KOMATSU LTD
Form 20-F
June 28, 2011

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 20-F

(Mark One)

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

or

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

For the fiscal year ended March 31, 2011

or

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

or

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

Date of event requiring this shell company report __________

For the transition period from __________ to __________

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)

Masahiko Kanagawa or Masataka Mino
Telephone: +81-3-5561-2628
Facsimile: +81-3-3586-0374
Address: 2-3-6 Akasaka, Minato-ku, Tokyo 107-8414, Japan

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be 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

(Title of Class)

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

Common Stock*

(Title of Class)

* 21,937,535 American Depositary Shares evidenced by American Depositary Receipts, each American Depositary Share representing 1 share of Common Stock of Komatsu Ltd.

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.

967,902,641 shares (excluding 30,841,419 shares of Treasury Stock)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes þ No o

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes o No þ

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 þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes þ No o

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

Large accelerated filer þ Accelerated filer o Non-accelerated filer o

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP þ International Financial Reporting Standards as issued by the International Accounting Standards Board o Other o

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 o Item 18 o

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No þ

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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. Actua 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 are identified in Item 3.D. Risk Factors and elsewhere in this annual report and include, but are not limited to, unanticipated changes in demand for Komatsu s principal products, owing to changes in the economic conditions in Komatsu s principal markets; changes in exchange rates or the impact of increased competition; unanticipated costs or delays encountered in achieving Komatsu s objectives with respect to globalized product sourcing and new information technology tools; uncertainties as to the results of Komatsu s research and development efforts and its ability to access and protect certain intellectual property rights; the impact of regulatory changes and accounting principles and practices; and the introduction, success and timing of business initiatives and strategies.

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PART I

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, 2007 through March 31, 2011 have been derived from the Company s audited consolidated financial statements prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP). It should be read in conjunction with the Company s audited consolidated balance sheets as of March 31, 2010 and 2011, the related consolidated statements of income, shareholders equity and cash flows for the three fiscal years ended March 31, 2011 and the notes thereto that appear elsewhere in this annual report.

Selected Financial Data

	(Millions of yen, except per share amounts)				
	2011	**2010**	**2009**	**2008**	**2007**
Income Statement Data:					
Net sales 1)	1,843,127	1,431,564	2,021,743	2,243,023	1,893,343
Operating income 1)	222,929	67,035	151,948	332,850	244,741
Income from continuing operations before income taxes and equity in earnings of affiliated companies 1)	219,809	64,979	128,782	322,210	236,491
Income taxes 1)	64,706	25,364	42,293	115,794	79,745
Income from continuing operations attributable to Komatsu Ltd. less applicable income taxes 1)	150,752	33,559	78,797	203,826	153,264
Income from discontinued operations attributable to Komatsu Ltd. less applicable income taxes 1)				4,967	11,374
Net income attributable to Komatsu Ltd.	150,752	33,559	78,797	208,793	164,638
Per Share Data:					
Income from continuing operations attributable to Komatsu Ltd. less applicable income taxes					
- Basic	155.77	34.67	79.95	204.88	154.25
- Diluted	155.66	34.65	79.89	204.61	153.97
Net income attributable to Komatsu Ltd.					
- Basic	155.77	34.67	79.95	209.87	165.70
- Diluted	155.66	34.65	79.89	209.59	165.40
Cash dividends					
Yen	26.00	26.00	44.00	38.00	23.00
U.S. cents 2)	31.33	27.96	44.44	38.00	
Depreciation and amortization	89,467	91,319	98,354	75,664	72,709
Capital Investment 1) 3)	97,738	96,191	162,512	145,730	129,680

Research and development expenses 1)	49,005	46,449	53,736	49,673	46,306

	(Millions of yen)				
Balance Sheet Data:					
Total assets	2,149,137	1,959,055	1,969,059	2,105,146	1,843,982
Komatsu Ltd. shareholders equity	923,843	833,975	814,941	887,126	776,717
Capital stock	67,870	67,870	67,870	67,870	67,870
Number of shares issued at year-end	998,744,060	998,744,060	998,744,060	998,744,060	998,744,060
Number of shares outstanding at year-end	967,902,641	968,039,976	967,822,292	995,103,847	993,786,759

Notes:

1) In the fiscal year ended March 31, 2007, Komatsu disposed of its majority interest in Komatsu Electronic Metals Co., Ltd. (KEM). In the fiscal year ended March 31, 2008, Komatsu sold the outdoor power equipment (OPE) business of Komatsu Zenoah Co. and its subsidiaries. As a result, operating results and the gain recognized on the sale of KEM and its subsidiaries as well as the OPE business of Komatsu Zenoah Co. and its subsidiaries are presented as Income from discontinued operations attributable to Komatsu Ltd. less applicable income taxes.

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2) The conversion rate between the Japanese yen to the U.S. dollar for the fiscal year ended March 31, 2011 is ¥83 to U.S.$1.00, the approximate buying rate of Japanese yen as of noon on March 31, 2011 in The City of New York as reported by the Federal Reserve Board.

3) The term Capital Investment as used in the above Selected Financial Data should be distinguished from the term Capital Expenditures as used in the consolidated statements of cash flows. The term Capital Investment as used in the above Selected Financial Data is defined to refer to costs relating to the purchase of property, plant and equipment including properties under capital leases on an accrual basis which reflect the effect of timing differences between acquisition dates and payment dates. Komatsu s management uses this financial indicator to manage its capital investment and believes that this indicator is useful to investors in that this indicator presents accrual based capital investment in addition to the cash based capital expenditures provided in the consolidated statements of cash flows.

The following table provides the noon buying rates for Japanese yen in The City of New York as reported by the Federal Reserve Bank of New York and the Federal Reserve Board expressed in Japanese yen per U.S. dollar for the periods indicated. The average Japanese yen exchange rates represent average noon buying rates on the last business day of each month for the respective period. On June 17, 2011, the noon buying rate in The City of New York as reported by the Federal Reserve Board for Japanese yen was ¥80.10 = U.S.$1.00.

Yen Exchange Rates per U.S. dollar:

(Yen)

	Average	High	Low	Period-End
Year ended March 31				
2007	116.55	112.26	121.02	117.56
2008	113.61	96.88	124.09	99.85
2009	100.85	87.80	110.48	99.15
2010	92.49	86.12	100.71	93.40
2011	85.00	78.74	94.68	82.76

	High	Low	Period-End
2010			
December	81.67	84.23	81.67
2011			
January	81.56	83.36	81.97
February	81.48	83.79	81.94
March	78.74	82.98	82.76
April	81.31	85.26	81.31
May	80.12	82.12	81.29

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B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

Given that Komatsu operates on a global scale with development, production, sales and other bases established around the world, Komatsu is exposed to a variety of risks. Komatsu has identified the following risks as its primary risks based on information currently available to it. The statements set forth in this section should be considered carefully in conjunction with Item 5. Operating and Financial Review and Prospects and the Consolidated Financial Statements that appear elsewhere in this annual report on Form 20-F. The risks discussed below are risks that may, individually or in the aggregate, make Komatsu s actual results differ materially from its expected or past results. It should be noted, however, that it is impossible to predict or identify all risks that may be applicable to Komatsu. The below list of risks should not be considered to be a complete list of risks that could materially affect Komatsu s results of operations and/or financial condition. Komatsu s results of operations and/or financial condition may also be affected in the future by other risks that are currently unknown or that are not currently considered significant or material.

(1) Economic and market conditions

The business environment in which Komatsu operates and the market demand for its products may change substantially as a result of economic and market conditions, which differ from region to region.

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

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In newly-developing markets, where Komatsu has expanded its business in recent years, Komatsu has been making capital investments in line with the increase in business it has experienced as a result of such expansion. Particularly in China, Komatsu has been making aggressive investments to expand the production capacity of its subsidiaries and reinforce its sales and service operations. If a temporary disorder or stagnation were to occur in the Chinese economy, Komatsu s business results would be adversely affected. In addition, in the other newly-developing markets, Komatsu is constantly paying careful attention to the changes in demand for its products. However, these economies are impacted by a number of unstable factors, such as commodity prices and considerable reliance on exports to economically-advanced countries, and thus, changes in these factors could adversely affect Komatsu s business results. Furthermore, when economic and/or market conditions change more drastically than forecasted, Komatsu may also experience, among other things, fewer orders of its products, an increase in cancellation of orders by customers and a delay in the collection of receivables.

These changes in the economic and market conditions and the business environment in which Komatsu operates may lead to a decline in sales, and inefficient inventory levels and/or production capacities, thereby causing Komatsu to record lower profitability and incur additional expenses and losses. As a result, Komatsu s results of operations may be adversely affected.

(2) Foreign currency exchange rate fluctuations

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

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(3) Fluctuations in financial markets

While Komatsu is currently working on improving the efficiency of its assets by reducing its interest-bearing debt, its aggregate short- and long-term interest-bearing debt was approximately ¥540 billion as of March 31, 2011. Although Komatsu has strived to reduce the effect of interest rate fluctuations by promoting the procurement of funds at fixed interest rates, an increase in interest rates may increase Komatsu s interest expenses with respect to its interest-bearing debt subject to floating interest rates, thereby adversely affecting Komatsu s results of operations. In addition, fluctuations in the financial markets, such as fluctuations in the fair value of marketable securities and interest rates, may also increase the unfunded obligation portion of Komatsu s pension plans or pension liabilities, which may result in an increase in pension expenses. Such an increase in interest expenses and pension expenses may adversely affect Komatsu s results of operations and financial condition.

(4) Laws and regulations of different countries

Komatsu is subject to governmental regulations and approval procedures in the countries in which it operates. If the government of a given country were to introduce new laws and regulations relating to, for example, custom duties, quotas, currency restrictions and taxation, Komatsu may be required to bear increased expenses in order to comply with such regulations. With respect to transfer pricing between Komatsu and its affiliated companies, Komatsu is careful to comply with applicable taxation laws of Japan and the concerned foreign governments. Nevertheless, it is possible that Komatsu may be viewed by the concerned tax authorities as having used inappropriate pricing. Furthermore, if intergovernmental negotiations were to fail, Komatsu may be charged with double or additional taxation. Such unexpected expenses could have an unfavorable impact on Komatsu s business results.

(5) Environmental laws and regulations

Komatsu s products and business operations are required to meet increasingly stringent environmental laws and regulations in the numerous countries in which Komatsu operates. To this end, Komatsu expends a significant share of its management resources, such as research and development expenses, to comply with environmental and other related regulations. However, if the existing environmental regulations were to change in the future, Komatsu may be required to bear increased costs and to make further capital investments to comply with such new standards. Incurrence of such additional environmental compliance costs may adversely affect Komatsu s results of operations.

(6) Product and quality liability

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

(7) Alliances and collaborative relationships

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

(8) Procurement, production and other matters

Komatsu s procurement of parts and materials for its products is exposed to fluctuations in commodity prices, mainly in the price of steel materials. Price increases in commodities may increase the cost of materials and therefore the production cost of Komatsu s products. In addition, a shortage of product parts and materials, bankruptcies of suppliers or production discontinuation by suppliers of products used by Komatsu may make it difficult for Komatsu to engage in the timely procurement of parts and materials and manufacture of its products, thereby lowering Komatsu s production efficiency. In an effort to reduce any adverse effect to its business as a result of an increase in the cost of materials, Komatsu strives to reduce other costs and pass on any increase in the cost of materials to its customers through price adjustments of its products. Komatsu strives to minimize the effects of possible procurement or manufacturing issues by securing new suppliers or promoting closer collaboration among its related business divisions. However, if the increase in commodity prices were to exceed Komatsu s expectations or a prolonged shortage of materials and parts were to occur, Komatsu s results of operations may be adversely affected.

(9) Information security, intellectual property and other matters

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

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

If natural disasters (such as earthquakes and floods), epidemics, wars, terrorist acts, accidents (such as radioactive contamination), fires and explosions, unforeseeable criticism or interference by third parties or computer virus infections were to occur in the regions in which Komatsu operates, Komatsu may incur extensive damage to one or more of its facilities that then could not become fully operational within a short period of time. Even if Komatsu s operations were not directly harmed by such events, confusion in logistic and supply networks, shortages in the supply of electric power, gas and other utilities, telecommunication problems and/or problems of supplier s production may continue for a long period of time. Accordingly, if delays or disruption in the procurement of materials and parts, or the production and sales of Komatsu s products and services, or deterioration of the capital-raising environment or other adverse developments were to take place as a result of such events, Komatsu s business results may be adversely affected.

Item 4. Information on the Company

A. History and Development of the Company

The Company was incorporated in May 1921 as a joint stock corporation (kabushiki kaisha) in accordance with Japanese law under the name Kabushiki Kaisha Komatsu Seisakusho (Komatsu Ltd. in English). Its registered office is located at 2-3-6 Akasaka, Minato-ku, Tokyo 107-8414, Japan, and its telephone number is +81-3-5561-2628 (Finance & Treasury Department).

Shortly after its formation in 1921, the Company commenced the production and marketing of sheet-forming presses. In 1931, the Company produced Japan s first crawler-type farm tractor and in the 1940s the Company began its production of bulldozers in Japan. The Company broadened its product line-up by beginning production of motor graders and dump trucks in the 1950s and wheel loaders and hydraulic excavators in the 1960s.

The history and development of Komatsu s global operations can be divided into three phases: (1) exports from Japan, (2) offshore production and (3) management of its global production and distribution network.

Since its first export to Argentina in 1955, Komatsu has gradually increased exports of its products. Komatsu established its first liaison office in India in 1964 and established sales companies in Europe, the United States and Asia between 1967 and 1971.

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During the 1970s and 1980s, Komatsu started establishing its production facilities offshore and enhanced its offshore production by locating manufacturing plants close to their respective markets. In 1975, Komatsu commenced offshore production with the production of bulldozers in Brazil by Komatsu do Brasil Ltda., its first manufacturing plant outside Japan. Subsequently, Komatsu increased its global presence by establishing manufacturing plants in Indonesia, the United Kingdom and the United States during the 1980s. For example, during the 1980s, Komatsu established a joint venture company in the United States with Dresser Industries Inc. named Komatsu Dresser Company (now known as Komatsu America Corp., KAC).

During the 1990s, Komatsu strengthened its overseas manufacturing capabilities and made efforts to optimize its production and distribution network on a global basis through various methods, including forming alliances and entering into joint ventures. For instance, Komatsu established Komatsu Cummins Engine Co., Ltd. and Industrial Power Alliance Ltd. in Japan and Cummins Komatsu Engine Company in the United States, with Cummins Engine Company (now known as Cummins Inc.). In addition, Komatsu entered into three joint ventures in China, and a joint venture with Mannesmann Demag of Germany to establish Demag Komatsu GmbH (now known as Komatsu Mining Germany GmbH).

The following are some of the significant transactions in the development of Komatsu s business in recent years.

In January 2007, the Company signed a definitive agreement to sell the OPE business of Komatsu Zenoah Co. to a Japanese subsidiary of Husqvarna AB of Sweden. After Komatsu Zenoah Co. split its OPE business and established Zenoah Co., Komatsu Zenoah Co. was merged into Komatsu Utility Co., Ltd. in April 2007, as a result of which Komatsu Utility Co., Ltd. became Zenoah Co. s parent company. In the same month, Komatsu Utility Co., Ltd. sold all of its shares of Zenoah Co. to HUSQVARNA JAPAN LTD. (now known as Husqvarna Zenoah Co., Ltd.), thereby completing the sale of the OPE business.

In January 2008, to generate more synergy, the Company launched a takeover bid to obtain all issued shares of NIPPEI TOYAMA, which resulted in the Company owning 93.7% of the equity interest.

In August 2008, the Company and NIPPEI TOYAMA implemented a share exchange and NIPPEI TOYAMA became a wholly owned subsidiary of the Company. In October 2008, NIPPEI TOYAMA changed its name and is now known as Komatsu NTC Ltd.

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In April 2009, Komatsu Tokyo Ltd. (Komatsu Tokyo), a wholly owned subsidiary of the Company, merged with 11 other consolidated subsidiaries of the Company, consisting of 10 sales subsidiaries and Komatsu All Parts Support Ltd., through an absorption-type merger. In the same month, the Company transferred its sales and service business for construction equipment (excluding underground construction equipment) in Japan to Komatsu Tokyo through an absorption-type company split. Upon the completion of these transactions, Komatsu Tokyo changed its name and is now known as Komatsu Construction Equipment Sales and Service Japan Ltd.

In April 2010, Komatsu Industries Corporation (Komatsu Industries), a wholly owned subsidiary of the Company, took over the product development and sales and service operations of the large-sized press business, previously conducted by the Company s Industrial Machinery Division, by way of an absorption-type corporate split.

In April 2011, the Company merged with Komatsu Utility Co., Ltd. in an absorption-type merger. Komatsu Utility Co., Ltd. was a wholly owned subsidiary of the Company that produced and sold forklift trucks and mini construction equipment.

In April 2011, the Company decided to acquire the outstanding shares of Komatsu Rental Ltd. owned by other shareholders, upon which Komatsu Rental Ltd. would become a wholly owned subsidiary of the Company, and merge such subsidiary into the Company in an absorption-type merger in July 2011. In advance of such merger, the Company has acquired the outstanding shares owned by other shareholders of Komatsu Rental Ltd. and Komatsu Rental Ltd. has established its own wholly owned subsidiary. Komatsu Rental Ltd. will execute an absorption-type company split such that its wholly owned subsidiary will succeed to certain of its assets and liabilities and the Company will succeed to the rest of its assets and liabilities. Upon the merger, the wholly owned subsidiary that Komatsu Rental Ltd. has established will become a wholly owned subsidiary of the Company.

PRINCIPAL CAPITAL INVESTMENT

Komatsu invests capital each year in the development and production of new products and the improvement of the operating efficiency of its production infrastructure, primarily focusing on the Construction, Mining and Utility Equipment operating segment. Komatsu s capital investment for the fiscal years ended March 31, 2011, 2010 and 2009 were ¥97,738 million, ¥96,191 million and ¥162,512 million, respectively. Capital investment for the fiscal year ended March 31, 2011 by operating segment was as follows.

Capital Investment by Operating Segment

	Millions of Yen Fiscal Year ended March 31, 2011	**Percentage Change as compared to the Fiscal Year ended March 31, 2010**
Construction, Mining and Utility Equipment	¥ 92,049	-1.0%
Industrial Machinery and Others	5,689	77.1%
Total	¥ 97,738	1.6%

Notes:

1) Amounts include certain leased machinery and equipment accounted for as capital leases in accordance with Financial Accounting Standards Board Accounting Standards Codification 840.

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2) The term Capital Investment as used in the above table should be distinguished from the term Capital Expenditures as used in the consolidated statements of cash flows. The term Capital Investment as used in the above table is defined to refer to costs relating to the purchase of property, plant and equipment including properties under capital leases on an accrual basis which reflect the effect of timing differences between acquisition dates and payment dates. Komatsu s management uses this financial indicator to manage its capital investment and believes that this indicator is useful to investors in that this indicator presents accrual based capital investment in addition to the cash based capital expenditures provided in the consolidated statements of cash flows.

In the fiscal year ended March 31, 2011, Komatsu made capital investments in the construction, mining and utility equipment business to expand its production capacity and its product offerings in the Strategic Markets (see below for a further description of Strategic Markets), and to improve its ability to quickly adjust to future increases in demand for its equipment in such markets in the medium- to long-term. In the industrial machinery and others business, Komatsu built a new plant of Komatsu NTC Ltd. during the fiscal year ended March 31, 2011 to increase its capacity to produce wire saws as it expanded its market share with respect to such equipment in the solar cell market.

Komatsu considers the markets in Japan, North America and Europe to be its Traditional Markets and the markets in China, Latin America, Asia, Oceania, Africa, the Middle East and the Commonwealth of Independent States (CIS) as its Strategic Markets .

The following table sets forth in further detail the principal construction projects Komatsu undertook during the fiscal year ended March 31, 2011.

Main facilities completed in the fiscal year ended March 31, 2011

Operating segment	Main facilities
Construction, Mining and Utility Equipment	Komatsu Manufacturing Rus, LLC: Construction of a new plant Products: Medium-sized hydraulic excavators Location: Yaroslavl, Russia Komatsu Castex Ltd.: Expansion of manufacturing facilities for key components (iron castings) Products: Cylinder blocks, etc. Location: Himi City, Toyama, Japan

New constructions, expansions and overhauls of main facilities in progress during the fiscal year ended March 31, 2011

Operating segment	Main facilities
Construction, Mining and Utility Equipment	Komatsu (Changzhou) Construction Machinery Corp.: Relocation (and expansion) of existing plant Products: Hydraulic excavators, wheel loaders, dump trucks, etc. Location: Changzhou, Jiangsu, China

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Komatsu s capital investments for the fiscal year ended March 31, 2011 were primarily financed by funds on hand and bank borrowings.

For information on Komatsu s expected principal capital investments for the fiscal year ended March 31, 2011, see Item 4.D. Property, Plants and Equipment.

B. Business Overview

GENERAL

Komatsu is a global company that engages in the manufacturing, development, marketing and sale of a diversified range of industrial-use products and services. With Quality and Reliability as the cornerstone of its management policy, Komatsu is committed to providing safe and innovative products and services that satisfy its customers needs and expectations.

The manufacturing operations of Komatsu are conducted primarily at plants located in Japan, the United States, Brazil, the United Kingdom, Germany, Sweden, Italy, Indonesia, China, Thailand and India. Komatsu s products are primarily sold under the Komatsu brand name and almost all of its sales and service activities are conducted through its sales subsidiaries and independent distributors who primarily sell products to retail dealers in their respective geographic area.

PRODUCTS AND SERVICES

The following table sets forth Komatsu s net sales by operating segments for the fiscal years ended March 31, 2011, 2010 and 2009, which is reproduced from the Company s audited consolidated financial statements.

Net Sales by Operating Segments

	(Millions of Yen)					
	Fiscal Year Ended March 31, 2011		Fiscal Year Ended March 31, 2010		Fiscal Year Ended March 31, 2009	
Construction, Mining and Utility Equipment	¥1,615,689	87.7%	¥1,268,575	88.6%	¥1,744,733	86.3%
Industrial Machinery and Others	227,438	12.3%	162,989	11.4%	277,010	13.7%
Total	¥1,843,127	100.0%	¥1,431,564	100.0%	¥2,021,743	100.0%

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(1) Construction, Mining and Utility Equipment

The Construction, Mining and Utility Equipment operating segment has been Komatsu s mainstay operating segment during the last several decades. Net sales from this operating segment accounted for 87.7% of Komatsu s total net sales for the fiscal year ended March 31, 2011.

Komatsu offers various types of construction, mining and utility equipment, ranging from super-large machines capable of mining applications to general construction equipment and mini construction equipment for urban use. Komatsu s range of products in this operating segment also includes a wide variety of attachments to be used with its products. Komatsu s principal products in this operating segment fall into the following categories:

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

To remain competitive in this operating segment, Komatsu introduced the DANTOTSU Strategy in 2003 and has been working to increase the number of DANTOTSU products. DANTOTSU means unique and unrivaled in Japanese. Komatsu only designates a product as DANTOTSU if such product is considered unique and unrivaled as compared to those produced by Komatsu s competitors, due to the fact that such product is equipped with one or more features that its competitors cannot match for some time. Since the introduction of DANTOTSU products, Komatsu has been working to replace many of its product models with DANTOTSU products. Komatsu plans to continue making model changes to replace some of its existing construction, mining and utility equipment product models with DANTOTSU products.

In addition to manufacturing and developing new products, Komatsu has been focused on downstream businesses, such as the used equipment business and equipment rental business. Komatsu Used Equipment Corp. has been facilitating the sale of used equipment by holding annual auctions in several locations in Japan since the mid-1990s.

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The principal products developed and introduced to the market in the Construction, Mining and Utility Equipment operating segment during the fiscal year ended March 31, 2011 are listed below:

Company	Product	Model
Komatsu Ltd.	Hydraulic Excavators	PC160LC-8, PC190LC-8, PC190NLC-8, HB205-1, HB215LC-1, PC228US-8, PC228USLC-8, PC800-8E0, PC800LC-8E0, PC850-8E0, PC800-8R, PC800LC-8R, PC850-8R
	Bulldozers	D65-12, D68ESS-12
	Wheel Loader	WA100-6, WA150-6, WA150PZ-6, WA1200-6
Komatsu Utility Co., Ltd.	Hydraulic Excavators	PC70-8

(2) Industrial Machinery and Others

Net sales from the Industrial Machinery and Others operating segment accounted for 12.3% of Komatsu s total net sales for the fiscal year ended March 31, 2011. The products available in this operating segment are used by a wide range of businesses and include industrial machinery, such as forging and sheet metal machinery and other services. Komatsu s principal products in this operating segment fall into the following categories:

Category	**Principal Products**
Metal Forging and Stamping Presses	Large-sized presses, servo presses, small- and medium-sized presses and forging presses
Sheet Metal Machines	Laser cutting machines, fine plasma cutting machines, press brakes and shears
Machine Tools	Transfer machines, machining centers, crankshaft millers, grinding machines and wire saws
Defense Systems	Ammunition and armored personnel carriers
Temperature-control equipment	Thermoelectric modules and temperature-control equipment for semiconductor manufacturing
Others	Commercial-use prefabricated structures

The principal products developed and introduced to the market in the Industrial Machinery and Others operating segment during the fiscal year ended March 31, 2011 include the wire-sawing machine (PV1000 and PV500D) that can be used to saw materials used in solar batteries and chip ID markers.

PRINCIPAL MARKETS

Komatsu operates and competes in the following six principal markets: (1) Japan, (2) the Americas, (3) Europe and CIS, (4) China, (5) Asia (excluding Japan and China) and Oceania and (6) the Middle East and Africa.

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In this annual report, information regarding net sales by geographic segment is presented in the following two ways: (1) by sales destination (based on the country where the purchaser is located) and (2) by sales origin (based on the country where the seller is located). The following table sets forth Komatsu s net sales recognized by sales destination for the fiscal years ended March 31, 2011, 2010 and 2009. Net sales data by sales origin are set forth in Item 5.A. Operating and Financial Review and Prospectus as well as Note 22 to the Company s audited consolidated financial statements, included elsewhere in this report.

	(Millions of Yen)					
	Fiscal Year Ended March 31, 2011		Fiscal Year Ended March 31, 2010		Fiscal Year Ended March 31, 2009	
Japan	¥ 349,184	18.9%	¥ 323,813	22.6%	¥ 452,172	22.4%
Americas	397,427	21.6%	323,984	22.7%	503,450	24.9%
Europe and CIS	165,418	9.0%	127,377	8.9%	284,029	14.0%
China	428,208	23.2%	270,870	18.9%	236,226	11.7%
Asia (excluding Japan and China) and Oceania	398,366	21.6%	299,864	20.9%	335,574	16.6%
Middle East and Africa	104,524	5.7%	85,656	6.0%	210,292	10.4%
Total	¥1,843,127	100.0%	¥1,431,564	100.0%	¥2,021,743	100.0%

SALES AND DISTRIBUTION

Komatsu s international and domestic sales and distribution for its Construction, Mining and Utility Equipment operating segment are conducted primarily through a network of subsidiaries, affiliates and independent distributors. Except as noted below where Komatsu s subsidiaries sell their products directly to customers, construction, mining and utility equipment is typically sold through independent distributors, who purchase such equipment from the Company and its subsidiaries that manufacture such equipment.

Komatsu s construction, mining and utility equipment sales and distribution operations in Japan focus principally on retail sales to customers, partly on an installment basis, and are undertaken by independent distributors, and Komatsu s subsidiaries and affiliates who purchase such equipment from the Company. In addition, Komatsu has enhanced its equipment rental services business in Japan, especially for its construction and utility equipment, in response to strong demand from customers. Komatsu s subsidiaries and independent distributors form Komatsu s service network in Japan, providing total customer-support services.

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Komatsu s overseas construction, mining and utility equipment sales and service network is a global network and covers almost all parts of the world. With the exception of some sales of mining equipment in certain areas, Komatsu sells its products to customers through independent distributors around the world who typically purchase such equipment from the Company and its subsidiaries. With respect to mining equipment, in the areas where there is high demand, such as Australia, Chile and South Africa, there are situations when Komatsu s subsidiaries in such areas provide sales and services directly to customers. Komatsu s liaison offices provide both sales support and technical support to independent distributors. The Company s major sales subsidiaries and affiliates are located in the United States, Brazil, Chile, Peru, Belgium, France, Italy, Russia, China, Thailand, Indonesia, India, Australia, the United Arab Emirates and South Africa. These subsidiaries and affiliates provide technical assistance to the independent distributors and carry spare parts so that such parts can be delivered on a timely basis to its customers and distributors. These subsidiaries and affiliates as well as independent distributors provide the services that customers may require with respect to their construction, mining and utility equipment outside of Japan.

In addition, to provide customers with financing for their purchase of construction, mining and utility equipment, Komatsu has established finance subsidiaries in its major markets of Japan, the United States, Chile, Europe, Thailand, Indonesia, Australia and China.

Komatsu s sales of products in the Industrial Machinery and Others operating segment include direct sales to customers and sales through independent distributors and unaffiliated trading companies. For example, large presses are mainly sold directly to customers while small- and medium-sized presses are primarily sold through independent distributors.

SOURCES OF SUPPLY

As it is neither economical nor efficient for Komatsu to manufacture all of its necessary components and parts, Komatsu produces some of its major equipment components internally and purchases other components and parts, such as electrical components, tires, hoses and batteries, from specialized suppliers. Specialized suppliers are Komatsu s business partners that supply components and parts that are particularly important to maintaining the quality of Komatsu s products or business partners who specialize in supplying particular components and parts. Komatsu also procures some of its parts, such as metal forgings, machine components, sheet metal parts and various accessories, from other business partners. Therefore, the fluctuations in prices of materials for such components, such as steel materials, may affect Komatsu s results of operations. In addition, a shortage of product parts and materials, bankruptcies of suppliers or production discontinuation by suppliers of products used by Komatsu may make it difficult for Komatsu to engage in the timely procurement of parts and materials and manufacture of its products. While Komatsu is still experiencing uncertain procurement conditions for some electronic parts used in its construction equipment and the electronic power supply remains uncertain in Japan due to the Great East Japan Earthquake, Komatsu believes that it has adequate and reliable sources of supply for its material components, parts and raw materials, and that it has appropriate alternative sources available for such supplies consistent with its prudent business practices.

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SEASONALITY

In general, Komatsu s businesses have historically experienced some seasonal fluctuations in sales. While there are variations by market and product, Komatsu s consolidated sales volume is customarily the highest during the fourth quarter. However, this seasonality has generally not been material to Komatsu s results of operations.

PATENTS AND LICENSES

Komatsu holds numerous Japanese and foreign patents, design patents and utility model registrations relating to its products. It also has a number of applications pending for Japanese and foreign patents. Under Japanese law, a utility model registration is a right granted with respect to inventions of less originality than those which qualify for patents. Komatsu also manufactures a variety of products under licensing agreements with various other companies.

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

COMPETITIVE ENVIRONMENT

Construction, Mining and Utility Equipment

As a manufacturer of a full line-up of construction and mining equipment, Komatsu provides a broad range of products from super-large equipment for mining use to general construction equipment and mini construction equipment for urban use.

While there is intense competition in all of the product categories in this operating segment, based on sales amount, Komatsu continues to be one of the market leaders in respect of construction and mining equipment in every geographic region in which it operates. In many countries in the Asian market, Komatsu is the market leader in respect of construction and mining equipment based on sales amount.

Komatsu s competitors in the construction and mining equipment business consist of global competitors, regional competitors and locally specialized competitors. Major global competitors include Caterpillar Inc. (Caterpillar), Hitachi Construction Machinery Co., Ltd. (Hitachi Construction), Volvo Construction Equipment NV (Volvo) and CNH Global N.V. The competitive environment differs according to regions and product models.

In North America, while U.S. housing starts remained sluggish during the fiscal year ended March 31, 2011, overall demand for construction, mining and utility equipment showed signs of recovery, supported by strong demand in the rental equipment business and mining industries. North America is the largest market for construction equipment in the world and Caterpillar is the market leader based on sales. Deere & Company, which has formed an alliance with Hitachi Construction, also holds a strong market position in construction equipment in North America based on sales. With respect to mining equipment, Komatsu s main competitor in North America is Caterpillar, which has a full line-up of products.

In Europe, in addition to global manufacturers with a full line-up of construction equipment, such as Caterpillar and Volvo, there are many regional or locally specialized competitors who have firm footings in the local construction equipment markets. Komatsu competes with different competitors in each country or region in Europe and it is expected that the construction equipment markets in Europe will continue to be very competitive.

In Asia, Komatsu s competitors in the construction equipment market include Caterpillar, Hitachi Construction and Korean manufacturers, such as Hyundai Heavy Industries Co., Ltd. and Doosan Infracore Co., Ltd. In China, demand for construction and mining equipment remained strong, reflecting strong demand in the mining industry coupled with advancements in infrastructure development and urbanization especially in the inner regions of China. Komatsu competes with a number of locally specialized construction equipment manufacturers in addition to the above-mentioned competitors. With respect to mining equipment, Komatsu s main competitor in Asia and China is Caterpillar, a mining equipment manufacturer with a full line-up of products.

As for industrial vehicles, Komatsu competes with global competitors that offer a full line-up of forklift trucks, such as Toyota Industries Corporation, as well as locally specialized manufacturers. The major markets for forklift trucks have traditionally been Europe, the United States and Japan. Recently, China has overtaken Europe and has developed into the largest market for forklift trucks. While European and U.S. manufacturers of forklift trucks sell not only forklift trucks but also warehousing equipment, Komatsu and other Japanese manufacturers (excluding Toyota) of forklift trucks primarily focus on forklift trucks. In China, Komatsu competes with a number of locally specialized manufacturers in addition to European, U.S., Korean and Japanese manufacturers.

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Despite the competitive environment, Komatsu believes that the following strengths provide Komatsu with a competitive advantage in the global construction, mining and utility equipment market:

DANTOTSU products

DANTOTSU products are products that have truly outstanding features or qualities in terms of, among others, fuel efficiency, information and communication technology (ICT) and environmental features, such as lower CO_2 emissions and fuel consumption. Komatsu designates a product as a DANTOTSU product when it believes the product has features that its competitors will not be able to match for some time.

KOMTRAX (Komatsu Machine Tracking System)

KOMTRAX is a system that Komatsu pioneered the development of and introduced to the market in 2001. Using KOMTRAX, customers can manage the operation of their construction equipment by utilizing information technology applications, such as global positioning system (GPS) and mobile telecommunication technologies. Using the information collected through KOMTRAX, such as location and operation time, customers who operate equipment equipped with KOMTRAX are able to operate the equipment more efficiently and cost effectively because they are able to decrease fuel use and maintenance expenses. In addition, more recently, this system has enabled distributors and dealers to improve their parts and service operations, thereby improving the time required to respond to customers service requests.

AHS (Autonomous Haulage System)

AHS is a system that controls the operation of super-large autonomous dump trucks that are used in large-scale mines. Komatsu first introduced AHS in copper mines in northern Chile, where it is currently in full use. Komatsu started to provide AHS for use in iron ore mines in western Australia at the end of 2008 as its second installation. Komatsu is the only company that provides this type of system in the mining equipment industry.

Hybrid

In June 2008, Komatsu launched the world s first hybrid hydraulic excavator that consumes less fuel and emits less carbon dioxide (CO_2). Komatsu believes that it has a competitive advantage in the market with respect to this type of equipment not only because it was one of the first to develop and market this type of equipment but also because the equipment is equipped with advanced technologies that reduce CO_2 emissions and fuel consumption, which are features that customers have been focused on in recent years. Komatsu plans to introduce hybrid excavators in North, Central and South America, Southeast Asia, Europe and Oceania during the fiscal year ended March 31, 2012.

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Industrial Machinery and Others

In the Industrial Machinery and Others operating segment, Komatsu s principal products include (1) metal forging and stamping presses, (2) sheet metal machines and (3) machine tools. As discussed below, the market for these products is highly competitive.

(1) Metal Forging and Stamping Presses

Komatsu manufactures and sells stamping presses that are used to press doors and roofs of automobiles and various other parts into shapes. Komatsu s stamping presses can be divided into large-sized presses, and medium- and small-sized presses.

With respect to large-sized presses, which are mainly sold to automobile manufacturers, Komatsu considers Ishikawajima-Harima Heavy Industries Co., Ltd., Hitachi Zosen Fukui Corporation and AIDA Engineering, Ltd. (AIDA) of Japan and Schuler AG of Germany to be its major competitors. In Japan, Japanese manufacturers, including Komatsu, have an advantage over non-Japanese manufacturers. Likewise, in Germany, German manufacturers enjoy dominant positions and have a competitive advantage over non-German manufacturers. In other markets, regional and locally specialized competitors in addition to the above-mentioned major manufacturers compete with each other, making the market highly competitive. For the fiscal year ended March 31, 2011, orders for large-sized presses increased as the automobile manufacturing industry began to make capital investments in China, India, Brazil and other countries. Accordingly, Komatsu continued to strengthen its marketing activities of large-sized presses in such markets. For example, Komatsu focused on sales promotion activities in China and India as it expanded the product line-up of its AC Servo motor-driven large-sized presses, enhanced its technological edge, reinforced its global service operations and strengthened its collaboration with mold builders.

With respect to small- and medium-sized presses, Asia (including Japan) is Komatsu s largest market. Major competitors of Komatsu for these products include AIDA and Amada Co., Ltd. (Amada) of Japan, The Minster Machine Company of the United States and Chin Fong Machine Industrial Co., Ltd. of Taiwan. For the fiscal year ended March 31, 2011, Komatsu continued to increase the product line-up of its AC Servo motor-driven presses and worked to enhance its product quality by improving the standards by which Komatsu monitors the quality of its operating equipment and strengthening the evaluation process during the development stage of such equipment, which contributed to the increase in sales of small- and medium-sized presses. In addition, in light of increased demand for small- and medium-sized presses in China, Komatsu enhanced its sales and service infrastructure and started manufacturing such equipment in China in the fiscal year ended March 31, 2011.

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(2) Sheet Metal Machines

Komatsu s sheet metal machines business is primarily focused on machines that cut and bend steel sheets, and Japan is Komatsu s major market for such machines. Komatsu s competitors consist of other Japanese manufacturers, such as Amada, Mitsubishi Electric Corporation, Yamazaki Mazak Corporation and Koike Sanso Kogyo Co., Ltd. Amada enjoys a large market share in this business due to its large product line-up.

One of the principal product of Komatsu s sheet metal machine business is its plasma cutting machines. With technology that is original to Komatsu, Komatsu s plasma cutting machines boast high productivity and outstanding cost performance in terms of both operating and initial costs while maintaining a cutting quality that is equivalent to that of laser cutting machines. Such features are highly valued in this market and has enabled Komatsu to improve its profitability in this business.

In addition, Komatsu s 3D laser cutting machines that can be used to cut three dimensional objects are highly valued in the sheet metal machine market.

(3) Machine Tools

The principal products of Komatsu s machine tool business are machine tools that are used to cut and fabricate engine parts (transfer machines, crankshaft millers and grinding machines), general-purpose machining centers and wire saws. Major competitors in the market for machine tools used to cut and fabricate engine parts include JTEKT Corporation and ENSHU Limited of Japan and Gebrüder Heller Maschinenfabrik GmbH of Germany. Major competitors in the machining center include Japanese manufacturers such as Mori Seiki Co., Ltd. and Okuma Corporation.

Komatsu believes that it continues to maintain a competitive edge in the global market for machine tools used to cut and fabricate engine parts based on its technological edge and broad product line-up. Capital investments for engine production by automobile manufacturers recovered in the fiscal year ended March 31, 2011 compared to the previous fiscal year. In particular, Chinese automobile manufacturers actively made capital investments. Investments by U.S. automobile manufacturers recovered as well. Komatsu was able to maintain its high position in the global market for machine tools used to cut and fabricate engine parts in the fiscal year ended March 31, 2011 due to steps it continued to take to reinforce its sales in such markets, such as expanding its product line-up and establishing an arrangement whereby customers can purchase through Komatsu all of the machinery (including some machinery not manufactured by Komatsu) necessary to manufacture an engine.

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In addition, the market for wire saws that are used to slice silicon ingots, which are used to manufacture solar cells, has expanded rapidly in recent years due to the increase in demand for solar power generator devices. Major competitors in the wire saw market include Swiss manufacturers HCT Shaping Systems SA and Meyer Burger Technology AG. Komatsu s wire saws have been highly valued in the wire saw market because it uses advanced technologies, such as technologies that regulate the wire in ways that enable it to cut silicon ingots. More specifically, demand for solar cells increased in the fiscal year ended March 31, 2011, especially in Europe and North America. Demand for wire saws increased in China as a result of such increased demand in Europe and North America because many companies in China manufacture materials for solar cells. Komatsu further improved its market position in wire saws as it expanded its product line-up and improved the functionality of its wire saw products.

REGULATIONS

Komatsu is subject to a wide range of laws and regulations in the countries and regions where it operates, including safety regulations, restrictions on emissions, noise and vibration from its products, and various environmental controls regulating the manufacturing processes, such as the management of toxic chemicals and hazardous wastes, green procurement and recycling. Komatsu s operations and products are designed to comply with all applicable laws and regulations currently in effect in the relevant jurisdictions. Komatsu expects to remain in substantial compliance with existing applicable laws and regulations and does not expect that the costs of compliance with foreseeable laws and regulations will have a material effect upon its financial position and results of operations. Some of the important laws and regulations that affect Komatsu s businesses are summarized below.

Regulations regarding engine emissions

The Ministry of Land, Infrastructure and Transport of Japan (MLIT) introduced the approval system for low-emission type construction equipment used in construction in 1997, setting the maximum emission levels by model and power range. Under this system, manufacturers are required to file an application with MLIT for the approval of their low-emission type construction equipment which meets the standards set forth by MLIT. In 2006, a new law took effect in Japan to control exhaust emissions from off-road specific vehicles in the power range over 19kW. In connection with the implementation of this new law, maximum emission levels were lowered. Such new limits are known as the Tier 3 standards, compliance with which has been mandatory in Japan since 2006. MLIT and related ministries have introduced new maximum emission limits, which are expected to become effective in two stages in Japan, first in 2011 and second in 2014. The first stage of these new limits is similar to the Interim Tier 4 standards in the U.S. and the Stage III standards in Europe, which became effective in 2011, and the second stage of these new limits is similar to the Tier 4 standards in the U.S. and the Stage IV standards in Europe, which will become effective in 2014.

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In the United States, the U.S. Environmental Protection Agency (EPA) establishes emission standards for construction equipment and introduced the Tier I standards for equipment of 130kW or greater in 1996. Since then, the EPA has lowered emission standards and the Interim Tier 4 standards, which are currently in effect, have been phased-in since 2011. The even more stringent Tier 4 standards are scheduled to be phased-in starting 2014.

In Europe, the Engine Emissions Directive 97/68/EC regarding measures against emission of gaseous and particulate pollutants from internal combustion engines to be installed in off-road mobile machinery went into effect in 1999. The Directive was amended by several Directives and the new Directive 2010/26/EC took effect in 2010. The Stage III B standards have been phased-in since 2011. The next stage (Stage IV standards) is scheduled to be phased-in starting 2014, similar to Japan and the United States.

Komatsu and its products are in compliance with all regulatory standards that have already taken effect and Komatsu continues to make progress in its preparations to comply with the Tier 4 (Stage IV) standards that are to be phased-in in Japan, the United States and Europe starting in 2014.

Regulations regarding noise and vibration

In Japan, MLIT established the approval system for low-noise emission and low-vibration type construction equipment in 1983. Under this system, manufacturers are required to file an application with MLIT for the approval of their low-noise and low-vibration type construction equipment which meet the standards set forth by MLIT. Initially, this approval system for noise emission and vibration was only used for noise emission. The current measurement method and limits on noise emission levels for the type approval system have been in effect since October 1997. While the maximum standards for noise emission established by MLIT are not legally binding, these maximum standards must be complied with in Japan in practice since only construction equipment that have obtained the required approvals are allowed to be used in construction projects under the direct control of MLIT. The type approval system has been in use for low-vibration type construction equipment since October 1996. Similar to the type approval system for noise emission, the maximum standards for vibration set by MLIT are not legally binding. However, unlike the type approval system for noise emission, construction equipment, such as vibratory hammers and hydraulic excavators, that have not obtained such approvals are allowed to be used in construction projects under the direct control of MLIT.

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In Europe, Directive 95/27/EC of the European Parliament and of the Council of June 1995 amending Council Directive 86/662/EEC on the limitation of noise emitted by hydraulic excavators, rope-operated excavators, dozers, loaders and excavator-loaders has been in effect since January 1997. This directive defined the maximum permissible sound-power levels of airborne noise emitted by these earth-moving machines under dynamic operating conditions and required manufacturers to obtain an EC type-examination certificate. The second stage of this directive, which requires further noise reduction, has been in effect since January 2006. Separately, in January 2002, Directive 2000/14/EC of the European Parliament and of the Council relating to the noise emission in the environment by equipment for use outdoors went into effect. This regulation applies to a wide range of product types from gardening equipment to construction and waste-management equipment, and requires such products to bear a CE-mark and indicate their guaranteed sound-power level before they could be sold in the European market. Under such directive, manufacturers are required to confirm that the noise emitted from their products would not exceed the guaranteed sound-power level. The second stage of this directive, which required further noise reduction, has been in effect since January 2006. The European Union periodically reviews and updates its noise regulations, and stricter noise limitations is expected to be imposed for some types of machines manufactured by Komatsu.

Komatsu and its products are in compliance with all regulatory standards that have already taken effect and Komatsu continues to make progress in its preparations to comply with the latest noise and vibration standards that are to become effective in the future.

Regulations regarding hazardous substances

Responding to the increase in environmental conservation awareness around the world, Komatsu has been making efforts for several decades to reduce the use of asbestos, lead and other substances of environmental concern.

In response to the enactment of the European regulation addressing Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH) in June 2007, Komatsu reviewed the list of substances approved for limited use and revised the designation of certain substances within its manufacturing plants to reduced or banned as appropriate. Through cooperation with suppliers, Komatsu has initiated a system to strengthen its control over substances of environmental concern used in its products, as manufacturers like Komatsu are required by REACH to provide information to consumers (i.e., customers that purchased the equipment new or used) about the name(s) and the amount(s) of substance(s) used in each machine/part.

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Komatsu and its products are in compliance with all regulatory standards that have already taken effect and Komatsu continues to make progress in its preparations to comply with the latest regulations that will take effect in stages in future years regarding hazardous substances (such as substances that are recognized as being cancerous, having mutagenic properties, having effects on the reproductive organs or having high residual or accumulation characteristics).

Regulations regarding Safety

In Europe, the Machinery Directive 89/392/EEC, which sets forth the essential requirements on machine safety, was published in 1989 and became effective in 1995. This Directive requires manufacturers to consider and meet certain standards relating to the health and safety of the operator of the equipment when designing and manufacturing equipment. Since then Komatsu has been in compliance with the Directive and its updates. The Directive 89/392/EEC was amended by several Directives and codified into Directive 98/37/EC in 1998. Based on Directive 98/37/EC, a newly amending Machinery Directive 2006/42/EC was published in 2006 and became effective on December 29, 2009. This new Machinery Directive updated Directive 98/37/EC in several respects. For example, the new Machinery Directive required manufacturers to provide clearer instructions as to the operation of its equipment. More specifically, to avoid any misunderstandings as to the operation or handling of the equipment due to various languages being used in the EU member states, the new Directive recommended decals (pictorial diagrams) to be placed on the equipment warning the operator of safety and handling issues. In light of such recommendation, Komatsu replaced all safety labels that had a textual explanation with those that have pictorial diagrams and simplified its decal for the radiator cap by using a combination of symbols. Another update included in the new Machinery Directive was to require manufacturers to improve the visibility of the operator of the equipment. In response to such update, Komatsu has made rear view cameras or mirror systems a standard feature of large-size machines it sells in Europe.

Komatsu and its products are also in compliance with other health and safety regulatory standards, such as the Roll Over Protective Structures standards set forth by the Occupational Safety and Health Administration of the U.S. Department of Labor, and Komatsu continues to make progress in its preparations to comply with the health and safety standards that are to become effective in the future, including safety requirements for large machines that are used in the mining industry.

MANAGEMENT POLICY AND STRATEGIES

Below describes Komatsu s basic management policy and its mid- to long-range management plans.

Basic Management Policy

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The cornerstone of Komatsu s management is commitment to Quality and Reliability for maximization of its corporate value. This commitment is not limited to delivering safe and innovative products and services which incorporate the viewpoints of customers. Komatsu is continuing its efforts to enhance the Quality and Reliability of all organizations, businesses, employees and management of the entire Komatsu Group. It is the top management task of Komatsu to continue improving the Quality and Reliability of all these, year after year.

Mid to Long-Range Management Plan and Issues Ahead

Komatsu s production and procurement remain vulnerable to being affected by such conditions as the electronic power supply, suppliers recovery of operations, aftershocks and the crippled nuclear plant in Fukushima Prefecture. Komatsu will continue our all-out efforts to stabilize production and procurement as Komatsu monitors the conditions very carefully.

Concerning the restoration of the regions devastated by the Great East Japan Earthquake, Komatsu created the Tohoku Operation Department in Sendai City, Miyagi Prefecture. The Department will ensure dynamic decision-making operations in the affected regions, provide for the smooth transportation of construction equipment, forklift trucks, temporary housing materials, and spare parts for equipment, and reinforce our service operations.

Looking at our global group-wide business environment, Strategic Markets are steadily expanding in the construction and mining equipment business. Komatsu is projecting that the economic growth of countries in Strategic Markets will play the role of driving the demand for equipment. In the industrial machinery and others business, Komatsu is also anticipating that demand will continue to grow, as the volume of automobile production is increasing, especially in Strategic markets.

Komatsu draws its strengths especially from ICT applications, in-house development and production capabilities of key components, global sales and service networks, and flexible procurement and manufacturing operations. In the new mid-range management plan, Global Teamwork for Tomorrow, with the goals set for the fiscal year ending March 31, 2013, Komatsu is working to further refine our strengths by focusing our efforts on the following activities of importance and will steadfastly generate results. Komatsu will also continue our efforts to disseminate and anchor The KOMATSU Way, as all employees of Komatsu engage in Kaizen (improvement) activities in their own work. In addition, Komatsu will focus our efforts on our brand management activities designed to further enrich the relationship with our customers for mutual growth with them and foster the growth of employees who are needed for our global business expansion.

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1) Promotion of ICT Applications to Products and Parts

Komatsu have built on our record of ICT applications mainly in the domain of construction and mining equipment with the KOMTRAX for construction equipment, the AHS (Autonomous Haulage System) for dump trucks in large-scale mines and other systems. Komatsu will continue to apply leading-edge ICT to machine management, machine control, and construction site management in order to enhance our product competitiveness. Komatsu will also proactively promote ICT applications to our industrial machinery and forklift trucks. Furthermore, Komatsu is going to advance our utilization of a variety of information obtained from the KOMTRAX to improve customers productivity and our sales and production planning.

2) Further Advancement of Environmental Friendliness and Safety in Machine Performance

To help our customers reduce CO_2 emission volume from their equipment, Komatsu is going to advance our hybrid, HST (hydrostatic transmission) and motor-driven technologies for construction equipment and forklift trucks and our AC Servo technology for presses. With respect to hybrid hydraulic excavators, Komatsu is preparing for worldwide launchings of new HB205 and HB215LC models. By combining our in-house development and production of key components, such as engines, hydraulic equipment and control systems with leading-edge technologies, Komatsu is continuing our efforts to develop products to meet new emissions control regulations in Japan, North America and Europe and to ensure their smooth market introduction. In the domain of mining equipment, Komatsu has already introduced the AHS to mines in Chile and Australia, and Komatsu is going to further refine the performance and safety of the AHS. Komatsu is also going to generate steady results in the Biodiesel Fuel Project which Komatsu started in the previous fiscal year.

3) Expansion of Sales and Service Operations in Strategic Markets

In Strategic Markets and in the domain of mining equipment, which both have high growth potential, Komatsu is going to make a difference from competitors by not only supplying products which feature superior QCDS (quality, costs, delivery and safety) but also enhancing the operating rates of customers equipment through quick and responsive delivery of parts and service. To this end, Komatsu is going to upgrade our sales and service capabilities by developing and strengthening distributorships, expanding service support bases, reinforcing parts and Reman businesses and supporting customers through ICT applications. Also, in the domain of industrial machinery and forklift trucks, Komatsu is going to promote more synergy effects with the construction equipment business, and improve sales and service networks in response to an expanding weight on Strategic Markets centering on China.

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4) Promotion of Continuous Kaizen (Improvement) by Strengthening Workplace Capability

While the growth of emerging economies offers us a great chance to expand our business, Komatsu needs to expect new competition with companies of emerging economies in addition to conventional competition. To win this global mega competition, it is important for us to continuously refine our capability to meet the changes and sharpen our cost competitiveness, as Komatsu promotes our efforts for growth upheld in the mid-range management plan. To this end, it is absolutely necessary for us to have the power to demonstrate workplace capability and adaptability, i.e., the power to continue our Kaizen (improvement) activities. With this workplace capability and effective ICT utilization, Komatsu is going to further heighten our operational flexibility of global manufacturing operations, substantially reduce production costs, and maximize logistics. Komatsu is also continuing our efforts to reform and streamline our administrative work. Through these Kaizen (improvement) activities, Komatsu is going to further enhance our workplace capability and promote human resource development.

Based on the belief that our corporate value is the total sum of trust given to us by society and all our stakeholders, Komatsu are further strengthening our corporate governance to ensure sound and transparent management, while improving management efficiency. Being committed to promoting thorough compliance, Komatsu will also ensure that all employees share The KOMATSU Way. In addition to improving our business performance, Komatsu will facilitate both the development of corporate strength and the achievement of social responsibility in a well balanced manner.

** The KOMATSU Way:*

When the founder of Komatsu established the Company in 1921, he defined the guiding principles of the Company to be overseas expansion, quality first, technology innovation and human resource development. Komatsu s manager believes that Komatsu s strengths were forged by earlier generations of employees based on these principles and these principles are still ingrained in the minds of Komatsu employees today. Komatsu s management defines The KOMATSU Way to consist of Komatsu s strengths, the beliefs that support the strengths, and the basic attitudes and patterns of behavior. Komatsu s management believes that Komatsu can further enhance its reliability and achieve growth if its employees continue to believe in and pursue The KOMATSU Way.

Below are the financial targets that management has established for the Global Teamwork for Tomorrow mid-range management plan.

Numerical Targets of the Global Teamwork for Tomorrow

Items	Targets for Fiscal Year Ending March 31, 2013
Operating margin	15% or above
ROE: Return on equity 1)	20%
Net debt-to-equity ratio 2)	0.4 or below
Excluding debt of retail finance companies	0.2 or below
Consolidated payout ratio	20 - 40% (stably)

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Notes:

1) ROE = Net income attributable to Komatsu Ltd. for the fiscal year/[(shareholders equity at the beginning of the fiscal year + shareholders equity at the end of the fiscal year)/2]

2) Net debt-to-equity ratio = (Interest-bearing debt - cash and cash equivalents - time deposits)/shareholders equity

Guidelines for the Numeric Targets of the Global Teamwork for Tomorrow

Items	Fiscal Year Ending March 31, 2013		
Guideline on sales	JPY2,000 billion ± JPY100 billion		
Guidelines on exchange rate	USD1	EUR1	RMB1
	JPY90	JPY125	JPY13.5

C. Organizational Structure

As of March 31, 2011, the Komatsu group included the Company, 144 consolidated subsidiaries and 39 affiliates accounted for by the equity method. The Company is the parent of the Komatsu group. The following is a list of the principal consolidated subsidiaries as of March 31, 2011.

Name	Country of Incorporation	Ownership Interest (proportion of voting power held) (%)
Komatsu Utility Co., Ltd.	Japan	100.0
Komatsu Castex Ltd.	Japan	100.0
Komatsu Construction Equipment Sales and Service Japan Ltd.	Japan	100.0
Komatsu Used Equipment Corp.	Japan	100.0
Komatsu Rental Ltd.	Japan	79.0
Komatsu Forklift Japan Ltd.	Japan	100.0
Komatsu Logistics Corp.	Japan	100.0
Komatsu Industries Corporation	Japan	100.0
Komatsu NTC Ltd.	Japan	100.0
Komatsu Business Support Ltd.	Japan	100.0
Komatsu America Corp.	U.S.A.	100.0
Komatsu do Brasil Ltda.	Brazil	100.0
Komatsu Brasil International Ltda.	Brazil	100.0
Komatsu Holding South America Ltda.	Chile	100.0
Komatsu Cummins Chile Ltda.	Chile	81.8
Komatsu Cummins Chile Arrienda S.A.	Chile	81.8 (100.0)
Komatsu Financial Limited Partnership	U.S.A.	100.0
Komatsu Europe International N.V.	Belgium	100.0
Komatsu UK Ltd.	U.K.	100.0
Komatsu Hanomag GmbH	Germany	100.0
Komatsu Mining Germany GmbH	Germany	100.0
Komatsu France S.A.S.	France	100.0
Komatsu Utility Europe S.p.A.	Italy	100.0
Komatsu Italia S.p.A.	Italy	100.0
Komatsu Forest AB	Sweden	100.0
Komatsu CIS LLC	Russia	100.0
Komatsu Financial Europe N.V.	Belgium	100.0
Komatsu Southern Africa (Pty) Ltd.	South Africa	80.0

Komatsu Asia & Pacific Pte Ltd.	Singapore	100.0
PT Komatsu Indonesia	Indonesia	94.9
Bangkok Komatsu Co., Ltd.	Thailand	74.8
Komatsu Marketing Support Australia Pty. Ltd.	Australia	60.0
Komatsu Australia Pty. Ltd.	Australia	60.0 (100.0)
Komatsu Australia Corporate Finance Pty. Ltd.	Australia	60.0
Komatsu (China) Ltd.	China	100.0
Komatsu (Changzhou) Construction Machinery Corp.	China	85.0
Komatsu Shantui Construction Machinery Co., Ltd.	China	60.0
Komatsu Financial Leasing China Ltd.	China	100.0

Notes:

1) Percentage of ownership interest includes indirect ownership.

2) The Company s significant subsidiaries (as such term is defined in Rule 1-02(w) of Regulation S-X) are Komatsu America Corp. and Komatsu (China) Ltd.

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D. Property, Plants and Equipment

Komatsu s manufacturing operations for the Construction, Mining and Utility Equipment operating segment are conducted in 44 plants, 12 of which are located in Japan. As of March 31, 2011, 28 principal plants (out of 44 plants) had an aggregate manufacturing floor space of 1,740 thousand square meters (18,729 thousand square feet). Komatsu uses additional floor space at such plants and elsewhere as laboratories, office space and employee housing and welfare facilities. Komatsu is capable of increasing production output at its manufacturing facilities by adjusting their manufacturing schedules.

Komatsu owns most of the manufacturing facilities and the land on which such facilities are located. A portion of the properties owned by Komatsu is subject to mortgages or other types of liens. As of March 31, 2011, the net book value of the property owned by Komatsu was ¥508,387 million, none of which was subject to encumbrances.

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The name and location of Komatsu s principal plants, their approximate aggregate floor space, and the principal products manufactured therein as of March 31, 2011 are as follows:

Name and Location	Floor Space Thousand sq. meter	Floor Space Thousand sq. ft	Principal products
Japan			
Awazu Plant Komatsu, Ishikawa	248	2,669	Small- and medium-sized hydraulic excavators, small- and medium-sized wheel loaders, small- and medium-sized bulldozers, motor graders
Kanazawa Plant Kanazawa, Ishikawa	25	269	Super-large hydraulic excavators, presses
Osaka Plant Hirakata, Osaka	156	1,679	Medium- and large-sized hydraulic excavators, large-sized bulldozers, recycling equipment
Oyama Plant 1) Oyama, Tochigi	225	2,422	Diesel engines, hydraulic equipment, axle
Ibaraki Plant Hitachinaka, Ibaraki	63	678	Large-sized wheel loaders, dump trucks
Koriyama Plant Koriyama, Fukushima	34	366	Hydraulic equipment
Shonan Plant Shonan, Kanagawa	9	97	Controllers, monitors, KOMTRAX terminals, hybrid components
Komatsu Utility Co., Ltd. Oyama, Tochigi	75	807	Forklift trucks, mini excavators, mini wheel loaders
Komatsu Castex Ltd. Himi, Toyama	91	980	Steel castings, iron castings, pattern for casting
Komatsu NTC Ltd. Nanto, Toyama	68	732	Transfer machines, machining centers, laser cutting machines, grinding machines
The Americas			
Komatsu America Corp. Tennessee, U.S.A.	31	334	Medium-sized hydraulic excavators, articulated dump trucks, forestry equipment (crawler type)
South Carolina, U.S.A.	18	194	Wheel loaders, forklift trucks
Illinois, U.S.A.	61	657	Large-sized dump trucks
Hensley Industries, Inc. Texas, U.S.A.	19	205	Buckets, teeth, edges, adapters
Komatsu do Brasil Ltda. São Paulo, Brazil	67	721	Medium-sized hydraulic excavators, small- and medium-sized wheel loaders, medium-sized bulldozers, motor graders
Europe			
Komatsu UK Ltd. Birtley, UK	60	646	Medium- and large-sized hydraulic excavators
Komatsu Hanomag GmbH Hannover, Germany	77	829	Wheeled hydraulic excavators, small- and medium-sized wheel loaders, mini wheel loaders
Komatsu Forest AB Umea, Sweden	15	161	Forestry equipment (wheel type)

Komatsu Mining Germany GmbH Düsseldorf, Germany	27	291	Super-large hydraulic excavators
Komatsu Utility Europe S.p.A. Este, Italy	43	463	Mini excavators, backhoe loaders, skid steer loaders
Komatsu Manufacturing Rus, LLC Yaroslavl, Russia	39	420	Medium-sized hydraulic excavators
Asia (excluding Japan) and Oceania			
PT Komatsu Indonesia Jakarta, Indonesia	139	1,496	Medium- and large-sized hydraulic excavators, small- and medium-sized bulldozers, motor graders, dump trucks and hydraulic equipment
PT Komatsu Undercarriage Indonesia Bekasi, Indonesia	14	151	Undercarriage components and spare parts
Komatsu (Changzhou) Construction Machinery Corp. Jiangsu, China	16	172	Medium-sized hydraulic excavators, medium-sized wheel loaders, dump trucks
Komatsu Shantui Construction Machinery Co., Ltd. Shandong, China	65	700	Small- and medium-sized hydraulic excavators
Komatsu Undercarriage China Corp. Shandong, China	18	194	Crawler components
Komatsu (Shandong) Construction Machinery Corp. Shandong, China	13	140	Mini excavators, forklift trucks, hydraulic equipment, steel castings
Bangkok Komatsu Co., Ltd. Chonburi, Thailand	24	258	Medium-sized hydraulic excavators

Note:

1) Komatsu Cummins Engine Co., Ltd, is located at the Oyama Plant.

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The head office of the Company is located in an office building in Tokyo, Japan which Komatsu owns. Komatsu considers that its manufacturing plants and other facilities are well maintained and believes that its plant capacity is adequate for its current operating requirements. To the best of management s knowledge, management does not believe that there are any significant environmental issues that may materially affect Komatsu s utilization of its assets.

Plans for Capital Investments

As of the filing date of this annual report, Komatsu plans to make capital investments of ¥116,600 million in the fiscal year ending March 31, 2012. Of such amount, Komatsu has committed to make capital investments totaling approximately ¥12,800 million as of March 31, 2011.

The amount of capital investment expected to be made in the fiscal year ending March 31, 2012, the principal investment objectives and the sources of funding by operating segment are set forth in the below table.

Operating Segment	**Approximate expected capital investment amount in the fiscal year ending March 31, 2012 (Millions of Yen)**	**Principal investment objectives**	**Sources of funding**
Construction, Mining and Utility Equipment	111,800	To expand production capacity, etc.	Funds on hand, bank borrowings, etc.
Industrial Machinery and Others	4,800	To expand production capacity, renew obsolete equipment and streamline production, etc.	Funds on hand, bank borrowings, etc.
Total	116,600		

Note: Capital investment amounts exclude consumption tax.

With respect to the Construction, Mining and Utility Equipment operating segment, Komatsu plans to continue making capital investments to expand its production capacity and its product offerings in the Strategic Markets, and to improve its ability to quickly adjust to future increases in demand for its equipment in such markets in the medium- to long-term.

With respect to the Industrial Machinery and Others operating segment, Komatsu plans to make capital investments to increase its capacity to produce wire saws in response to increased demand for its equipment in the solar cell market. In addition, Komatsu plans to make capital investments to expand its capacity to produce large presses and other machinery as it anticipates that the automobile industry will recover and start making larger capital investments, especially in the Strategic Markets. Furthermore, Komatsu plans to continue making capital investments to renew obsolete equipment and streamline its production operations.

Item 4A. Unresolved Staff Comments

None.

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Item 5. Operating and Financial Review and Prospects

A. Operating Results

Overview

The following discussion and analysis provides information that Komatsu s management believes to be relevant in understanding Komatsu s consolidated financial condition and results of operations. For the convenience of the reader, Japanese yen amounts have been converted to U.S. dollar amounts at the rate of ¥83 to U.S.$1.00, the approximate buying rate of Japanese yen as of noon on March 31, 2011 in New York City as reported by the Federal Reserve Board.

Komatsu s Business

Komatsu is a global organization engaged primarily in the manufacturing, development, marketing and sale of industrial-use equipment and products. Komatsu has the following two operating segments: (1) Construction, Mining and Utility Equipment and (2) Industrial Machinery and Others.

For the fiscal year ended March 31, 2011, the Construction, Mining and Utility Equipment operating segment and the Industrial Machinery and Others operating segment accounted for approximately 87.7% and 12.3% of consolidated net sales, respectively. Of the consolidated net sales for the fiscal year ended March 31, 2011, 18.9% of net sales were derived from sales to external customers located in Japan and 81.1% of net sales were derived from sales to external customers located outside of Japan. For additional information regarding Komatsu s products, competitive position, organizational structure, and property, plant and equipment, see Item 4. Information on the Company.

The average exchange rate between the Japanese yen and the U.S. dollar was ¥85.00 for the fiscal year ended March 31, 2011 and ¥92.49 for the fiscal year ended March 31, 2010. For additional discussion on the effect of foreign currency exchange rate fluctuations on Komatsu s business, see Risk Factors in Item 3.D. Key Information and Comparison of Fiscal Years ended March 31, 2011 and 2010 and Comparison of Fiscal Years ended March 31, 2010 and 2009 in Item 5.A. Operating Results.

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General Overview

Effects of the Great East Japan Earthquake on Komatsu Group s Business Operations and Responses During the fiscal year ended March 31, 2011, the Great East Japan Earthquake and the subsequent tsunami brought about very extensive damages, especially in the Tohoku and northern Kanto regions of Japan. Immediately after this tragic disaster, the Komatsu Group checked the safety of its employees and their families, worked to secure their safety, and made extensive efforts in transporting relief items to disaster-stricken employees and their families. The Komatsu Group also focused its efforts to recover operations of affected plants, suppliers and other business bases.

With respect to production, the buildings and facilities of some plants of the Komatsu Group were damaged but we quickly worked to repair them. Komatsu employees from the Production and Procurement divisions visited our suppliers damaged facilities and worked with these suppliers employees to repair their facilities quickly. As a result of these efforts, while we are still experiencing uncertain procurement conditions for some electronic parts for our construction equipment and the electric power supply remains uncertain, all of our affected plants resumed production at almost full capacity by the end of March, 2011.

With respect to sales and services, our operations were seriously affected by the tsunami. At some facilities located along the Pacific Ocean side of the Tohoku region, their buildings, facilities and construction equipment were washed away or destroyed. We expect that it will take some time for such damaged facilities to recover and become fully operational. To assist the affected areas, shortly after the devastation brought by the tsunami, we restarted our maintenance and repair service for construction equipment, which is indispensable for the restoration and reconstruction of the affected areas, using our other operational facilities located near the affected area.

In an effort to provide the necessary equipment and materials needed in the affected regions to the maximum extent possible, we have decided to provide ¥800 million worth of assistance, which assistance will focus on lending our own construction equipment, forklift trucks, temporary housing and power generators free-of-charge. We are lending these items based on requests received from the local governments.

As a result of our efforts as described above, this disaster did not have a significant effect on our business results. For the fiscal year ended March 31, 2011, we recognized additional costs and expenses of ¥4.6 billion (U.S.$55 million) relating to this disaster. Such costs and expenses reflect a write-off expense of ¥3.3 billion (U.S.$40 million), relief expenses to the affected areas of ¥0.8 billion (U.S.$10 million) and losses resulting from temporary disruption of production of ¥0.5 billion (U.S.$6 million). In addition, due to sales being carried forward to the next fiscal year, we estimate that this disaster resulted in a reduced gross profit of ¥2.4 billion (U.S.$29 million) for the fiscal year ended March 31, 2011. We believe such amount will be recognized in the fiscal year ending March 31, 2012.

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It is projected that the reconstruction work as a result of this disaster will last for a long time. Because we recognize the importance of (1) producing construction equipment, which is- an indispensable tool for restoration and reconstruction, (2) promptly delivering such equipment to the affected areas and (3) continuing our maintenance and repair operation to ensure trouble-free use of such equipment, we have established the Tohoku Operation Department in Sendai City, Miyagi Prefecture, and will continue to work to normalize our operations in the affected areas.

Operations and Business Results

During the fiscal year ended March 31, 2011, some of the world s economies showed signs of recovery, reflecting positive effects of the economic stimulus packages of their respective governments. In particular, the Chinese economy, with the support of its government s economic stimulus measures, lead the other economies by turning around its economy and recording growth. The positive effects of China s economic growth have reached the surrounding Asian countries and countries that produce natural resources, helping such countries economic recovery, which also encouraged economic recovery in developed countries. As a result, demand for Komatsu s equipment increased in all regions of the world and in both operating segments.

In light of such economic environment, Komatsu increased its production capabilities, introduced new hybrid hydraulic excavators and streamlined its utility business with respect to the Construction, Mining and Utility Equipment operating segment. More specifically, Komatsu continued to focus its efforts on expanding its production capacity and reinforcing its product support operations (such as increasing the number of depots that supply Komatsu parts) in the Strategic Markets in light of the fact that it anticipates medium- to long-term growth in such markets. For example, Komatsu increased its production capabilities by commencing production at Komatsu Manufacturing Rus, LLC in June 2010, which is Komatsu s first assembly plant in Russia for construction and mining equipment, and completing the construction of an additional plant in China of Komatsu (Changzhou) Construction Machinery Corp., which began production in January 2011. In addition, Komatsu China Mining Limited commenced operations in October 2010 to provide sales and product support operations for mining equipment and related parts exclusively for large-scale mining customers.

In addition, the fiscal year ended March 31, 2011 was the first fiscal year of the Mid to Long-Range Management Plan, which places product development for improved environmental friendliness as one of its focus activities. Consistent with such plan, Komatsu is working to expand the sales of hybrid hydraulic excavators that feature improved fuel consumption and CO_2 emissions volume. For example, Komatsu introduced the hybrid hydraulic excavator models HB205 and HB215LC in Japan in December 2010, which offer improved fuel consumption and CO_2 emissions volume as compared to prior models. Komatsu intends to gradually introduce these new hybrid hydraulic excavator models in North America, Europe, Latin America, China, Asia and Oceania in the coming fiscal years.

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When considering the future of the utility business (i.e., forklift trucks and mini construction equipment), management believes that the growth market for such equipment is in the overseas market, similar to construction and mining equipment. In order to strengthen Komatsu s competitiveness in this business at an early date, management concluded that it was imperative to integrate the utility business together with the construction and mining equipment businesses, which already have an established global operation and experience operating in the global business environment. Accordingly, the Company merged with Komatsu Utility Co., Ltd., a wholly owned subsidiary of the Company that manufactured and sold forklift trucks as well as mini construction equipment, in an absorption type merger on April 1, 2011. Through this merger and the integration of personnel and resources, management believes that Komatsu is better positioned to develop not only more technologically advanced forklift trucks and mini construction equipment but also products that it will be able to designate as DANTOTSU products, thereby improving its ability to capture a larger share in the global utility equipment market.

With respect to the Industrial Machinery and Others operating segment, the automobile industry, which decreased capital investments since the global economic downturn in 2008, showed signs of recovery during the fiscal year ended March 31, 2011, in light of increased automobile production volume in countries such as China, Indian and Brazil. In addition, capital investments by the solar cell manufacturers in Asia, especially in China, also increased during the fiscal year ended March 31, 2011. Based on these factors, management expects that the demand for industrial machinery will increase in the Strategic Markets, such as China, Asia and Latin America. In light of such environment, management decided to reorganize some of its companies in this operating segment with the goal of developing the industrial machinery business as one of Komatsu s core business. More specifically, Komatsu NTC Ltd. was merged with Komatsu Machinery Corporation and the Company merged with Komatsu Engineering Corp. in an absorption-type merger. With respect to the merger between Komatsu NTC Ltd. and Komatsu Machinery Corporation, both companies mainly engaged in the business of manufacturing and selling machine tools for the automobile industry and equipment to manufacture semiconductors. By combining the technological capabilities and expertise of these companies, Komatsu aims to strengthen the sales and service structure of this business in the Strategic Markets, enhance product selection, and develop and manufacture products that meet the next generation of technological advancements. With respect to the merger between the Company and Komatsu Engineering Corp., the Company intends to incorporate the advanced technology and expertise of Komatsu Engineering Corp. to improve its competitiveness. In addition, in light of the expanding solar cell market, Komatsu built a new plant of Komatsu NTC Ltd. during the fiscal year ended March 31, 2011 to increase its production capacity of wire saws.

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Summary of Operating Results

Consolidated net sales for the fiscal year ended March 31, 2011 increased by 28.7% from the fiscal year ended March 31, 2010 to ¥1,843,127 million (U.S.$22,206 million) due primarily to increased sales in the Construction, Mining and Utility Equipment operating segment as well as the Industrial Machinery and Others operating segment. Demand for construction and mining equipment remained high in the Strategic Markets, especially China, Asia and Latin America, while demand recovered and increased from the previous fiscal year in the Traditional Markets of Japan, North America and Europe. Demand for industrial machinery also turned toward recovery, reflecting growth of the solar cell industry in Asia, especially China, and recovery of the automobile industry in the Strategic Markets.

Operating income for the fiscal year ended March 31, 2011 was ¥222,929 million (U.S.$2,686 million), which increased by 232.6% from the fiscal year ended March 31, 2010. This increase in operating income was due primarily to positive factors such as (1) the increase in demand for Komatsu products as a result of increased natural resource developments on a worldwide basis and increased infrastructure developments by governments in various countries in an effort to stimulate their respective economies, (2) various efforts undertaken by Komatsu, such as the realization of sales of products at higher prices and the reduction of production costs, and (3) the decrease in expenses associated with structural reforms of its production and sales operations as compared to the fiscal year ended March 31, 2010, which outweighed negative factors such as (1) unfavorable changes in foreign exchange rates, such as the sharp appreciation of the Japanese yen against the U.S. dollar, Euro and Renminbi, and (2) costs and expenses resulting from the damages caused by the Great East Japan Earthquake and the subsequent tsunami.

Income before income taxes and equity in earnings of affiliated companies for the fiscal year ended March 31, 2011 increased by 238.3% from the fiscal year ended March 31, 2010 to ¥219,809 million (U.S.$2,648 million).

Net income attributable to Komatsu Ltd. for the fiscal year ended March 31, 2011 increased by 349.2% to ¥150,752 million (U.S.$1,816 million) from the fiscal year ended March 31, 2010.

Key Management Indices

Management uses the following six financial indicators to assess Komatsu s consolidated financial condition and consolidated results of operations: (1) net sales, (2) segment profit, (3) operating income, (4) operating margin, (5) return on equity ratio (ROE) and (6) net debt-to-equity ratio (Net DER). Set forth below is a summary of these key indicators for the fiscal years ended March 31, 2011 and 2010.

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Management considers consolidated segment profit to be one of its key management indices because it enables management to evaluate financial data without taking into account the effect of nonrecurring events and other factors unrelated to business activities, such as impairment loss or interest income/expense. Consolidated segment profit is not a consolidated income statement measurement under U.S. GAAP.

The following table summarizes information relating to the reconciliation of consolidated segment profit and consolidated operating income.

	Million of yen		Millions of U.S. dollars
	2011	2010	2011
Consolidated Segment Profit	¥ 234,972	¥ 80,719	$ 2,831
Impairment loss on long-lived assets	(5,142)	(3,332)	(62)
Other operating income (expenses), net	(6,901)	(10,352)	(83)
Consolidated Operating Income	¥ 222,929	¥ 67,035	$ 2,686

	Results for Fiscal Year Ended March 31,		Percentage Change
Management Indices	**2011**	**2010**	**2011 vs. 2010**
Consolidated Net Sales	¥ 1,843,127 million	¥ 1,431,564 million	28.7%
Consolidated Segment Profit	¥ 234,972 million	¥ 80,719 million	191.1%
Consolidated Operating Income	¥ 222,929 million	¥ 67,035 million	232.6%
Consolidated Operating Margin [1]	12.1%	4.7%	7.4 points
ROE [2]	17.2%	4.1%	13.1 points
Net DER [3]	0.50	0.60	-0.10

Notes:

1) Operating Margin = Operating Income/Net Sales

2) ROE = Net Income attributable to Komatsu Ltd. for the fiscal year/{(Komatsu Ltd. Shareholders Equity at the beginning of the fiscal year) + (Komatsu Ltd. Shareholders Equity at the end of the fiscal year)/2}

3) Net Debt-to-Equity Ratio = (Interest-bearing Debt - Cash and Cash Equivalents - Time Deposits)/Komatsu Ltd. Shareholders Equity

Consolidated Net Sales

Consolidated net sales for the fiscal year ended March 31, 2011 increased by 28.7%, or ¥411,563 million, to ¥1,843,127 million (U.S.$22,206 million) from ¥1,431,564 million for the fiscal year ended March 31, 2010. This increase was due primarily to increased sales in the Construction, Mining and Utility Equipment operating segment as well as the Industrial Machinery and Others operating segment. Demand for construction and mining equipment remained high in the Strategic Markets, especially China, Asia and Latin America, while demand recovered and increased from the previous fiscal year in the Traditional Markets of Japan, North America and Europe. Demand for industrial machinery also turned toward recovery, reflecting growth of the solar cell industry in Asia, especially China, and recovery of the automobile industry in the Strategic Markets.

Consolidated Segment Profit

Consolidated segment profit for the fiscal year ended March 31, 2011 increased by 191.1% to ¥234,972 million (U.S.$2,831 million) as compared to the fiscal year ended March 31, 2010. This increase in segment profit was due primarily to positive factors such as (1) the increase in demand for Komatsu products as a result of increased natural resource developments on a worldwide basis and increased infrastructure developments by governments in various countries in an effort to stimulate their respective economies, and (2) various efforts undertaken by Komatsu, such as the realization of sales of products at higher prices and the reduction of production costs, which outweighed negative factors such as (1) unfavorable changes in foreign exchange rates, such as the sharp appreciation of the Japanese yen against the U.S. dollar, Euro and Renminbi, and (2) costs and expenses resulting from the damages caused by the Great East Japan Earthquake and the subsequent tsunami.

Consolidated Operating Income, Consolidated Operating Margin

Consolidated operating income for the fiscal year ended March 31, 2011 was ¥222,929 million (U.S.$2,686 million), up by 232.6% or ¥155,894 million from ¥67,035 million for the fiscal year ended March 31, 2010. This increase in operating income was due primarily to positive factors such as (1) the increase in demand for Komatsu products as a result of increased natural resource developments on a worldwide basis and increased infrastructure developments by governments in various countries in an effort to stimulate their respective economies, (2) various efforts undertaken by Komatsu, such as the realization of sales of products at higher prices and the reduction of production costs, and (3) the decrease in expenses associated with structural reforms of its production and sales operations as compared to the fiscal year ended March 31, 2010, which outweighed negative factors such as (1) unfavorable changes in foreign exchange rates, such as the sharp appreciation of the Japanese yen against the U.S. dollar, Euro and Renminbi, and (2) costs and expenses resulting from the damages caused by the Great East Japan Earthquake and the subsequent tsunami.

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Consolidated operating margin for the fiscal year ended March 31, 2011 increased by 7.4 percentage points to 12.1% from 4.7% for the fiscal year ended March 31, 2010.

ROE

Net income attributable to Komatsu Ltd. in the fiscal year ended March 31, 2011 increased by 349.2% to ¥150,752 million (U.S.$1,816 million) compared with the fiscal year ended March 31, 2010 due primarily to the increase in operating income. As a result, ROE for the fiscal year ended March 31, 2011 increased by 13.1 percentage points to 17.2% from 4.1% in the fiscal year ended March 31, 2010.

Net DER

Komatsu s aggregate interest-bearing debt as of March 31, 2011 was ¥544,068 million (U.S.$6,555 million), which decreased by ¥42,311 million as compared to March 31, 2010. This decrease was primarily due to the fact that Komatsu s increased net income enabled it to repay its loans from financial institutions and holders of its outstanding Euro medium-term notes and commercial paper notes by amounts that exceeded the total amount borrowed by its retail finance businesses that provide financing to customers purchasing Komatsu products.

Net interest-bearing debt after deducting cash and deposits also decreased by ¥43,708 million to ¥459,110 million (U.S.$5,531 million) in the fiscal year ended March 31, 2011. As a result, Net DER for the fiscal year ended March 31, 2011 decreased to 0.50 from 0.60 for the fiscal year ended March 31, 2010.

Critical Accounting Policies

Komatsu prepares its consolidated financial statements in conformity with U.S. GAAP. Komatsu s management regularly makes certain estimates and judgments that Komatsu believes are reasonable based upon available information. These estimates and judgments affect the reported amounts of assets and liabilities as of the date of the financial statements, the reported amounts of income and expenses during the periods presented, and the disclosed information regarding contingent liabilities and debts. These estimates and judgments are based on Komatsu s historical experience, terms of existing contracts, Komatsu s observance of trends in the industry, information provided by its customers and information available from other outside sources, as appropriate.

By their nature, these estimates and judgments are subject to an inherent degree of uncertainty, and may differ from actual results. For a summary of Komatsu s significant accounting policies, including the critical accounting policies discussed below, see Note 1 to the Consolidated Financial Statements. Komatsu s management believes that the following accounting policies are critical in fully understanding and evaluating Komatsu s reported financial results.

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(1) Allowance for Doubtful Receivables
Komatsu estimates the collectability of its trade receivables taking into consideration numerous factors including the current financial position of each customer. Komatsu establishes an allowance for expected losses based on individual credit information, historical experience and assessment of overdue receivables. Komatsu continually analyzes data obtained from internal and external sources in order to become familiar with customers credit situations. Since Komatsu s historical loss experiences have fallen within their original estimates and established provisions, Komatsu s management believes its allowance for doubtful receivables to be adequate. If the composition of Komatsu s trade receivable were to change or the financial position of each customer were to change due to an unexpected significant shift in the economic environment, it is possible that the accuracy of its estimates could be affected and thus its financial position and results of operations could be materially affected. For additional information, see Note 4 to the Consolidated Financial Statements.
(2) Deferred Income Tax Assets and Uncertain Tax Positions
Komatsu estimates income taxes and income tax payable in accordance with applicable tax laws in each of the jurisdictions in which it operates. Net operating loss carry forwards and temporary differences resulting from differing treatment of items for taxation and financial accounting and reporting purposes are recognized on Komatsu s consolidated balance sheet by adjusting the effect for deferred income tax assets and liabilities. Komatsu is required to assess the likelihood that each of its group company s deferred tax assets will be recovered from future taxable income estimated for each group company and the available tax planning strategies. Komatsu s management estimates its future taxable income and considers the likelihood of recovery of deferred tax assets based on the management plan authorized by the board of directors, periodic operational reports of each group company, future market conditions and tax planning strategies, and, to the extent Komatsu s management believes that any such recovery is not likely, each group company establishes a valuation allowance to reduce the amount of deferred tax assets reflected in the consolidated balance sheet. Changes to the amount and timing of future taxable income determined by Komatsu s management could result in increases to the valuation allowance.
Benefits derived from uncertain tax positions are recognized when a particular tax position meets the more-likely-than-not recognition threshold based on the technical merits of such position. A benefit is measured as the largest amount of benefit that is greater than 50 percent likely of being realized upon a final settlement with the appropriate taxing authority. Komatsu assesses the likelihood of sustaining such tax positions at each reporting date, with any changes in estimate reflected in the financial statements for the period during which such changes occur, until such time as the positions are effectively settled.

While Komatsu s management believes that all deferred tax assets after adjustments for valuation allowance will be realized and all material uncertain tax positions that are recognized will be successfully sustained, Komatsu may be required to adjust its deferred tax assets or valuation allowance or reserve for unrecognized tax benefits if its estimates differ from actual results due to poor operating results, lower future taxable income as compared to estimated taxable income or different interpretations of tax laws by the relevant tax authorities. These adjustments to the valuation allowance or recognized tax benefits could materially affect Komatsu s financial position and results of operations. For additional information, see Note 15 to the Consolidated Financial Statements.

For the fiscal year ended March 31, 2011, management changed its assessment of the ability to realize the deferred tax assets of a certain wholly owned subsidiary and reduced its valuation allowance. The ability to merge the subsidiary with the Company was not considered prudent as of March 31, 2010 and March 31, 2009, and therefore management believed at that time the likelihood of the ability to realize the deferred tax assets of the subsidiary was unlikely. Consequently, a valuation allowance was established on those deferred tax assets. During the fiscal year ended March 31, 2011, the merger of the subsidiary into the Company was deemed prudent and therefore the company decided to execute it due to a change in the operations of the subsidiary and its business outlook.

(3) Valuation of Long-Lived Assets and Goodwill

Komatsu s long-lived assets are reviewed for potential impairment whenever events or changes in circumstance indicate that the carrying amount of an asset may not be recoverable, such as a decrease in future cash flows caused by a change in business environment. The recoverability of assets to be held and used is measured by comparing the carrying amount of a particular asset to the estimated future undiscounted cash flow expected to be generated by such asset. Such future undiscounted cash flow is estimated in accordance with Komatsu s management plan. The management plan is established by taking into consideration, to the extent possible, management s best estimates on the fluctuation of sales prices, changes in manufacturing costs and sales, general and administrative expenses based on expected sales volumes derived from market forecasts available through outside research institutions and through customers.

If the carrying amount of an asset exceeds its future undiscounted cash flow and such asset is considered unrecoverable and identified as an impaired asset, Komatsu recognizes an impairment loss based on the amount by which the carrying amount of the asset exceeds its fair value. Fair value is customarily measured based on the asset s future discounted cash flow, and the rate used to discount such cash flow is the weighted average capital cost reflecting the fluctuation risk of future cash flow in the capital markets. As an alternative to such customary method, fair value may also be measured based on an independent appraisal. Long-lived assets to be disposed of are reported at the lower of the carrying amount or fair value less costs of sales.

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Komatsu reviews its goodwill annually for impairment as of March 31. An impairment of goodwill is deemed to occur when the carrying amount of the reporting unit, including goodwill, exceeds its estimated fair value. Impairment losses on goodwill are recognized by conducting a two step test. The first of the two step test, which is used to identify potential impairment, compares the fair value of a reporting unit with its carrying amount, including goodwill. If the carrying amount of a reporting unit exceeds its fair value, the second step of the test is performed. The second step of the test, which is used to measure the amount of impairment loss, compares the implied fair value of the goodwill of the reporting unit with the carrying amount of that goodwill. Determination of the implied fair value of the goodwill requires management to estimate the fair value of other identifiable assets and liabilities of the reporting unit based on discounted cash flows, appraisals or other valuation methods. If the carrying amount of the goodwill of the reporting unit exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess.

In the event that Komatsu s strategy or market conditions in which it operates changes, estimates of future cash flows to be generated by an asset and evaluations of fair value would be affected, and the assessment of the ability to recover the carrying amount of long-lived assets and goodwill may change. Accordingly, such changes in assessment could materially affect Komatsu s financial position and results of operations.

(4) 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 based on observable market inputs.

While 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. The estimated fair values may change due to uncertainties of the financial markets, and may therefore differ from actual results. The fair values of marketable investment securities are stated at market price.

In the case of a decrease in market price, in periodically assessing other-than-temporary impairment of marketable investment securities and investments in affiliates, Komatsu considers the period and amount of its decline, and the financial conditions and prospects of each subject company. While Komatsu believes that there are no major impairments of its investment securities or investments in affiliates at present, if the performance and business conditions of any subject company deteriorate due to a change in business circumstances, Komatsu may recognize an impairment of its investments.

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(5) Pension Liabilities and Expenses

The amount of Komatsu s pension obligations and net period pension costs are dependent on certain assumptions used to calculate such amounts. These assumptions are described in Note 12 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 U.S. GAAP, actual results that differ from these assumptions are accumulated and amortized over future service years of employees and therefore generally affect Komatsu s recognized expenses and recorded obligations during such future periods.

The discount rate is determined based on the rates of return of high-quality fixed income investments currently available and expected to be available until the maturity of the pension benefits. The expected long-term rate of return on plan assets is determined by taking into consideration the current expectations for future returns and actual historical returns of each plan asset category.

While Komatsu believes that its assumptions are appropriate, in the event that actual results differ significantly from these assumptions or significant changes are made to these assumptions, Komatsu s pension obligations and future expenses may be affected.

The following table illustrates the sensitivity of pension obligations and net periodic pension costs to changes in discount rates and expected long-term rate of return on pension plan assets, while holding all other assumptions constant, for Komatsu s pension plans as of March 31, 2011.

Change in assumption	Pension obligations (Billions of Yen)	Net periodic pension costs (Billions of Yen)
0.5% increase/ decrease in Discount rate	-11.4 /+12.3	-1,0 /+1.0
0.5% increase/ decrease in expected long-term rate of return		-0.5 / +0.5

Recent Accounting Standards Not Yet Adopted

In October 2009, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2009-13, Multiple-Deliverable Revenue Arrangements. ASU 2009-13 eliminates the residual method of revenue recognition and requires the use of management s best estimate as to the selling price for individual elements of an arrangement if vendor-specific objective evidence or third-party evidence is unavailable. ASU 2009-13 is effective for the fiscal periods beginning on or after June 15, 2010 and is required to be adopted by Komatsu in the fiscal year beginning April 1, 2011. Komatsu expects that the adoption of ASU 2009-13 will not have a material impact on its consolidated results of operations or financial condition.

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In October 2009, the FASB issued ASU 2009-14, Certain Revenue Arrangements That Include Software Elements. ASU 2009-14 amends the scope of pre-existing software revenue guidance by removing tangible products containing software components and non-software components that function together to deliver the tangible products essential functionality. ASU 2009-14 is effective for the fiscal periods beginning on or after June 15, 2010 and is required to be adopted by Komatsu in the fiscal year beginning April 1, 2011. Komatsu expects that the adoption of ASU 2009-14 will not have any material impact on its consolidated results of operations or financial condition.

Comparison of the Fiscal Years Ended March 31, 2011 and 2010

The following tables set forth selected consolidated financial and operating data, including numerical data expressed as a percentage of total consolidated net sales for the periods indicated, and the changes in each consolidated financial line item between the indicated fiscal years.

Consolidated Statements of Income Data

	Millions of Yen				Percentage	Millions of U.S. dollars
	Fiscal Years Ended March 31,				change 2011 vs.	
	2011		2010		2010	2011
Net sales	**¥1,843,127**	100.0%	¥1,431,564	100.0%	28.7%	**$ 22,206**
Cost of sales	**1,343,464**	72.9%	1,101,559	76.9%	22.0%	**16,186**
Selling, general and administrative expenses	**264,691**	14.4%	249,286	17.4%	6.2%	**3,189**
Impairment losses on long-lived assets	**5,142**	0.3%	3,332	0.2%	54.3%	**62**
Other operating expenses, net	**(6,901)**	-0.4%	(10,352)	-0.7%	-33.3%	**(83)**
Operating income	**222,929**	12.1%	67,035	4.7%	232.6%	**2,686**
Other income (expenses), net	**(3,120)**		(2,056)		51.8%	**(38)**
Interest and dividend income	**4,493**		6,158		-27.0%	**54**
Interest expense	**(6,475)**		(8,502)		-23.8%	**(78)**
Other, net	**(1,138)**		288		495.1%	**(14)**
Income before income taxes and equity in earnings of affiliated companies	**219,809**	11.9%	64,979	4.5%	238.3%	**2,648**
Income taxes						
Current	**57,923**		32,722			**698**
Deferred	**6,783**		(7,358)			**82**
Total	**64,706**	3.5%	25,364	1.8%	155.1%	**780**
Income before equity in earnings of affiliated companies	**155,103**	8.4%	39,615	2.8%	291.5%	**1,869**
Equity in earnings of affiliated companies	**2,724**	0.1%	1,588	0.1%	71.5%	**33**
Net income	**157,827**	8.6%	41,203	2.9%	283.0%	**1,902**
Less net income attributable to noncontrolling interests	**(7,075)**	-0.4%	(7,644)	-0.5%	-7.4%	**(85)**
Net income attributable to Komatsu Ltd.	**¥ 150,752**	8.2%	¥ 33,559	2.3%	349.2%	**$ 1,816**

	Yen		U.S. cents
Per share data			
Net income attributable to Komatsu Ltd.:			
Basic	**155.77**	34.67	**187.67**
Diluted	**155.66**	34.65	**187.54**
Cash dividends per share	**¥ 26.00**	¥ 26.00	**¢ 31.33**

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Net Sales

Consolidated net sales for the fiscal year ended March 31, 2011 increased by 28.7%, or ¥411,563 million, to ¥1,843,127 million (U.S.$22,206 million) from ¥1,431,564 million for the fiscal year ended March 31, 2010. This increase was due primarily to increased sales in the Construction, Mining and Utility Equipment operating segment as well as the Industrial Machinery and Others operating segment.

For the fiscal year ended March 31, 2011, net sales to external customers for the Construction, Mining and Utility Equipment operating segment increased by 27.4%, or ¥347,114, to ¥1,615,689 million (U.S.$19,466 million) as compared to the fiscal year ended March 31, 2010. Demand for construction and mining equipment remained high in the Strategic Markets, especially China, Asia and Latin America, and demand for such equipment recovered and increased from the previous fiscal year in the Traditional Markets of Japan, North America and Europe. Komatsu made various efforts to capitalize on this recovery in global demand for construction, mining and utility equipment and increase sales to customers, including expanding its production capacity and reinforcing its product support operations in the Strategic Markets in light of the fact that it anticipates medium- to long-term growth in such markets. More specifically, Komatsu increased its production capabilities by commencing production at Komatsu Manufacturing Rus, LLC in June 2010, which is Komatsu s first assembly plant in Russia for construction and mining equipment, and completing the construction of an additional plant in China of Komatsu (Changzhou) Construction Machinery Corp., which began production in January 2011. In addition, Komatsu established Komatsu China Mining Limited, which commenced operations in October 2010, to provide sales and product support for mining equipment and related parts exclusively for large-scale mining customers. In December 2010, Komatsu also introduced new HB205 and HB215LC hybrid hydraulic excavators in Japan, which offer improved fuel consumption and CO_2 emissions volume. These excavators were well received and contributed to the increase in net sales.

For the fiscal year ended March 31, 2011, net sales to external customers in the Industrial Machinery and Others operating segment increased by 39.5%, or ¥64,449 million, to ¥227,438 million (U.S.$2,740 million) as compared to the fiscal year ended March 31, 2010. This increase was partly due to increased sales of wire saws used to manufacture silicon ingots, which are used in solar cells, as solar cell manufacturers in Asia, especially in China, increased their capital investments in the fiscal year ended March 31, 2011. Increased sales in the Industrial Machinery and Others operating segment was also partly due to increased sales of large presses and other machinery as capital investments in the automobile industry started to recover in the Strategic Markets, such as China, India and Brazil.

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Cost of Sales

Cost of sales on a consolidated basis increased by 22.0%, or ¥241,905 million, to ¥1,343,464 million (U.S.$16,186 million) for the fiscal year ended March 31, 2011 from ¥1,101,559 million for the fiscal year ended March 31, 2010. On the other hand, the ratio of cost of sales to net sales for the fiscal year ended March 31, 2011 decreased to 72.9% from 76.9% for the fiscal year ended March 31, 2010. This decrease was due primarily to (1) certain cost being absorbed due to increased sales volume, (2) the realization of product sales at higher prices and (3) Komatsu s efforts to reduce manufacturing costs by improving production efficiency. Such factors offset (1) unfavorable changes in foreign exchange rates as the Japanese yen strengthened sharply against the U.S. dollar, Euro and Renminbi, and (2) losses resulting from temporary disruption of production of ¥470 million caused by the Great East Japan Earthquake and the subsequent tsunami.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased by 6.2% for the fiscal year ended March 31, 2011 to ¥264,691 million (U.S.$3,189 million) from ¥249,286 million for the fiscal year ended March 31, 2010, due primarily to (1) the increase in selling expenses, such as shipping and handling costs and sales commission, which primarily resulted from the increase in sales volume, (2) the increase in expenses to strengthen product support capabilities (such as expenses relating to increasing the number of depots that supply Komatsu parts) and services to customers (such as expenses relating to increasing the number of facilities that provide maintenance and repair services) and (3) the increase in R&D expenses such as the development of next generation engines that comply with newly adopted emissions regulations that will become effective in the near future and new hybrid products. On the other hand, the ratio of selling, general and administrative expenses to net sales decreased by a 3.0 percentage point to 14.4% as compared to 17.4% for the fiscal year ended March 31, 2010, due to Komatsu s continuous efforts to decrease fixed costs by reforming and improving the efficiency of its back-office functions.

Impairment Losses on Long-Lived Assets

Consolidated impairment losses on long-lived assets for the fiscal year ended March 31, 2011 increased by 54.3%, or ¥1,810 million, to ¥5,142 million (U.S.$62 million) as compared to ¥3,332 million for the fiscal year ended March 31, 2010. Such losses for the fiscal year ended March 31, 2011 include software asset impairment of ¥2,744 million and damaged losses of ¥1,217 million, which loss was caused by the Great East Japan Earthquake and the subsequent tsunami.

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Other Operating Expenses, net

For the fiscal year ended March 31, 2011, consolidated other operating expenses, net decreased by ¥3,451 million to ¥6,901 million as compared to ¥10,352 million for the fiscal year ended March 31, 2010. This decrease was due primarily to the fact that Komatsu recorded a decrease of its expenses associated with structural reforms of its production and sales operations, such as reorganization and relocation costs, because the structural reforms engaged in during fiscal year ended March 31, 2011 were not as extensive as in the prior fiscal year. Such decrease in expenses associated with structural reforms was partially offset by costs and expenses of the amount of ¥2,860 million resulting from the damages caused by the Great East Japan Earthquake and the subsequent tsunami. Such costs and expenses reflect a write-off expense of ¥2,060 million and relief expenses to the affected areas of ¥800 million.

Operating Income

Consolidated operating income for the fiscal year ended March 31, 2011 increased by 232.6%, or ¥155,894 million, to ¥222,929 million (U.S.$2,686 million) as compared to ¥67,035 million for the fiscal year ended March 31, 2010. This increase in operating income was due primarily to positive factors such as (1) the increase in demand for Komatsu products as a result of increased natural resource developments on a worldwide basis and increased infrastructure developments by governments in various countries in an effort to stimulate their respective economies, (2) various efforts undertaken by Komatsu, such as the realization of sales of products at higher prices and the reduction of production costs, and (3) the decrease in expenses associated with structural reforms of its production and sales operations as compared to the fiscal year ended March 31, 2010, which outweighed negative factors such as (1) unfavorable changes in foreign exchange rates, such as the sharp appreciation of the Japanese yen against the U.S. dollar, Euro and Renminbi, and (2) costs and expenses resulting from the damages caused by the Great East Japan Earthquake and the subsequent tsunami.

As a result, operating margin for the fiscal year ended March 31, 2011 increased by 7.4 percentage points to 12.1% from 4.7% for the fiscal year ended March 31, 2010.

Other Income (Expenses), net

Consolidated other expenses, net for the fiscal year ended March 31, 2011 increased by 51.8%, or ¥1,064 million, to ¥3,120 million (U.S.$38 million) as compared to ¥2,056 million for the fiscal year ended March 31, 2010. This increase was due primarily to the increase in foreign exchange rate losses by ¥5,259 million for the fiscal year ended March 31, 2011 to a loss of ¥4,193 million as compared to a gain of ¥1,066 million for the fiscal year ended March 31, 2010. Interest expense for the fiscal year ended March 31, 2011 decreased by 23.8%, or ¥2,027 million, to ¥6,475 million as compared to ¥8,502 million for the fiscal year ended March 31, 2010. This decrease in interest expense, which contributed to the decrease in other expenses, was due primarily to lower interest rates and the decrease in borrowings from external sources during the fiscal year ended March 31, 2011. Interest and dividend income decreased by 27.0%, or ¥1,665 million, to ¥4,493 million for the fiscal year ended March 31, 2011 as compared to ¥6,158 million for the fiscal year ended March 31, 2010.

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Income Before Income Taxes and Equity in Earnings of Affiliated Companies

As a result of the above factors, consolidated income before income taxes and equity in earnings of affiliated companies for the fiscal year ended March 31, 2011 increased by 238.3%, or ¥154,830 million, to ¥219,809 million (U.S.$2,648 million) as compared to ¥64,979 million for the fiscal year ended March 31, 2010.

Income Taxes

Consolidated income tax expense for the fiscal year ended March 31, 2011 increased by ¥39,342 million to ¥64,706 million (U.S.$780 million) from ¥25,364 million for the fiscal year ended March 31, 2010. The actual effective tax rate for the fiscal year ended March 31, 2011 decreased to 29.4% from 39.0% for the fiscal year ended March 31, 2010. This decrease was due primarily to a reduction in the valuation allowance at certain consolidated subsidiaries related to changes in assessment about the likelihood of recovery of certain deferred tax assets.

The difference between the Japanese statutory tax rate of 40.8% and the actual effective tax rate of 29.4% was caused by income of certain foreign subsidiaries being taxed at a rate lower than the Japanese statutory tax rate, and deferred tax benefits caused by the reduction of the valuation allowance for certain deferred tax assets. For additional information, see Note 15 to the Consolidated Financial Statements.

Income Before Equity in Earnings of Affiliated Companies

As a result of the above factors, consolidated income before equity in earnings of affiliated companies for the fiscal year ended March 31, 2011 increased by ¥115,488 million to ¥155,103 million (U.S.$1,869 million) as compared to ¥39,615 million for the fiscal year ended March 31, 2010.

Equity in Earnings of Affiliated Companies

Consolidated equity in earnings of affiliated companies for the fiscal year ended March 31, 2011 increased by ¥1,136 million to ¥2,724 million (U.S.$33 million) as compared to ¥1,588 million for the fiscal year ended March 31, 2010, due primarily to increased earnings recorded by affiliated companies held under the equity accounting method, such as Komatsu Cummins Engine Co., Ltd., Gigaphoton Inc. and other affiliated companies

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Net income

As a result of the above factors, consolidated net income for the fiscal year ended March 31, 2011 increased by 283.0%, or ¥116,624 million, to ¥157,827 million (U.S.$1,902 million) as compared to ¥41,203 million for the fiscal year ended March 31, 2010.

Net Income Attributable to Noncontrolling Interests

Net income attributable to noncontrolling interests for the fiscal year ended March 31, 2011 decreased by ¥569 million to ¥7,075 million (U.S.$85 million) as compared to ¥7,644 million for the fiscal year ended March 31, 2010. Noncontrolling interests in income of consolidated subsidiaries decreased mainly as a result of a decline in earnings recorded primarily by subsidiaries in the Construction, Mining and Utility Equipment operating segment, such as Komatsu Shantui Construction Machinery Co, Ltd.

Net Income Attributable to Komatsu Ltd.

As a result of the above, consolidated net income attributable to Komatsu Ltd. for the fiscal year ended March 31, 2011 increased by 349.2%, or ¥117,193 million, to ¥150,752 million (U.S.$1,816 million) as compared to ¥33,559 million for the fiscal year ended March 31, 2010. Accordingly, basic net income attributable to Komatsu Ltd. per share rose to ¥155.77 for the fiscal year ended March 31, 2011 from ¥34.67 for the fiscal year ended March 31, 2010. Diluted net income attributable to Komatsu Ltd. per share rose to ¥155.66 for the fiscal year ended March 31, 2011 from ¥34.65 for the fiscal year ended March 31, 2010.

Performance by Operating Segments

The following table presents net sales and segment profit broken down by operating segments for the fiscal years ended March 31, 2011 and 2010. In evaluating the financial data for each operating segment, Komatsu s management considers sales by the location of its external customers to be particularly helpful for the Construction, Mining and Utility Equipment operating segment, its primary operating segment. Accordingly, in addition to providing performance information by operating segments, the below table and related discussion provide information regarding sales in the Construction, Mining and Utility Equipment operating segment broken down by geographic locations of Komatsu s external customer.

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Performance by Operating Segments

	Millions of Yen Fiscal Years Ended March 31, 2011	2010	Percentage Change 2011 vs. 2010	Millions of U.S. dollars 2011
Net sales:				
Construction, Mining and Utility Equipment				
External Customers	**¥ 1,615,689**	¥ 1,268,575	27.4%	**$ 19,466**
Japan	**251,597**	228,505	10.1%	**3,031**
The Americas	**386,758**	306,135	26.3%	**4,660**
Europe and CIS	**164,007**	122,018	34.4%	**1,976**
China	**334,270**	244,509	36.7%	**4,027**
Asia (excluding Japan, China) and Oceania	**374,577**	281,878	32.9%	**4,513**
Middle East and Africa	**104,480**	85,530	22.2%	**1,259**
Intersegment	**2,392**	2,690	-11.1%	**29**
Total	**1,618,081**	1,271,265	27.3%	**19,495**
Industrial Machinery and Others				
External Customers	**227,438**	162,989	39.5%	**2,740**
Intersegment	**10,916**	15,619	-30.1%	**132**
Total	**238,354**	178,608	33.5%	**2,872**
Elimination	**(13,308)**	(18,309)	-27.3%	**(160)**
Consolidated Net Sales	**¥ 1,843,127**	¥ 1,431,564	28.7%	**$ 22,206**
Segment Profit:				
Construction, Mining and Utility Equipment	**¥ 220,830**	¥ 83,061	165.9%	**$ 2,661**
Industrial Machinery and Others	**20,965**	2,998	599.3%	**253**
Total	**241,795**	86,059	181.0%	**2,913**

Notes:
1) Transfers between segments are made at estimated arm s-length prices.

Construction, Mining and Utility Equipment

Net sales

Total net sales to external customers in the Construction, Mining and Utility Equipment operating segment for the fiscal year ended March 31, 2011 increased by 27.4%, or ¥347,114 million, to ¥1,615,689 million (U.S.$19,466 million) as compared to ¥1,268,575 million for the fiscal year ended March 31, 2010. This increase in sales was due primarily to positive factors such as (1) the increase in demand for Komatsu products during the fiscal year as a result of increased natural resource developments on a worldwide basis and increased infrastructure developments by governments in various countries in an effort to stimulate their respective economies (which increased net sales in this operating segment by approximately ¥398.8 billion) and (2) the realization of product sales at higher prices (which increased net sales in this operating segment by approximately ¥29.3 billion). Such factors offset unfavorable changes in foreign exchange rates as the Japanese yen strengthened sharply against the U.S. dollar, Euro and Renminbi (which decreased net sales in this operating segment by approximately ¥81.6 billion).

Net sales to external customers in Japan for the fiscal year ended March 31, 2011 increased by 10.1%, or ¥23,092 million, to ¥251,597 million (U.S.$3,031 million) as compared to ¥228,505 million for the fiscal year ended March 31, 2010. While public works began to decline in the second half of the fiscal year ended March 31, 2011, private-sector capital investment, such as housing starts and capital investments by corporation, remained strong throughout the fiscal year. Against this backdrop, demand for construction equipment in Japan increased, especially sales to equipment rental companies, which also contributed to an increase in sales of construction equipment as compared to the previous fiscal year. In addition, in December 2010, Komatsu launched new HB205 and HB215LC hybrid hydraulic excavators in the Japanese market. Customers responded well to such newly introduced hydraulic excavators, which also contributed to the increase in net sales to customers in Japan.

Net sales to external customers in the Americas for the fiscal year ended March 31, 2011 increased by 26.3%, or ¥80,623 million, to ¥386,758 million (U.S.$4,660 million) as compared to ¥306,135 million for the fiscal year ended March 31, 2010. While U.S. housing starts remained sluggish during the fiscal year ended March 31, 2011, overall demand for construction, mining and utility equipment in North America showed signs of recovery, supported by strong demand in the rental equipment business and mining industries. Equipment rental companies increased their construction and utility equipment fleet, and replaced some of their older equipment with newer equipment in light of the increase in demand for rental equipment. Mining customers increased their capital investments and purchased additional equipment to increase their production as demand for commodities increased in light of growth in the world economy. In Latin America, demand for equipment used in various areas, such as mining, construction, agriculture and forestry, continued to increase in Brazil, the largest market for Komatsu products in Latin America. This increased demand in Brazil was due in part to increased infrastructure developments to prepare for the 2014 World Cup and 2016 Olympics, which are to be held in Brazil. In addition, demand for mining equipment increased in Chile as the number of mining development projects increased.

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Net sales to external customers in Europe and CIS for the fiscal year ended March 31, 2011 increased by 34.4%, or ¥41,989 million to ¥164,007 million (U.S.$1,976 million) as compared to ¥122,018 million for the fiscal year ended March 31, 2010. In Europe, demand for construction equipment headed for recovery mainly in major markets such as Germany, the United Kingdom and France during the fiscal year ended March 31, 2011, as construction activity started to show signs of recovery. In addition, Komatsu s efforts to strengthen its product support capability and expand sales of parts by teaming up with local distributors in this area also contributed to the improved sales in Europe as compared to the previous fiscal year. In CIS, demand increased for large equipment, centering on those equipment used in coal and gold mining as well as equipment used in the natural resources development projects, such as oil and gas projects. Mining customers in CIS increased their capital investments and purchased additional equipment to increase their production as demand for commodities increased in light of growth in the world economy.
Net sales to external customers in China for the fiscal year ended March 31, 2011 increased by 36.7%, or ¥89,761 million to ¥334,270 (U.S.$4,027 million) million as compared to ¥244,509 million for the fiscal year ended March 31, 2010. In China, demand for construction and mining equipment remained strong during the fiscal year ended March 31, 2011, reflecting a strong demand for natural resources in the mining industry and advancements in infrastructure development and urbanization especially in the inner regions of China. Komatsu s enhanced sales efforts following the Chinese New Year in February especially contributed to the increase in net sales to customers in China.
Net sales to external customers in Asia and Oceania for the fiscal year ended March 31, 2011 increased by 32.9%, or ¥92,699 million to ¥374,577 million (U.S.$4,513 million) as compared to ¥281,878 million for the fiscal year ended March 31, 2010. In Asia, the economies of various countries showed signs of recovery as governments increased the number of infrastructure development projects to stimulate their respective economies. In Indonesia, the largest market for Komatsu products in Southeast Asia, demand for mining equipment continued to expand. In addition, demand for construction equipment remained strong in the civil engineering, agriculture and forestry sectors in Indonesia. Demand for construction equipment was also strong in India, Thailand, Malaysia and some of the other Asian countries. Komatsu s concerted efforts in Southeast Asia to expand sales of KOMTRAX (Komatsu Machine Tracking System) installed construction equipment also contributed to the increase in sales in Asia. In Australia, although the major flood that occurred in the second half of the fiscal year ended March 31, 2011 caused some mining companies to experience operational difficulties that adversely affected the shipping of their commodities, which decreased demand for Komatsu s products for a short period thereafter, overall demand for mining equipment in Australia remained firm.

Net sales to external customers in the Middle East and Africa for the fiscal year ended March 31, 2011 increased by 22.2%, or ¥18,950 million to ¥104,480 million (U.S.$1,259 million) as compared to ¥85,530 million for the fiscal year ended March 31, 2010. While political and social conditions have continued to be unstable in some countries in this region, demand for equipment increased as the conditions surrounding mining development projects and infrastructure development projects improved. As a result, sales improved from the previous fiscal year.

Segment Profit

Segment profit for the Construction, Mining and Utility Equipment operating segment for the fiscal year ended March 31, 201 increased by 165.9%, or ¥137,769 million, to ¥220,830 million (U.S.$2,661 million) from ¥83,061 million for the fiscal year ended March 31, 2010. Factors that contributed to this increase include (1) increased sales (which increased segment profit by approximately ¥131.9 billion), (2) the realization of sales at higher prices (which increased segment profit by approximately ¥29.3 billion) and (3) lower manufacturing costs (which increased segment profit by approximately ¥15.1 billion). Such factors were partially offset by (1) unfavorable changes in foreign exchange rates as the Japanese yen strengthened sharply against the U.S. dollar, Euro and Renminbi (which decreased segment profit by approximately ¥37.0 billion) and (2) an increase in depreciation expenses relating to fixed assets (which decreased segment profit by approximately ¥1.6 billion).

Industrial Machinery and Others

Net Sales

Total net sales to external customers in the Industrial Machinery and Others operating segment for the fiscal year ended March 31, 2011 increased by 39.5%, or ¥64,449 million, to ¥227,438 million (U.S.$2,740 million) as compared to ¥162,989 million for the fiscal year ended March 31, 2010. This increase was mainly due to the increase in sales of wire saws for use in slicing silicon ingots for the solar cell market, as capital investment remained brisk in Asia, especially in China. As the automobile manufacturing industry began to recover and make capital investments in the Strategic Markets, such as China, India, Brazil, and some other countries, orders for large presses and other machinery increased and contributed to the increase in net sales for the fiscal year ended March 31, 2011.

Segment Profit

Segment profit for the Industrial Machinery and Others operating segment for the fiscal year ended March 31, 2011 increased by 599.3%, or ¥17,967 million, to ¥20,965 million (U.S.$253 million) from ¥2,998 million for the fiscal year ended March 31, 2010. This increase was due primarily to the increase in demand for Komatsu products (which increased segment profit by approximately ¥18.9 billion), which fully offset the increase in costs, such as fixed costs (which decreased segment profit by approximately ¥0.9 billion).

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Comparison of the Fiscal Years ended March 31, 2010 and 2009

The following tables set forth selected consolidated financial and operating data, including numerical data expressed as a percentage of total consolidated net sales for the periods indicated, and the changes in each consolidated financial line item between the indicated fiscal years.

Consolidated Statements of Income Data

	Millions of Yen Fiscal Years Ended March 31,				Percentage change 2010 vs. 2009
	2010		2009		
Net sales	**¥ 1,431,564**	100.0%	¥ 2,021,743	100.0%	-29.2%
Cost of sales	**1,101,559**	76.9%	1,510,408	74.7%	-27.1%
Selling, general and administrative expenses	**249,286**	17.4%	322,677	16.0%	-22.7%
Impairment losses on long-lived assets	**3,332**	0.2%	16,414	0.8%	-79.7%
Impairment loss on goodwill			2,003	0.1%	-100.0%
Other operating expenses, net	**(10,352)**	-0.7%	(18,293)	-0.9%	-43.4%
Operating income	**67,035**	4.7%	151,948	7.5%	-55.9%
Other income (expenses), net	**(2,056)**		(23,166)		-91.1%
Interest and dividend income	**6,158**		8,621		-28.6%
Interest expense	**(8,502)**		(14,576)		-41.7%
Other, net	**288**		(17,211)		-101.7%
Income from continuing operations before income taxes and equity in earnings of affiliated companies	**64,979**	4.5%	128,782	6.4%	-49.5%
Income taxes					
Current	**32,722**		60,511		
Deferred	**(7,358)**		(18,218)		
Total	**25,364**	1.8%	42,293	2.1%	-40.0%
Income from continuing operations before equity in earnings of affiliated companies	**39,615**	2.8%	86,489	4.3%	-54.2%
Equity in earnings of affiliated companies	**1,588**	0.1%	396	0.0%	301.0%
Net income	**41,203**	2.9%	86,885	4.3%	-52.6%
Less net income attributable to noncontrolling interests	**(7,644)**	-0.5%	(8,088)	-0.4%	-5.5%
Net income attributable to Komatsu Ltd.	**¥ 33,559**	2.3%	¥ 78,797	3.9%	-57.4%

		Yen		
Per share data				
Net income attributable to Komatsu Ltd.:				
Basic		**34.67**		79.95
Diluted		**34.65**		79.89
Cash dividends per share	**¥**	**26.00**	¥	44.00

Net Sales

Consolidated net sales for the fiscal year ended March 31, 2010 decreased by 29.2%, or ¥590,179 million, to ¥1,431,564 million from ¥2,021,743 million for the fiscal year ended March 31, 2009. This decrease was due primarily to decreased sales in the Construction, Mining and Utility Equipment operating segment as well as decreased sales in the Industrial Machinery and Others operating segment. Unfavorable changes in foreign exchange rates, such as the appreciation of the Japanese yen against the U.S. dollar, the Euro and other currencies, also contributed to the decrease in net sales.

For the fiscal year ended March 31, 2010, net sales to external customers for the Construction, Mining and Utility Equipment operating segment decreased by 27.3%, or ¥476,158, to ¥1,268,575 million as compared to the fiscal year ended March 31, 2009. While demand for construction, mining and utility equipment recovered in China and showed signs of recovery in certain emerging economies that are rich in natural resources, such as Indonesia, India and Brazil, such trend was not generally observed in developed countries and regions, such as Japan, North America and Europe. Despite various governments efforts to stimulate their respective economies through stimulus packages, demand for construction, mining and utility equipment continued to decrease in developed countries as a result of the economic downturn. In light of such circumstances, Komatsu continued to suspend equipment sales to its dealers and distributors in developed countries to support their efforts to quickly adjust inventory levels, which further decreased Komatsu s net sales. In addition, unfavorable changes in foreign exchange rates, such as the appreciation of the Japanese yen against the U.S. dollar, the Euro and other currencies, decreased net sales in the Construction, Mining and Utility Equipment operating segment by approximately ¥69.8 billion. While Komatsu was successful in realizing product sales at higher prices, this success did not offset the decrease in sales discussed above.

As the automobile and other industries to which Komatsu supplied industrial machinery and other products continued to limit their capital investments in light of the global economic downturn, as evidenced by the reduction in the number of new orders, net sales to external customers in the Industrial Machinery and Others operating segment decreased by 41.2%, or ¥114,021 million, to ¥162,989 million as compared to the fiscal year ended March 31, 2009.

Cost of Sales

Cost of sales on a consolidated basis decreased by 27.1%, or ¥408,849 million, to ¥1,101,559 million for the fiscal year ended March 31, 2010 from ¥1,510,408 million for the fiscal year ended March 31, 2009, due primarily to decreased sales. Despite various efforts undertaken by Komatsu, such as the realization of sales of products at higher prices and the reduction of production costs (as a result of the decrease in the prices of materials used in the production of Komatsu products), cost of sales to sales ratio increased by 2.2 percentage points to 76.9% for the fiscal year ended March 31, 2010 from 74.7% for the fiscal year ended March 31, 2009. This increase was mainly due to (1) unfavorable changes in foreign exchange rates, such as the appreciation of the Japanese yen against the U.S. dollar, the Euro and other currencies and (2) certain costs not being fully absorbed due to reduced production volumes.

Selling, General and Administrative Expenses

Selling, general and administrative expenses decreased by 22.7% for the fiscal year ended March 31, 2010 to ¥249,286 million from ¥322,677 million for the fiscal year ended March 31, 2009, due primarily to (1) the decrease in selling expenses, such as expenses to transport products, as a result of decreased sales volume for the Construction, Mining and Utility Equipment operating segment, (2) the decrease in R&D expenses as Komatsu prioritized its R&D expenditures and postponed certain R&D activities and (3) the decrease in expenses associated with other activities aimed at reducing other fixed costs, such as personnel expenses and facility related expenses (that is, depreciation expenses relating to fixed assets), which Komatsu was able to reduce through structural reforms.

Impairment Losses on Long-Lived Assets

Consolidated impairment loss on long-lived assets for the fiscal year ended March 31, 2010 decreased by 79.7%, or ¥13,082 million, to ¥3,332 million as compared to ¥16,414 million for the fiscal year ended March 31, 2009. This decrease was due primarily to the fact that Komatsu did not record any impairment loss similar to the loss recorded in the fiscal year ended March 31, 2009 in connection with the closing of the Mooka plant and the Komatsu plant.

Other Operating Expenses, net

For the fiscal year ended March 31, 2010, consolidated other operating expenses, net decreased by ¥7,941 million to ¥10,352 million as compared to ¥18,293 million for the fiscal year ended March 31, 2009. While Komatsu would have recorded income for the fiscal year ended March 31, 2010 as a result of gains recorded on the sale of some of its properties, such gains were fully offset by expenses incurred in connection with losses resulting from the disposal or sale of fixed assets. In addition, Komatsu recorded a decrease of its expenses associated with structural reforms of its production and sales operations, such as reorganization and relocation costs, during the fiscal year ended March 31, 2010, which also contributed to the decrease in other operating expenses.

Operating Income

Consolidated operating income for the fiscal year ended March 31, 2010 decreased by 55.9%, or ¥84,913 million, to ¥67,035 million as compared to ¥151,948 million for the fiscal year ended March 31, 2009. This decrease in operating income was due primarily to negative factors such as (1) the decrease in demand for Komatsu products and (2) unfavorable changes in foreign exchange rates, which outweighed positive factors such as (1) the decrease in fixed costs, such as R&D expenses, and personnel expenses and facility related expenses (that is, depreciation expenses relating to fixed assets), which Komatsu was able to reduce through structural reforms, (2) the realization of product sales at higher prices and (3) the decrease in expenses relating to structural reforms of its production and sales operations.

As a result, operating margin for the fiscal year ended March 31, 2010 decreased by 2.8 percentage points to 4.7% from 7.5% for the fiscal year ended March 31, 2009.

Other Income (Expenses), net

Consolidated other expenses, net for the fiscal year ended March 31, 2010 decreased by 91.1%, or ¥21,110 million, to ¥2,056 million as compared to other income, net of ¥23,166 million for the fiscal year ended March 31, 2009. This decrease was due primarily to the decrease in foreign exchange rate losses and losses recorded as a result of impairments in Komatsu s securities investments. Foreign exchange rate losses decreased by ¥12,868 million for the fiscal year ended March 31, 2010 to a gain of ¥1,066 million as compared to a loss of ¥11,802 million for the fiscal year ended March 31, 2009 mainly due to the favorable changes in foreign exchange rates, such as the depreciation of the U.S. dollar against the Canadian Dollar and Russian Ruble. In addition, Komatsu recorded losses on its securities investments of ¥204 million for the fiscal year ended March 31, 2010, a decrease of ¥9,237 million as compared to ¥9,441 million for the fiscal year ended March 31, 2009. This decrease in losses on its securities investments was due primarily to the overall recovery in the stock markets. Interest expense for the fiscal year ended March 31, 2010 decreased by 41.7%, or ¥6,074 million, to ¥8,502 million as compared to ¥14,576 million for the fiscal year ended March 31, 2009, due primarily to lower interest rates and the decrease in borrowings from external sources, and contributed to the decrease in other expenses. Interest and dividend income decreased by 28.6%, or ¥2,463 million, to ¥6,158 million for the fiscal year ended March 31, 2010 as compared to ¥8,621 million for the fiscal year ended March 31, 2009, due primarily to a decrease in interest rates.

Income from Continuing Operations Before Income Taxes and Equity in Earnings of Affiliated Companies

As a result of the above factors, consolidated income from continuing operations before income taxes and equity in earnings of affiliated companies for the fiscal year ended March 31, 2010 decreased by 49.5%, or ¥63,803 million, to ¥64,979 million as compared to ¥128,782 million for the fiscal year ended March 31, 2009.

Income Taxes

Consolidated income tax expense for the fiscal year ended March 31, 2010 decreased by ¥16,929 million to ¥25,364 million from ¥42,293 million for the fiscal year ended March 31, 2009. The actual effective tax rate for the fiscal year ended March 31, 2010 increased to 39.0% from 32.8% for the fiscal year ended March 31, 2009. This increase was due primarily to an increase in non-deductible expenses and valuation allowance of consolidated subsidiaries. The increase in the valuation allowance was mainly the result of additional valuation allowances recorded on deferred tax assets for net operating loss carryforwards at certain subsidiaries.

The difference between the Japanese statutory tax rate of 40.8% and the actual effective tax rate of 39.0% was caused by income of certain foreign subsidiaries being taxed at a rate lower than the Japanese statutory tax rate, which was offset in part by an increase in non-deductible expenses and valuation allowance. For additional information, see Note 16 to the Consolidated Financial Statements.

Income from Continuing Operations Before Equity in Earnings of Affiliated Companies

As a result of the above factors, consolidated income from continuing operations before equity in earnings of affiliated companies for the fiscal year ended March 31, 2010 decreased by ¥46,874 million to ¥39,615 million as compared to ¥86,489 million for the fiscal year ended March 31, 2009.

Equity in Earnings of Affiliated Companies

Consolidated equity in earnings of affiliated companies for the fiscal year ended March 31, 2010 increased by ¥1,192 million to ¥1,588 million as compared to ¥396 million for the fiscal year ended March 31, 2009, due primarily to increased earnings recorded by affiliated companies held under the equity accounting method, such as L&T-Komatsu Limited whose products were in greater demand in the Indian market.

Net income

As a result of the above factors, consolidated net income for the fiscal year ended March 31, 2010 decreased by ¥45,682 million to ¥41,203 million as compared to ¥86,885 million for the fiscal year ended March 31, 2009.

Net Income Attributable to Noncontrolling Interests

Net income attributable to noncontrolling interests for the fiscal year ended March 31, 2010 decreased by ¥444 million to ¥7,644 million as compared to ¥8,088 million for the fiscal year ended March 31, 2009. Noncontrolling interests in income of consolidated subsidiaries decreased mainly as a result of declined earnings recorded primarily by subsidiaries in the Construction, Mining and Utility Equipment operating segment, such as Komatsu Australia Pty. Ltd.

Net Income Attributable to Komatsu Ltd.

As a result of the above, consolidated net income attributable to Komatsu Ltd. for the fiscal year ended March 31, 2010 decreased by 57.4%, or ¥45,238 million, to ¥33,559 million as compared to ¥78,797 million for the fiscal year ended March 31, 2009. Accordingly, basic net income attributable to Komatsu Ltd. per share fell to ¥34.67 for the fiscal year ended March 31, 2010 from ¥79.95 for the fiscal year ended March 31, 2009. Diluted net income attributable to Komatsu Ltd. per share fell to ¥34.65 for the fiscal year ended March 31, 2010 from ¥79.89 for the fiscal year ended March 31, 2009.

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Performance by Operating Segments

The following table presents net sales and segment profit broken down by operating segments for the fiscal years ended March 31, 2010 and 2009. In evaluating the financial data for each operating segment, Komatsu s management considers sales by the location of its external customers to be particularly helpful for the Construction, Mining and Utility Equipment operating segment, its primary operating segment. Accordingly, in addition to providing performance information by operating segments, the below table and related discussion provide information regarding sales in the Construction, Mining and Utility Equipment operating segment broken down by geographic locations of Komatsu s external customer.

	Millions of Yen Fiscal Years Ended March 31,		Percentage Change
	2010	**2009**	**2010 vs. 2009**
Net sales:			
Construction, Mining and Utility Equipment			
External Customers	**¥ 1,268,575**	¥ 1,744,733	-27.3%
Japan	**228,505**	309,895	-26.3%
Americas	**306,135**	462,405	-33.8%
Europe and CIS	**122,018**	273,259	-55.3%
China	**244,509**	179,221	36.4%
Asia (excluding Japan, China) and Oceania	**281,878**	309,721	-9.0%
Middle East and Africa	**85,530**	210,232	-59.3%
Intersegment	**2,690**	4,653	-42.2%
Total	**1,271,265**	1,749,386	-27.3%
Industrial Machinery and Others			
External Customers	**162,989**	277,010	-41.2%
Intersegment	**15,619**	26,389	-40.8%
Total	**178,608**	303,399	-41.1%
Elimination	**(18,309)**	(31,042)	-41.0%
Consolidated Net Sales	**¥ 1,431,564**	¥ 2,021,743	-29.2%
Segment Profit:			
Construction, Mining and Utility Equipment	**¥ 83,061**	¥ 180,455	-54.0%
Industrial Machinery and Others	**2,998**	12,891	-76.7%
Total	**86,059**	193,346	-55.5%

Notes:

1) Transfers between segments are made at estimated arm s-length prices.

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Construction, Mining and Utility Equipment
Net sales
Total net sales to external customers in the Construction, Mining and Utility Equipment operating segment for the fiscal year ended March 31, 2010 decreased by 27.3%, or ¥476,158 million, to ¥1,268,575 million as compared to ¥1,744,733 million for the fiscal year ended March 31, 2009. This decrease in sales was due primarily to negative factors such as (1) the decrease in demand for Komatsu products during the fiscal year (which decreased net sales of this operating segment by approximately ¥433.9 billion) and (2) unfavorable changes in foreign exchange rates, such as the appreciation of the Japanese yen against the U.S. dollar, the Euro and other currencies (which decreased net sales in this operating segment by approximately ¥69.8 billion), which outweighed positive factors, such as the realization of product sales at higher prices (which increased net sales in this operating segment by approximately ¥27.5 billion).
Net sales to external customers in Japan for the fiscal year ended March 31, 2010 decreased by 26.3%, or ¥81,390 million, to ¥228,505 million as compared to ¥309,895 million for the fiscal year ended March 31, 2009. While public-sector investment remained firm in the fiscal year ended March 31, 2010, due primarily to the economic stimulus package provided by the Japanese government, private-sector capital investment and residential investment continued to remain slack. As a result, overall demand for construction, mining and utility equipment in Japan decreased from the previous fiscal year. Accordingly, Komatsu s sales of construction, mining and utility equipment in Japan decreased compared to the previous fiscal year.
Net sales to external customers in the Americas for the fiscal year ended March 31, 2010 decreased by 33.8%, or ¥156,270 million, to ¥306,135 million as compared to ¥462,405 million for the fiscal year ended March 31, 2009. While the operating rate of construction equipment in North America showed signs that the market had bottomed out during the fiscal year ended March 31, 2010, demand for such equipment fell short of increasing as a result of the continuing economic uncertainty. As a result, the business environment in North America remained challenging. In light of such market conditions, Komatsu (1) reorganized its production and sales operations in North America by, among other things, closing certain manufacturing facilities and merging certain sales companies, and (2) continued to make efforts to reduce distributors inventory to appropriate levels. In Latin America, market demand that decreased after the financial crisis showed signs of recovery in Brazil and some other countries. To capture such recovery in demand in Latin America, Komatsu reinforced its sales and service operations by establishing a new subsidiary in Chile and opening a service support center in Mexico. The positive signs in Latin America, however, were not sufficient to fully offset the decrease in demand in North America. As a result, overall sales in the Americas for the fiscal year ended March 31, 2010 decreased as compared to the fiscal year ended March 31, 2009.

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Net sales to external customers in Europe and CIS for the fiscal year ended March 31, 2010 decreased by 55.3%, or ¥151,241 million to ¥122,018 million as compared to ¥273,259 million for the fiscal year ended March 31, 2009. A sharp drop in demand for construction, mining and utility equipment in Europe and CIS continued during the fiscal year ended March 31, 2010, against the backdrop of sluggish economies. Under such circumstances, Komatsu doubled sales promotion and other efforts in collaboration with its distributors in Europe, while reinforcing its product support capability for mines in CIS. However, net sales to external customers in Europe and CIS for the fiscal year ended March 31, 2010 decreased due primarily to Komatsu s continuing efforts to (1) reduce distributors inventory to an appropriate level and (2) decrease the number of construction, mining and utility equipment models that are manufactured in Europe, which action was undertaken to improve manufacturing efficiency and profitability by eliminating models that were no longer in demand.

Net sales to external customers in China for the fiscal year ended March 31, 2010 increased by 36.4%, or ¥65,288 million to ¥244,509 million as compared to ¥179,221 million for the fiscal year ended March 31, 2009. Demand for construction, mining and utility equipment increased in China in light of the Chinese government s economic stimulus measures, which advanced large-scale infrastructure developments, such as railways and highways projects, and resulted in an increase in year-on-year monthly demand since June 2009. The increase in year-on-year monthly demand was particularly significant after the Chinese New Year in February 2010. By increasing its production capacity at its existing plants, teaming up with its distributors to aggressively market its products and implementing an ICT system that enables Komatsu and its distributors to exchange real-time information in order to minimize excess inventory, Komatsu recorded an increase in net sales to customers in China for the fiscal year ended March 31, 2010. As a result, sales in China increased to account for 19.3% of total sales of the Construction, Mining and Utility Equipment operating segment.

Net sales to external customers in Asia and Oceania for the fiscal year ended March 31, 2010 decreased by 9.0%, or ¥27,843 million to ¥281,878 million as compared to ¥309,721 million for the fiscal year ended March 31, 2009. In Indonesia, India and Thailand, year-on-year monthly demand showed signs of recovery in the second half of the fiscal year ended March 31, 2010. Demand remained firm for mining-related equipment in Australia throughout the entire fiscal year. Against this backdrop, Komatsu strived to strengthen its operations by (1) enhancing its global Reman (Re-manufacturing) capability by establishing and reorganizing its Reman entities in Indonesia and (2) reinforcing its market and product support capabilities by entering into a joint-venture arrangement with its distributors in Thailand. Notwithstanding such efforts, while sales picked up quickly in Asia in and after the third quarter, such increase in sales was not sufficient to fully offset the decrease in demand from customers in Asia and Oceania in the first half of the fiscal year ended March 31, 2010. As a result, Komatsu recorded a decrease in net sales in Asia and Oceania for the fiscal year ended March 31, 2010.

Net sales to external customers in the Middle East and Africa for the fiscal year ended March 31, 2010 decreased by 59.3%, or ¥124,702 million to ¥85,530 million as compared to ¥210,232 million for the fiscal year ended March 31, 2009. Although commodity prices showed signs of an increase from the drastic plunge in 2008, market demand failed to recover in the Middle East and Africa as affected by the recessionary economies. In light of such market conditions and Komatsu s continuing efforts to reduce distributors inventories, net sales to customers in the Middle East and Africa for the fiscal year ended March 31, 2010 decreased.

Segment Profit

Segment profit for the Construction, Mining and Utility Equipment operating segment for the fiscal year ended March 31, 2010 decreased by 54.0%, or ¥97,394 million, to ¥83,061 million from ¥180,455 million for the fiscal year ended March 31, 2009.

This decrease in segment profit was due primarily to negative factors such as (1) the decrease in demand for Komatsu products (which decreased segment profit by approximately ¥139.9 billion) and (2) unfavorable changes in foreign exchange rates, such as the appreciation of the Japanese yen against the U.S. dollar, the Euro and other currencies (which decreased segment profit by approximately ¥34.9 billion), which outweighed positive factors such as (1) the decrease in fixed costs, such as R&D expenses, and personnel expenses and facility related expenses (that is, depreciation expenses relating to fixed assets), which Komatsu was able to reduce through structural reforms (which increased segment profit by approximately ¥43.3 billion), (2) the realization of product sales at higher prices (which increased segment profit by approximately ¥27.5 billion) and (3) the decrease in the prices of materials used in the production of Komatsu products (which increased segment profit by approximately ¥6.6 billion).

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Industrial Machinery and Others

Net Sales

Total net sales to external customers in the Industrial Machinery and Others operating segment for the fiscal year ended March 31, 2010 decreased by 41.2%, or ¥114,021 million, to ¥162,989 million as compared to ¥277,010 million for the fiscal year ended March 31, 2009. During the fiscal year ended March 31, 2010, the automobile and other industries to which Komatsu supplied industrial machinery and other products continued to limit their capital investments in light of the global economic downturn. As a result, new orders for Komatsu products decreased sharply and resulted in a decrease in net sales in the Industrial Machinery and Others operating segment.

Segment Profit

Segment profit for the Industrial Machinery and Others operating segment for the fiscal year ended March 31, 2010 decreased by 76.7%, or ¥9,893 million, to ¥2,998 million from ¥12,891 million for the fiscal year ended March 31, 2009. This decrease was due primarily to the decrease in demand for Komatsu products (which decreased segment profit by approximately ¥15.7 billion), which fully offset the decrease in costs, such as fixed costs (which increased segment profit by approximately ¥5.8 billion).

B. Liquidity and Capital Resources

Cash Flow

Set forth below is the condensed consolidated statements of cash flows information for the fiscal years ended March 31, 2011, 2010 and 2009.

Condensed Consolidated Statements of Cash Flows Information

	Millions of yen Fiscal Years Ended March 31,			Millions of U.S. dollars
	2011	2010	2009	**2011**
Net cash provided by operating activities	**¥ 150,402**	¥ 182,161	¥ 78,775	**$ 1,812**
Net cash used in investing activities	**(88,509)**	(72,967)	(145,368)	**(1,066)**
Net cash provided by (used in) financing activities	**(56,365)**	(116,363)	57,219	**(679)**
Effect of exchange rate change on cash and cash equivalents	**(3,733)**	(965)	(2,073)	**(45)**
Net increase (decrease) in cash and cash equivalents	**1,795**	(8,134)	(11,447)	**22**
Cash and cash equivalents, beginning of year	**82,429**	90,563	102,010	**993**
Cash and cash equivalents, end of year	**¥ 84,224**	¥ 82,429	¥ 90,563	**$ 1,015**

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Fiscal Year Ended March 31, 2011

Despite the fact that net income increased from the previous fiscal year as Komatsu recorded increased net sales in light of growth in the world economy, net cash provided by operating activities decreased by ¥31,759 million from the previous fiscal year to ¥150,402 million (U.S.$ 1,812 million), mainly due to an increase in purchasing inventories for higher sales and productions, although cash collections increased from the previous fiscal year with an increase in sales reflecting the recovery in global demand.

Net cash used in investing activities increased by ¥15,542 million from the previous fiscal year to ¥88,509 million (U.S.$ 1,066 million). This increase was due primarily to capital expenditures for the fiscal year ended March 31, 2011 increasing by ¥8,419 million from the previous fiscal year to ¥100,820 million (U.S.$ 1,215 million). Capital expenditures increased mainly due to the need to expand production capacity in order to respond to increased sales.

Net cash used in financing activities decreased by ¥59,998 million from the previous fiscal year to ¥56,365 million (U.S.$ 679 million), mainly due to the decrease in repayments on debt. Repayments on debt decreased from the previous fiscal year mainly as payments of inventories and capital expenditures increased as compared to the previous fiscal year.

As a result, cash and cash equivalents, as of March 31, 2011, totaled ¥84,224 million (U.S.$ 1,015 million), an increase of ¥1,795 million from the previous fiscal year.

Fiscal Year Ended March 31, 2010

Net cash provided by operating activities for the fiscal year ended March 31, 2010 increased by ¥103,386 million to ¥182,161 million as compared to the fiscal year ended March 31, 2009, mainly due to decrease in payments of inventories.

Net cash used in investing activities for the fiscal year ended March 31, 2010 declined by ¥72,401 million to ¥72,967 million as compared to the fiscal year ended March 31, 2009, mainly due to restrained capital investments in both Japan and overseas.

Net cash used in financing activities for the fiscal year ended March 31, 2010 totaled ¥116,363 million, an increase of ¥173,582 million from the fiscal year ended March 31, 2009, mainly due to repayments on short-term debt.

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As a result of the above, cash and cash equivalents as of March 31, 2010, totaled ¥82,429 million, a decrease of ¥8,134 million compared to the balance as of March 31, 2009.

Capital Investment

Komatsu s management defines Capital Investment as costs relating to the purchase of property, plant and equipment including properties under capital leases on an accrual basis, which reflects the effect of timing differences between acquisition dates and payment dates. Komatsu s management uses this financial indicator to manage its capital investment and believes that this indicator is useful to investors in that this indicator presents accrual based capital investment in addition to the cash based capital expenditures provided in the consolidated statements of cash flows.

In the fiscal year ended March 31, 2011, Komatsu made capital investments in the construction, mining and utility equipment business to expand its production capacity and its product offerings in the Strategic Markets and improved its ability to quickly adjust to anticipated increases in demand for its equipment in such markets in the medium- to long-term. In the industrial machinery and others business, Komatsu built a new plant of Komatsu NTC Ltd. during the fiscal year ended March 31, 2011 to increase its capacity to produce wire saws as it expand its market share in such equipment in the solar cell market.

As a result, Komatsu s capital investment on a consolidated basis for the fiscal year ended March 31, 2011 was ¥97,738 million (U.S.$1,178 million), an increase of ¥1,547 million from the fiscal year ended March 31, 2010. Komatsu plans to make investments totaling ¥116,600 million for the fiscal year ending March 31, 2012. For information about capital investment plans for the fiscal year ending March 31, 2012, see Item 4.D. Property, Plants and Equipment.

Source of Funds and Liquidity Management

Komatsu s principal capital resources policy is to maintain sufficient capital resources to be able to respond promptly to future capital needs in connection with its operations and to maintain an appropriate level of liquidity. Consistent with this policy, Komatsu has secured various sources of funding, such as loans, corporate bonds, notes and lines of credit. Komatsu expects to use cash generated from its operations, and funds procured through such external sources to satisfy future capital expenditures and working capital needs. In addition, in order to improve the efficiency and effectiveness of its cash management, Komatsu s overseas subsidiaries participate in a global cash pooling arrangement with a single financial institution, which is used to fund short-term liquidity needs. This arrangement contains specific provisions for the right to offset positive and negative cash balances on a global basis. The arrangement allows for cash withdrawals from this financial institution based upon our aggregate cash deposits within such financial institution. Our consolidated Balance Sheet as of March 31, 2011 reflects cash net of withdrawal of ¥39,729 million (U.S.$ 479 million).

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Transfer of funds from subsidiaries in the form of cash dividends, loans or advances are restricted by applicable local regulations of countries in which some of Komatsu s subsidairies are located. Nonetheless, Komatsu does not expect these restrictions to have a significant impact on its ability to meet its cash obligations.

Komatsu s short-term funding needs have been met mainly by cash flows from its operating activities, as well as by bank loans and the issuance of commercial paper. As of March 31, 2011, certain consolidated subsidiaries of the Company maintained committed credit line agreements totaling ¥42,660 million (U.S.$ 514 million) with financial institutions to secure liquidity. As of March 31, 2011, ¥17,562 million (U.S.$ 212 million) was available to be used under such credit line agreements, which contain customary covenants. Komatsu is not subject to any covenants limiting its ability to incur additional indebtedness. In addition, the Company has a ¥120,000 million (U.S.$1,446 million) commercial paper program, none of which was used as of March 31, 2011. The amount of capital raised through its commercial paper program has depended upon Komatsu s financing needs, investor demand and market conditions, as well as the ratings outlook for Komatsu.

To fulfill Komatsu s medium- to long-term funding needs, the Company has established a bond program under which it can issue up to ¥100,000 million (U.S.$1,205 million) of variable-term bonds. In addition, the Company, Komatsu Finance America Inc. and Komatsu Capital Europe S.A. have established a U.S.$1,200 million Euro medium term note (EMTN) program. As of March 31, 2011, the principal amount of bonds outstanding under the bond program was ¥100,000 million (U.S.$1,205 million) and the principal amount of notes outstanding under the EMTN program was ¥55,167 million (U.S.$ 665 million). Similar to short-term funding, the amount of capital raised through such programs has depended upon Komatsu s financing needs, investor demand and market conditions, as well as the ratings outlook for Komatsu.

For additional information about the interest rate structure and maturity dates for these borrowings, see Note 11 to the Consolidated Financial Statements.

Fiscal 2011 Financial Position

Komatsu s short-term debt as of March 31, 2011, which primarily consisted of short-term bank loans and commercial paper, increased by ¥6,870 million from March 31, 2010 to ¥130,308 million (U.S.$ 1,570 million). Such short-term debt was used for working capital purposes.

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Komatsu s long-term debt as of March 31, 2011, including debt that is scheduled to mature as of March 31, 2012, decreased by ¥49,181 million from March 31, 2010 to ¥413,760 million (U.S.$ 4985 million). As of March 31, 2011, Komatsu s long-term debt, excluding market value adjustment, consisted of (1) ¥220,067 million in loans from banks, insurance companies and other financial institutions, (2) ¥90,000 million in unsecured bonds, (3) ¥55,167 million in EMTNs and (4) ¥48,526 million in capital lease obligations. Such long-term debt was used primarily for capital expenditures and long-term working capital needs. For information about the interest rate structure and maturity dates for these borrowings, see Note 11 to the Consolidated Financial Statements.

As a result, Komatsu s interest-bearing debt as of March 31, 2011, including its capital lease obligations, decreased by ¥42,311 million from March 31, 2010 to ¥544,068 million (U.S.$ 6,555 million). Net interest-bearing debt after deducting cash and deposits as of March 31, 2011 also decreased by ¥43,708 million from March 31, 2010 to ¥459,110 million (U.S.$ 5,531 million). As a result, Komatsu s net debt-to-equity ratio as of March 31, 2011 improved and was 0.50, compared to 0.60 as of March 31, 2010.

At March 31, 2011, total working capital increased by ¥46,009 million to ¥444,384 million (U.S. $4,754 million). The current ratio, which is calculated by dividing current assets by current liabilities, as of March 31, 2011, was 155.5%, which reflected a decrease of 6.6 percentage points from the fiscal year ended March 31, 2010. In management s opinion, the working capital is sufficient for the Komatsu s present requirements.

Based on expected cash flow from its operating activities, the available sources of funds and current cash and cash equivalent balances, Komatsu believes that it has sufficient means to satisfy its liquidity needs and future obligations.

As of March 31, 2011, Komatsu has committed to make capital investments totaling approximately ¥12,800 million (U.S.$154 million). With respect to the Construction, Mining and Utility Equipment operating segment, Komatsu plans to continue making capital investments to expand its production capacity and its product offerings in the Strategic Markets, and to improve its ability to quickly adjust to future increases in demand for its equipment in such markets in the medium- to long-term. With respect to the Industrial Machinery and Others operating segment, Komatsu plans to make capital investments to increase its capacity to produce wire saws in response to increased demand for its equipment in the solar cell market. In addition, Komatsu plans to make capital investments to expand its capacity to produce large presses and other machinery as it anticipates that the automobile industry will recover and start making larger capital investments, especially in the Strategic Markets. Furthermore, Komatsu plans to continue making capital investments to renew obsolete equipment and streamline its production operations.

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Credit Ratings

The Company obtains credit ratings from three rating agencies: Standard and Poor s Ratings Japan K.K. (S&P), Moody s Japan K.K. (Moody s) and Rating and Investment Information, Inc. (R&I). As of March 31, 2011, the Company s issuer ratings were as follows:

S&P: A (long-term)

Moody s: A2 (long-term)

R&I: AA- (long-term), a-1+ (short-term)

C. Research and Development, Patents and Licenses, etc.

Komatsu is actively engaged in research and development activities for new technologies, new products and new services consistent with its commitment to provide Quality and Reliability. Komatsu s research and development activities are conducted by various groups within Komatsu. With respect to the Construction, Mining and Utility Equipment operating segment, the Research Division and the Development Division as well as development centers that focus on construction, mining and utility equipment are involved in research and development activities. The Industrial Machinery Division and the technology departments of Komatsu s subsidiaries and affiliates are responsible for research and development activities relating to the Industrial Machinery and Others operating segment.

The following table presents Komatsu s research and development expenses for the fiscal years ended March 31, 2011, 2010 and 2009. Research and development expenses are recognized when incurred.

	Millions of yen Fiscal Years Ended March 31,			Millions of U.S. dollars
R&D expenses	**2011**	2010	2009	**2011**
Construction, Mining and Utility Equipment	¥ **40,241**	¥ 40,359	¥ 47,036	$ **485**
Industrial Machinery and Others	**8,764**	6,090	6,700	**105**
Total	¥ **49,005**	¥ 46,449	¥ 53,736	$ **590**

The objectives of the research and development activities by operating segment for the fiscal years ended March 31, 2011, 2010 and 2009 are described below.

(1) Construction, Mining and Utility Equipment
In order to develop construction, mining and utility equipment that can be used in various parts of the world, Komatsu has established research and development centers in Japan and overseas, and has encouraged joint research and development programs as well as personnel exchanges. With the goal of assisting its customers to improve their productivity, Komatsu s medium- and long-term research and development objectives are as follows: (1) to make advancements in the use of ICT and (2) to increase the environmental friendliness of its products.
Komatsu has been engaged in the research and development of ICT, including remote management technology (which enables remote management of equipment by obtaining information regarding machine locations, operating conditions and vehicle health, using state-of-the-art remote sensing and telecommunication technologies), control technology and artificial intelligence. Equipment with control systems and management systems using these technologies have been rapidly penetrating the construction and mining equipment market. Komatsu is striving to achieve the complete automation of its equipment and is making advances to actively use ICT in its construction and mining equipment taking into consideration customers needs and preferences.
Komatsu has made advances in research and development relating to energy conservation, component recycling and reuse, and the evaluation of environmental loads through lifecycle assessment techniques based on the belief that it is possible to reduce environmental burdens while achieving economic efficiency. In particular, Komatsu has placed special emphasis on research and development activities relating to technologies that reduce fuel consumption, which are conducive to both the environment (by reducing CO_2 emissions) and the economy (by decreasing fuel expenses). For example, in the fiscal year ended March 31, 2008, Komatsu became the world s first company to release a hybrid excavator (PC200-8 Hybrid), which it released in the Japanese and Chinese markets. The hybrid excavator typically consumes less fuel when functioning at the maximum level as compared to conventional excavators and also emits lower levels of NOx and CO_2. Komatsu plans to introduce such hybrid excavator in the North, Central and South American, Southeast Asian, European and Oceania markets during the fiscal year ending March 31, 2012. In addition, during the fiscal year ended March 31, 2011, Komatsu completed the development of some of its new engines for its diesel-engine machines that meet the stringent clean-air standards that are to be phased in by Japan later this calendar year and that have been phased in by the US and the EU earlier this calendar year. Komatsu also has developed and introduced mini-construction equipment, which meet the clean-air standards enforced in China. Komatsu is continuously seeking to develop new technology to meet stricter exhaust gas emission standards that are to become effective in the future. In addition, Komatsu is working to make further improvements to the working conditions for machine operators by enhancing safety measures and reducing noise and vibration levels of its machines.

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(2) Industrial Machinery and Others

Research and development in the Industrial Machinery and Others operating segment is principally conducted in the fields of large presses (which is conducted by Komatsu Industries Corporation), fabricating machinery (which is conducted by Komatsu Industries Corporation), machine tools (which was conducted by Komatsu Machinery Corporation through the fiscal year ended March 31, 2011 and is now being conducted by Komatsu NTC Ltd.) and other industrial machinery (which is conducted by KELK Ltd.).

In the field of large size presses, Komatsu Industries Corporation has focused on developing functional enhancements to its AC servo presses to respond to the customers growing need to reduce production costs.

In the field of fabricating machinery, Komatsu Industries Corporation has focused on developing in-process controlled bending angle sensors for the press brake, which is a tool for bending sheet and plate materials. This function (called the Bending Eye) is expected to enable manufacturers to cut materials without a trial bend.

With respect to machine tools, Komatsu Machinery Corporation developed and introduced during the fiscal year ended March 31, 2011, the smallest crankshaft milling machine (GPM150F1-5). In addition, a vertical machining center (NV300V), which is smaller in size than prior models and lower in cost, received favorable reviews by customers that make cylinder head lines using such equipment. Komatsu Machinery Corporation also developed in the fiscal year ended March 31, 2011 a wire saw (PV800H) that is used in the manufacturing of solar cells. Such wire saw has the ability to cut thinner wafers at higher speeds thereby increasing wafer yields.

In terms of other products, KELK Ltd. has been engaged in the research and development of high-performance temperature control equipment, high-performance thermoelectric heat exchange units, micro thermo-modules for use in optical communications and thermoelectric power generation modules.

D. Trend Information

Looking at our global group-wide business environment, demand in the construction and mining equipment is on track to recover in the Traditional Markets, especially North America and Europe. In addition, demand for such equipment in the Strategic Markets is expected to show signs of strong growth. Komatsu is projecting that the economic growth of countries in the Strategic Markets will drive the demand for construction and mining equipment. Furthermore, because mining activities are brisk in light of the demand for natural resource commodities, Komatsu expects demand for mining equipment will continue. In the industrial machinery and others business, the press and machine tool markets are showing signs of recovery and the demand for wire saws is expected to remain strong as demand for solar energy products is expected to increase. Komatsu anticipates that demand for such products will continue to grow as the automobile industry recovers, especially in the Strategic Markets. Komatsu will strive to capitalize on these market expansions by not only expanding its sales of new equipment but also sales in the entire value chain, which includes its parts sales and services. Komatsu will also continue to increase the sales price of its products and decrease production costs.

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On the other hand, with respect to Japan, Komatsu needs to continue to closely monitor a number of problems caused by the Great East Japan Earthquake, such as the availability of electric power supply, the extent and pace of recovery of its suppliers, the frequency and severity of aftershocks and the state of the crippled nuclear plant in the Fukushima Prefecture. Komatsu s production and procurement remains vulnerable to being affected by such factors. While monitoring the conditions carefully, Komatsu will continue to work to stabilize production and procurement of its equipment and supplies. To assist in the restoration of the regions affected by the Great East Japan Earthquake, Komatsu established the Tohoku Operation Department in Sendai City, Miyagi Prefecture. This department will coordinate the transportation of construction equipment, forklift trucks, temporary housing materials and spare parts for equipment, and support our service operations in the affected region.

Forward looking statements

This annual report contains forward-looking statements which reflect management s current views with respect to certain future events, including expected financial position, operating results, and business strategies. These statements can be identified by the use of terms such as will, believes, should, projects and similar terms and expressions that identify future events or expectations. Actual results may differ materially from those projected, and the events and results of such forward-looking assumptions cannot be assured.

Factors that may cause actual results to differ materially from those predicted by such forward-looking statements include, but are not limited to, unanticipated changes in demand for 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 cost 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; and, the impact of regulatory changes and accounting principles and practices.

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E. Off-Balance Sheet Arrangements

Komatsu has several account receivables securitization programs, which are sources of capital for Komatsu. However, as of March 31, 2011, Komatsu did not have any outstanding amounts in securitized account receivables.

The securitized receivables, net of retained interests, are removed from the consolidated balance sheet when they are sold. Komatsu has entered into contractual arrangements with special purpose entities solely for the purpose of securitizing its receivables. A downgrading or worsening of the quality of Komatsu s receivables portfolio could restrict it from using its receivables securitization programs.

Komatsu did not have any cash flows from securitization activities from the sale of trade notes and account receivables for the fiscal year ended March 31, 2011. Cash flows received for all securitization activities from the sale of trade notes and accounts receivable for the fiscal year ended March 31, 2010 was ¥13,072 million.

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

The components of securitized trade receivables and other assets managed together as of March 31, 2011 and 2010 were as follows:

	Millions of yen Fiscal Years Ended March 31,		Millions of U.S. Dollars
	2011	2010	**2011**
Total amount of trade receivables that are managed and securitized	**¥ 731,735**	¥ 635,610	**$ 8,816**
Assets transferred		(22,004)	
Total amount of trade receivables on balance sheet	**¥ 731,735**	¥ 613,606	**$ 8,816**

A certain U.S. subsidiary s retained interests, which are included in the recourse provisions, are subordinate to investors interests. The value of such U.S. subsidiary s retained interests are estimated based on the present value of future expected cash flows, using certain key assumptions such as a weighted average life, prepayment speed over the life and expected credit losses over the life.

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Commitments and Contingent Liabilities

As of March 31, 2011, Komatsu had ¥1,347 million (U.S.$16 million) of contingent liabilities with financial institutions for discounted and transferred receivables on a recourse basis.

Komatsu provides guarantees to third parties in connection with loans borrowed by its employees and affiliated companies, customers and other companies. These guarantees relate mainly to housing loans extended to Komatsu s employees. The guarantees that support loans borrowed by Komatsu s affiliated companies, customers and other companies are issued to enhance the creditworthiness of these affiliated companies, customers and other companies. For each guarantee issued, Komatsu is required to perform under such guarantee if the borrower defaults on a payment required to be made by the applicable contract s terms. The contract terms range from 10 years to 30 years in the case of employees housing loans, and from 1 to 10 years in the case of loans borrowed by Komatsu s affiliated companies, customers and other companies. The maximum aggregate amount of undiscounted payments Komatsu would have had to make in the event that a payment default were to occur for these loans was ¥99,312 million (U.S.$1,197 million) as of March 31, 2011. The fair value of the liabilities recognized for Komatsu s obligations as guarantor under these guarantees as of March 31, 2011 were believed to be insignificant by Komatsu s management. Some of these guarantees were secured by collateral or insurance issued to the Company.

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

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

Komatsu has business activities with customers, dealers and associates around the world and their trade receivables from such parties are well diversified to minimize credit risk concentrations. Komatsu s management does not expect to incur losses on their trade receivables in excess of established allowances.