and reinforce sales and services by unifying the construction, mining and utility (compact) equipment businesses.

Demonstrating Future Business Orientation at CONEXPO 2002

In March 2002, CONEXPO 2002, an international trade fair for construction equipment, was held in Las Vegas, Nevada, with over 2,000 companies from around the world participating. Komatsu exhibited 21 models including GALEO-series equipment. Stressing the theme of "Focused on Your Success," Komatsu demonstrated its future business orientation of delivering solutions, both hardware and software, for customers' problems through not only construction equipment but also a wide range of service programs.

EUROPE. In Europe, demand remained strong in the United Kingdom and Italy during the year under review. Meanwhile, in addition to a fall in demand in Germany, the largest European market for construction equipment, demand turned downward in France, Spain and other countries. As a result, the overall European market for construction equipment, including utility (compact) equipment, contracted after continued expansion for the last few years. In such an environment, Komatsu secured sales at the same level as the previous year by capitalizing on increased demand in Eastern European nations and introducing improved models of skid steer and wheel loaders.

In October 2001, Komatsu's new wheel loaders attracted keen attention at a special launch event in Berlin, Germany. Komatsu distributors and many journalists from Germany and other European countries appreciated the high levels of productivity, fuel economy and operator comfort offered by the new equipment.

During the year, Komatsu Utility Europe began sales of two new models of skid steer loaders jointly developed by the Company. Both SK714 and SK815 models incorporate a double-speed motor and the Company-original Closed Center Load Sensing System, realizing outstanding travel performance, maneuverability, safety and ease of maintenance. These are among Komatsu's global strategic equipment, and Komatsu is also launching these models in North America, the world's largest market for utility (compact) equipment, and Japan.

Participating in Samoter 2002

Komatsu's three European subsidiaries, Komatsu UK Ltd., Komatsu Hanomag AG and Komatsu Utility Europe, exhibited their products at Samoter 2002, an international earthmoving and building machinery exhibition held in Verona, Italy, in February 2002. Held every three years, this exhibition is one of three major exhibitions in Europe. Under the theme "Take the Lead," three Komatsu companies successfully made a dynamic impression with their new machines, both inside and outside the Komatsu exhibition building.

Other Regions. Sales in other regions advanced compared with the previous year, supported by successful customer-driven sales and service activities. In Southeast Asia, demand for equipment from the forestry industry slowed down, although sales of mining equipment expanded in Indonesia. PT Komatsu Indonesia Tbk continued to develop hydraulic excavator- based, application-specific attachments and components for the forestry industry. The company also launched the production and shipment of the PC200 model in the GALEO series in January 2002. Many customers from different regions of Indonesia came to the special ceremony for the market introduction of the GALEO series, demonstrating great interest in the series. The company expects that the GALEO-series equipment should contribute to improved profits.

In the Pacific region, Komatsu expanded sales for the year, largely due to the delivery of 930E super-large dump trucks to a coal mine in Australia.

In China, market demand continued to expand during the year, supported by China's membership in the World Trade Organization and sponsorship of the Beijing Olympic Games in 2008. Komatsu expanded sales in China, centering on hydraulic excavators produced by Komatsu Shantui Construction Machinery Co., Ltd., a joint venture with a Chinese partner. To further expand its business in China, Komatsu made concerted efforts to strengthen its distributors under the leadership of Komatsu (China) Ltd.

In the Middle East, the Company accelerated sales of large bulldozers for use in agricultural land development. Sales in Africa were also buoyant, centering on mining equipment.

Electronics Segment

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 (Yen)76,769 million (US$577 million), or 7.4%, of total net sales for fiscal 2002, representing a 34.8% decrease in these sales over the prior fiscal year. Sales in Japan dropped 42.1% to (Yen)43,085 million (US$324 million), while sales outside Japan fell 22.2% to (Yen)33,684 million (US$253 million).

In Komatsu's silicon wafer business, Komatsu stepped up its restructuring efforts to meet the drastic change in the business environment. Concerning Komatsu Silicon America, Inc., which had discontinued its operations, Komatsu decided not to reuse it as a manufacturing plant for silicon wafers and instead to sell or dispose of the company's fixed assets. As to the polycrystalline silicon business, Advanced Silicon Materials LLC (ASiMI) moved forward in fundamentally reducing its production capacity by means of consolidating its production lines. Accordingly, Komatsu reevaluated the fixed assets of Komatsu Silicon America and ASiMI and recorded impairment losses of (Yen)24,983 million and (Yen)27,259 million, respectively. Komatsu believes that these two businesses will now be able to meet their business requirements, in light of their business objectives, through their own available resources.

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

Komatsu Electronic Metals has tightened the focus of its production in Japan and Taiwan since 1999 and enhanced its market presence in these two regions as its basic policy. The company exerted all-out efforts on the reinforcement of its corporate strengths by enhancing product competitiveness, mainly for 200mm wafers, and production efficiency as well as by reducing capacity costs. On a nonconsolidated basis, the company sustained ordinary profit of (Yen)94 million (US$0.7 million). A drastic fall in demand adversely affected sales, which declined 33.9%, to (Yen)48,732 million (US$366 million), for the year. Formosa Komatsu Silicon Corporation, a joint venture with a local partner in Taiwan, met a sharp fall in demand at the time of its full-scale production start-up and recorded poor business results. Komatsu Electronic Metals registered consolidated sales of (Yen)52,323 million (US$393 million), a decline of 33.4% from the previous year, and an ordinary loss of (Yen)5,157 million (US$39 million).

Working to Make a Difference in Technologies

Komatsu Electronic Metals has been working jointly with the Company's Research Division to enhance the product competitiveness of its 200mm silicon wafers, its mainstay product line.

Along with growing demand for high-performance semiconductor devices, the quality requirements for silicon wafers are becoming more stringent in regards to the flatness of their surfaces, light point defect (LPD) and purity. In response, the company is researching high-precision crystal growth, wafer processing and other technologies to develop and commercialize new products for customers.

With respect to 300mm silicon wafers, the company has a monthly production capacity of 10,000 pieces at its Miyazaki Plant. In addition to further expanding its technological development efforts, the company plans to gradually increase the production capacity of the plant as it assesses future developments in demand. The company will also consider alliance possibilities.

Advanced Silicon Materials LLC (ASiMI)

Demand for polycrystalline silicon for semiconductors sharply dropped, adversely affected by the inventory adjustments of silicon wafer manufacturers, which had resulted from the worldwide decline in the market for semiconductors.

The business results of ASiMI worsened from the previous year, reflecting primarily an extraordinary loss of (Yen)27,259 million resulting from the impairment loss of its fixed assets in addition to reduced sales of polycrystalline silicon. Concerning its Butte Plant in Montana, the company concluded that it would be difficult to sustain a sufficient rate of operation for the time being and recorded an impairment loss of (Yen)13,411 million. ASiMI also decided to discontinue production at the Moses Lake Plant in Washington and recorded a loss of (Yen)15,977 million for the year, including an impairment loss on its fixed assets. The company has signed a letter of intent with Renewable Energy Corporation AS of Norway to establish a joint venture to convert the latter plant into one dedicated to producing polycrystalline silicon for solar applications. The two companies have begun discussions on more specific matters.

Komatsu Electronics, Inc. ("Komatsu Electronics")

Demand for thermoelectric modules for use in fiber optic communication networks surged in the previous fiscal year on the back of global telecommunication network infrastructure development and the expanded use of the Wavelength Division Multiplexing method for large-scale data transmission. However, Komatsu Electronics experienced a sharp and drastic downturn in sales of thermoelectric modules in fiscal 2002, due to the impact of reduced capital investment and inventory adjustments among telecommunications equipment manufacturers in North America. Demand also remained slack for temperature-control semiconductor manufacturing equipment, and the company's fiscal 2002 sales declined substantially. With respect to earnings, the company strengthened its efforts to cut capacity costs through a substantial reduction of employees and other means; however, it had to record a loss

for the year.

GIGAPHOTON INC. ("GIGAPHOTON")

GIGAPHOTON, an affiliated company accounted for by the equity method, is responsible for Komatsu's excimer laser business. In fiscal 2002, the company continued its R&D into industry-leading, next- and post-next-generation technologies, while restructuring and reinforcing its global sales and service network. However, these efforts failed to compensate for reduced demand, and sales for the year declined. In terms of earnings, despite reduced capacity and production costs, fiscal 2002 turned out to be a difficult year for the company.

Under such conditions, the company received an order for its KrF (Krypton Fluorine) excimer laser from ASM Lithography B.V ("ASML"). of the Netherlands for use as a light source in scanners. ASML's first scanner was installed at a major DRAM manufacturer in South Korea.

Also during the year, GIGAPHOTON launched sales of REDeeM, a new system capable of remotely diagnosing excimer lasers. This system enables not only near real-time monitoring of such major components as the laser chamber but also information sharing among engineers of semiconductor manufacturers, stepper makers and GIGAPHOTON. The company expects that the new system will contribute significantly to its differentiation from competitors and facilitate sales of excimer lasers as well.

Other Operations Segment

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, computer software, 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 and software packages through separate subsidiaries and affiliates.

Sales from other operations totaled (Yen)227,782 million (US$1,713 million) for fiscal 2002, consisting of Japanese sales of (Yen)174,751 million (US$1,314 million) and overseas sales of (Yen)53,031 million (US$399 million), down 15.5% and 1.2% from the previous year, respectively. The overall decline of 12.6% reflects the reduced sales of Komatsu Forklift, in addition to the effect of unconsolidating Komatsu Construction, after the sale of its equity. Meanwhile, sales to Japan's Defense Agency remained steady in spite of a decrease in sales resulting from the partial completion of commissioned projects. Sales in the industrial machinery business improved from the previous year.

Komatsu Forklift.

Sales of Komatsu Forklift for the year fell 14.1% from the previous year, to (Yen)89,869 million (US$676 million), as the company faced a sharp drop in demand for industrial-use vehicles in Japan and overseas.

The company launched 17 renewed models in the battery-driven Arion Plus series in response to growing battery-driven forklift trucks in the Japanese market. Nevertheless, such efforts fell short of countering the reduced market demand.

In the U.S. market, the company's subsidiary facilitated a series of rationalization measures, including a reduction in manpower and a consolidation of business bases, while strengthening its sales network by acquiring a sales company and restructuring distributors. While the company expanded its market share, sales for the year declined. In Europe, the company completed the transfer of production and sales functions to a subsidiary of Linde, preparing for full-scale operations from next fiscal year. In Southeast Asia and China, the company reinforced its sales networks. Despite these measures, overseas sales for the year decreased, due to a substantial drop in demand in the United States, the largest market of the world.

Also during the year, Komatsu Forklift continued to forge its alliance with Linde. Komatsu and Linde agreed to transform Komatsu Forklift into a joint-venture company of Komatsu and Linde. Pursuant to this joint venture, Komatsu and Linde will collaborate through reciprocal supply of products and components, joint development that incorporates technological advantages of both companies, licensed production and other arrangements. Pursuant to this arrangement, the company's U.S. manufacturing subsidiary began the OEM supply of forklift trucks to Linde's U.S. subsidiary, and Linde's Chinese subsidiary embarked on the production of Komatsu Forklift trucks. To further sharpen its competitiveness through an expanded product range and sales capability, the company plans to consolidate the capabilities and product lineups of a Southeast Asian subsidiary of STIL of Germany, a leading manufacturer of battery-driven forklift trucks and member of the Linde Group, into its local subsidiary. The company also intends to engage in the joint development of products, incorporating its technological expertise with that of Linde, as well as the reciprocal supply of cost-competitive components to heighten its product competitiveness.

Deciding to Transform Komatsu Forklift into a Wholly Owned Subsidiary of the Company

The Company resolved to transform Komatsu Forklift into a wholly owned subsidiary as of October 1, 2002, through a stock-for-stock exchange. As competition intensifies worldwide in the forklift truck market, the Company and Komatsu Forklift have concluded that it is necessary for the forklift truck business to further strengthen its cooperation within Komatsu and manage Komatsu Forklift more dynamically. The company's becoming a wholly owned subsidiary of the Company is expected to further expand the forklift truck business. Following the exchange, Komatsu Forklift will become the company through which the Company and Linde operate their joint venture, which should reinforce its competitiveness on a global basis and improve its earnings capability.

Komatsu is determined to improve the earnings capability of each business as well as its corporate value by optimizing the management structure of major companies in the Komatsu Group and by improving management efficiency.

Industrial Machinery Business

Komatsu Industries Corporation ("Komatsu Industries"), which produces sheet metal machinery and medium-sized presses, continued to implement customer-tailored, proposal-oriented sales and service activities for products with unique features. These products include the transfer presses of the E2W series and Twister Fine Plasma cutting machines as well as laser cutting machines made by TRUMPH GmbH ("TRUMPH") of Germany, an alliance partner. As a result, in spite of the extremely tough market conditions, the company expanded both its sales and profits for the year, after similarly posting profits in the previous year.

During the year, the company became the first in the world to commercialize a large,

fully closed AC servo press successfully and launched sales of these presses under the name of H2F Hybrid AC Servo Press Series in February 2002. In addition to its high productivity and processing precision, the H2F series features a significant reduction in noise compared with other mechanical presses as well as high economy. Orders for the series have already been increasing, and the company expects the product will facilitate continued business improvement.

Also during the year, Komatsu Industries forged cooperative relations with TRUMPH and introduced a new service network. In Japan, some 400 cutting machines made by TRUMPH are used by customers, and the company anticipates dynamic growth in demand for TRUMPH models. By integrating the management resources of the two, Komatsu Industries believes it will provide higher-quality services and customer support. With three service centers and six service facilities in Japan, the company is improving its support programs.

Fiscal 2002 sales of large presses advanced, supported by expanded investment by Japanese automobile manufacturers mainly in their overseas plants. With customer demand for cost reductions and competitive pricing intensifying, Komatsu is implementing the SS21 Campaign, designed to meet diversified customer needs in a speedy and simplified manner. The campaign is in response to a structural change in the market for large presses largely resulting from expanding demand from manufacturing customers of automobile bodies and Chinese and Eastern European markets. As part of this campaign, Komatsu is working to enhance customer satisfaction by establishing Digital Engineering Technology, which integrates all information from design to installation and after-sales services, shortened lead times and prompter responses for after-sales services. Komatsu is also working to facilitate a significant reduction in costs by emphasizing capacity cost cutbacks.

Komatsu Zenoah.

In agricultural and forestry equipment, Komatsu Zenoah worked to expand sales of its mainstay outdoor equipment by launching the EZ Start brushcutter, which features significantly improved ignition and is the world's most lightweight hedge trimmer. Against the backdrop of reduced total demand, sales in this market decreased from the previous year. Meanwhile, sales of environmental equipment increased, supported by expanded sales to rental companies. Overseas, while the company received substantially expanded orders for blowers that were developed for the U.S. market and brushcutters for the Chinese market, it was not able to cover the declined sales of hobby and OEM engines. Overseas sales for the year declined slightly from the previous year. As a result, total sales of forestry and other equipment declined slightly from the previous fiscal year.

Net Sales Information

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 category of activity for the years ended March 31, 2002, 2001, and 2000, respectively:

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Net Sales by Category of Activity

	Fiscal Year Ended 3/31/2002		Fiscal Year Ended 3/31/2001		Fiscal Year Ended 3/31/2000	
	(Millions of Yen)					
Construction and Mining Equipment	(Yen) 731,340	70.6%	(Yen) 718,147	65.5%	(Yen) 747,647	70.8%
Electronics	76,769	7.4%	117,745	10.7%	90,335	8.6%
Other	227,782	22.0%	260,477	23.8%	217,672	20.6%
Total	(Yen)1,035,891	100.0%	(Yen)1,096,369	100.0%	(Yen)1,055,654	100.0%

The following table sets forth Komatsu's net sales by geographic markets for the years ended March 31, 2002, 2001, and 2000, respectively:

Net Sales by Geographic Markets

	Fiscal Year Ended 3/31/2002		Fiscal Year Ended 3/31/2001		Fiscal Year Ended 3/31/2000	
	(Millions of Yen)					
Japan	(Yen) 478,187	46.2%	(Yen) 586,865	53.5%	(Yen) 553,822	52.5%
Americas	262,341	25.3%	241,091	22.0%	242,609	23.0%
Europe	128,029	12.4%	126,479	11.5%	123,633	11.7%

Asia (excluding Japan) & Oceania	126,363	12.2%	117,136	10.7%	99,558	9.4%
Middle East & Africa	40,971	4.0%	24,798	2.3%	36,032	3.4%
Total	(Yen)1,035,891	100.0%	(Yen)1,096,369	100.0%	(Yen)1,055,654	100.0%

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 joint venture partners. 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.

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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 is information by a dedicated line to permit on-line real-time processing of customer orders for parts as the key to fast delivery.

Reman (Re-manufacturing)

Komatsu offers speedy on-site replacement of major components of construction and mining equipment that have reduced rate of operation 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.

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 Group 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 Group.

Service Operations

The Komatsu service network covers 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.

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Moreover, Komatsu manufactures a variety of products under licensing agreements with other 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 the Company's business as a whole, nor does it believe that any category of its activities is materially dependent upon patents or upon 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., 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 believes that it remains 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. Since then, Komatsu has made progress in our efforts like reduction of industrial waste, energy saving (reduction of CO_2 emission), and recycling of materials. Komatsu has started publication of these achievements in our "Environmental Report" in fiscal 2000. Komatsu has also introduced "Environmental Accounting.

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 the Company, the Company only produces the major components internally and purchases other parts such as electrical components, tires, hoses, and batteries, etc. from the manufacturers who specialize in manufacturing these, and the

Company procures the rest of the parts from the Company's business partners materials such as metal forgings, machine components, sheet metal parts and various accessories. The Company 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. The Company does not believe that prices for material parts and raw materials are particularly volatile.

C. Organizational Structure

The following list shows the principal subsidiaries:

Name of Company	Country of Incorporation	Ownership (%)
Komatsu Electronic Metals Co., Ltd.	Japan	63.2
Komatsu Forklift	Japan	51.9
Komatsu Zenoah Co.	Japan	55.7
Komatsu Castex Ltd.	Japan	100.0
Komatsu House, Ltd	Japan	88.5
Komatsu Logistics Corp.	Japan	97.1
Komatsu Industries Corporation	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

Komatsu America International Company	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	98.4
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

Name of Company	Country of Incorporation	Ownership (%)
Komatsu (China) Ltd.	Republic of China	100.0
Komatsu (Changzhou) Construction Machinery Corp.	Republic of China	85.0

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, 2002, the 30 plants had an aggregate manufacturing floor space of 1,494 thousand square meters (16,087 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's plants except the Moses lake Plant (ASiMI) and Komatsu Silicon America are currently operating regularly, on a year-round basis, based upon at least one full shift per plant. 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 all of 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, 2002, the net book value of the property owned by Komatsu was (Yen)405,301 million, of which (Yen)27,852 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, 2002, are as follows:

Name and Location	Floor Space		Principal products
	Square meter	thousand sq. ft	

In Japan			
Awazu Plant Komatsu	244,000	2,626	Small and medium-sized bulldozers (under 20 tons), Small hydraulic excavators (under 8 tons), Minimal Rearswing radius hydraulic excavator (10 tons), Mini hydraulic excavators, Mini wheel loaders (under 4 tons), Small and medium-sized wheel loaders, Crawler carriers, Transmissions, Torque converters, vehicles, Ammunition
Komatsu Plant Komatsu	44,000	474	Large presses, Underground machinery
Osaka Plant	138,000	1,485	Large bulldozers (20 tons and over),

Hirakata			Medium-sized and large hydraulic excavators (over 10 tons), Mobile crushers, Mobile soil-improvers, Mobile tub grinders
Oyama Plant Oyama	193,000	2,078	Engines for construction machinery and industrial vehicles, Diesel generators, Marine engines, Rolling stock engines, Low-pollution methanol engines, Hydraulic equipment
Mooka Plant Mooka	66,000	710	Rough-terrain cranes, Dump trucks, large wheel loaders, Motor graders, Road construction machinery, Towing tractors
Komatsu Castex Ltd. Himi	56,000	603	Steel casting, Iron castings, Pattern for casting
Komatsu Zenoah Co. Kawagoe and Koriyama	44,100	475	Mini-sized hydraulic excavators, Skid steer loaders, Mini-sized agricultural and forestry equipment, General purpose engines, Hydraulic equipment
Komatsu Forklift Co., Ltd. Oyama	47,750	514	Lift trucks, Automated conveyance systems, Automated warehouses, Refrigerated warehouses, Freezer warehouses
Komatsu Electronic Metals Co., Ltd. Nagasaki and Miyazaki	72,000	775	High-purity silicon wafers
Komatsu Electronics, Inc. Hiratsuka	1,000	11	Thermoelectric modules, Temperature control equipment
Overseas			

Komatsu America International Company Tennessee, USA and Quebec, Canada South Carolina, USA and Illinois, USA	145,600	1,568	Hydraulic excavators, Wheel loaders, Motor graders, Cranes, Backhoe Loaders Large wheel loaders, Large dump trucks.
Hensley Industries, Inc. Texas, USA	20,000	215	Buckets, Teeth, Adapters
Komatsu Mexicana S.A.	22,000	237	Small-sized presses, Attachments

de C.V. Sahagun, Mexico			for construction equipment, and others
Komatsu do Brasil Ltda. Suzano, Sao Paulo, Brasil	57,000	614	Hydraulic excavators, Bulldozers, Wheel loaders
Advanced Silicon Materials LLC. Washington and Montana, USA	62,927	678	Polycrystalline silicon products, Silane gas
Komatsu UK Ltd. Birtley, UK	60,000	646	Hydraulic excavators
Komatsu Hanomag AG Hannover, Germany	62,335	671	Wheel loaders, Compactors
Komatsu Utility Europe S.p.A. Este, Italy	34,000	366	Mini and small hydraulic excavators, Backhoe loaders, Skidsteer loaders
Komatsu Mining Germany GmbH Dusseldorf, Germany	23,269	250	Super-large hydraulic excavators
P.T. Komatsu Indonesia Tbk Jakarta, Indonesia	45,546	490	Hydraulic excavators, Bulldozers, Wheel loaders, Motor graders, Dump trucks
Komatsu (Changzhou) Construction Machinery Corporation Jiangsu, China	14,300	154	Wheel loaders, Motor graders, Hydraulic excavators
Komatsu (Changzhou) Foundry Corporation Jiangsu, China	16,000	172	Iron castings and parts for construction equipment and industrial vehicles, Foundry molds
Bangkok Komatsu Co. Ltd. Chonburi, Thailand	13,464	145	Hydraulic excavators
Formosa Komatsu Silicon Corporation	12,080	130	Silicon wafers

Mailiao, Yunlin, Taiwan

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.

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Item 5. Operating and Financial Review and Prospects

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. The significant accounting policies which Komatsu believes are the most critical to aid in fully understanding and evaluating Komatsu's reported financial results include the following:

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. 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.

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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.

A. Operating results

Overview

The statements contained in this Overview section are based on management's current expectations. With the exception of the 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 2002, ended March 31, 2002, the business environment for construction and mining equipment became grave in Japan, with an over 20% decline in demand from the previous year, as it was impacted by reduced construction investment. Overseas, while the Chinese market continued to expand during the year, demand in the major markets of North America and Europe declined. As a result, overall overseas demand was slack for the year under review.

With respect to electronics, the international semiconductor market registered a record drop in 2001, resulting in a drastic fall in demand for silicon wafers and their raw material, polycrystalline silicon. Demand for thermoelectric modules for use in fiber optic communication networks took a sharp downturn during the year, partly in reaction to skyrocketing demand in the previous year.

The Company embarked on its Reform of Business Structure project, centering on capacity cost reduction, substantial cutbacks in production costs and new growth in its mainstay

construction and mining equipment business, to transform its corporate structure into a new one capable of expanding profits. As part of this reform, the Company consolidated some operations, restructured its organizations, improved operational efficiency and cut back expenses. In Japan, the Company implemented voluntary retirement and transferred employees to affiliated companies.

In its construction and mining equipment business, the Company aggressively made an initial domestic launch of its GALEO-series equipment, which features IT and other cutting-edge technologies. The Company also worked to accelerate involvement in after-sales downstream markets such as those for rental equipment, used equipment, parts and services. Overseas, Komatsu made concerted efforts to secure profits by carrying out programs that differed according to regions and products.

In response to deteriorated profitability in its electronics business, Komatsu made a thorough reassessment of the segment's business structure and recorded impairment losses on the fixed assets of two subsidiaries in the United States.

Foreign Exchange Rate Fluctuations. Sales to customers located outside Japan represented approximately 54% and 47% of Komatsu's net revenues in fiscal 2002 and fiscal 2001, respectively. A significant proportion of Komatsu's international sales has been denominated in United States dollars. An appreciation in the value of the yen against the US dollar could generally have an adverse effect on Komatsu's operations although Komatsu has reduced its exposure to changes in the exchange rate between the yen and the US dollar by increasing the local content of its products manufactured in the United States and elsewhere outside Japan. To further reduce foreign exchange risks, Komatsu executes forward exchange contracts as described in Item 11 below. The devaluation of the yen against the US dollar generally results in an increase for Komatsu's operating profit.

Results of Operations

Comparison of Fiscal 2002 with Fiscal 2001

Net Sales

Net sales in fiscal 2002 ended March 31, 2002 decreased 5.5% from the previous fiscal year, to (Yen)1,035,891 million (US$7,789 million at US$1=(Yen)133). Sales in Japan dropped 18.5%, to (Yen)478,187 million (US$3,595 million) and overseas sales rose 9.5%, to (Yen)557,704 million (US$4,193 million). As a result, the ratio of overseas sales to consolidated net sales for the year rose to 53.8% from 46.5% in the previous fiscal year.

Japanese demand for construction equipment fell sharply from the previous fiscal year, as customers' desire for equipment investment was critically influenced by cutbacks in public investment by the government. Expanded sales from introducing renewed main models fell short of compensating for the large fall in overall demand in the market. In North America, a leading market for construction equipment, demand has been declining for three consecutive years. In Europe, the market for construction equipment contracted after continued expansion for the last few years. In spite of the declined sales in these markets, overseas sales improved over the previous fiscal year, supported by expanded sales generated in other regions and strong sales of mining equipment. As a result, sales of construction and mining equipment increased 1.8% from

the previous fiscal year, to (Yen)731,340 million (US$5,499 million).

In the electronics business, reflecting the severe conditions of the international IT-related market, demand for silicon wafers and polycrystalline silicon as the raw material for silicon wafers drastically decreased 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 drastic drop in demand and those of temperature-control semiconductor manufacturing equipment were adversely affected by reduced capital investment in the industry. As a result, sales from the electronics business dropped 34.8% from the previous fiscal year, to (Yen)76,769 million (US$577 million).

With respect to other operations, sales of large presses advanced in the industrial machinery business, supported by expanded investment by Japanese automobile manufacturers mainly in their overseas plants. In the business of sheet metal forming machinery and agricultural and forestry machines, sales grew centering on products with unique features 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 overseas.

As a result, sales from other operations declined 12.6% from the previous fiscal year, to (Yen)227,782 million (US$1,713 million). This decline was also affected by the exclusion of sales of Komatsu Construction, which became unconsolidated in October 2000.

Overseas sales by region in fiscal 2002 were as follows: sales in the Americas reached (Yen)262,341 million (US$1,972 million), up 8.8%; sales in Europe increased 1.2%, to (Yen)128,029 million (US$963 million); sales in Asia (excluding Japan) and Oceania advanced 7.9%, to (Yen)126,363 million (US$950 million); and sales in the Middle East and Africa climbed 65.2%, to (Yen)40,971 million (US$308 million).

Earnings

Cost of sales in fiscal 2002 decreased 1.5% from the previous fiscal year, to (Yen)792,748 million (US$5,961 million). The ratio of cost of sales to net sales grew 3.1 percentage points, to 76.5%. Selling, general and administrative (SG&A) expenses for the year declined 2.8%, to (Yen)256,364 million (US$1,928 million), keeping the ratio of SG&A expenses to net sales to 24.7%,a minimal increase of 0.6 percentage points over the previous fiscal year, in spite of the big drop in net sales. As a result, operating loss for fiscal 2002 amounted to (Yen)13,221 million (US$99 million), compared to profits of (Yen)27,815 million in fiscal 2001. This deterioration was brought about primarily by worsened conditions in the domestic construction and mining equipment business and in the electronics business.

Net interest and other income and expenses in fiscal 2002 generated a loss of (Yen)93,503 million (US$703 million), compared with a loss of (Yen)7,751 million in the previous fiscal year. This resulted from the fact that net other expenses in fiscal 2002 included the large cost of reform of business structure, such as the impairment losses of fixed assets of electronics business related subsidiaries in the United States as well as the cost of early retirement program and transfers of employees to affiliated companies in Japan.

As a result, loss before income taxes, minority interests and equity in earnings for the fiscal year totaled (Yen)106,724 million (US$802 million), compared with profits of (Yen)20,064 million for the previous fiscal year, and the percentage of loss before income taxes, minority interests

and equity in earnings to net sales was minus 10.8% in fiscal 2002.

Equity in earnings of affiliated companies in fiscal 2002 amounted to (Yen)398 million (US$3 million).

As a result, Komatsu's net loss in fiscal 2002 was (Yen)80,621 million (US$606 million).

On a per share basis, net loss amounted to (Yen)84.46 (US63.5c). Dividends per share were maintained at (Yen)6.00 (US4.5c), as positive effects from the reform of business structure should improve the business results of the Company in fiscal 2003 and thereafter. The corresponding figures for fiscal 2001 were (Yen)7.24 and (Yen)6.00, respectively.

Comparison of Fiscal 2001 with Fiscal 2000

Net Sales

Net sales in the fiscal year ended March 31, 2001 increased 3.9% over the previous fiscal year to (Yen)1,096,369 million (US$8,701 million at US$1=(Yen)126). Sales in Japan advanced 6.0% to (Yen)586,865 million (US$4,658 million), while overseas sales rose 1.5% to (Yen)509,504 million (US$4,043 million). As a result, the ratio of overseas sales to consolidated net sales for the year dipped from 47.5% in the previous fiscal year to 46.5%.

Domestic sales of construction and mining equipment were up from the previous fiscal year, owing primarily to efforts of IT use and the expansion of sales of machines for environment conservation, although the demand declined slightly. In the overseas market, while European economies remained strong in general, the United States economy, which had maintained a record-high length of buoyancy, began to slow down. The overall recovery pace of Asian economies slowed down. As a result, global sales of construction and mining equipment slid 3.9% from the previous fiscal year to (Yen)718,147 million (US$5,700 million).

In the electronics business, the demand for silicon wafers dramatically increased and the market for polycrystalline silicon as the raw material for silicon wafers grew. Our operation in Taiwan expanded its production facilities and accelerated sales. Demand for micromodules for use in fiber optic communication networks also expanded. As a result, sales from the electronics business improved 30.3% over the previous fiscal year to (Yen)117,745 million (US$934 million).

Elsewhere in other operations, the industrial machinery business reinforced its sales alliance, and sales of outdoor power equipment were expanded by introducing renewed models. Komatsu Construction became an unconsolidated company by the sale of its ownership in October 2000. On the other hand, Komatsu Forklift became a consolidated company due to our increased ownership. As a result, sales from other operations expanded 19.7% to (Yen)260,477 million (US$2,067 million). Overseas sales by region in fiscal year 2001 were as follows: sales in the Americas accounted for (Yen)241,091 million (US$1,913 million), down 0.6%; sales in Europe increased 2.3% to (Yen)126,479 million (US$1,004 million); sales in Asia (excluding Japan) and Oceania increased 17.7%

to (Yen)117,136 million (US$929 million); and sales in the Middle East and Africa fell 31.2% to (Yen)24,798 million (US$197 million).

Earnings

Cost of sales in fiscal 2001 increased 1.0% from the previous year to (Yen)804,700 million (US$6,387 million). The ratio of cost of sales to net sales decreased 2.1 percentage points to 73.4%.

Selling, general and administrative (SG&A) expenses for the year increased 9.2% to (Yen)263,854 million (US$2,094 million), causing the ratio of SG&A expenses to net of sales to increase 1.2 percentage points over the previous year to 24.1%. As a result, operating income for fiscal 2001 increased 60.6% over the previous year to (Yen)27,815 million (US$221million). This improvement was brought about primarily by improved earnings in the electronics business, owing to the recovery of demand for silicon wafers as compared with fiscal 2000.

Interest and other income and expenses in fiscal 2001 netted a loss of (Yen)7,751 million (US$62 million), compared with a net gain of (Yen)2,077 million in the previous year. This loss resulted from the fact that net other income in fiscal 2000 included large gains such as sales of idle properties from the Osaka plant, while net other income in fiscal 2001 did not include such non-recurring gain. In fiscal 2001 and 2000, the Company recorded impairment losses on long-lived asset, which was related to temporarily idle production facilities due to the sluggish market, at its wholly-owned subsidiary in the electronics segment.

In addition in fiscal 2002, Komatsu recorded impairment losses on long-lived assets of (Yen)52,242 million which relates to production facilities that are being sold or significantly reduced in operations due to the poor market conditions in the electronics segment.

As a result, income before income taxes, minority interests and equity in earnings for the fiscal year increased 3.4% from previous year to (Yen)20,064 million (US$159 million), the percentage of income before income taxes, minority interests and equity in earnings to net sales ended in 1.8%. Equity in earnings of affiliated companies in fiscal 2001 decreased 90.5% from the previous year to (Yen)385 million (US$3 million). This decline was primarily derived from the fact that Applied Komatsu Technology, Inc., which had posted large profits in the previous year, became an unconsolidated company by the sale of its equity.

As a result, the Company's net income in fiscal 2001 decreased 48.4% from the previous year to (Yen)6,913 million (US$55 million).

On a per share basis, net income amounted to (Yen)7.24 (US5.7c). Dividends per share were (Yen)6.00 (US4.8c). The corresponding figures for fiscal 2000 were (Yen)13.85 and (Yen)6.00, respectively.

Performance by Segment

Komatsu operates in three business segments: Construction and mining equipment, electronics and other operations.

Construction and Mining Equipment. Fiscal 2002 net sales of construction and mining equipment totaled (Yen)731,340 million (US$5,499 million), an increase of 1.8% compared to (Yen)718,147 million in fiscal 2001, which represented a decrease of 3.9% compared to (Yen)747,647 million in fiscal 2000. Construction and mining equipment net sales accounted for 70.6% of Komatsu's worldwide net sales in fiscal 2002. While sales in Japan decreased 14.8% to (Yen)260,351 million (US$1,958 million) in fiscal 2002 from (Yen)305,593 million in fiscal 2001, sales outside Japan increased 14.2% to (Yen)470,989 million (US$3,541 million) in fiscal 2002. Sales in Japan represented 35.6% of total sales of construction and mining equipment, down 7% from the

previous fiscal, while the proportion of sales outside Japan increased to 64.4%. Overall, net sales of construction and mining equipment comprised 70.6% of Komatsu's total net sales in fiscal 2002, up 5.1% from 65.5% in fiscal 2001 and down 0.2% from 70.8% in fiscal 2000.

Operating income from the construction and mining equipment segment for fiscal 2002 decreased 96% compared to the previous fiscal to (Yen)881 million (US$7 million) primarily due to reduced sales in Japanese market and due to one-time expenses resulting from reforms in the business structure. In fiscal 2001 operating income decreased 22.1% to (Yen)22,203 million from (Yen)28,489 million in fiscal 2000.

Electronics. In the electronics business, fiscal 2002 net sales from electronics operations decreased 34.8% to (Yen)76,769 million (US$577 million) from (Yen)117,745 million in fiscal 2001 as sales in Japan decreased 42.1% to (Yen)43,085 million (US$324 million), and sales outside Japan decreased 22.2% to (Yen)33,684 million (US$253 million). Fiscal 2001 net sales increased 30.3% to (Yen)117,745 million from (Yen)90,335 million in fiscal 2000. Electronics accounted for 7.4% of Komatsu's net sales in fiscal 2002, compared with 10.7% in fiscal 2001 and 8.6% in fiscal 2000.

KEM, a 61.9%-owned subsidiary of the Company engaged in the manufacture of silicon wafers, had sales of (Yen)52,323 million (US$393 million) for fiscal 2002, a decrease of 33.4% from sales of (Yen)78,525 million the previous fiscal year.

Operating income from the electronics segment for fiscal 2002 was an operating loss of (Yen)14,925 million (US$ 112 million).

Other Operations. Fiscal 2002 sales from Komatsu's other operations decreased 12.6% to (Yen)227,782 million (US$1,713 million) from (Yen)260,477 million in fiscal 2001.Sales of large presses advanced in the industrial machinery business, supported by expanded investment by Japanese automobile manufactures mainly in their overseas plants. In the business of sheet metal forming machinery and agricultural and forestry machines, sales grew centering on products with unique features 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 overseas. Operating income from other operating segments for fiscal 2002 decreased 22.9%, to (Yen)4,976 million (US$37 million) compared to (Yen)6,450 million the previous fiscal year.

Performance by Region

Japan. Net sales to customers in Japan decreased 18.5% from (Yen)586,865 million in fiscal 2001 to (Yen)478,187 million (US$3,595 million) in fiscal 2002. Operating income (loss) for Komatsu's operations in Japan decreased from an income of (Yen)29,253 million in fiscal 2001 to an income of (Yen)130 million (US$1 million) in fiscal 2002. The decrease in sales came from reduction of the demand for construction equipment in Japan and affected by the exclusion of sales of Komatsu Construction. Compared to fiscal 2000, net sales to customers in Japan and operating income (loss) recorded by Komatsu's operations in Japan in fiscal 2001 increased by 6.0% (from (Yen)553,822 million) and increased by (Yen)28,298 million from an operating income of (Yen)955 million, respectively.

Asia (Excluding Japan) and Oceania. Net sales to customers in the rest of Asia and Oceania increased 7.9% to (Yen)126,363 million (US$950 million) in fiscal 2002 compared to (Yen)117,136 million in fiscal 2001. Net sales in fiscal 2001 increased 17.7% from (Yen)99,558 million

in fiscal 2000. The increase in net sales in fiscal 2002 was due to recovery of the market demand in Asia for Komatsu's products. Net sales to customers in Asia (excluding Japan) and Oceania comprised 12.2% of Komatsu's worldwide net sales in fiscal 2002, up from 10.7% in fiscal 2001 and up from 9.4% in fiscal 2000.

Americas. Net sales to customers in North America, Central America and South America increased 8.8% in fiscal 2002 to (Yen)262,341 million (US$1,972 million) from (Yen)241,091 million in fiscal 2001. Fiscal 2001 net sales decreased 0.6% from net sales of (Yen)242,609 million in fiscal 2000. North American, Central American and South American net sales accounted for 25.3% of Komatsu's net sales worldwide in fiscal 2002, up from 22.0% in fiscal 2001 and 23.0% in fiscal 2000.

Operating loss for Komatsu's operations in the Americas increased over a loss of (Yen)2,302 million in fiscal 2001 and an income of (Yen)12,354 million in fiscal 2000 to a loss of (Yen)10,562 million (US$79 million) in fiscal 2002.

Europe. Net sales to customers in Europe in fiscal 2002 increased 1.2% to (Yen)128,029 million (US$963 million) from (Yen)126,479 million in fiscal 2001. Fiscal 2001 net sales increased 2.3% over (Yen)123,633 million in fiscal 2000. Net sales to customers in Europe comprised 12.4% of Komatsu's net sales worldwide in fiscal 2002, up from 11.5% in fiscal 2001 and 11.7% in fiscal 2000.

In fiscal 2002, operating income from Komatsu's operations in Europe decreased to (Yen)3,077 million (US$23 million) from (Yen)5,945 million in fiscal 2001. Compared to fiscal 2000, operating income recorded in fiscal 2001 increased by (Yen)1,661 million from (Yen)4,284 million.

Middle East and Africa. In the Middle East and Africa, Komatsu's net sales increased 65.2% to (Yen)40,971 million (US$308 million) in fiscal 2002 compared to (Yen)24,798 million in fiscal 2001, which represented a 31.2% decrease from net sales of (Yen)36,032 million in fiscal 2000. Net sales to customers in the Middle East and Africa comprised 4.0% of Komatsu's net sales worldwide in fiscal 2002, up from 2.3% in fiscal 2001 and 3.4% in fiscal 2000.

B. Liquidity and capital resources

Cash and cash equivalents as of March 31, 2002 were (Yen)45,392 million (US$341 million), an increase of (Yen)5,632 million over the previous fiscal year end. Net cash provided by operating activities was (Yen)60,321 million (US$454 million) for fiscal 2002, a decrease of (Yen)9,655 million from the previous year.

Net cash used in investing activities in fiscal 2002 was (Yen)16,933 million (US$127 million) and decreased by (Yen)18,209 million from (Yen)35,142 million used in fiscal 2001. This decrease was principally due to an increase in the proceeds from sales of property by (Yen)11,925 million in fiscal 2002 compared to fiscal 2001. Net cash used in financing activities decreased to (Yen)40,455 million (US$304 million) in fiscal 2002, a decrease of (Yen)35,408 million from (Yen)75,863 million used by financing activities in fiscal 2001, principally reflecting the decrease of repayment of long term debt obligations by (Yen)31,013 million compared to fiscal 2001.

Working capital in fiscal 2002 decreased 17.5% from the previous year, to (Yen)167,581 million (US$1,260 million) resulting from declined sales and reduced assets. The current ratio (current assets divided by current liabilities) in fiscal 2002 decreased by 6.6% from the previous year to 128.3%, compared with 134.9% in fiscal 2001.

Capital expenditures in fiscal 2002 decreased 6.1% from the previous year to (Yen)74,468 million (US$560 million). The decrease resulted mainly from highly focused capital expenditures. Commitments for capital expenditures outstanding as of March 31, 2002 totaled (Yen)2,900 million (US$22 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.

Komatsu intends to meet its future capital expenditures, debt service and working capital requirements mainly from cash flow from operating activities and roll over of short-term loans. Net cash provided by operating activities was (Yen)60,321 million (US$454 million) for fiscal 2002. A continuing sluggish economy in Komatsu's principal markets and a sustained decrease in demand for Komatsu's products would reduce cash flow from operations.

While Komatsu expects cash flow from operations to be its primary source of funding, Komatsu also intends to use, to a lesser extent, borrowings, including under new lines of credit, securitization of accounts receivable, and capital markets funding, including commercial paper.

At March 31, 2002, Komatsu had a cash balance of (Yen)45,392 million (US$341 million). At that date, Komatsu's consolidated total debt was (Yen)476,897 million (US$3,586 million), (Yen)219,717 million (US$1,652 million) of which was short-term debt (including current portions of long-term debt). As of March 31, 2002, (Yen)44,778 million of Komatsu's long-term debt was scheduled to mature in fiscal 2003, (Yen)96,945 million in fiscal 2004, and (Yen)48,902 million in fiscal 2005 and thereafter.

Komatsu has implemented an accounts receivable securitization program and such securitizations are expected to become an important source of funds for Komatsu in the future. As of March 31, 2002, Komatsu had securitized accounts receivable totaling (Yen)159,393 million (US$1,198 million) (or 32.1% of total accounts receivable at that date). Of this amount, (Yen)41,441 million related to receivables generated by Komatsu's Japanese operations and (Yen)117,952 million related to receivables generated by Komatsu's North American operations. As of March 31, 2001, Komatsu had securitized accounts receivable totaling (Yen)127,155 million (or 24.4% of total accounts receivable at that date). Of this amount, (Yen)22,882 million related to receivables generated by Komatsu's Japanese operations and (Yen)104,273 million related to receivables generated by Komatsu's North American operations.

Komatsu has several receivable securitization programs of account receivable. The balance as of the end of fiscal 2002 is mentioned above. The receivables are deducted from the consolidated balance sheet when they are sold. Komatsu has the contract of securitization with special purpose companies but does not have any relationship with them except the securitization program.

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

As of May 31, 2002, the Company had outstanding (Yen)12,000 million of commercial paper issued under its (Yen)50,000 million commercial paper program, scheduled to mature in July 2002. As of May 31, 2002, Komatsu Finance America Inc. ("KFA") had outstanding US$538 million

of notes issued under its US$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 Pty., Ltd. may from time to time issue notes denominated in any currency. The notes issued under the EMTN Program are scheduled to mature on various dates through September 2009. As of May 31, 2002, Komatsu Finance (Netherlands) B.V. had EUR117 million of notes issued under its EMTN program, which are scheduled to mature on various dates through October 2004.

In December 1998, KFA issued US$188 million of senior notes, of which US$117 million is scheduled to mature in December 2003 and US$71 million is scheduled to mature in December 2005. KFA used the net proceeds from the 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 (Yen)35,000 million of unsecured bonds, scheduled to mature in March 2006. The Company used the net proceeds from the sale of these bonds for an acquisition of KSA, previously a wholly-owned subsidiary of KEM, and additional investment in KSA and ASiMI. They repaid bank loans using the paid-in capital. And (Yen)27,447 million of 1.8% convertible unsecured bonds scheduled to mature in 2004.

The Company and certain consolidated subsidiaries have unused committed lines of credit amounting to (Yen)72,626 million ($546 million) with certain financial institutions at the end of fiscal 2002.

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 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.

Commercial and Contractual Obligations

For information on Komatsu's outstanding obligations, please refer to notes 9 and 17 of the audited financial statements.

C. Research and development, patents and licenses

Corporate Policy

Komatsu will continue to conduct research and development in the construction equipment, electronics, industrial machinery and other fields in order to enhance the functionality, quality and reliability of its products with an emphasis on environmental and social responsibility.

Research and development ("R&D") expenses for fiscal 2002 decreased 2.6% from the previous year, to (Yen)44,083 million (US$331 million), representing 4.3% of net sales. Komatsu's consolidated R&D expenditures for the years ended March 31, 2001 and 2000 amounted to (Yen)45,282 million and (Yen)42,460 million, respectively. The construction and mining equipment segment accounted for R&D expenses of (Yen)27,667 million in fiscal 2002 compared to (Yen)26,992

31

million in fiscal 2001. The electronics segment recorded R&D expenses of (Yen)5,585 million in fiscal 2002 compared to (Yen)7,047 million in fiscal 2001.

Spirit of Manufacturers

Komatsu believes the "Spirit of Manufacturers," is the power to challenge and constantly produce the best possible products in quality, specification and cost. This power is the foundation of Komatsu's competitive strength. By reinforcing the original system of manufacturing, Komatsu will strive to develop products, services and systems with outstanding features which overwhelm the competitors, and the production bases worldwide will strive to achieve top-level product competitiveness in respective regions.

Core Technologies

Komatsu concentrates on the following five core technologies that have been cultivated through the development and manufacture of construction, and mining equipment and industrial machinery. The expansion of Group operations in the future will be focused on these technologies.

The five core technologies

- Mechanical Eng. & Mechatronics
- Electronics & Silicon Material
- Basic (Analysis, Thermal, Optical, etc.)
- Material and Manufacturing
- System & Information

Mid- and Long-term R&D Strategy

Komatsu will focus on the following technological issues in mid- to long-term R&D activity:

Information Technology (IT)

R&D to improve the products and services with IT will be one of the top priority issues for the coming years. By doing this, Komatsu plans to be able to offer system-integrated products and services, and furthermore, `talk' with the machines in the field to support our customers faster and more accurately.

For construction equipment, Komatsu has projects such as:

- Unmanned hauling system for mining (offering relief from physically demanding conditions)
- Dispatch and fleet control of construction sites

Combining various sensing technologies and a communications network system, Komatsu believes Komatsu will be able to run a remote machine diagnosis/support system for the machines working in the field. More accurate PM (preventive maintenance) can be performed for timely parts upgrade and replacement to improve machine availability. This approach will be applied not only to construction equipment, but to all products and services Komatsu is engaged in.

Technology Assessment and Development for Environmental Conservation

As a corporate citizen, being environment-friendly is a bottomline requirement. Komatsu will diligently work to produce low emission engine-powered vehicles, with lower energy consumption. Komatsu intends to use more recycled parts and material/components. In the future, Komatsu intends that its coolant will have a longer life, and hydraulic oil will be bio-degradable. All Komatsu product designs will be based on LCA (life cycle assessment).

Especially for machines to operate in urban areas, Komatsu intends to develop core technologies to further reduce noise and vibration of the equipment.

Komatsu is also devoted to using the engineering resources in developing recycling equipment and services, such as mobile crushers and recycle plants.

Material and Equipment Technology to Support Semiconductor Die Shrink

The acceleration of semiconductor geometry shrink has brought the 0.13(miu)m generation right around the corner. This is requiring new process technology, and the role of the material and equipment industry to support this move is becoming increasingly important. On the material (polycrystal silicon, silane gas and silicon wafers) side, R&D efforts in silicon material and wafer manufacturing technology are directed to improve crystal quality and flatness of wafers.

Komatsu believes that impressive progress in semiconductor process, and equipment technology is on the way, too. Komatsu believes that years of experience in R&D of diesel engines and construction equipment has ensured its excellence in technology areas such as optics/laser technology, and thermal technology. These can make significant contributions to semiconductor manufacturing of the next technology node.

In addition, Komatsu develops high-quality thermo-modules, that are indispensable for precision cool/heat control (wavelength control) of laser diodes for high-speed fiberoptic data communication.

D. Trend information

Development and Results of Business Operations

During the period under review, it is projected that the Japanese economy will register real negative growth, due to drastic decrease in capital investment and industrial production as well as record high unemployment rate, caused by the sluggish IT related markets and deflationary trend of the economy. The United States began to generate steady momentum for recovery later in the year. Nevertheless, it was on a declining trend when viewed for the whole year. European economies also weakened for the year. All combined, world economies slowed down simultaneously.

The business environment for construction and mining equipment business was seriously affected by decline in demand of over 20% in Japan from the previous period. In overseas markets, the Chinese market continued to expand during the year, however, demand declined in our major markets of North America and Europe reflecting economic slowdown in these regions. Overseas demand was slack for the year under review.

In the electronics business, Komatsu witnessed a record-breaking drop in the international semiconductor market for the year 2001, resulting in a drastic fall in the demand for silicon wafers and their raw materials, and polycrystalline silicon. Demand for thermo-modules (thermoelectric elements) for use in fiber optic communication network also dropped sharply for this period, which is seen as a reaction to surging growth in demand during the previous year.

Under these difficult conditions, in order to transform its corporate structure into a new one capable of expanding profits, Komatsu has embarked on the Reform of Business Structure which underscores cutback of capacity costs, substantial reduction of production costs, and new growth for its mainstay business of construction and mining equipment.

In cutting costs, Komatsu consolidated some operations, restructured its organizations, improved operational efficiency and reduced costs. Particularly in Japan, the Company

solicited voluntary retirees and transferred employees to affiliated companies in order to reduce personnel expenses.

In its construction and mining equipment business, Komatsu made aggressive launchings of the new "GALEO" series machines equipped with IT and other latest technological features in Japan, prior to other markets of the world. On the other hand, Komatsu also strengthened its business in the downstream fields such as rental, used equipments, components and after-sales services. Overseas, Komatsu carried out various measures designed for each region and product to improve profits.

In the electronics business, in order to improve deteriorated profits, Komatsu made thorough reassessment of the business structure and recorded impairment losses on fixed assets of two U.S. subsidiaries.

While Komatsu is determined to bring about positive results from these measures, the Company recorded an extraordinary loss by including expenses associated with voluntary retirement, transfers to affiliates and impairment losses of fixed assets for the electronics business for the year under review.

Forward Looking Information

Komatsu believes that there are signs of recovery in market demand for construction equipment in North America along with economic signs of bottoming out as a result of the inventory adjustment in progress. While it is projected that demand for construction equipment will remain sluggish in Europe, Komatsu believes there are signs of recovery in overall overseas markets with the rapidly growing Chinese market and other regions with promising potential demand. Meanwhile, in Japan, where almost half of Komatsu's sales takes place, it is difficult to anticipate definite developments for economic recovery, and it is projected that reduction of construction investment will continue. In this light, Komatsu anticipates a difficult and challenging business environment for fiscal 2003.

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 three 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 President and the Executive Vice 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, 2002), 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
Satoru Anzaki (Mar. 3, 1937)	Chairman of the Board	Mar. 1985 Director Nov. 1988 Managing Director Jun. 1991 Executive Managing Director Jun. 1995 President (Rep. Director) Jun. 2001 Chairman of the Board
Masahiro Sakane (Jan. 7, 1941)	President (Representative Director)	Jun. 1989 Director Jun. 1994 Managing Director Jun. 1997 Executive Managing Director Jun. 1999 Executive Vice President Jun. 1999 Rep. Director Jun. 2001 President (Rep. Director)
Toshitaka Hagiwara (June 15, 1940)	Executive Vice President (Representative Director) Assistant to President, Supervising Corporate Administration, Related Businesses, and Management Structure Reform	Jun. 1990 Director Jun. 1995 Managing Director Jun. 1997 Executive Managing Director Jun. 1999 Executive Vice President Jun. 1999 Rep. Director
Kazuhiro Aoyagi (Apr. 14, 1943)	Executive Managing Director President, Construction &	Jun. 1993 Director Jun. 1998 Managing Director

	Mining Equipment Marketing Division.	Jun. 1999 Senior Executive Officer Jun. 2001 Executive Managing Director
Kunio Noji (Nov. 17, 1946)	Managing Director President, Production Division, Supervising, e-KOMATSU	Jun. 1997 Director Jun. 1999 Executive Officer Jun. 2000 Senior Executive Officer Jun. 2001 Managing Director
Kunihiko Komiyama (May. 5, 1945)	Managing Director General Manager, Corporate Planning, Supervising Engines & Hydraulics Business	Jun. 1996 Director Jun. 1999 Senior Executive Officer Jun. 2002 Managing Director

Tetsuya Katada (Oct. 15, 1931)	Director Counselor	Mar. 1978 Director Mar. 1983 Managing Director Mar. 1987 Executive Managing Director Jun. 1988 Executive Vice President Jun. 1988 Rep. Director Jun. 1989 President (Rep. Director) Jun. 1995 Chairman of the Board (Rep. Director) Jun. 1999 Chairman of the Board Jun. 2001 Director
Toshio Morikawa (Mar. 3, 1933)	Director Advisor, Sumitomo Mitsui Banking Corporation	Jun. 1999 Director
Norimichi Kitagawa (July 22, 1940)	Statutory Auditor	Jun. 1993 Director Jun. 1997 Managing Director Jun. 1999 Executive Managing Director Jun. 2001 Statutory Auditor
Masafumi Kanemoto (May. 11, 1947)	Statutory Auditor	Jun. 2002 Statutory Auditor
Masahiro Yoshiike (Mar. 23, 1940)	Statutory Auditor President, The Taiyo Mutual Life Insurance Co.	Jun. 1997 Statutory Auditor
Takaharu Dohi (Jul. 12, 1933)	Statutory Auditor	Jun. 1999 Statutory Auditor

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

In order to strengthen its corporate governance as a global enterprise and facilitate its response to a changing business environment, the Company has reorganized its management as follows in 1999:

1. Stronger Board of Directors

To facilitate efficient deliberation and quick decision-making, the number of members of the Board were reduced from 26 to 8. The management decision-making and supervisory functions were separated from the executive functions. New external Board Directors were appointed in order to strengthen the transparency and objectivity of management.

2. Introduction of Executive Officer System

A total of 22 Executive Officers were appointed out of the Company's operating and functional divisions, with five of them concurrently assuming directorship.

Executive Officers were given clearly defined responsibilities.

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3. Introduction of the Global Officer System

In order to strengthen global management, a total of 18 Global Officers were appointed from among the leaders of key subsidiaries.

Global Officers will participate in a global meeting once or twice a year to formulate policies for the Group's businesses.

4. Establishment of Committee on Reward

The Company plans to establish an advisory Committee on Reward, which will include external members, in order to ensure the transparency, validity and objectivity of executive rewards.

The committee will make recommendations to the Board of Directors regarding policies for rewards, including levels of awards and performance evaluations of directors and officers.

Membership will be based initially on the current Stock Option Committee and will include internal personnel, representatives of shareholders, external auditors, consultants and licensed attorneys.

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 2002 to all Directors and Statutory Auditors as a group for services in all capacities, was (Yen)374 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 not reported under selling, general and administrative expenses as a charge against income for the year in which they are paid. Included in the figure for aggregate compensation set forth above is a total of (Yen)63 million in bonuses paid to Directors and Statutory Auditors as a group in their capacities as such (excluding bonuses for their services as employees) in respect of the 2002 fiscal year, as approved by the Company's Shareholders at the General Meeting of Shareholders held on June 27, 2001.

Retirement Allowance

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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, 2002 was (Yen)103 million.

Options to Purchase Securities from Registrant or Subsidiaries

On June 27, 2001, the shareholders of the Company authorized the acquisition by the Company of 1,100,000 shares of its common stock, for a total consideration of up to (Yen)1,000 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 the Tokyo Stock Exchange 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 the Tokyo Stock Exchange as of the date of the grant. According to the agreement, the option price is (Yen)559 per share and the option exercise period runs from August 1, 2002 to July 31, 2007.

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.

Name	Number of shares	Name	Number of shares
Satoru Anzaki	80,000	Masahiro Sakane	80,000
Toshitaka Hagiwara	70,000	Koji Ogaki	60,000
Kazuhiro Aoyagi	60,000	Kunio Noji	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
1999	1,000	700
2000	1,200	820

2001	1,200	758
2002	1,100	559

Option to exercise the issuance of common stocks warrant

On June 26, 2002, 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 950 rights, that will result in 950,000 shares by granting the right to convert 1,000 stocks per a stock warrant.

C. Board practices

See Item 6A "Directors and senior management"

D. Employees

Number of employees by business segment

	Total	Construction and Mining Equip.	Electronics	Other	Cor
2002	30,760	20,407	3,227	6,721	
2001	32,002	20,345	3,578	7,625	
2000	31,785				

Segment information for 2000 is not available.

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, 2003. 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, 2002. This table does not include the shares related to unexercised stock options.

Name	Position	Number of shares (in thousa
Satoru Anzaki	Chairman of the Board	134
Masahiro Sakane	President	49
Toshitaka Hagiwara	Executive Vice President	47
Kazuhiro Aoyagi	Executive Managing Director	35
Kunio Noji	Managing Director	25

Kunihiko Komiyama	Managing Director	28
Tetsuya Katada	Director	81
Norimichi Kitagawa	Statutory Auditor	29
Masafumi Kanemoto	Statutory Auditor	12
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, 2002.

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

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

The major shareholders of 5% or more of the Company shares and their percentage ownership as of March 31, 2001 and 2000 are as follows,

As of March 31, 2001

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

As of March 31, 2000

Name of major shareholders	Shares owned (in thousands)	Percentage
The Taiyo Mutual Life Insurance Co.	55,224	5.7%

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

As of March 31, 2002, 86 residents of the United States held approximately 14.0% 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 a 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.

Franklin Templeton Investment Group

Franklin Templeton Group, which consists of 6 investment institutions, filed as a group a substantial share holding report with the Director of the Kanto Local Finance Bureau of the Ministry of Finance in Japan on July 19, 2001, in compliance with Paragraph 1 of Article 27-25 of the Securities and Exchange Law of Japan.

Their report showed that they held 52,489,437 shares, or 5.5% of the Company's shares, as of May 1, 2001.

The number and the percentage of the Company shares held by Brandes Investment Partners and Franklin Templeton Investment Group who are