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KOMATSU LTD
Form 20-F
July 25, 2002

SECURITIES AND EXCHANGE COMMISSION

FORM 20-F

(Mark One)

() REGISTRATION STATEMENT PURSUANT TO SECTION 12(b)
OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934
or
(XX) ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended March 31, 2002

COMMISSION FILE NUMBER: 1-7239

KABUSHIKI KAISHA KOMATSU SEISAKUSHO
(Exact name of registrant as specified in its charter)

KOMATSU LTD.
(Translation of registrant's name into English)

JAPAN
(Jurisdiction of incorporation or organization)

2-3-6 Akasaka, Minato-ku, Tokyo 107-8414, Japan
(Address of principal executive offices)

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

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

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

None

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

Common Stock

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

958,921,701

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes , No

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

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

Cautionary Statement with respect to forward-looking statements:

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

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

PART I

Item 1. Identity of Directors, Senior Management and Advisers

Not applicable

Item 2. Offer Statistics and Expected Timetable

Not applicable

Item 3. Key Information

A. Selected financial data

The following data for each of the fiscal years ended March 31, 1998 - 2002 has been derived from the Company's audited consolidated financial statements. It should be read in conjunction with the Company's audited consolidated balance sheets as of March 31, 2001 and 2002, the related consolidated statements of income, shareholders' equity and cash

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2

flows for the three years ended March 31, 2000 - 2002 and the notes thereto that appear elsewhere in this annual report

| | (Yen in millions, except per share | | | |
|-----------------------------------|------------------------------------|--------------|-------------|--------------|
| | 1998 | 1999 | 2000 | 2001 |
| Income Statement Data: | | | | |
| Net Sales | 1,104,077 | 1,061,597 | 1,055,654 | 1,055,654 |
| Operating income | 43,098 | 4,281 | 17,318 | 17,318 |
| Income before income taxes | 40,252 | (9,604) | 19,395 | 19,395 |
| Income taxes | 20,841 | 2,061 | 9,950 | 9,950 |
| Net income | 19,241 | (12,378) | 13,395 | 13,395 |
| Per Share Data: | | | | |
| Net income | | | | |
| | _ Basic | 19.60 | (12.77) | 13.85 |
| | _ Diluted | 19.32 | (12.77) | 13.76 |
| Cash dividends declared | | | | |
| | 8.00 | 7.00 | 6.00 | 6.00 |
| | US\$ (5.90 cents) | (5.89 cents) | (5.77cents) | (5.09 cents) |
| Depreciation and amortization | 48,629 | 52,150 | 61,500 | 61,500 |
| Capital expenditures | 123,026 | 114,874 | 57,728 | 57,728 |
| Research and development expenses | 44,058 | 45,712 | 42,460 | 42,460 |

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

(a) Includes receivables due after one year

3

| | Average* | High | Low | (Yen) Period-End |
|-------------------------------------|----------|--------|--------|---------------------|
| Yen Exchange Rates per U.S. Dollar: | | | | |
| Year ended March 31 | | | | |
| 1998 | 123.57 | 111.42 | 133.99 | 133.29 |
| 1999 | 128.10 | 108.83 | 147.14 | 118.43 |

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| | | | | | |
|------|----------|--------|--------|--------|--------|
| 2000 | | 110.02 | 101.53 | 124.45 | 102.73 |
| 2001 | | 111.65 | 104.19 | 125.54 | 125.54 |
| 2002 | | 125.63 | 115.89 | 134.77 | 132.70 |
| 2002 | | | | | |
| | January | | 130.93 | 134.64 | 134.06 |
| | February | | 132.26 | 134.77 | 133.96 |
| | March | | 127.07 | 133.46 | 132.70 |
| | April | | 128.13 | 133.40 | 128.45 |
| | May | | 123.08 | 128.66 | 124.13 |
| | June | | 119.38 | 125.64 | 119.85 |

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

Attached hereto and incorporated in full by reference are pages 32 and 33 of the Company's 2002 Annual Report to Shareholders pertaining to the "Ten-year Summary", which pages comprise part of the Consolidated Financial Statements attached hereto.

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

B. Capitalization and indebtedness

Not applicable

C. Reasons for the offer and use of proceeds

Not applicable

D. Risk factors

Business Risk

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

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

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

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

Item 4. Information on the Company

A. History and Development of the Company

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

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

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

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

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

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

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

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

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

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

Principal capital expenditures

5

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

Capital expenditures in fiscal year ended March 31, 2002 ("fiscal 2002") decreased 6.1% from the previous year. The decrease resulted mainly from

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the Company being highly focused on the level and specific need for capital expenditures and limiting capital expenditures accordingly.

B. Business Overview

Komatsu is a worldwide, integrated manufacturing and sales organization engaged in the manufacture, development, marketing and sale of industrial equipment and products. For fiscal 2002, Komatsu recorded worldwide net sales of (Yen)1,035,891 million (US\$7,789 million) and a net loss of (Yen)80,621 million (US\$606 million).

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

Construction and Mining Equipment Segment

The construction and mining equipment segment is Komatsu's largest operating segment. Net sales of construction and mining equipment totaled (Yen)731,340 million (US\$5,499 million) for fiscal 2002, a 1.8% increase from the previous year, and represented 70.6% of Komatsu's total net sales.

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

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

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

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Komatsu's line of construction and mining equipment includes hydraulic excavators, backhoe loaders, wheel loaders, skid steer loaders, bulldozers, motor graders, vibratory rollers, dump trucks, crawler carriers, shield machines, tunnel-boring machines, small-diameter pipe jacking machines, mobile debris crushers, mobile soil stabilizers, mobile tub grinders, rough-terrain cranes, reach tower cranes, railroad maintenance equipment, diesel engines, diesel generator sets, hydraulic equipment, steel castings and iron castings. The construction and mining equipment product line also includes a variety of "utility" equipment - mini to small machines (e.g., mini hydraulic excavators, mini wheel loaders, backhoe loaders, skid steer loaders, and other similar products) for landscaping and general construction.

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

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

Accelerating Involvement in Downstream Markets and Utilizing IT

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

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

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

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operations and concentrated purchasing.

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

Thriving Auctions for Used Equipment

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

Deciding to Transform Komatsu Zenoah. into a Wholly Owned Subsidiary

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

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

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

Consolidating Local Subsidiaries for Lean Organization

Following the consolidation of Komatsu Utility Corporation into Komatsu

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

Demonstrating Future Business Orientation at CONEXPO 2002

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

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

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

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

Participating in Samoter 2002

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

Other Regions. Sales in other regions advanced compared with the previous year,

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

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

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

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

Electronics Segment

The core business of Komatsu's electronics segment consists of its semiconductor materials operations, which includes the production of silicon wafers for the semiconductor industry; polycrystalline silicon, the raw material used in the production of silicon wafers; and silane gas, which is used in the manufacture of polycrystalline silicon and in applications in the electronics industry. The electronics segment also produces LCD manufacturing equipment, excimer lasers and various electronic equipment and devices. Komatsu's electronics segment accounted for (Yen)76,769 million (US\$577 million), or 7.4%, of total net sales for fiscal 2002, representing a 34.8% decrease in these sales over the prior fiscal year. Sales in Japan dropped 42.1% to (Yen)43,085 million (US\$324 million), while sales outside Japan fell 22.2% to (Yen)33,684 million (US\$253 million).

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

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

Komatsu Electronic Metals has tightened the focus of its production in Japan and Taiwan since 1999 and enhanced its market presence in these two regions as its basic policy. The company exerted all-out efforts on the reinforcement of its corporate strengths by enhancing product competitiveness, mainly for 200mm wafers, and production efficiency as well as by

reducing capacity costs. On a nonconsolidated basis, the company sustained ordinary profit of (Yen)94 million (US\$0.7 million). A drastic fall in demand adversely affected sales, which declined 33.9%, to (Yen)48,732 million (US\$366 million), for the year. Formosa Komatsu Silicon Corporation, a joint venture with a local partner in Taiwan, met a sharp fall in demand at the time of its full-scale production start-up and recorded poor business results. Komatsu Electronic Metals registered consolidated sales of (Yen)52,323 million (US\$393 million), a decline of 33.4% from the previous year, and an ordinary loss of (Yen)5,157 million (US\$39 million).

Working to Make a Difference in Technologies

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

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

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

Advanced Silicon Materials LLC (ASiMI)

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

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

Komatsu Electronics, Inc. ("Komatsu Electronics")

Demand for thermoelectric modules for use in fiber optic communication networks surged in the previous fiscal year on the back of global telecommunication network infrastructure development and the expanded use of the Wavelength Division Multiplexing method for large-scale data transmission. However, Komatsu Electronics experienced a sharp and drastic downturn in sales of thermoelectric modules in fiscal 2002, due to the impact of reduced capital

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investment and inventory adjustments among telecommunications equipment manufacturers in North America. Demand also remained slack for temperature-control semiconductor manufacturing equipment, and the company's fiscal 2002 sales declined substantially. With respect to earnings, the company strengthened its efforts to cut capacity costs through a substantial reduction of employees and other means; however, it had to record a loss

11

for the year.

GIGAPHOTON INC. ("GIGAPHOTON")

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

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

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

Other Operations Segment

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

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

Komatsu Forklift.

Sales of Komatsu Forklift for the year fell 14.1% from the previous year, to (Yen)89,869 million (US\$676 million), as the company faced a sharp drop in

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demand for industrial-use vehicles in Japan and overseas.

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

12

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

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

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

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

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

Industrial Machinery Business

Komatsu Industries Corporation ("Komatsu Industries"), which produces sheet metal machinery and medium-sized presses, continued to implement

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

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

13

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

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

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

Komatsu Zenoah.

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

Net Sales Information

Financial information (other than net sales figures by geographic segment)

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

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

14

Net Sales by Category of Activity

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

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

Net Sales by Geographic Markets

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

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

Sales and Distribution

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

15

Overseas Markets:

Global Sales and Service Operations

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

Parts Supply Operations

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

Reman (Re-manufacturing)

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

Training Centers

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

Domestic Market:

Sales Operations

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

Service Operations

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

Patents and Licenses

Komatsu owns a substantial number of patents and utility model registrations, as well as applications for patents and utility model registrations, in Japan. It also owns a substantial number of patents and applications for patents in other countries where its products are marketed.

16

Moreover, Komatsu manufactures a variety of products under licensing agreements with other companies.

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

Competition

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

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

Regulation

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

Komatsu believes that it remains in substantial compliance with existing applicable environmental control regulations and does not expect that the cost of complying with foreseeable requirements will have a material effect upon its financial position and the results of the operations. In 1992, Komatsu issued the Earth Environment Charter, a comprehensive corporate policy statement representing Komatsu's commitment to comply with all applicable regulations and industry standards for the protection of the environment. Since then, Komatsu has made progress in our efforts like reduction of industrial waste, energy saving (reduction of CO2 emission), and recycling of materials. Komatsu has started publication of these achievements in our "Environmental Report" in fiscal 2000. Komatsu has also introduced "Environmental Accounting.

Sources of Supply

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

17

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

C. Organizational Structure

The following list shows the principal subsidiaries:

| Name of Company | Country of Incorporation | Ownership (%) |
|-------------------------------------|--------------------------|---------------|
| Komatsu Electronic Metals Co., Ltd. | Japan | 63.2 |
| Komatsu Forklift | Japan | 51.9 |
| Komatsu Zenoah Co. | Japan | 55.7 |
| Komatsu Castex Ltd. | Japan | 100.0 |
| Komatsu House, Ltd | Japan | 88.5 |
| Komatsu Logistics Corp. | Japan | 97.1 |
| Komatsu Industries Corporation | Japan | 100.0 |
| Komatsu Tokyo Ltd. | Japan | 100.0 |
| Komatsu Machinery Corporation | Japan | 100.0 |
| Komatsu Hokkaido Ltd. | Japan | 100.0 |
| Komatsu Electronics, Inc. | Japan | 100.0 |
| Komatsu America Corp. | U.S.A. | 100.0 |

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| | | |
|---|------------------|----------------|
| Komatsu America International Company | U.S.A. | 100.0 |
| Komatsu do Brasil Ltda. Advanced Silicon Materials LLC. | Brazil U.S.A. | 100.0 100.0 |
| Komatsu Europe International N.V. | Belgium | 100.0 |
| Komatsu UK Ltd. | UK | 100.0 |
| Komatsu Hanomag AG | Germany | 98.4 |
| Komatsu Mining Germany GmbH | Germany | 100.0 |
| Komatsu Utility Europe S.p.A. | Italy | 100.0 |
| Komatsu Asia & Pacific Pte Ltd | Singapore | 100.0 |
| P T Komatsu Indonesia Tbk | Indonesia | 55.1 |
| Bangkok Komatsu Co., Ltd. | Thailand | 74.8 |

18

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

D. Property, Plants and Equipment

Komatsu's manufacturing operations are conducted in 30 principal plants, 12 of which are located in Japan. As of March 31, 2002, the 30 plants had an aggregate manufacturing floor space of 1,494 thousand square meters (16,087 thousand square feet). In addition, Komatsu uses additional floor space at such plants and elsewhere for laboratories, office buildings, and employee housing and welfare facilities. Komatsu's plants except the Moses lake Plant (ASiMI) and Komatsu Silicon America are currently operating regularly, on a year-round basis, based upon at least one full shift per plant. Komatsu could increase its production by, among other methods, requesting that its employees work overtime or by increasing the number of shifts working at its plants.

Almost all of Komatsu's manufacturing facilities and the land on which they are located are owned by Komatsu. A portion of the property owned by Komatsu is subject to mortgages or other types of liens which have been established on separate items of property. At March 31, 2002, the net book value of the property owned by Komatsu was (Yen)405,301 million, of which (Yen)27,852 million was subject to encumbrances.

The name and location of Komatsu's principal plants, their approximate aggregate floor space, and the principal products manufactured therein as of March 31, 2002, are as follows:

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

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| | | | |
|---|---------|-------|--|
| In Japan | | | |
| Awazu Plant Komatsu | 244,000 | 2,626 | Small and medium-sized bulldozers (under 20 tons), Small hydraulic excavators (under 8 tons), Minimal Rearswing radius hydraulic excavator (10 tons), Mini hydraulic excavators, Mini wheel loaders (under 4 tons), Small and medium-sized wheel loaders, Crawler carriers, Transmissions, Torque converters, vehicles, Ammunition |
| Komatsu Plant Komatsu | 44,000 | 474 | Large presses, Underground machinery |
| Osaka Plant | 138,000 | 1,485 | Large bulldozers (20 tons and over), |
| | | 19 | |
| Hirakata | | | Medium-sized and large hydraulic excavators (over 10 tons), Mobile crushers, Mobile soil-improvers, Mobile tub grinders |
| Oyama Plant Oyama | 193,000 | 2,078 | Engines for construction machinery and industrial vehicles, Diesel generators, Marine engines, Rolling stock engines, Low-pollution methanol engines, Hydraulic equipment |
| Mooka Plant Mooka | 66,000 | 710 | Rough-terrain cranes, Dump trucks, large wheel loaders, Motor graders, Road construction machinery, Towing tractors |
| Komatsu Castex Ltd. Himi | 56,000 | 603 | Steel casting, Iron castings, Pattern for casting |
| Komatsu Zenoah Co. Kawagoe and Koriyama | 44,100 | 475 | Mini-sized hydraulic excavators, Skid steer loaders, Mini-sized agricultural and forestry equipment, General purpose engines, Hydraulic equipment |
| Komatsu Forklift Co., Ltd. Oyama | 47,750 | 514 | Lift trucks, Automated conveyance systems, Automated warehouses, Refrigerated warehouses, Freezer warehouses |
| Komatsu Electronic Metals Co., Ltd. Nagasaki and Miyazaki | 72,000 | 775 | High-purity silicon wafers |
| Komatsu Electronics, Inc. Hiratsuka | 1,000 | 11 | Thermoelectric modules, Temperature control equipment |
| Overseas | | | |

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| | | | |
|---|---------|-------|---|
| Komatsu America International Company Tennessee, USA and Quebec, Canada South Carolina, USA and Illinois, USA | 145,600 | 1,568 | Hydraulic excavators, Wheel loaders, Motor graders, Cranes, Backhoe Loaders Large wheel loaders, Large dump trucks. |
| Hensley Industries, Inc. Texas, USA | 20,000 | 215 | Buckets, Teeth, Adapters |
| Komatsu Mexicana S.A. | 22,000 | 237 | Small-sized presses, Attachments |
| 20 | | | |
| de C.V. Sahagun, Mexico | | | for construction equipment, and others |
| Komatsu do Brasil Ltda. Suzano, Sao Paulo, Brasil | 57,000 | 614 | Hydraulic excavators, Bulldozers, Wheel loaders |
| Advanced Silicon Materials LLC. Washington and Montana, USA | 62,927 | 678 | Polycrystalline silicon products, Silane gas |
| Komatsu UK Ltd. Birtley, UK | 60,000 | 646 | Hydraulic excavators |
| Komatsu Hanomag AG Hannover, Germany | 62,335 | 671 | Wheel loaders, Compactors |
| Komatsu Utility Europe S.p.A. Este, Italy | 34,000 | 366 | Mini and small hydraulic excavators, Backhoe loaders, Skidsteer loaders |
| Komatsu Mining Germany GmbH Dusseldorf, Germany | 23,269 | 250 | Super-large hydraulic excavators |
| P.T. Komatsu Indonesia Tbk Jakarta, Indonesia | 45,546 | 490 | Hydraulic excavators, Bulldozers, Wheel loaders, Motor graders, Dump trucks |
| Komatsu (Changzhou) Construction Machinery Corporation Jiangsu, China | 14,300 | 154 | Wheel loaders, Motor graders, Hydraulic excavators |
| Komatsu (Changzhou) Foundry Corporation Jiangsu, China | 16,000 | 172 | Iron castings and parts for construction equipment and industrial vehicles, Foundry molds |
| Bangkok Komatsu Co. Ltd. Chonburi, Thailand | 13,464 | 145 | Hydraulic excavators |
| Formosa Komatsu Silicon Corporation | 12,080 | 130 | Silicon wafers |

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Mailiao, Yunlin, Taiwan

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

21

Item 5. Operating and Financial Review and Prospects

Critical Accounting Policies

Komatsu prepares the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America. As such, Komatsu is required to make certain estimates, judgments and assumptions that Komatsu believes are reasonable based upon the information available. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of expenses during the periods presented. The significant accounting policies which Komatsu believes are the most critical to aid in fully understanding and evaluating Komatsu's reported financial results include the following:

Allowance for doubtful receivables

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

Deferred tax assets

During the process of preparing the consolidated financial statements, Komatsu estimates income taxes in each of the jurisdictions in which Komatsu operates. This process involves Komatsu estimating the current tax exposure and assessing net operating loss carryforwards and temporary differences resulting from differing treatment of items for tax and accounting purposes. These carryforwards and temporary differences result in deferred tax assets and liabilities, which are included within Komatsu's consolidated balance sheet. Komatsu must then assess the likelihood that Komatsu's deferred tax assets will be recovered from future taxable income and available tax planning strategies, and, to the extent Komatsu believes that recovery is not likely, Komatsu must establish a valuation allowance. When the actual results differ from these estimates, Komatsu may need to adjust the valuation allowance which could materially affect Komatsu's financial position and results of operations.

Valuation of long-lived assets

Komatsu's long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to management's best estimate of future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment loss to be recognized is measured by the amount by which the carrying amount of the assets exceed the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. The undiscounted cash flow

projections used to make assessment involves significant judgments. Fair value is measured based on the discounted cash flow model or independent appraisal. In the event that there are changes in strategy and market conditions, the assessment of the ability to recover the carrying amount of long-lived assets would change.

22

Fair value of financial instruments

The fair values of derivative financial instruments, consisting principally of foreign currency contracts and interest swap agreements, are estimated by obtaining quotes from brokers.

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

Pension liabilities and expenses

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

A. Operating results

Overview

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

During fiscal 2002, ended March 31, 2002, the business environment for construction and mining equipment became grave in Japan, with an over 20% decline in demand from the previous year, as it was impacted by reduced construction investment. Overseas, while the Chinese market continued to expand during the year, demand in the major markets of North America and Europe declined. As a result, overall overseas demand was slack for the year under review.

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

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

23

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

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

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

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

Results of Operations

Comparison of Fiscal 2002 with Fiscal 2001

Net Sales

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

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

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expanded sales generated in other regions and strong sales of mining equipment. As a result, sales of construction and mining equipment increased 1.8% from

24

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

In the electronics business, reflecting the severe conditions of the international IT-related market, demand for silicon wafers and polycrystalline silicon as the raw material for silicon wafers drastically decreased both in Japan and overseas. Sales of FA equipment and LAN-related peripherals were sluggish, sales of thermoelectric modules for use in fiber optic communication networks suffered from a drastic drop in demand and those of temperature-control semiconductor manufacturing equipment were adversely affected by reduced capital investment in the industry. As a result, sales from the electronics business dropped 34.8% from the previous fiscal year, to (Yen)76,769 million (US\$577 million).

With respect to other operations, sales of large presses advanced in the industrial machinery business, supported by expanded investment by Japanese automobile manufacturers mainly in their overseas plants. In the business of sheet metal forming machinery and agricultural and forestry machines, sales grew centering on products with unique features despite the difficult business conditions. On the other hand, sales of forklift trucks declined considerably from the previous fiscal year due to reduced demand for industrial vehicles in Japan and overseas.

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

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

Earnings

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

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

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

25

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

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

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

On a per share basis, net loss amounted to (Yen)84.46 (US\$63.5c). Dividends per share were maintained at (Yen)6.00 (US\$4.5c), as positive effects from the reform of business structure should improve the business results of the Company in fiscal 2003 and thereafter. The corresponding figures for fiscal 2001 were (Yen)7.24 and (Yen)6.00, respectively.

Comparison of Fiscal 2001 with Fiscal 2000

Net Sales

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

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

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

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

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

Earnings

26

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

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

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

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

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

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

On a per share basis, net income amounted to (Yen)7.24 (US\$5.7c). Dividends per share were (Yen)6.00 (US\$4.8c). The corresponding figures for fiscal 2000 were (Yen)13.85 and (Yen)6.00, respectively.

Performance by Segment

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

Construction and Mining Equipment. Fiscal 2002 net sales of construction and mining equipment totaled (Yen)731,340 million (US\$5,499 million), an increase of 1.8% compared to (Yen)718,147 million in fiscal 2001, which represented a decrease of 3.9% compared to (Yen)747,647 million in fiscal 2000. Construction and mining equipment net sales accounted for 70.6% of Komatsu's

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worldwide net sales in fiscal 2002. While sales in Japan decreased 14.8% to (Yen)260,351 million (US\$1,958 million) in fiscal 2002 from (Yen)305,593 million in fiscal 2001, sales outside Japan increased 14.2% to (Yen)470,989 million (US\$3,541 million) in fiscal 2002. Sales in Japan represented 35.6% of total sales of construction and mining equipment, down 7% from the

27

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

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

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

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

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

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

Performance by Region

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

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in fiscal 2001 increased by 6.0% (from (Yen)553,822 million) and increased by (Yen)28,298 million from an operating income of (Yen)955 million, respectively.

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

28

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

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

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

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

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

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

B. Liquidity and capital resources

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

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

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principally reflecting the decrease of repayment of long term debt obligations by (Yen)31,013 million compared to fiscal 2001.

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

29

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

In the construction and mining equipment segment, which is a mature industry, Komatsu has already developed worldwide production and distribution capabilities. Accordingly, Komatsu does not anticipate that it will need to incur significant capital expenditures or other investments to expand its production in this segment.

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

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

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

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

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

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

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

30

of notes issued under its US\$1,200 million Euro Medium Term Note Program ("EMTN Program"). Under the EMTN Program, the Company, KFA, Komatsu Finance (Netherlands) B.V. ("KFN") and Komatsu Australia Pty., Ltd. may from time to time issue notes denominated in any currency. The notes issued under the EMTN Program are scheduled to mature on various dates through September 2009. As of May 31, 2002, Komatsu Finance (Netherlands) B.V. had EUR117 million of notes issued under its EMTN program, which are scheduled to mature on various dates through October 2004.

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

In March 1999, the Company issued (Yen)35,000 million of unsecured bonds, scheduled to mature in March 2006. The Company used the net proceeds from the sale of these bonds for an acquisition of KSA, previously a wholly-owned subsidiary of KEM, and additional investment in KSA and ASiMI. They repaid bank loans using the paid-in capital. And (Yen)27,447 million of 1.8% convertible unsecured bonds scheduled to mature in 2004.

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

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

Commercial and Contractual Obligations

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

C. Research and development, patents and licenses

Corporate Policy

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

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

31

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

Spirit of Manufacturers

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

Core Technologies

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

The five core technologies

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

Mid- and Long-term R&D Strategy

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

Information Technology (IT)

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

For construction equipment, Komatsu has projects such as:

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

Combining various sensing technologies and a communications network system, Komatsu believes Komatsu will be able to run a remote machine diagnosis/support system for the machines working in the field. More accurate PM (preventive maintenance) can be performed for timely parts upgrade and replacement to

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improve machine availability. This approach will be applied not only to construction equipment, but to all products and services Komatsu is engaged in.

Technology Assessment and Development for Environmental Conservation

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

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

32

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

Material and Equipment Technology to Support Semiconductor Die Shrink

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

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

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

D. Trend information

Development and Results of Business Operations

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

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

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year under review.

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

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

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

33

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

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

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

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

Forward Looking Information

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

Item 6. Directors, senior management and employees

A. Directors and senior management

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

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

The Statutory Auditors of the Company are not required to be, and are not, certified public accountants. Each Statutory Auditor audits the performance of duties by Directors, and may at any time request the Directors to report on the business activities of the Company, and may investigate

34

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

Set forth below are the names of the Company's Directors and Statutory Auditors (as of June 26, 2002), their positions and offices with the Company, and the dates when they assumed such positions.

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

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| | | |
|---------------------------------------|--|---|
| | Mining Equipment Marketing Division. | Jun. 1999 Senior Executive Officer Jun. 2001 Executive Managing Director |
| Kunio Noji (Nov. 17, 1946) | Managing Director President, Production Division, Supervising, e-KOMATSU | Jun. 1997 Director Jun. 1999 Executive Officer Jun. 2000 Senior Executive Officer Jun. 2001 Managing Director |
| Kunihiko Komiyama (May. 5, 1945) | Managing Director General Manager, Corporate Planning, Supervising Engines & Hydraulics Business | Jun. 1996 Director Jun. 1999 Senior Executive Officer Jun. 2002 Managing Director |
| 35 | | |
| Tetsuya Katada (Oct. 15, 1931) | Director Counselor | Mar. 1978 Director Mar. 1983 Managing Director Mar. 1987 Executive Managing Director Jun. 1988 Executive Vice President Jun. 1988 Rep. Director Jun. 1989 President (Rep. Director) Jun. 1995 Chairman of the Board (Rep. Director) Jun. 1999 Chairman of the Board Jun. 2001 Director |
| Toshio Morikawa (Mar. 3, 1933) | Director Advisor, Sumitomo Mitsui Banking Corporation | Jun. 1999 Director |
| Norimichi Kitagawa (July 22, 1940) | Statutory Auditor | Jun. 1993 Director Jun. 1997 Managing Director Jun. 1999 Executive Managing Director Jun. 2001 Statutory Auditor |
| Masafumi Kanemoto (May. 11, 1947) | Statutory Auditor | Jun. 2002 Statutory Auditor |
| Masahiro Yoshiike (Mar. 23, 1940) | Statutory Auditor President, The Taiyo Mutual Life Insurance Co. | Jun. 1997 Statutory Auditor |
| Takaharu Dohi (Jul. 12, 1933) | Statutory Auditor | Jun. 1999 Statutory Auditor |

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

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

1. Stronger Board of Directors

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

2. Introduction of Executive Officer System

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

Executive Officers were given clearly defined responsibilities.

36

3. Introduction of the Global Officer System

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

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

4. Establishment of Committee on Reward

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

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

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

Interest of Management in Certain Transactions

None

B. Compensation

Aggregate Compensation

The aggregate compensation, including bonuses but excluding retirement allowances, paid by the Company in fiscal 2002 to all Directors and Statutory Auditors as a group for services in all capacities, was (Yen)374 million.

Bonuses

In accordance with customary Japanese business practices, annual bonuses are paid to the Directors and Statutory Auditors of the Company out of the "profit" of the Company available for dividends, as such "profit" is determined in accordance with the Japanese Commercial Code. Such bonuses are approved by the shareholders of the Company at a meeting customarily held in June of each year. Bonuses so paid are not deductible by the Company for tax purposes and for financial reporting purposes are not reported under selling, general and

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administrative expenses as a charge against income for the year in which they are paid. Included in the figure for aggregate compensation set forth above is a total of (Yen)63 million in bonuses paid to Directors and Statutory Auditors as a group in their capacities as such (excluding bonuses for their services as employees) in respect of the 2002 fiscal year, as approved by the Company's Shareholders at the General Meeting of Shareholders held on June 27, 2001.

Retirement Allowance

37

The Company has a severance payment plan for Directors and Statutory Auditors. The plan provides for lump-sum severance payments based on pertinent rules of the Company. The amount of provision made for such severance payments, as charged to operating income, for the year ended March 31, 2002 was (Yen)103 million.

Options to Purchase Securities from Registrant or Subsidiaries

On June 27, 2001, the shareholders of the Company authorized the acquisition by the Company of 1,100,000 shares of its common stock, for a total consideration of up to (Yen)1,000 million, through the period ending on the date of the Company's next annual general meeting of shareholders. The Company intends to transfer such treasury shares to the Directors and certain employees, under agreements granting such Directors or such employees the right to acquire a certain number of the treasury shares, at a contractually fixed price. The purchase price will be equal to the amount obtained by multiplying 1.05 by the average of closing prices applicable to ordinary transactions of Company shares on the Tokyo Stock Exchange during the month immediately preceding the month in which the date of grant of the rights occurs provided that the exercise price shall not be less than the closing price of Company shares on the Tokyo Stock Exchange as of the date of the grant. According to the agreement, the option price is (Yen)559 per share and the option exercise period runs from August 1, 2002 to July 31, 2007.

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

| Name | Number of shares | Name | Number of shares |
|--------------------|---------------------|-----------------|---------------------|
| Satoru Anzaki | 80,000 | Masahiro Sakane | 80,000 |
| Toshitaka Hagiwara | 70,000 | Koji Ogaki | 60,000 |
| Kazuhiro Aoyagi | 60,000 | Kunio Noji | 40,000 |
| Tetsuya Katada | 20,000 | | |

The following table shows the common stock option plan.

| Years granted (Year ended March 31) | Total number of shares to be called for common stock (in thousands) | Exercise price per share |
|--|---|--------------------------|
| 1999 | 1,000 | 700 |
| 2000 | 1,200 | 820 |

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| | | |
|------|-------|-----|
| 2001 | 1,200 | 758 |
| 2002 | 1,100 | 559 |

Option to exercise the issuance of common stocks warrant

On June 26, 2002, the shareholders of the Company authorized the Company to issue rights to acquire new shares to the Directors and certain employees in the form of stocks options. This issuance of common stocks warrant of the Company up to a maximum of 950 rights, that will result in 950,000 shares by granting the right to convert 1,000 stocks per a stock warrant.

C. Board practices

See Item 6A "Directors and senior management"

38

D. Employees

Number of employees by business segment

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

Segment information for 2000 is not available.

The Company has a labor contract with the Komatsu Labor Union ("KLU") covering conditions of employment. This contract, which provides that all employees except management and certain other enumerated personnel must become union members, has been renegotiated every two years and its present term runs until July 31, 2003. The employees of the Company's principal Japanese subsidiaries are covered by separate labor contracts between such subsidiaries and the unions representing their employees. These contracts contain provisions generally similar to those contained in the Company's contract with KLU. Certain overseas employees of the Company and subsidiaries are also covered by labor contracts between the employer and unions in the relevant locale representing the employees.

E. Share ownership

The following table lists the number of shares owned by the Directors and Statutory Auditors of the Company as of March 31, 2002. This table does not include the shares related to unexercised stock options.

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

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| | | |
|--------------------|-------------------|----|
| Kunihiko Komiyama | Managing Director | 28 |
| Tetsuya Katada | Director | 81 |
| Norimichi Kitagawa | Statutory Auditor | 29 |
| Masafumi Kanemoto | Statutory Auditor | 12 |
| Masahiro Yoshiike | Statutory Auditor | 2 |

Item 7. Major Shareholders and Related Party Transactions

A. Major Shareholders

The following table shows the number of Company shares held by holders of 5% or more of Company shares and their percentage ownership as of March 31, 2002.

| Name of major shareholders | Shares owned | Percentage |
|----------------------------|--------------|------------|
| 39 | | |

| | (in thousands) | |
|-------------------------------------|----------------|------|
| The Taiyo Mutual Life Insurance Co. | 55,224 | 5.8% |
| NATS CUMCO | 55,056 | 5.7% |

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

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

As of March 31, 2001

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

As of March 31, 2000

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

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

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

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

Brandes Investment Partners

Brandes Investment Partners filed a substantial share holding report with the Director of the Kanto Local Finance Bureau of the Ministry of Finance in Japan on May 24, 2001 in accordance with Paragraph 1 of Article 27-25 of the Securities and Exchange Law of Japan. Their report showed that they held 116,471,776 shares, or 12.1% of the Company's shares, as of April 27, 2001.

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Franklin Templeton Investment Group

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

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

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

B. Related party transactions

40

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

C. Interests of experts and counsel

None

Item 8 Financial Information

A. Consolidated Statements and Other Financial Information

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

Legal Proceedings

Komatsu is involved in or subject to various ordinary, routine litigation and legal proceedings incidental to the normal conduct of its

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business, including with respect to regulatory matters. The outcome of these matters is not expected to have a material adverse effect on Komatsu's financial condition, liquidity or results of operations.

Dividend Policy

Concerning cash dividends to shareholders, the Company maintains a basic policy of redistributing profits by taking payout ratios into account and linking returns more directly with business results, while ensuring sufficient internal reserves for reinvestment. Based on this policy, we have set fiscal 2002 year-end per share dividends at (Yen)3.0 for the second half, with total annual per share dividends to be set at (Yen)6.0.

B. Significant changes

No significant change has occurred since the date of the annual financial statements.

41

Item 9 The Offer and Listing

A. Offer and listing details

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

ADS's, each representing 4 shares of common stock, have been issued by Citibank N.A. of New York, as Depositary for the American Depositary Receipts (ADR's) evidencing the ADS's, and are traded in the US on the over-the-counter market.

European Depositary Receipts are listed on the Luxemburg Stock Exchange. Global Bearers Certificates are listed on the Frankfurt Stock Exchange.

As of June 30, 2002, 958,921,701 shares of common stock were outstanding. On the same date, 15,045,925 ADS's (equivalent to 60,183,700 shares of common stock, or approximately 6.3% of the total number of shares of common stock outstanding on that date) were outstanding and were held by 13 record holders of ADR's.

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

| Period | TSE (Japanese Yen) | | ADS (U.S. dollars) | |
|--------------------------------------|-----------------------|-----|-----------------------|--------|
| | High | Low | High | Low |
| The fiscal year ended March 31, 1998 | 985 | 486 | 32.500 | 15.140 |
| The fiscal year ended March 31, 1999 | 745 | 505 | 23.260 | 16.170 |
| The fiscal year ended March 31, 2000 | 820 | 444 | 27.490 | 16.700 |
| The fiscal year ended March 31, 2001 | | | | |
| 1/st/ quarter | 759 | 488 | 28.750 | 19.240 |
| 2/nd/ quarter | 803 | 587 | 30.125 | 21.500 |
| 3/rd/ quarter | 608 | 465 | 22.500 | 17.250 |
| 4/th/ quarter | 615 | 480 | 19.500 | 16.500 |
| The fiscal year ended March 31, 2002 | | | | |
| 1/st/ quarter | 705 | 516 | 22.900 | 17.000 |
| 2/nd/ quarter | 582 | 355 | 18.250 | 12.100 |

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| | | | | |
|---------------|-----|-----|--------|--------|
| 3/rd/ quarter | 469 | 369 | 14.300 | 11.900 |
| 4/th/ quarter | 500 | 375 | 14.700 | 11.250 |
| 2002 January | 500 | 401 | 14.700 | 12.000 |
| 2002 February | 464 | 375 | 12.900 | 12.250 |
| 2002 March | 485 | 409 | 14.500 | 12.750 |
| 2002 April | 493 | 422 | 15.000 | 13.050 |
| 2002 May | 479 | 431 | 15.000 | 13.750 |
| 2002 June | 444 | 393 | 14.200 | 13.000 |

B. Plan of distribution

42

Not applicable.

C. Markets

See Item 9A"Offer and listing details"

Item 10 Additional Information

A. Share capital

Not applicable

B. Memorandum and articles of corporation

See Item 19, Exhibit (1).

C. Material contracts

- (1) In May 2000, the Company and Komatsu Forklift entered into a global alliance agreement with Linde of Germany in production and sales for forklift truck business.
- (2) In July 2000, the Company entered into a joint venture agreement with Ushio Inc. whereby GIGAPHOTON INC. was jointly established in August 2000, for Excimer lasers used in lithography tools for semiconductor manufacturing.
- (3) In September 2000, the Company entered into a share purchase agreement with Takamatsu Corporation, pursuant to which Komatsu offered sale of its shares in Komatsu Construction to Takamatsu Corporation in the course of a tender offer commenced by Takamatsu Corporation in October 2000. In this connection, the Company entered into a financial assistance agreement with Komatsu Construction and Takamatsu Corporation concerning the improvement of financial condition of Komatsu Construction.
- (4) In September 2000, the Company entered into an agreement with Galveston-Houston Company pursuant to which in December 2000 Komatsu acquired Hensley Industries, Inc., a leading manufacturer of buckets, teeth, edges and other products for construction and mining equipment in the international GET market.
- (5) In March 2002, the Company entered into an agreement with Volvo Construction Equipment for cooperation on production and development of construction equipment components.
- (6) In May 2002, the Company entered into agreements with Komatsu Forklift and

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Komatsu Zenoah for an exchange of stock with minority shareholders. They will become wholly owned subsidiaries of the Company on October 1, 2002 through the stock for stock exchanges.

D. Exchange controls

The Foreign Exchange and Foreign Trade Law of Japan, as amended ("Foreign Exchange Law"), and the cabinet orders and ministerial ordinances thereunder, regulate certain transactions

43

involving a "non-resident of Japan" or a "foreign investor," including a portfolio on foreign ownership of debt or equity securities of Japanese companies.

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

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

Debt Securities

The Foreign Exchange Law requires that a resident of Japan whose debt securities are being issued outside of Japan file a post facto report of "capital transaction" with the Minister of Finance. Under the Foreign Exchange Law, payment of the principal of and interest on these debt securities (including any additional amounts payable pursuant to the terms of the securities) may in general be made by the issuer without any restrictions.

On March 28, 1996, the Company, Komatsu Finance America Inc., and Komatsu Finance (Netherlands) B.V. (the "Issuers") established and registered the US\$1 billion Euro Medium-Term Note Program on the London Stock Exchange. The aggregate nominal amount of the Notes under the Program was increased to US\$1.2 billion on April 1, 1999, and Komatsu Australia Pty. Ltd. joined the Program as an additional Issuer on March 31, 2000. Under this program, each of the Issuers may from time to time issue notes denominated in any currency.

Acquisition of Shares

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

prior approval for any such acquisition.

If a foreign investor intends to acquire the listed shares and as a result of such acquisition the aggregate of the shares in the relevant company already held by that foreign investor and certain related parties (as specified under the Foreign Exchange Law) and the number of such shares proposed to be acquired by that foreign investor would be 10 percent or more of the total issued shares, such foreign investor will generally be subject to a post facto reporting requirement to the Minister of Finance and any other competent Minister. In certain exceptional cases, a prior notification is required in respect of such an acquisition.

44

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

Dividends and Proceeds of Sale

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

Exercise or Transfer of Subscription Rights

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

Depository Receipts

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

E. Taxation

Debt Securities

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

Under Japanese tax laws currently in effect, the payment of interest on debt securities issued outside Japan by a Japanese company (on or after April 1,

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1998 and on or before March 31, 2004) and the difference, if any, between the issue price and the amount payable upon redemption of such debt securities will not be subject to the withholding of Japanese income tax, if such interest or difference is payable outside of Japan to a non-resident of Japan or non-Japanese corporation

45

which (in the case of interest) has submitted documents certifying its non-Japanese residency in accordance with the requirements set out in Japanese tax laws. Furthermore, such payment will not be subject to any other Japanese income or corporation tax, unless such non-resident or non-Japanese corporation has a permanent establishment in Japan and the payment is attributable to the business of such non-resident or non-Japanese corporation carried on in Japan through such permanent establishment. The Convention Between Japan and the United States of America for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income of March 1, 1971, as presently in effect (the "Tax Convention"), provides that the interest income of a United States resident or corporation from debt securities may be taxable by Japan if and to the extent that interest is paid by a resident of Japan or otherwise is from sources within Japan.

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

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

Gains derived from the sales of debt securities of the Company outside of Japan by non-residents (including individuals and non-Japanese corporations), will not be subject to Japanese income or corporation taxes, except in limited circumstances. Gains derived by non-residents (including individuals and non-Japanese corporations) from the sale in Japan of debt securities of the Company will be exempt from Japanese taxes on income if the non-resident does not have a permanent establishment in Japan.

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

Common Stock and Depository Receipts

Generally, a non-resident of Japan or a non-Japanese corporation is subject to Japanese withholding tax on dividends paid by Japanese corporations. Stock splits are not subject to Japanese income tax. However, a transfer of retained earnings or legal reserve to stated capital (whether made in connection with a stock split or otherwise) is treated as a dividend payment to shareholders for Japanese tax purposes and is, in general, subject to Japanese income tax. No such transfer would be necessary in connection with a stock split after the amendment of the Commercial Code in 2001.

Pursuant to the Tax Convention the maximum rate of Japanese withholding tax that may be imposed on dividends paid by a Japanese corporation to a United States resident individual or, subject to certain limited exceptions, a United States corporation is 15 percent unless such United States resident individual or United States corporation has a permanent establishment in Japan and the

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shares with respect to which the dividends are paid are effectively connected with the permanent establishment.

46

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

Gains derived from the sale in Japan of Common Stock or Depositary Receipts by a non-resident (including a non-Japanese corporation) are in general exempt from Japanese income or corporation taxes, unless the non-resident has a permanent establishment in Japan.

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

F. Dividends and paying agents

Not Applicable

G. Statements by experts

Not applicable

H. Documents on display

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

Securities and Exchange Commission
450 Fifth Street, NW, Washington, D.C. 20549

I. Subsidiary Information

Not applicable

Item 11. Quantitative and Qualitative Disclosures About Market Risk

Market Risk Exposure

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

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

Foreign Exchange Risk

To reduce foreign exchange risks against foreign currency denominated assets and liabilities, Komatsu executes forward exchange contracts and option

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

47

The following table provides information concerning the derivative financial instruments of Komatsu in relation to foreign currency exchange transactions existing as of March 31, 2002, which are translated into yen at the rate used on that date, together with the related weighted average contractual exchange rates as of March 31, 2002. As of March 31, 2002 the notional amount of option contracts is (Yen)3,171 million (US\$24 million).

| Forwards to sell Foreign currencies | US\$/Yen | Millions of yen (except average contractual rates) | | | |
|--|-------------|--|------------|------------|------------|
| | | EUR/EUR | GBP/Yen | US\$/EUR | Others |
| Contract amounts | (Yen)17,944 | (Yen)5,444 | (Yen)3,366 | (Yen)1,083 | (Yen)1,033 |
| Average contractual rates | 129.75 | 113.72 | 1.63 | 1.14 | - |

| Forwards to buy foreign currencies | GBP/EUR | Yen/ZAR | Yen/EUR | US\$/EUR | US\$/Yen | US\$/Yen |
|---------------------------------------|---------|---------|---------|----------|----------|----------|
| | | | | | | |
| Average contractual rates | 0.62 | 11.40 | 113.46 | 0.88 | 100.13 | 100.13 |

| Forwards to sell foreign currencies: | US\$/Yen | Thousands of U.S. dollars | | | | |
|---|-----------|---------------------------|----------|----------|---------|-----------|
| | | EUR/Yen | GBP/EUR | US\$/EUR | Others | Total |
| Contract amounts | \$134,917 | \$40,932 | \$25,308 | \$8,143 | \$7,767 | \$217,067 |

| Forwards to buy foreign currencies | GBP/EUR | Yen/ZAR | Yen/EUR | US\$/EUR | US\$/Yen | Others |
|---------------------------------------|---------|---------|---------|----------|----------|--------|
| | | | | | | |

Interest Rate Risk

To reduce risks and hedge cash flow, Komatsu engages in certain interest rate swaps, cross-currency swaps and cap option transactions for interest payment and interest receipt. Certain interest rate swap contracts are not qualified as hedging and are recorded at the fair value and the resulting gains (losses) are recognized as income.

The following tables provide information concerning the derivatives and other financial instruments of Komatsu that are sensitive to changes in interest rates, mainly including interest rate swaps, cross-currency swaps and debt obligations, excluding capital lease obligations. For debt obligations, the tables present principal cash flows and related weighted average interest rates by expected maturity dates. For interest rate and cross-currency swaps, the following tables present notional amounts and weighted average receive and pay

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interest rates. As of March 31, 2002, the notional amount and its average strike rate of interest cap transactions are (Yen)63,238 million (US\$475 million) and 5.70%, respectively.

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

| | Average Interest rate | Total | 2003 | Millions of yen Expected maturity date | |
|-------------------------------|-----------------------|-------------|---------|---|---------|
| | | | | 2004 | 2005 |
| U.S. dollar bonds | 6.97% | (Yen)25,051 | (Yen) - | (Yen)15,590 | (Yen) - |
| Japanese yen convertible | | | | | |
| Debentures/debentured bonds | 1.86% | 62,447 | - | 27,447 | - |
| Euro medium-term notes | 2.46% | 74,056 | 24,767 | 11,924 | 23,663 |
| Loans, principally from banks | 2.68% | 125,402 | 14,872 | 37,784 | 22,193 |

48

| | | | | | |
|-------|--------------|-------------|-------------|-------------|-----------|
| Total | (Yen)286,956 | (Yen)39,639 | (Yen)92,745 | (Yen)45,856 | (Yen)56,8 |
|-------|--------------|-------------|-------------|-------------|-----------|

| Interest rate and cross-currency swaps | Average interest rate | | | 2003 | Millions of yen Expected maturity date | |
|--|-----------------------|-------|--------------|--------------|---|-------------|
| | Receive | Pay | Total | | 2004 | 2005 |
| Japanese yen interest rate swap | 0.32% | 0.91% | (Yen)65,081 | (Yen)22,156 | (Yen)7,474 | (Yen)30,369 |
| U.S. dollar interest rate swap | 1.77% | 4.76% | 92,781 | 48,533 | 29,125 | 11,902 |
| Australian dollar interest rate swap | 4.33% | 4.92% | 5,323 | 5,323 | - | - |
| Yen/US\$ cross-currency swap | 0.90% | 2.48% | 65,972 | 20,500 | 11,818 | 20,918 |
| Yen/EUR cross-currency swap | 0.42% | 3.64% | 9,300 | 6,600 | 1,200 | 1,500 |
| Others | | | 6,782 | 2,753 | 2,894 | 1,086 |
| Total | | | (Yen)245,239 | (Yen)105,865 | (Yen)52,511 | (Yen)65,775 |

| Long-term debt excluding capital lease obligations (including due within one year) | Average Interest rate | | Total | 2003 | 2004 | Thousands of Expected maturity date | |
|--|-----------------------|------|-------------|-----------|-----------|--|-----------|
| | 2005 | 2006 | | | | | |
| U.S. dollar bonds | 6.97% | \$ | 188,353 | \$ - | \$117,218 | \$ - | \$ 71,135 |
| Japanese yen convertible debentures/debentured bonds | 1.86% | | 469,526 | - | 206,368 | - | 263,158 |
| Euro medium-term notes | 2.46% | | 556,812 | 186,218 | 89,655 | 177,917 | 47,752 |
| Loans, principally from banks | 2.68% | | 942,873 | 111,820 | 284,090 | 166,865 | 45,564 |
| Total | | | \$2,157,564 | \$298,038 | \$697,331 | \$344,782 | \$427,609 |

| Interest rate and cross-currency swaps | Average interest rate | Thousands of U.S. dollars Expected maturity |
|--|-----------------------|--|
|--|-----------------------|--|

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| | Receive | Pay | Total | 2003 | 2004 | 2005 | 2006 |
|--------------------------------------|---------|-------|-------------|-----------|-----------|-----------|-----------|
| Japanese yen interest rate swap | 0.32% | 0.91% | \$ 489,330 | \$166,586 | \$ 56,195 | \$228,338 | \$ 38,211 |
| U.S. dollar interest rate swap | 1.77% | 4.76% | 697,602 | 364,910 | 218,985 | 89,489 | 20,767 |
| Australian dollar interest rate swap | 4.33% | 4.92% | 40,023 | 40,023 | - | - | - |
| Yen/US\$ cross-currency swap | 0.90% | 2.48% | 496,030 | 154,135 | 88,857 | 157,278 | 46,000 |
| Yen/EUR cross-currency swap | 0.42% | 3.64% | 69,925 | 49,624 | 9,023 | 11,278 | - |
| Others | | | 50,992 | 20,699 | 21,759 | 8,165 | 158 |
| Total | | | \$1,843,902 | \$795,977 | \$394,819 | \$494,548 | \$105,136 |

Item 12 Description of Securities Other than Equity Securities

Not Applicable

Item 13 Defaults, Dividend Arrearages and Delinquencies

Not Applicable

Item 14 Material Modifications to the Rights of Security Holders and Use of Proceeds

Not Applicable

Item 15. Reserved

Item 16. Reserved

49

Item 17. Financial Statements

Not Applicable

Item 18. Financial Statements

See Consolidated Financial Statements and Schedules attached hereto.

Item 19. Exhibits

- (1) Articles of Incorporation (English Translation)
- (2) Certificate of English translations
- (99) Assurances letter concerning the audit by Arthur Andersen.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

KOMATSU LTD.

(Registrant)

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Date: July 23, 2002

By: /s/ Kenji Kinoshita

Kenji Kinoshita
Executive Officer

50

KOMATSU LTD.
CONSOLIDATED
FINANCIAL STATEMENTS AND SCHEDULES
FOR THE YEARS ENDED MARCH 31, 2002, 2001 AND 2000

PREPARED FOR FILING AS PART OF
ANNUAL REPORT (FORM 20-F)
TO THE SECURITIES AND EXCHANGE COMMISSION

* * * * *

51

KOMATSU LTD. AND CONSOLIDATED SUBSIDIARIES
INDEX TO
CONSOLIDATED FINANCIAL STATEMENTS AND SCHEDULES

Consolidated Financial Statements and Report of Independent Public Accountants Included in the Company's Financial Report to Shareholders for the Year Ended March 31, 2002 Attached Hereto and Incorporated Herein by Reference:

| | Page in Shareholder Report ----- |
|--|---|
| Consolidated Balance Sheets, March 31, 2002 and 2001 | 34 and 35 |
| Consolidated Statements of Income for the Years Ended March 31, 2002, 2001 and 2000 | 36 |
| Consolidated Statements of Shareholders' Equity for the Years Ended March 31, 2002, 2001 and 2000 | 37 |
| Consolidated Statements of Cash Flows for the Years Ended March 31, 2002, 2001 and 2000 | 38 |
| Notes to Consolidated Financial Statements | 39 to 61 |
| Report of Independent Public Accountants | 62 |

52

Supplemental Information to Conform with Regulation S-X:

Supplemental Notes to Consolidated Financial Statements
to Conform with Regulation S-X

A-

Schedule for the Years Ended March 31, 2002, 2001 and 2000:

II - Valuation and Qualifying Accounts

(Note - Schedules other than one listed above are omitted because
of the absence of the conditions under which they are
required or because the information called for is included
in the consolidated financial statements or notes thereto.)

Report of Independent Public Accountants

Ten-Year Summary

Komatsu Ltd. and Consolidated Subsidiaries
Years ended March 31

Mil
(except

2002

For the fiscal period

| | | |
|--|-----------------|-------|
| Net sales | (Yen) 1,035,891 | (Yen) |
| Cost of sales | 792,748 | |
| Income (loss) before income taxes, minority interests, equity in earnings and cumulative effect of accounting changes | (106,724) | |
| Net income (loss) | (80,621) | |
| As percentage of sales | (7.8)% | |
| Capital expenditures | 74,468 | |

At fiscal period-end

| | | |
|---|-----------------|-------|
| Total assets | (Yen) 1,340,282 | (Yen) |
| Working capital | 167,581 | |
| Property, plant and equipment | 405,301 | |
| Long-term debt--less current maturities | 257,180 | |
| Shareholders' equity | 395,143 | |
| As percentage of total assets | 29.5% | |

Per share data

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| | | | |
|--------------------------------------|-------|---------|-------|
| Net income (loss) per share: | | | |
| Basic | (Yen) | (84.46) | (Yen) |
| Diluted | | (84.46) | |
| Cash dividends per share | | 6.00 | |
| Shareholders' equity per share | | 414.02 | |

| | | | |
|--|--|------|-----|
| | | | Yen |
| | | 2002 | |

Other information

Exchange rate into U.S. dollars

(per the Federal Reserve Bank of New York):

| | | | |
|-------------------------------------|-------|-----|-------|
| At fiscal period-end | (Yen) | 133 | (Yen) |
| Average for the fiscal period | | 126 | |
| Range: | | | |
| High | | 134 | |
| Low | | 119 | |

1. Net income in 1994 includes the cumulative effect of accounting changes for postretirement benefits other than pensions and income taxes.
2. Total assets and shareholders' equity after 1995 include the effect of adopting SFAS No. 115.
3. In fiscal 1994, Komatsu America International Company, formerly Komatsu Dresser Company, was consolidated.
4. Working capital includes receivables due after one year.

32

Millions of yen
(except per share amounts)

| 1999 | 1998 | 1997 | 1996 | 1995 | 1994 |
|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| (Yen) 1,061,597 | (Yen) 1,104,077 | (Yen) 1,098,916 | (Yen) 999,327 | (Yen) 918,910 | (Yen) 845,853 |
| 807,255 | 826,627 | 827,665 | 763,045 | 702,416 | 649,512 |
| (9,604) | 40,252 | 45,769 | 32,431 | 24,482 | 13,933 |
| (12,378) | 19,241 | 18,160 | 14,291 | 10,225 | 1,303 |
| (1.2)% | 1.7% | 1.7% | 1.4% | 1.1% | 0.2 |
| 114,874 | 123,026 | 70,604 | 47,499 | 41,492 | 30,032 |
| (Yen) 1,524,600 | (Yen) 1,561,662 | (Yen) 1,512,730 | (Yen) 1,593,003 | (Yen) 1,541,972 | (Yen) 1,375,966 |
| 256,039 | 212,096 | 228,404 | 260,296 | 254,992 | 221,274 |
| 440,706 | 393,603 | 299,098 | 264,842 | 257,219 | 260,720 |
| 292,250 | 196,898 | 163,590 | 140,208 | 140,550 | 142,578 |
| 495,643 | 524,201 | 541,933 | 606,444 | 575,534 | 505,871 |
| 32.5% | 33.6% | 35.8% | 38.1% | 37.3% | 36.8 |

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| | | | | | | | | | | | |
|-------|---------|-------|--------|-------|--------|-------|--------|-------|--------|-------|--------|
| (Yen) | (12.77) | (Yen) | 19.60 | (Yen) | 18.26 | (Yen) | 14.24 | (Yen) | 10.19 | (Yen) | 1.30 |
| | (12.77) | | 19.32 | | 18.02 | | 14.10 | | 10.19 | | 1.30 |
| | 7.00 | | 8.00 | | 8.00 | | 8.00 | | 8.00 | | 8.00 |
| | 511.54 | | 540.50 | | 550.79 | | 604.07 | | 573.29 | | 504.28 |

Yen per U.S. dollar

| | 1999 | | 1998 | | 1997 | | 1996 | | 1995 | | 1994 |
|-------|------|-------|------|-------|------|-------|------|-------|------|-------|------|
| (Yen) | 118 | (Yen) | 133 | (Yen) | 124 | (Yen) | 107 | (Yen) | 87 | (Yen) | 102 |
| | 128 | | 124 | | 113 | | 96 | | 99 | | 107 |
| | 145 | | 133 | | 124 | | 107 | | 105 | | 114 |
| | 113 | | 115 | | 105 | | 84 | | 87 | | 101 |

33

Consolidated Balance Sheets

Komatsu Ltd. and Consolidated Subsidiaries
March 31, 2002 and 2001

| | Millions of |
|--|--------------------|
| Assets | 2002 |
| Current assets | |
| Cash and cash equivalents (Note 1) | (Yen) 45,392 (Yen) |
| Time deposits | 1,076 |
| Trade notes and accounts receivable, less allowance for doubtful receivables of (Yen)15,221 million (\$114,444 thousand) in 2002 and (Yen)10,998 million in 2001 (Notes 3 and 8) | 337,093 |
| Inventories (Notes 1 and 4) | 266,952 |
| Deferred income taxes and other current assets (Notes 1 and 13) | 109,429 |
| Total current assets | 759,942 |
| Investments | |
| Investments in and advances to affiliated companies (Notes 1 and 6) | 23,169 |
| Investment securities (Notes 1, 5 and 19) | 50,651 |
| Other | 272 |
| Total investments | 74,092 |

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| | | | |
|--|---------|-----------------|-------|
| Land and buildings held for sale--at the lower of cost or market (including projects in progress) | 12,461 | | |
| Property, plant and equipment--less accumulated depreciation (Notes 1, 7, 8 and 14) | 405,301 | | |
| Deferred income taxes (Notes 1 and 13) | 35,507 | | |
| Other assets (Notes 1, 10, 18 and 19) | 52,979 | | |
| | | (Yen) 1,340,282 | (Yen) |

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

34

| | Millions of | | |
|--|-------------|---------|-------|
| | ----- | | |
| Liabilities and Shareholders' Equity | 2002 | | |
| ----- | | | |
| Current liabilities | | | |
| Short-term debt (Notes 8 and 9) | (Yen) | 177,098 | (Yen) |
| Current maturities of long-term debt (Notes 8, 9, 14 and 19) | | 42,619 | |
| Trade notes and accounts payable | | 196,069 | |
| Income taxes payable (Note 13) | | 6,011 | |
| Deferred income taxes and other current liabilities (Notes 1 and 13) | | 170,564 | |
| Total current liabilities | | 592,361 | |
| ----- | | | |
| Long-term debt (Notes 8, 9, 14 and 19) | | 257,180 | |
| Liability for pension and postretirement benefits (Notes 1 and 10) | | 40,465 | |
| Deferred income taxes (Notes 1 and 13) | | 1,650 | |
| Other liabilities (Notes 1, 18 and 19) | | 7,230 | |
| Minority interests | | 46,253 | |
| ----- | | | |
| Commitments and contingent liabilities (Note 17) | | | |
| ----- | | | |
| Shareholders' equity (Notes 1 and 11) | | | |
| Common stock: | | | |
| Authorized, 3,955,000,000 shares in 2002 and 2001; | | | |
| Issued and outstanding, 958,921,701 shares in 2002 and 2001 | | 67,870 | |
| Capital surplus | | 117,439 | |
| Retained earnings: | | | |

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| | | |
|--|-----------------|-------|
| Appropriated for legal reserve | 20,852 | |
| Unappropriated | 210,309 | |
| Accumulated other comprehensive income (loss) (Notes 1, 5, 10 and 12) | (18,393) | |
| Treasury stock at cost, 4,519,972 shares in 2002 and 4,911,812 shares in 2001 (Note 11) | (2,934) | |
| ----- | | |
| Total shareholders' equity | 395,143 | |
| | (Yen) 1,340,282 | (Yen) |
| ===== | | |

35

Consolidated Statements of Income

Komatsu Ltd. and Consolidated Subsidiaries
Years ended March 31, 2002, 2001 and 2000

| | Millions of yen | | |
|---|-----------------|-----------------|-----------------|
| | 2002 | 2001 | 2000 |
| ----- | | | |
| Revenues | | | |
| Net sales (Notes 1 and 6) | (Yen) 1,035,891 | (Yen) 1,096,369 | (Yen) 1,096,369 |
| Interest and other income | 34,278 | 30,718 | |
| ----- | | | |
| Total | 1,070,169 | 1,127,087 | 1,096,369 |
| ----- | | | |
| Costs and expenses (Notes 14 and 15) | | | |
| Cost of sales | 792,748 | 804,700 | |
| Selling, general and administrative | 256,364 | 263,854 | |
| Interest | 16,842 | 22,194 | |
| Impairment loss on long-lived assets (Note 1) | 52,242 | 4,337 | |
| Special termination benefit (Note 10) | 30,131 | -- | |
| Other | 28,566 | 11,938 | |
| ----- | | | |
| Total | 1,176,893 | 1,107,023 | 1,107,023 |
| ----- | | | |
| Income (loss) before income taxes, minority interests and equity in earnings | (106,724) | 20,064 | |
| ----- | | | |
| Income taxes (Notes 1 and 13) | | | |
| Current | 3,914 | 20,952 | |
| Deferred | (25,844) | (7,237) | |
| ----- | | | |
| Total | (21,930) | 13,715 | |
| ----- | | | |
| Income (loss) before minority interests and equity in earnings | (84,794) | 6,349 | |

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| | | | |
|--|----------------|-------------|-----|
| Minority interests in income (loss) of consolidated subsidiaries | 3,775 | 179 | |
| Equity in earnings of affiliated companies | 398 | 385 | |
| Net income (loss) | (Yen) (80,621) | (Yen) 6,913 | (Ye |

| | Yen | | |
|---|---------------|------------|----|
| Net income (loss) per share (Notes 1 and 16): | | | |
| Basic | (Yen) (84.46) | (Yen) 7.24 | (Y |
| Diluted | (84.46) | 7.24 | |
| Dividends per share (Note 1) | 6.00 | 6.00 | |

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

36

Consolidated Statements of Shareholders' Equity

Komatsu Ltd. and Consolidated Subsidiaries
Years ended March 31, 2002, 2001 and 2000

| | Millions | |
|--|---------------|-------------|
| | 2002 | 2001 |
| Common stock | | |
| Balance, beginning of year | (Yen) 67,870 | (Yen) 68,3 |
| Purchase and retirement of common stock: | | |
| 10,000,000 shares in 2001 | -- | (5 |
| Balance, end of year | (Yen) 67,870 | (Yen) 67,8 |
| Capital surplus | | |
| Balance, beginning of year | (Yen) 117,418 | (Yen) 117,3 |
| Sales of treasury stock | 21 | |
| Balance, end of year | (Yen) 117,439 | (Yen) 117,4 |
| Retained earnings | | |
| Appropriated for legal reserve | | |
| Balance, beginning of year | (Yen) 20,718 | (Yen) 20,4 |
| Transfer from unappropriated retained earnings | 134 | 2 |
| Balance, end of year | (Yen) 20,852 | (Yen) 20,7 |

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 Unappropriated retained earnings

| | | |
|---|---------------|-------------|
| Balance, beginning of year | (Yen) 300,49 | (Yen) 305,4 |
| Adjustments for change of fiscal period on consolidated subsidiaries (Note 1) | (3,705) | |
| Net income (loss) | (80,621) | 6,9 |
| Cash dividends paid | (5,730) | (5,7 |
| Transfer to retained earnings appropriated for legal reserve | (134) | (2 |
| Purchase and retirement of common stock | -- | (5,8 |
| ----- | | |
| Balance, end of year | (Yen) 210,309 | (Yen) 300,4 |
| ----- | | |

Accumulated other comprehensive income (loss)

| | | |
|---|----------------|-------------|
| Balance, beginning of year | (Yen) (29,204) | (Yen) (19,5 |
| Adjustments for change of fiscal period on consolidated subsidiaries (Note 1) | 9,447 | |
| Other comprehensive income (loss) for the year, net of tax | 1,364 | (9,6 |
| ----- | | |
| Balance, end of year | (Yen) (18,393) | (Yen) (29,2 |
| ----- | | |

Treasury stock

| | | |
|----------------------------------|---------------|-------------|
| Balance, beginning of year | (Yen) (3,044) | (Yen) (1,6 |
| Purchase of treasury stock | (643) | (1,9 |
| Sales of treasury stock | 753 | 5 |
| ----- | | |
| Balance, end of year | (Yen) (2,934) | (Yen) (3,0 |
| ----- | | |
| Total shareholders' equity | (Yen) 395,143 | (Yen) 474,2 |
| ----- | | |

Disclosure of comprehensive income (loss)

| | | |
|--|----------------|------------|
| Net income (loss) for the year | (Yen) (80,621) | (Yen) 6,9 |
| Other comprehensive income (loss) for the year, net of tax | 1,364 | (9,6 |
| ----- | | |
| Comprehensive income (loss) for the year | (Yen) (79,257) | (Yen) (2,7 |
| ----- | | |

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

37

Consolidated Statements of Cash Flows

Komatsu Ltd. and Consolidated Subsidiaries
 Years ended March 31, 2002, 2001 and 2000

Millions of ye

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| | 2002 | 2001 |
|--|----------------|--------------|
| Operating activities | | |
| Net income (loss) | (Yen) (80,621) | (Yen) 6,913 |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Depreciation and amortization | 61,581 | 65,106 |
| Deferred income taxes | (25,844) | (7,237) |
| Net loss (gain) from marketable securities and investments | 8,696 | (11,991) |
| Gain on sale of property | (16,454) | (3,440) |
| Loss on disposal or sale of fixed assets | 7,202 | 5,565 |
| Impairment loss on long-lived assets | 52,242 | 4,337 |
| Provision (reversal) for pension and postretirement benefits, net ... | 10,364 | 5,467 |
| Changes in assets and liabilities: | | |
| Decrease (increase) in trade receivables | 62,551 | 3,874 |
| Decrease (increase) in inventories | 20,611 | (3,899) |
| Increase (decrease) in trade payables | (37,942) | 8,652 |
| Increase (decrease) in income taxes payable | (3,491) | 2,641 |
| Other, net | 1,426 | (6,012) |
| Net cash provided by operating activities | 60,321 | 69,976 |
| Investing activities | | |
| Capital expenditures | (54,118) | (60,046) |
| Proceeds from sales of property | 32,377 | 20,452 |
| Proceeds from sales of marketable securities and investments | 7,866 | 54,621 |
| Purchases of marketable securities and investments | (4,848) | (42,222) |
| Acquisition or sale of subsidiaries, net | -- | (8,994) |
| Collection of loan receivables | 8,729 | 3,034 |
| Disbursement of loan receivables | (7,112) | (1,983) |
| Decrease (increase) in time deposits | 173 | (4) |
| Net cash provided by (used in) investing activities | (16,933) | (35,142) |
| Financing activities | | |
| Proceeds from long-term debt | 47,927 | 29,503 |
| Repayments on long-term debt | (49,110) | (80,123) |
| Decrease in short-term debt | (28,391) | (7,385) |
| Repayments of capital lease obligations | (5,331) | (4,411) |
| Sales (repurchase) of common stock, net | 180 | (7,677) |
| Dividends paid | (5,730) | (5,770) |
| Net cash used in financing activities | (40,455) | (75,863) |
| Effect of exchange rate change on cash and cash equivalents | 881 | 313 |
| Net increase (decrease) in cash and cash equivalents | 3,814 | (40,716) |
| Cash and cash equivalents, beginning of year | 39,760 | 80,476 |
| Adjustment for change of fiscal period on consolidated subsidiaries ... | 1,818 | -- |
| Cash and cash equivalents, end of year | (Yen) 45,392 | (Yen) 39,760 |

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

Notes to Consolidated Financial Statements

Komatsu Ltd. and Consolidated Subsidiaries

1. Description of Business, Basis of Financial Statements and Summary of Significant Accounting Policies

Description of Business

Komatsu Ltd. ("the Company") and consolidated subsidiaries (together "the companies") manufacture and market primarily various types of construction and mining equipment throughout the world, and also engage in manufacturing and sales of electronics including semiconductor products, and other activities. The semiconductor industry has historically been cyclical and has experienced periodic downturns, which have had a material adverse effect on the semiconductor industry's demand for semiconductor products manufactured and marketed by the Company and certain subsidiaries.

The consolidated net sales of the Company and consolidated subsidiaries for the year ended March 31, 2002, consisted of the following:

Construction and mining equipment--70.6%, Electronics--7.4%, Others--22.0%.

Sales are made principally under the Komatsu brand name, and are almost entirely through sales subsidiaries and sales distributors. These subsidiaries and distributors are responsible for marketing and distribution and primarily sell to retail dealers in their geographical area. Of consolidated net sales in 2002, 53.8% were generated outside Japan, with 25.3% in the Americas, 12.4% in Europe, 12.2% in Asia (excluding Japan) and Oceania, and 3.9% in the Middle East and Africa.

The manufacturing operations of the Company and consolidated subsidiaries are conducted primarily at plants in Japan, the United States of America, Germany, the United Kingdom, Brazil, Italy, China and Taiwan.

Basis of Financial Statements

The accompanying consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and principally operates. The translation of Japanese yen amounts into United States dollar amounts for the year ended March 31, 2002, is included solely for the convenience of readers outside Japan and has been made at the rate of (Yen)133 to \$1, the approximate rate of exchange prevailing at the Federal Reserve Bank of New York on March 29, 2002. Such translation should not be construed as a representation that Japanese yen amounts could be converted into United States dollars at the above or any other rate.

The accompanying consolidated financial statements reflect certain adjustments, not recorded in the companies' books, to present them in conformity with accounting principles generally accepted in the United States of America, modified for accounting for stock splits (Note 11). The major adjustments include those relating to accounting for postretirement benefits, leases, impairment losses of long-lived assets, derivatives and accruals of certain expenses. Certain reclassifications have been made to prior year amounts to conform with current year presentation.

Summary of Significant Accounting Policies

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(1) Consolidation and Investments in Affiliated Companies

The consolidated financial statements include the accounts of the Company and all of its majority-owned domestic and foreign subsidiaries, except for certain immaterial subsidiaries.

During fiscal 2002, Komatsu Cummins Chile Ltda., which was previously accounted for using the equity method, became a consolidated subsidiary. The Company established Komatsu (China) Ltd. and one other company, both of which are treated as consolidated subsidiaries. In addition, KEM America Inc. was excluded from consolidated subsidiaries due to its liquidation in this period.

In 2000, the Company increased its ownership in certain affiliated companies namely Komatsu Forklift Co., Ltd., and three other companies and newly invested in a company, and those companies became consolidated subsidiaries. In addition, the Company established a consolidated subsidiary and an affiliated company and acquired two U.S. companies (100% owned subsidiaries) which were accounted for by the purchase method during fiscal 2001.

The Company sold a major part of the ownership of certain consolidated subsidiaries namely Komatsu Soft Ltd., Komatsu Construction Ltd. and one other consolidated subsidiary and those companies were excluded from consolidated subsidiaries during fiscal 2001.

At the beginning of fiscal 2002, the Company changed the consolidated closing date for certain overseas subsidiaries from December 31 to March 31. As a result, unappropriated retained earnings decreased by (Yen)3,705 million (\$27,857 thousand) and other comprehensive income (loss) increased by (Yen)9,447 million (\$71,030 thousand).

Investments in 20% to 50%-owned affiliated companies and certain immaterial subsidiaries not consolidated are, with minor exceptions, accounted for by the equity method.

All significant intercompany transactions have been eliminated. The excess cost of investments in the consolidated subsidiaries and affiliated companies over their equity in the net assets at the dates of acquisition is generally being amortized on a straight-line method over the estimated periods benefited, not exceeding periods of 10 years.

However, according to the provisions of Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets," the Company does not amortize goodwill resulting from a business combination initiated after June 30, 2001.

(2) Translation of Foreign Currency Accounts

Under the provisions of SFAS No. 52, "Foreign Currency Transaction," assets and liabilities are translated at the exchange rates in effect at each fiscal year-end, and income and expenses are translated at the average rates of exchange

39

prevailing during each fiscal year in consolidating the financial statements of overseas subsidiaries. The resulting translation adjustments are included in a separate component of accumulated other comprehensive income (loss) in the accompanying consolidated balance sheets.

(3) Investment Securities

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In compliance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," the Company has categorized noncurrent marketable equity securities and debt securities as investment securities available for sale which are stated at fair value. Changes in fair values are included in a separate component of accumulated other comprehensive income (loss) in the accompanying consolidated balance sheets.

(4) Inventories

Inventories, consisting of finished products including finished parts held for sale, work in process, and materials and supplies, are stated at the lower of cost or market. Cost is determined by the last-in, first-out method for finished parts held for sale and by using actual costs accumulated under a job-order-cost system for other finished products and work in process. Cost of materials and supplies represents average cost.

(5) Property, Plant and Equipment, and Related Depreciation

Property, plant and equipment are stated at cost. Depreciation is computed principally using the declining-balance method at rates based on the estimated useful lives of the assets. Effective rates of depreciation for buildings, machinery and equipment for the years ended March 31, 2002, 2001 and 2000, are as follows:

| | 2002 | 2001 | 2000 |
|-------------------------------|------|------|------|
| Buildings | 9% | 8% | 8% |
| Machinery and equipment | 23% | 24% | 25% |

Certain leased machinery and equipment are accounted for as capital leases in conformity with SFAS No. 13, "Accounting for Leases." The aggregate cost included in property, plant and equipment and related accumulated depreciation as of March 31, 2002 and 2001 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|-------------------------------|-----------------|-------------|------------------------------|
| | 2002 | 2001 | 2002 |
| Aggregate cost | (Yen)26,509 | (Yen)19,264 | \$199,316 |
| Accumulated depreciation | 10,048 | 4,430 | 75,549 |

Ordinary maintenance and repairs are charged to income as incurred. Major replacements and improvements are capitalized. When properties are retired or otherwise disposed of, the property and related accumulated depreciation accounts are relieved of the applicable amounts and any differences are included in other income or expenses.

(6) Revenue Recognition

The companies recognize revenue from product sales at the time when title and risk of all ownership is transferred to independently owned and operated dealers or customers, which typically occurs when products are received and accepted by the customers for major products such as construction equipment and electronics products, and upon shipment for parts and certain other products. Lease revenues are recognized in the period earned.

In December 1999, the Securities and Exchange Commission issued Staff

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Accounting Bulletin No. 101 ("SAB101"), "Revenue Recognition in Financial Statements." SAB101, as amended, summarizes certain of the SEC's views in applying generally accepted accounting principles to revenue recognition and provides guidance on revenue recognition issues. The companies adopted SAB101 in the year ended March 31, 2001 and adoption of this guidance did not have a material impact on the consolidated financial position or results of operation.

In fiscal 2001, Komatsu Construction Ltd., a consolidated subsidiary, was sold by the Company to a third party engaged in construction operation in Japan. Related income from short-term construction contracts and long-term construction contracts was generally recognized under the completed-contract method and the percentage-of-completion method, respectively, prior to the sale of that consolidated subsidiary.

(7) Income Taxes

In accordance with SFAS No. 109, "Accounting for Income Taxes," the deferred tax provision is determined by the asset and liability method. Under this method, deferred tax assets and liabilities are recognized based on temporary differences between financial statement and tax bases of assets and liabilities using enacted tax rates as of each balance-sheet date.

The companies compute and record income taxes currently payable based on their separate determinations of taxable income which may be different from accounting income.

Provision for income taxes is not recorded for undistributed earnings of foreign subsidiaries and affiliated companies because the Company considers that such earnings are permanently reinvested and/or would not result in material additional taxation should they be distributed to the Company under current circumstances.

(8) Postretirement Benefits

The defined benefit plans are accounted for in accordance with SFAS No. 87, "Employers' Accounting for Pensions," except for certain subsidiaries' pension plans which in the aggregate are not significant. Certain domestic subsidiaries also have local severance payment plans under which accrued severance liabilities are stated on the vested benefits obligation basis, which is the amount required to be paid if all eligible employees voluntarily terminated their employment as of the balance-sheet date.

(9) Free Share Distribution

The Commercial Code of Japan ("the Code") permits Japanese companies, upon approval by the Board of Directors, to issue shares, in the form of a stock split, to shareholders. The Code requires no accounting recognition for such free share distribution (Note 11).

40

(10) Per Share Data

Basic net income (loss) per share has been computed by dividing net income (loss) by the weighted-average number of common shares outstanding during each fiscal year, after deducting treasury shares. Diluted net income (loss) per share reflects the potential dilution and has been computed on the basis that all convertible bonds were converted at the beginning of the year to the extent that it is not antidilutive.

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Dividends per share shown in the accompanying consolidated statements of income have been presented on an accrual basis and include, in each fiscal year ended March 31, dividends approved or to be approved by shareholders after such date, but applicable to the year then ended.

(11) Consolidated Statements of Cash Flows

For the purpose of the consolidated statements of cash flows, cash and cash equivalents include highly liquid investments with an original maturity of three months or less.

(12) Derivative Financial Instruments

The companies use various derivative financial instruments to manage their interest rate and foreign exchange exposure.

Effective April 1, 2001, the Company adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" and SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities, an amendment of FASB Statement No. 133." SFAS No. 133 as amended requires that all derivatives, including derivatives embedded in other financial instruments, be measured at fair value and recognized as either assets or liabilities on the consolidated balance sheet. Changes in the fair values of derivative instruments not qualifying as hedges under SFAS No. 133 as amended or any ineffective portion of hedges are recognized in earnings in the current period. Changes in the fair values of derivative instruments used effectively as fair value hedges are recognized in earnings, along with changes in the fair value of the hedged item. Changes in the fair value of the effective portions of cash flow hedges are reported in other comprehensive income (loss), and recognized in earnings when the hedged item is recognized in earnings.

The cumulative effect adjustment upon the adoption of SFAS No. 133 and 138, net of the related tax effect, resulted in immaterial impact to net income and a decrease to other comprehensive income (loss) of (Yen)670 million (\$5,038 thousand).

Prior to April 1, 2001, in determining whether these instruments qualify as a hedge, the companies used hedge criteria that include their effectiveness to reduce risk, specific identification of the asset or liability being hedged and the time horizon being hedged.

Interest differentials on interest rate swap contracts were accrued as interest rate change over the contract period. Premiums paid for interest rate caps were amortized over the life of contracts and were expensed as a part of interest expense.

Gains and losses on the foreign exchange contracts were recognized based on changes in exchange gains and losses on such assets and liabilities being hedged. Gains and losses on the forward exchange contracts to hedge foreign currency commitments were deferred and included in the measurement of the related transactions, unless it was estimated that such deferral would lead to recognizing losses in later periods.

In addition, the companies entered into certain interest rate swap contracts as a means of managing the Company and its group companies' interest rate exposures that did not meet the hedge criteria. Accordingly, those interest rate swap contracts were recorded in the consolidated balance sheet at their fair value and the changes in fair value were recognized currently in the consolidated statements of income.

(13) Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed of

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In accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," the long-lived assets and certain identifiable intangibles to be held and used by the companies are reviewed for impairment based on a cash flow analysis of related operations whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Long-lived assets and certain identifiable intangibles to be disposed of are reported at the lower of carrying amount or fair value less cost to sell.

In fiscal 2001 and 2000, the Company recorded impairment losses of (Yen)4,337 million and (Yen)4,474 million, respectively, on long-lived assets related to certain production facilities, which were temporarily idled due to the sluggish market, at its wholly owned subsidiary, Komatsu Silicon America, Inc. in the electronics segment. Such impairment losses were calculated using the best estimate of discounted future cash flows based on the intention of the Company to use the facilities in its operation.

However, due to continued negative market conditions in fiscal 2002, management has changed its policy now to sell or dispose of these facilities instead of holding them for future use. In connection therewith, the Company has recorded an impairment loss of (Yen)24,983 million (\$187,842 thousand) for these facilities in fiscal 2002. The impairment loss was calculated based on an estimated fair value less cost to sell of the facilities under current market conditions utilizing independent appraisal of the facilities.

Additionally, the Company, also due to the decline in the market demand, has recorded an impairment loss of (Yen)27,259 million (\$204,955 thousand) in fiscal 2002 on production facilities currently being operated by a consolidated subsidiary, Advanced Silicon Materials LLC in the electronics segment. Specifically, an impairment loss of (Yen)13,411 million (\$100,835 thousand) for its Butte plant in Montana was calculated using the best estimate of discounted future cash flows based on the decision to continue its operation, and one of (Yen)13,848 million (\$104,120 thousand) for its Moses Lake plant in Washington

41

was calculated using the estimate of realizable value based on the decision to discontinue its production.

(14) Comprehensive Income

Comprehensive income consists of net income, changes in foreign currency translation adjustments, net unrealized holding gains (losses) on securities available for sale, pension liability adjustments and net unrealized holding gains (losses) on certain derivative financial instruments, and is included in the consolidated statements of shareholders' equity.

(15) Use of Estimates

The Company's management has made a number of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses to prepare these financial statements in conformity with generally accepted accounting principles. Actual results could differ from the estimates and assumptions.

The Company has identified five areas where it believes assumptions and estimates are particularly critical to the financial statements. These are the determination of the allowance for doubtful receivables, impairment on long-lived assets and goodwill, pension liabilities and expenses, fair value of financial instruments and realization of deferred income tax assets.

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(16) New Accounting Standards

In June 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 requires the use of the purchase method of accounting for business combinations and prohibits the use of the pooling of interests method for all business combinations initiated after June 30, 2001. SFAS No. 141 also defines the types of acquired intangible assets that are required to be recognized and reported separately from goodwill and those acquired intangible assets that are required to be included in goodwill. SFAS No. 142 eliminates the amortization of goodwill but instead requires annual impairment testing of goodwill. In addition, intangible assets that do not have finite lives will not be amortized and will be reviewed for impairment annually. The Company is required to adopt SFAS No. 142 for the fiscal year beginning April 1, 2002, with the exception that certain provisions of the statement should be applied to goodwill and the intangible assets acquired after June 30, 2001. In accordance with SFAS No. 142, the Company is currently in the process of performing the transitional goodwill impairment tests and evaluating the impact of these tests on its financial position and results of operations.

In June 2001, FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." This statement addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The Company will adopt SFAS No. 143 for the fiscal year beginning April 1, 2003. The effect, if any, of adopting this statement has not been determined.

In August 2001, FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." This statement supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." The statement retains the previously existing accounting requirements related to the recognition and measurement of the impairment of long-lived assets to be held and used, however, this statement develops a single accounting model for long-lived assets to be disposed by sale. This statement also modifies the accounting and disclosure rules for discontinued operations. The Company is required to adopt SFAS No. 144 for the fiscal year beginning April 1, 2002. The effect of adopting this statement is not expected to be material to the consolidated financial position or result of operations.

In April 2002, SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections," was issued. This statement updates, clarifies and simplifies existing accounting pronouncements. While the technical corrections to existing pronouncements are not substantive in nature, in some instances, they may change accounting practice. The provisions of this statement related to SFAS No. 13 are effective for transactions occurring after May 15, 2002. All other provisions of this statement must be applied for financial statements issued on or after May 15, 2002, with early application encouraged. The Company is currently evaluating the effects of SFAS No. 145.

42

2. Supplemental Cash Flow Information

Additional cash flow information and noncash investing and financing activities for the years ended March 31, 2002, 2001 and 2000, are as follows:

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| | Millions of yen | |
|---|-----------------|-----------------|
| | 2002 | 2001 |
| ----- | | |
| Additional cash flow information: | | |
| Interest paid | (Yen) 17,091 | (Yen) 22,385 |
| Income taxes paid | 13,139 | 18,311 |
| ----- | | |
| Noncash investing and financing activities: | | |
| Assets and liabilities of newly consolidated subsidiaries in fiscal 2001 and 2000 (Note 6): | | |
| Fair value of assets acquired | (Yen) -- | (Yen) (131,913) |
| Liabilities assumed | -- | 92,628 |
| Less: Carrying amount of investment | -- | 13,083 |
| Minority interest | -- | 17,930 |
| Net assets exceeding the carrying value | -- | (8,272) |
| Sale of subsidiaries: | | |
| Proceed from sale of subsidiaries | -- | 9,526 |
| Cash and cash equivalent balance of subsidiaries newly consolidated or sold | -- | (10,248) |
| ----- | | |
| Net effect on consolidated cash flow statements | -- | (8,994) |
| ----- | | |
| Transfer of securities to pension fund | -- | 11,250 |
| Decrease of postretirement obligation | -- | (11,250) |
| ----- | | |
| Capital lease obligations incurred | (Yen) 9,203 | (Yen) 19,264 |
| ===== | | |

3. Trade Notes and Accounts Receivable

The Company and certain of its consolidated subsidiaries follow the practice of including the portion of installment and lease receivables due after one year (less unearned interest) in current assets. Receivables due after one year (less unearned interest) amounted to (Yen)67,017 million (\$503,887 thousand) and (Yen)67,243 million at March 31, 2002 and 2001, respectively.

Lease receivables represent receivables from customers for equipment leased by Komatsu Forklift Co., Ltd., which has become a consolidated subsidiary in fiscal 2001. These leases are accounted for as sales-type leases in conformity with SFAS No. 13. Revenue from sales-type leases are recognized at the inception of the lease.

At March 31, 2002 and 2001, lease receivables comprised the following:

| | Millions of yen | | Thousands of U.S. dollars |
|-----------------------------|-----------------|--------------|------------------------------|
| | 2002 | 2001 | 2002 |
| ----- | | | |
| Minimum lease payments | | | |
| receivable | (Yen) 16,415 | (Yen) 16,624 | \$ 123,421 |
| Unearned income | (1,429) | (1,536) | (10,744) |
| ----- | | | |
| Net lease receivables | (Yen) 14,986 | (Yen) 15,088 | \$ 112,677 |
| ===== | | | |

The Company adopted SFAS No. 140 in its entirety in fiscal 2002, the effect of which was not material to the accompanying financial statements. The Company

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and its consolidated subsidiaries sold trade notes and accounts receivable of (Yen)332,008 million (\$2,496,301 thousand) and (Yen)282,431 million in securitization transactions during fiscal 2002 and 2001, respectively, and the related balance of outstanding sold notes and accounts receivable as of March 31, 2002 and 2001 amount to (Yen)159,393 million (\$1,198,444 thousand) and (Yen)127,155 million, respectively. The receivables are removed from the accompanying consolidated balance sheet and gross gain or loss is recognized for the difference between the proceeds received and the net carrying value of the receivables sold.

The Company and its consolidated subsidiaries retain servicing responsibilities, however no contractual servicing fees are received from the third parties. The investors and the securitization trusts have no or limited recourse rights to the Company and its consolidated subsidiaries' assets in case of debtors' default. Appropriate reserves have been established for potential losses relating to the limited recourse of the sold receivables. Also the Company and its consolidated subsidiaries except for a certain U.S. subsidiary, as a transferor do not retain any interest in the receivables sold.

A certain U.S. subsidiary retains the right to receive excess spread resulting from the difference between the yield on the underlying receivables sold and the interest paid on the underlying securities issued, of which the fair value is subject to credit and prepayment risks on the transferred assets and amounted to approximately (Yen)373 million (\$2,805 thousand) and (Yen)539 million under the following key economic assumptions for fiscal 2002 and 2001, respectively.

| | 2002 | 2001 |
|--|-----------|-----------|
| Weighted-average life | 48 months | 48 months |
| Prepayment speed over the life | 1.3% | 1.4% |
| Expected credit losses over the life | 1.5% | 1.3% |
| Discount rate on cash flow | 1.0% | 6.6% |
| Variable returns to transferee | 1.4% | 5.9% |

43

In fiscal 2002 and 2001, the Company and its consolidated subsidiaries recognized net gains or losses from these securiti-zations of receivables, which were not material.

The fair value of the retained interest is subject to volatility as a result of changes in assumptions on credit losses, prepayments and market interest rates. The impact of any such potential volatility would not be material to the accompanying consolidated financial statements as of March 31, 2002 and 2001 based on the above amounts.

4. Inventories

At March 31, 2002 and 2001, inventories comprised the following:

| | Millions of yen | |
|-------|-----------------|------|
| | 2002 | 2001 |
| ----- | | |

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| | | |
|---|---------------|---------------|
| Finished products, including finished parts held for sale | (Yen) 184,364 | (Yen) 171,600 |
| Work in process | 48,763 | 52,162 |
| Materials and supplies | 33,825 | 32,039 |
| ----- | | |
| Total | (Yen) 266,952 | (Yen) 255,801 |
| ===== | | |

5. Investment Securities

Investment securities at March 31, 2002 and 2001, primarily consisted of securities available for sale.

The cost, gross unrealized holding gains and losses, and fair value for such investment securities by major security types at March 31, 2002 and 2001, are as follows:

| | Millions | |
|---|--------------|------------------------|
| | Cost | Gross unrealized Gains |
| | ----- | |
| ----- | | |
| At March 31, 2002 | | |
| Investment securities available for sale: | | |
| Marketable debt securities | (Yen) 981 | (Yen) -- |
| Marketable equity securities | 26,094 | 8,345 |
| Other investment securities | 16,202 | -- |
| | ----- | ----- |
| | (Yen) 43,277 | (Yen) 8,345 |
| ===== | | |
| At March 31, 2001 | | |
| Investment securities available for sale: | | |
| Marketable debt securities | (Yen) 965 | (Yen) -- |
| Marketable equity securities | 39,876 | 16,072 |
| Other investment securities | 13,249 | -- |
| | ----- | ----- |
| | (Yen) 54,090 | (Yen) 16,072 |
| ===== | | |

| | Thousands of | |
|---|--------------|------------------------|
| | Cost | Gross unrealized Gains |
| | ----- | |
| ----- | | |
| At March 31, 2002 | | |
| Investment securities available for sale: | | |
| Marketable debt securities | \$ 7,376 | \$ -- |
| Marketable equity securities | 196,195 | 62,745 |
| Other investment securities | 121,820 | -- |
| | ----- | ----- |
| | \$ 325,391 | \$ 62,745 |
| ===== | | |

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Maturities of marketable debt securities at March 31, 2002 and 2001 primarily fall within five years.

Unrealized holding gains and losses are included as a component of accumulated other comprehensive income (loss) until realized.

Proceeds from the sales of marketable securities and investment securities available for sale were (Yen)7,866 million (\$59,143 thousand), (Yen)54,621 million and (Yen)137,278 million for the years ended March 31, 2002, 2001 and 2000, respectively.

Net realized gains (losses) on the sales of marketable securities and investment securities available for sale during the years ended March 31, 2002, 2001 and 2000, amounted to (Yen)(8,696) million (\$(65,383) thousand), (Yen)11,991 million and (Yen)16,993 million, respectively. They were included in the determination of net

44

income. The cost of the marketable securities and investment securities sold was computed based on the average-cost method.

In fiscal 2001, the Company contributed certain marketable equity securities, not those of its subsidiaries and affiliated companies, to an employee retirement benefit trust fully administrated and controlled by an independent bank trustee, with no cash proceeds thereon. The transfer of the available-for-sale securities has been accounted for as a sale in accordance with SFAS No.140 (a replacement of SFAS No. 125), and accordingly, the recorded pension liability has been reduced by the fair market value of the transferred securities. The fair market value of those securities at the time of contribution was (Yen)11,250 million, and the net realized gain of (Yen)1,955 million from the transfer of those securities was recognized and included in interest and other income in the accompanying consolidated statement of income for the year ended March 31, 2001.

6. Investments in and Advances to Affiliated Companies

At March 31, 2002 and 2001, investments in and advances to affiliated companies comprised the following:

| | Millions of yen | | Thousands of U.S. dollars |
|------------------------------------|-----------------|-------------|------------------------------|
| | 2002 | 2001 | 2002 |
| Investments in capital stock | (Yen)16,775 | (Yen)19,603 | \$ 126,128 |
| Advances | 6,394 | 4,928 | 48,075 |
| Total | (Yen)23,169 | (Yen)24,531 | \$ 174,203 |

In fiscal 2001, the Company acquired additional shares of Komatsu Forklift Co., Ltd. and increased its ownership interest from 39.2% to 50.8%. As a result, Komatsu Forklift Co., Ltd. became a consolidated subsidiary of the Company in fiscal 2001.

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Dividends received from affiliated companies were (Yen)1,234 million (\$9,278 thousand), (Yen)515 million and (Yen)324 million during the years ended March 31, 2002, 2001 and 2000, respectively.

Trade notes and accounts receivable from affiliated companies at March 31, 2002 and 2001, were (Yen)28,804 million (\$216,571 thousand) and (Yen)47,712 million, respectively.

Short-term loans receivable from affiliated companies at March 31, 2002 and 2001, were (Yen)12,574 million (\$94,541 thousand) and (Yen)16,447 million, respectively.

Trade notes and accounts payable to affiliated companies at March 31, 2002 and 2001, were (Yen)4,015 million (\$30,188 thousand) and (Yen)5,819 million, respectively.

Net sales for the years ended March 31, 2002, 2001 and 2000, included net sales to affiliated companies in the amounts of (Yen)53,359 million (\$401,195 thousand), (Yen)75,634 million and (Yen)83,001 million, respectively.

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

Summarized financial information for affiliated companies at March 31, 2002 and 2001, and for the years ended March 31, 2002, 2001 and 2000, is as follows:

| | Millions of yen | | |
|--|-----------------|--------------|----|
| | 2002 | 2001 | |
| Current assets | (Yen)129,775 | (Yen)149,589 | \$ |
| Net property, plant and equipment | 42,656 | 45,669 | |
| Other assets | 13,816 | 13,914 | |
| Total assets | (Yen)186,247 | (Yen)209,172 | \$ |
| Current liabilities | (Yen)125,982 | (Yen)145,629 | \$ |
| Noncurrent liabilities | 22,767 | 23,734 | |
| Shareholders' equity | 37,498 | 39,809 | |
| Total liabilities and shareholders' equity | (Yen)186,247 | (Yen)209,172 | \$ |

| | Millions of yen | | |
|------------------|-----------------|--------------|------------|
| | 2002 | 2001 | 2000 |
| Net sales | (Yen)203,490 | (Yen)240,256 | (Yen)271,8 |
| Net income | (Yen) 129 | (Yen) 2,424 | (Yen) 8,2 |

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The summarized financial information for the year ended March 31, 2000 included the accounts of Komatsu Forklift Co., Ltd. and three other companies, which were newly consolidated in fiscal 2001. The aggregated net sales of these companies for the year ended March 31, 2000 amounted to (Yen)63,369 million, and the aggregated net loss of these companies amounted to (Yen)323 million.

Also, the summarized financial information as of and for the years ended March 31, 2002 and 2001 included the accounts of Komatsu Soft Ltd., which became an affiliated company from a consolidated subsidiary at the beginning of fiscal 2001. The aggregated net sales and net income for the year ended March 31, 2002 and 2001 amounted to (Yen)21,668 million (\$162,917 thousand) and (Yen)20,322 million and (Yen)439 million (\$3,301 thousand) and (Yen)367 million, respectively.

45

7. Property, Plant and Equipment

The major classes of property, plant and equipment at March 31, 2002 and 2001, are as follows:

| | Millions of yen | | Thous U.S. |
|--|----------------------|----------------------|----------------|
| | 2002 | 2001 | 2 |
| Land | (Yen) 78,334 | (Yen) 75,135 | \$ 58 |
| Buildings | 309,407 | 304,925 | 2,32 |
| Machinery and equipment | 610,917 | 602,767 | 4,59 |
| Construction in progress | 31,669 | 44,736 | 23 |
| Total | 1,030,327 | 1,027,563 | 7,74 |
| Less: accumulated depreciation | (625,026) | (588,768) | (4,69) |
| Net property, plant and equipment | (Yen) 405,301 | (Yen) 438,795 | \$ 3,04 |

8. Pledged Assets

At March 31, 2002, assets pledged as collateral for short-term debt, long-term debt and guarantee for debt are as follows:

| | Millions of yen | Thousands of U.S. dollars |
|---|--------------------|---------------------------------|
| Trade notes and accounts receivable | (Yen) 759 | \$ 5,707 |
| Property, plant and equipment--less accumulated depreciation | 27,852 | 209,413 |
| Total | (Yen)28,611 | \$ 215,120 |

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The above pledged assets were classified by type of liabilities to which they relate as follows:

| | Millions of yen | Thousand of U.S. doll |
|--|-----------------|-----------------------------|
| ----- | | |
| Liabilities appearing in the consolidated balance sheets as: | | |
| Short-term debt | (Yen) 1,180 | \$ 8,8 |
| Long-term debt | 26,799 | 201,4 |
| Guarantee for debt | 632 | 4,7 |
| ----- | | |
| Total | (Yen)28,611 | \$ 215,1 |
| ----- | | |

9. Short-Term and Long-Term Debt

Short-term debt primarily consisted of short-term bank loans. The weighted-average annual interest rates applicable to short-term debt outstanding at March 31, 2002 and 2001, were 2.5% and 4.1%, respectively. The Company and certain consolidated subsidiaries have unused committed lines of credit amounting to (Yen)72,626 million (\$546,060 thousand) with certain financial institutions at the end of fiscal 2002. Long-term debt at March 31, 2002 and 2001, consisted of the following:

| | | Millions of |
|--|--------------|-------------|
| | | 2002 |
| ----- | | |
| Long-term debt with collateral (Note 8): | | |
| Banks, insurance companies and other financial institutions, maturing serially through 2002-2014, weighted-average rate 2.9% | | |
| Government-owned banks and government agencies | (Yen) 16,047 | (Yen) |
| Other | 4,834 | |
| Long-term debt without collateral: | | |
| Banks, insurance companies and other financial institutions, maturing serially through 2002-2022, weighted-average rate 2.7% | 103,696 | |
| Euro Medium-Term Notes with various interest rates maturing serially through 2002-2009 | 66,235 | |
| 6.9% Senior Notes due 2003 (payable in U.S. dollars) | 15,590 | |
| 1.8% Convertible Unsecured Bonds due 2004 | 27,447 | |
| 7.0% Senior Notes due 2005 (payable in U.S. dollars) | 9,461 | |
| 1.9% Unsecured Bonds due 2006 | 35,000 | |
| Capital lease obligations (Note 14) | 20,678 | |
| Other | 811 | |
| ----- | | |
| Total | 299,799 | |
| Less: current maturities | (42,619) | |
| ----- | | |
| Long-term debt | (Yen)257,180 | (Yen) |
| ----- | | |

The conversion price per share of the 1.8% convertible unsecured bonds at March 31, 2002, was (Yen)971.20, which was subject to adjustments under certain conditions. These bonds are redeemable anytime before maturity at the option of the Company, at the redemption price of 102% of the initial principal as of March 31, 2002.

In 1996, the Company, Komatsu Finance America Inc. and Komatsu Finance (Netherlands) B.V. (the "Issuers") registered the US\$1.0 billion Euro Medium-Term Note Program ("the Program") on the London Stock Exchange. On April 1, 1999, the registered amounts of the Program were increased to US\$1.2 billion. On March 31, 2000, Komatsu Australia Holdings Pty. Ltd., formerly Komatsu Australia Pty. Ltd. was added as an issuer under the Program. Under the Program, each of the issuers may from time to time issue notes denominated in any currency as may be agreed between the relevant issuers and dealers. Komatsu Finance America Inc. issued (Yen)12,000 million (\$90,226 thousand) during fiscal 2002, and (Yen)7,000 million and US\$0 million during fiscal 2001 of Euro Medium-Term Notes with various interest rates and maturity dates. Komatsu Finance (Netherlands) B.V. issued (Yen)1,707 million during fiscal 2001 of Euro Medium-Term Notes with various interest rates and maturity dates. To offset market risk exposure arising from changes in foreign exchange rates and interest rates on debts under the Program, cross-currency interest rate swap and interest rate swap contracts are utilized. The cross-currency interest rate swap contracts effectively convert Yen-denominated debts and related interest into U.S. dollar and Euro obligations.

U.S. dollar interest rates are based on three month LIBOR with borrowing spreads of LIBOR minus 0.10% to LIBOR plus 0.59% for the years ended March 31, 2002 and 2001, respectively, depending upon the contracts. The floating interest rates for fiscal 2002 and 2001 ranged from 1.64% to 6.00% and 6.39% to 7.34%, respectively.

The companies have also entered into interest rate and currency swap agreements for certain long-term debts (Note 18).

As is customary in Japan, substantially all bank loans are made under agreements which provide that the banks may require, under certain conditions, the borrower to provide collateral, additional collateral or guarantors for its loans.

Lending banks have a right to offset cash deposited with them against any debt or obligation that becomes due and, in the case of default and certain other specified events, against all other debt payable to the banks.

Under certain loan agreements, the lender may require the borrower to submit proposals for the payment of dividends and other appropriations of earnings for the lender's review and approval before presentation to the shareholders. The companies have never received such a request.

Annual maturities of long-term debt subsequent to March 31, 2002, excluding SFAS No. 133 market value adjustments of (Yen)7,835 million (\$58,910 thousand) are as follows:

| Year ending March 31 | Millions of yen | Thousands of U.S. dollars |
|----------------------|-----------------|---------------------------|
| 2003 | (Yen) 44,778 | \$ 336,677 |
| 2004 | 96,945 | 728,910 |

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| | | |
|---------------------------|---------------|--------------|
| 2005 | 48,902 | 367,684 |
| 2006 | 61,135 | 459,662 |
| 2007 | 17,799 | 133,827 |
| 2008 and thereafter | 38,075 | 286,278 |
| ----- | | |
| Total | (Yen) 307,634 | \$ 2,313,038 |
| ===== | | |

10. Liability for Pension and Other Postretirement Benefits

The Company's employees, with certain minor exceptions, are covered by a severance payment and pension plan. The plan provides that 70% of the employee benefits are payable as a pension payment, commencing upon retirement at age 60 (mandatory retirement age) and that the remaining benefits are payable as a lump-sum severance payment based on remuneration, years of service and certain other factors at the time of retirement. The plan also provides for lump-sum severance payments, payable upon earlier termination of employment.

The Company's funding policy is to contribute semiannually the amounts to provide not only for benefits attributed to service to date but also for those expected to be earned in the future.

Net periodic cost of the Company's plan for the years ended March 31, 2002, 2001 and 2000, included the following components:

| | Millions of | |
|---|--------------|------------|
| | 2002 | 2001 |
| ----- | | |
| Service cost--Benefits earned during the year | (Yen) 4,537 | (Yen) 4,76 |
| Interest cost on projected benefit obligation | 3,737 | 3,82 |
| Expected return on plan assets | (1,502) | (1,52 |
| Net amortization and deferral | 2,368 | 1,78 |
| Settlement loss | 6,419 | - |
| ----- | | |
| Net periodic cost | (Yen) 15,559 | (Yen) 8,85 |
| ===== | | |

47

The reconciliation of beginning and ending balances of the benefit obligations and the fair value of the plan assets of the Company's plan are as follows:

| | Mi |
|---|------------|
| | ----- |
| | 2002 |
| ----- | |
| Change in benefit obligation: | |
| Benefit obligation, beginning of year | (Yen) 120, |
| Service cost | 4, |

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| | | |
|--|-------|------|
| Interest cost | | 3, |
| Actuarial loss (gain) | | 5, |
| Benefits paid | | (34, |
| <hr/> | | |
| Benefit obligation, end of year | (Yen) | 99, |
| <hr/> | | |
| Change in plan assets: | | |
| Fair value of plan assets, beginning of year | (Yen) | 78, |
| Actual return on plan assets | | (6, |
| Employer contribution | | 5, |
| Benefits paid | | (5, |
| <hr/> | | |
| Fair value of plan assets, end of year | (Yen) | 70, |
| <hr/> | | |
| Funded status | (Yen) | (28, |
| Unrecognized net loss | | 32, |
| Unrecognized net obligation at transition being recognized over 15 years | | 1, |
| Unrecognized prior service cost being recognized over 15 years | | 3, |
| <hr/> | | |
| Net amount recognized | (Yen) | 8, |
| <hr/> | | |
| Net amounts recognized in the consolidated balance sheets consist of: | | |
| Liability for postretirement benefits | (Yen) | (16, |
| Intangible assets included in other assets | | 5, |
| Amount included in accumulated other comprehensive income, gross of tax | | 19, |
| <hr/> | | |
| Net amount recognized | (Yen) | 8, |
| <hr/> | | |

Assumptions used in determining costs of the Company's plan and the funded status information shown above are as follows:

| | 2002 | 2001 | 2000 |
|--|------|------|------|
| Weighted-average discount rate | 2.8% | 3.1% | 3.1% |
| Rate of increase in future compensation levels | 2.3% | 2.3% | 2.1% |
| Expected long-term rate of return on plan assets | 1.9% | 1.9% | 2.3% |

As a result of the changes in the discount rate in fiscal 2002, the benefit obligation as of March 31, 2002, was approximately (Yen)2,559 million (\$19,241 thousand) more than it would have been using the previous 3.1% discount rate. The effect of those changes had an immaterial impact on the net periodic costs.

As described in Note 5, the Company contributed certain marketable equity securities to an employee retirement benefit trust in fiscal 2001. The securities held in this trust are qualified as plan assets under SFAS No. 87.

Certain foreign subsidiaries have various funded pension plans, of which the plan assets and the projected benefit obligations are calculated under the provisions of SFAS No. 87. The aggregated fair value of plan assets as of March 31, 2002 and 2001, was approximately (Yen)14,873 million (\$111,827 thousand) and (Yen)12,634 million, respectively, and the projected benefit obligations as of March 31, 2002 and 2001, were approximately (Yen)16,015 million (\$120,414 thousand) and (Yen)10,767 million, respectively. Discount rates of 3.0% to 13.0%

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and expected long-term rates of return on plan assets of 5.5% to 10.0% were used as assumptions in determining the actuarial value of benefit obligations for the years ended March 31, 2002, 2001 and 2000.

Certain domestic subsidiaries also have unfunded severance payment plans and/or pension plans similar to those of the Company for their employees. The aggregated fair value of plan assets as of March 31, 2002 and 2001, was approximately (Yen)10,614 million (\$79,805 thousand) and (Yen)10,765 million, respectively, and the projected benefit obligations as of March 31, 2002 and 2001, were approximately (Yen)24,140 million (\$181,504 thousand) and (Yen)28,608 million, respectively. The amounts of net periodic costs of certain foreign and domestic subsidiaries for the years ended March 31, 2002, 2001 and 2000, were (Yen)5,653 million (\$42,504 thousand), (Yen)5,476 million and (Yen)2,945 million, respectively.

Directors of the Company and domestic subsidiaries are primarily covered by unfunded retirement allowances plans.

Under the unfunded plans described in the preceding paragraphs, the amounts required if all employees and directors had voluntarily terminated their employment at each balance-sheet date are fully accrued. The payments to directors are subject to shareholders' approval.

48

In November 2001, the Company announced a reorganization plan to reduce operating costs primarily through personnel reductions and relocation to affiliates. Voluntary early retirement and relocation to affiliates programs were established to encourage reduction of personnel, primarily the Company's office personnel. Such programs expired on February 28, 2002. In connection therewith, approximately 1,300 employees agreed to take early retirement and relocation to affiliates. During fiscal 2002, certain domestic subsidiaries also offered retirement incentive programs. As a result of these actions, the Company and certain subsidiaries charged the related cost of (Yen)23,712 million (\$178,286 thousand) as special termination benefits in the consolidated statement of income for fiscal 2002. As of March 31, 2002, the remaining unpaid balance of accrued early termination benefits was (Yen)12,437 million (\$93,511 thousand). In connection with the early retirement program, the Company recorded a settlement loss of (Yen)6,419 million (\$48,263 thousand) in accordance with SFAS No. 88 "Employer's Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits" for the year ended March 31, 2002 and included in special termination benefit.

Total expenses of all severance payment and pension plan premiums charged to income for the years ended March 31, 2002, 2001 and 2000, were (Yen)42,779 million (\$321,647 thousand), (Yen)15,033 million and (Yen)14,140 million, respectively. Total expenses of all severance payments for the year ended March 31, 2002 included the additional severance payment under the retirement incentive programs.

Certain foreign subsidiaries have postretirement benefit plans other than pensions, which are primarily not funded. The accumulated postretirement benefit obligation at March 31, 2002 and 2001, was (Yen)8,880 million (\$66,767 thousand) and (Yen)6,413 million, respectively, and the accrued postretirement benefit obligation at March 31, 2002 and 2001, was (Yen)4,375 million (\$32,895 thousand) and (Yen)3,512 million, respectively. The amounts of net periodic postretirement benefits other than pensions for the years ended March 31, 2002, 2001 and 2000, were not material.

11. Shareholders' Equity

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(1) Common Stock and Capital Surplus

Under the Commercial Code of Japan ("the Code"), certain issuance of common stock, including conversions of debt issued and exercises of warrants, are required to be credited to the common stock account for at least 50% of the proceeds.

The Code permits, upon approval of the Board of Directors, transfer of amounts from capital surplus to the common stock. Pursuant to resolutions of the Board of Directors, the Company from time to time has made free share distributions (Note 1). Prior to October 2001, such free distributions were accounted for by a transfer from capital surplus to common stock of the aggregate par value of shares issued or no change in common stock and capital surplus, amended effective on October 2001, the Code requires no accounting recognition for such free share distribution. Publicly owned corporations in the United States issuing shares in similar transactions would be required to account for them as stock dividends as of the shareholders' record date by reducing retained earnings and increasing appropriate capital accounts by an amount equal to the fair value of the shares issued.

If such United States practice had been applied to the cumulative free distributions made by the Company, capital surplus at March 31, 2002, would have been increased by (Yen)103,189 million (\$775,857 thousand) with a corresponding decrease in unappropriated retained earnings. If all convertible bonds were converted at March 31, 2002, 28,260,914 shares of the Company's common stock would be issuable. At March 31, 2002 and 2001, affiliated companies owned 1,581,432 and 1,575,357 shares of the Company's common stock, respectively.

(2) Retirement of the Company's Outstanding Shares

The Code permits a company to retire a portion of its outstanding shares upon approval of the shareholders at the annual general shareholders' meeting or of the Board of Directors if stipulated in the Articles of Corporation.

On May 2, 2000, the Board of Directors passed a resolution approving the purchase and retirement of outstanding shares of the Company up to a maximum aggregate acquisition cost of (Yen)7,000 million and up to a maximum of 10,000,000 shares before the close of the next general shareholders' meeting in 2001 as permitted by the Company's Articles of Corporation. By May 17, 2000, the Company purchased and retired 10,000,000 shares having a market value of (Yen)6,340 million based on the resolution of the Board of Directors on May 2, 2000.

(3) Retained Earnings Appropriated for Legal Reserve

Effective October 1, 2001, the Code provides that an amount at least equal to 10% of all cash payments which are made as an appropriation of retained earnings applicable to each fiscal period shall be appropriated as a legal reserve until the total amount of capital surplus and legal reserve equals 25% of the stated amount of common stock. Capital surplus and legal reserve may be used to eliminate or reduce a deficit by resolution of the shareholders or may be transferred to common stock by resolution of the Board of Directors. On condition that the total amount of capital surplus and legal reserve remains being equal to or exceeding 25% of common stock, they are available for distribution and certain other purposes by the resolution of the shareholders' meeting.

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(4) Unappropriated Retained Earnings and Dividends

The amount of retained earnings available for dividends under the Code is based on the amount recorded in the Company's general books of account maintained in accordance with generally accepted Japanese accounting practices. The adjustments included in the accompanying financial statements but not recorded in the general books of account, as explained under "Basis of Financial Statements" in Note 1, have no effect on the determination of retained earnings available for dividends under the Code. In addition to the Code provision requiring an appropriation for legal reserve as discussed above, the Code imposes certain limitations on the amount of retained earnings available for dividends. Retained earnings of (Yen)216,706 million (\$1,629,368 thousand), included in the Company's general books of account as of March 31, 2002, is not restricted by the limitations under the Code.

The Code permits transfers, upon approval of shareholders, of a portion of unappropriated retained earnings available for dividends to common stock account without issuance of any shares. Dividends are approved by the shareholders at the meeting held subsequent to the statutory fiscal period to which the dividends are applicable. A semiannual interim dividend payment may be made by resolution of the Board of Directors. Such dividends are payable to shareholders of record at the end of each such fiscal or interim six-month period.

The Board of Directors intends to recommend to the shareholders, at the next general meeting to be held on June 26, 2002, payment of a cash dividend totaling (Yen)2,863 million (\$21,526 thousand) to shareholders of record on March 31, 2002. In accordance with the Code, the intention of this dividend has not been reflected in the consolidated financial statements as of March 31, 2002. Dividends are reported in the Consolidated Statements of Shareholders' Equity when paid.

(5) Stock Option Plan

On June 27, 2001, the shareholders authorized the acquisition of 1,100,000 shares of the Company's common stock for the total consideration not exceeding (Yen)1,000 million (\$7,519 thousand) during the period up to the close of the following annual general shareholders' meeting in fiscal 2002. On June 28, 2000, the shareholders authorized the acquisition of 1,200,000 shares of the Company's common stock for the total consideration not exceeding (Yen)1,000 million during the period up to the close of the following annual general shareholders' meeting in fiscal 2001. On June 29, 1999, the shareholders authorized the acquisition of 1,200,000 shares of the Company's common stock for the total consideration not exceeding (Yen)1,200 million during the period up to the close of the following annual general shareholders' meeting in fiscal 2000. The Company intends to transfer such treasury shares to directors and certain employees under an agreement granting the right for them to request such transfers at a predetermined price. The purchase price is set to equal an amount obtained by multiplying by 1.05 an average of the closing prices applicable to ordinary transactions of shares of the Company on the Tokyo Stock Exchange on all days for a month immediately preceding the month in which the date of grant of the right falls, provided that the exercise price shall not be less than the closing price of the shares of the Company on the Tokyo Stock Exchange at the date of the grant. Based on the resolutions of the shareholders' meeting on June 27, 2001, June 28, 2000 and June 29, 1999, the Company acquired 1,100,000 shares, 1,200,000 shares and 1,200,000 shares of its common stock from the market for the plan during the years ended March 31, 2002, 2001 and 2000, respectively. The options vest 100% on each of the grant dates and were and will be exercisable from August 1, 2002, July 1, 2001 and July 1, 2000.

SFAS No. 123, "Accounting for Stock-Based Compensation," defines a fair value based method of accounting for a stock option. This statement gives entities a choice of recognizing related compensation expense by adopting the new fair

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| | | | | |
|---------------------------------------|-----------|----------|---------|---------|
| Outstanding at March 31, 2002 | 4,470,000 | (Yen)713 | \$ 5.36 | 3.73 ye |
| [Exercisable at March 31, 2001] | 2,170,000 | (Yen)765 | | |
| [Exercisable at March 31, 2002] | 3,370,000 | (Yen)763 | \$ 5.74 | |

The fair value of these stock options was estimated using the Black-Scholes option pricing model under the following assumptions:

| | 2002 | 2001 | 2000 |
|-------------------------------|-------------------|----------|----------|
| Grant-date fair value | (Yen)123 (\$0.92) | (Yen)230 | (Yen)207 |
| Expected life | 6 years | 6 years | 6 years |
| Risk-free rate | 0.64% | 1.47% | 1.23% |
| Expected volatility | 30.00% | 32.00% | 29.00% |
| Expected dividend yield | 1.15% | 0.79% | 0.63% |

The Board of Directors intends to recommend to the shareholders, at the next general meeting to be held on June 26, 2002, the free issuance of common stock warrant of the Company up to a maximum of 950 rights, that will result in 950,000 shares by granting the right to convert 1,000 stocks per a stock warrant.

12. Other Comprehensive Income (Loss)

Accumulated other comprehensive income (loss) at March 31, 2002, 2001 and 2000, is as follows:

| | Millions | |
|---|----------------|----------------|
| | 2002 | 2001 |
| Foreign currency translation adjustments: | | |
| Balance, beginning of year | (Yen) (29,340) | (Yen) (30,000) |
| Adjustment for change of fiscal period on consolidated subsidiaries .. | 9,444 | |
| Aggregate adjustment for the year resulting from translation of foreign currency financial statements | 9,552 | 1,000 |
| Balance, end of year | (Yen) (10,344) | (Yen) (28,000) |
| Net unrealized holding gains on securities available for sale: | | |
| Balance, beginning of year | (Yen) 7,249 | (Yen) 2,000 |
| Net decrease | (4,194) | (1,000) |
| Balance, end of year | (Yen) 3,055 | (Yen) 1,000 |
| Pension liability adjustments: | | |
| Balance, beginning of year | (Yen) (7,113) | (Yen) (7,000) |
| Adjustment for change of fiscal period on consolidated subsidiaries .. | 3 | |
| Adjustment for the year | (3,817) | (1,000) |
| Balance, end of year | (Yen) (10,927) | (Yen) (8,000) |
| Net unrealized holding gains (losses) on derivative instruments: | | |
| Balance, beginning of year | (Yen) -- | (Yen) -- |

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| | | |
|--|----------------|----------|
| Cummulative effect of accounting change | (670) | |
| Net decrease | 493 | |
| <hr/> | | |
| Balance, end of year | (Yen) (177) | (Yen) |
| <hr/> | | |
| Total accumulated comprehensive income (loss) | | |
| Balance, beginning of year | (Yen) (29,204) | (Yen) (1 |
| Adjustment for change of fiscal period on consolidated subsidiaries .. | 9,447 | |
| Adjustment for the year | 1,364 | (|
| <hr/> | | |
| Balance, end of year | (Yen) (18,393) | (Yen) (2 |

51

Tax effects allocated to each component of other comprehensive income (loss) and adjustments are as follows:

| | | Mil |
|--|------------------|---------|
| | Pretax amount | Ta o |
| <hr/> | | |
| 2002: | | |
| Foreign currency translation adjustments | (Yen) 9,552 | (|
| Net unrealized holding gains on securities available for sale: | | |
| Unrealized holding gains or (losses) arising during the year | (6,159) | |
| Less: reclassification adjustment for (gains) or losses included in net income (loss) | (1,183) | |
| <hr/> | | |
| Net unrealized gains (losses) | (7,342) | |
| Pension liability adjustments | (6,551) | |
| <hr/> | | |
| Net unrealized holding gains (losses) on derivative instruments: | | |
| Cumulative effect of accounting change | (1,150) | |
| Changes in fair value of derivatives | 24 | |
| Net (gains) or losses reclassified into earnings | 822 | |
| <hr/> | | |
| Net unrealized gains (losses) | (304) | |
| <hr/> | | |
| Other comprehensive income (loss) | (Yen) (4,645) | (|
| <hr/> | | |
| 2001: | | |
| Foreign currency translation adjustments | (Yen) 10,384 | (|
| Net unrealized holding gains on securities available for sale: | | |
| Unrealized holding gains or (losses) arising during the year | (40,774) | |
| Less: reclassification adjustment for (gains) or losses included in net income (loss) | 11,374 | |
| <hr/> | | |
| Net unrealized gains (losses) | (29,400) | |
| Pension liability adjustments | (6,488) | |
| <hr/> | | |
| Other comprehensive income (loss) | (Yen) (25,504) | (|

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2000:

| | | |
|--|----------------|---|
| Foreign currency translation adjustments | (Yen) (15,565) | (|
| Net unrealized holding gains on securities available for sale: | | |
| Unrealized holding gains or (losses) arising during the year | 2,585 | |
| Less: reclassification adjustment for (gains) or losses included in net income (loss) | (6,848) | |
| ----- | | |
| Net unrealized gains (losses) | (4,263) | |
| Pension liability adjustments | 10,555 | |
| ----- | | |
| Other comprehensive income (loss) | (Yen) (9,273) | (|
| ----- | | |

Thousand

Pretax amount Ta
o

2002:

| | | | |
|--|----|----------|----|
| Foreign currency translation adjustments | \$ | 71,820 | \$ |
| Net unrealized holding gains on securities available for sale: | | | |
| Unrealized holding gains or (losses) arising during the year | | (46,308) | |
| Less: reclassification adjustment for (gains) or losses included in net income (loss) | | (8,895) | |
| ----- | | | |
| Net unrealized gains (losses) | | (55,203) | |
| Pension liability adjustments | | (49,256) | |
| ----- | | | |
| Net unrealized holding gains (losses) on derivative instruments: | | | |
| Cumulative effect of accounting change | | (8,647) | |
| Changes in fair value of derivatives | | 180 | |
| Net (gains) or losses reclassified into earnings | | 6,181 | |
| ----- | | | |
| Net unrealized gains (losses) | | (2,286) | |
| ----- | | | |
| Other comprehensive income (loss) | \$ | (34,925) | \$ |
| ----- | | | |

52

13. Income Taxes

Income (loss) before income taxes, minority interests and equity in earnings for the years ended March 31, 2002, 2001 and 2000, is as follows:

Millions of yen

2002 2001

| | | |
|------------------------------------|----------------|--------------|
| Income (loss) before income taxes: | | |
| Domestic | (Yen) (26,553) | (Yen) 32,703 |

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| | | |
|----------------|-----------------|--------------|
| Foreign | (80,171) | (12,639) |
| | (Yen) (106,724) | (Yen) 20,064 |
| Income taxes: | | |
| Current-- | | |
| Domestic | (Yen) 3,196 | (Yen) 21,331 |
| Foreign | 718 | (379) |
| | 3,914 | 20,952 |
| Deferred-- | | |
| Domestic | (15,511) | (4,691) |
| Foreign | (10,333) | (2,546) |
| | (25,844) | (7,237) |
| Total | (Yen) (21,930) | (Yen) 13,715 |

Total income taxes recognized for the years ended March 31, 2002, 2001 and 2000 were applicable to the following:

| | Millions of y | |
|--|----------------|---------------|
| | 2002 | 2001 |
| Income (loss) before income taxes, minority interests and equity in earnings | (Yen) (21,930) | (Yen) 13,715 |
| Other comprehensive income (loss): | | |
| Net unrealized holding gains on securities available for sale | (3,148) | (13,180) |
| Pension liability adjustments | (2,734) | (2,700) |
| Net unrealized holding gains (losses) on derivative instruments | (127) | - |
| Total income taxes | (Yen) (27,939) | (Yen) (2,170) |

Temporary differences and tax loss carryforwards which gave rise to deferred tax assets and liabilities at March 31, 2002 and 2001, are as follows:

| | Millions |
|---|--------------|
| | 2002 |
| Deferred tax assets: | |
| Unrealized intercompany profit | (Yen) 22,261 |
| Allowances provided, not yet recognized for tax | 4,752 |
| Accrued expenses | 22,499 |
| Impairment loss on long-lived assets | 23,844 |
| Inventories | 6,555 |
| Net operating loss carryforwards | 58,143 |
| Research and development expenses | 4,502 |

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| | |
|---|---------------|
| Other | 10,635 |
| Less valuation allowance | (47,847) |
| <hr/> | |
| | (Yen) 105,344 |
| <hr/> | |
| Deferred tax liabilities: | |
| Unrealized holding gains on securities available for sale | (Yen) 3,090 |
| Deferral of profit from installment sales | 2,398 |
| Deferred gains on sales of property for tax purposes | 15,287 |
| Other | 7,409 |
| <hr/> | |
| | (Yen) 28,184 |
| <hr/> | |

The net change in the total valuation allowance for the years ended March 31, 2002 and 2001, was an increase of (Yen)27,871 million (\$209,556 thousand) and a decrease of (Yen)575 million, respectively.

Income taxes in Japan applicable to the companies, imposed by the national, prefecture and municipal governments, in the aggregate result in a normal statutory tax rate of approximately 41.7% for the year ended March 31, 2002, 2001 and 2000.

53

2000, and such a rate was used in calculating the deferred taxes at March 31, 2002, 2001 and 2000.

The overall effective tax rates reflected in the consolidated statements of income (income taxes as a percentage of income (loss) before income taxes, minority interests and equity in earnings) for the years ended March 31, 2002, 2001 and 2000, were (20.6)%, 68.4% and 51.3%, respectively.

The differences between the normal tax rates and the effective tax rates for the years ended March 31, 2002, 2001 and 2000, are summarized as follows:

| | | |
|---|---------|---|
| | 2002 | 2 |
| <hr/> | | |
| Normal tax rate | (41.7)% | 4 |
| Increase (decrease) in tax rates resulting from: | | |
| Operating losses of subsidiaries | 13.3 | 2 |
| Expenses not deductible for tax purposes | 1.6 | |
| Realization of tax benefits on operating losses of subsidiaries | -- | (|
| Income of foreign subsidiaries taxed at lower than Japanese normal rate | 3.9 | (|
| Other, net | 2.3 | |
| <hr/> | | |
| Effective tax rate | (20.6)% | 6 |
| <hr/> | | |

Foreign subsidiaries are subject to income taxes of the countries in which they operate.

At March 31, 2002 and 2001, no deferred tax liabilities were recognized for undistributed earnings of foreign subsidiaries and affiliated companies

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aggregating (Yen)48,028 million (\$361,113 thousand) and (Yen)36,161 million, respectively, because the Company currently does not expect those earnings to be distributed and/or believes that no material additional taxation would result should they be distributed to the Company under the current circumstances.

At March 31, 2002, certain subsidiaries had operating loss carryforwards aggregating approximately (Yen)154,234 million (\$1,159,654 thousand), which may be used as a deduction in determining taxable income in future periods. The operating loss carryforwards of (Yen)134,495 million (\$1,011,241 thousand) expire through March 31, 2022, while the remainder has an indefinite carryforward period.

14. Rent Expenses

The companies lease office space and equipment, employees' housing, etc., under cancelable and noncancelable operating lease agreements. Rent expenses under such leases amounted to (Yen)16,915 million (\$127,180 thousand), (Yen)16,128 million and (Yen)13,468 million, respectively, for the years ended March 31, 2002, 2001 and 2000. Certain lease contracts for equipment that would be classified as capital lease in conformity with SFAS No. 13 were capitalized. At March 31, 2002, the future minimum lease payments under these leases are as follows:

| | Millions of yen | | |
|--|-------------------|--------------------------------|-------------|
| Year ending | Capital leases | Operating lease commitments | Total |
| 2003 | (Yen)5,941 | (Yen)1,665 | (Yen)7,606 |
| 2004 | 4,826 | 1,447 | 6,273 |
| 2005 | 3,577 | 1,230 | 4,807 |
| 2006 | 4,744 | 1,051 | 5,795 |
| 2007 | 1,745 | 822 | 2,567 |
| Thereafter | 2,900 | 2,556 | 5,456 |
| Total minimum lease payments | (Yen)23,733 | (Yen)8,771 | (Yen)32,504 |
| Less: amounts representing interest | (3,055) | | |
| Present value of net minimum capital lease payments .. | (Yen)20,678 | | |

15. Research and Development and Advertising Expenses

Research and development expenses charged to costs and expenses for the years ended March 31, 2002, 2001 and 2000, amounted to (Yen)44,083 million (\$331,451 thousand), (Yen)45,282 million and (Yen)42,460 million, respectively.

Advertising expenses charged to costs and expenses as incurred for the years ended March 31, 2002, 2001 and 2000, amounted to (Yen)5,119 million (\$38,489 thousand), (Yen)5,369 million and (Yen)4,327 million, respectively.

54

16. Net Income (Loss) per Share

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A reconciliation of the numerators and denominators of the basic and diluted net income (loss) per share computations is as follows:

| | Millions of yen | |
|---|-----------------|-------------|
| | 2002 | 2001 |
| Net income (loss) | (Yen) (80,621) | (Yen) 6,913 |
| Effect of dilutive securities: | | |
| 1.8% Japanese yen convertible bonds, due 2004 | -- | -- |
| Diluted net income (loss) | (Yen) (80,621) | (Yen) 6,913 |

| | Number of shares | |
|---|------------------|-------------|
| | 2002 | 2001 |
| Average common shares outstanding, less treasury stocks | 954,530,062 | 955,250,229 |
| Dilutive effect of: | | |
| 1.8% Japanese yen convertible bonds, due 2004 | -- | -- |
| Diluted common shares outstanding | 954,530,062 | 955,250,229 |

| | Yen | |
|------------------------------|---------------|------------|
| | 2002 | 2001 |
| Net income (loss) per share: | | |
| Basic | (Yen) (84.46) | (Yen) 7.24 |
| Diluted | (84.46) | 7.24 |

1.8% Japanese yen convertible bonds, due 2004, were excluded from the net diluted income (loss) per share calculation for fiscal 2002 and 2001 because the effect would have been antidilutive.

17. Commitments and Contingent Liabilities

At March 31, 2002, the companies were contingently liable for discounted and transferred receivables on a recourse basis with the financial institutions of (Yen)16,764 million (\$126,045 thousand) (Note 3) and also as guarantors of indebtedness of others, including letters of awareness and keep-well agreements aggregating (Yen)27,247 million (\$204,865 thousand), including (Yen)1,948 million (\$14,647 thousand) relating to affiliated companies. With regard to sale of a subsidiary, the Company guarantees to the purchaser to pay up to (Yen)4,258 million (\$32,015 thousand) as of March 31, 2002 relating to the credit risk of subsidiary's outstanding receivables at the time of the sale. Management of the

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Company believes that losses from those contingent liabilities, if any, would not have a material effect on the consolidated financial statements.

Commitments for capital expenditures outstanding at March 31, 2002, aggregated approximately (Yen)2,900 million (\$21,805 thousand).

The companies are involved in certain legal actions and claims arising in the ordinary course of their business. It is the opinion of management and legal counsel that such litigation and claims will be resolved without material effect on the companies' financial position.

The companies have business activities with customers, dealers and associates around the world and their trade receivables from and guarantees to such parties are well diversified to minimize concentrations of credit risks. Management does not anticipate incurring losses on their trade receivables in excess of established allowances.

18. Derivative Financial Instruments

Risk Management Policy

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

The companies have entered into interest rate swap and cap agreements, partly concurrent with currency swap agreements for the purpose of managing the risk resulting from changes in cash flow or fair value that arise in their interest rate and foreign currency exposure with respect to certain short-term and long-term debts and investment securities.

The companies operate internationally which expose the companies to the foreign exchange risk against existing assets and liabilities and transactions denominated in foreign currencies (principally the U.S. dollar and the euro). In order to reduce

55

these risks, the companies execute forward exchange contracts and option contracts (purchased) based on their projected cash flow in foreign currencies.

The companies are exposed to credit-related losses in the event of nonperformance by counterparties to derivative financial instruments, but they do not expect any counterparties to fail to meet their obligations because of the high credit rating of the counterparties.

Fair Value Hedges

The companies use derivative financial instruments designated as fair value hedges to manage primarily interest rate and foreign exchange risks associated with debt obligations. Principally cross-currency swap, interest rate swap and foreign exchange contracts are used to hedge such risk for debt obligations. Changes in fair value of the hedged debt obligations and derivative instruments designated as fair value hedge are offset and recognized in other expense. For the year ended March 31, 2002, hedge ineffectiveness resulting from fair value hedging activities was not material to the companies' result of operations.

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During the same period, no fair value hedges were discontinued.

Cash Flow Hedges

The companies use derivative financial instruments designated as cash flow hedges to manage the companies' foreign exchange risks associated with forecasted transactions and the companies' interest risks associated with debt obligations. For transactions denominated in foreign currencies, the companies typically hedges forecasted and firm commitment exposures to the variability in cash flow basically up to one year. For the variable rate debt obligations, the companies enter into interest rate swap contracts to manage the changes in cash flows. The companies record the changes in fair value of derivative instruments designated as cash flow hedges in other comprehensive income (loss). These amounts are reclassified into earnings through interest and other income or expense when the hedged items impact earnings. Approximately (yen)81 million (\$609 thousand) of existing gains included in accumulated other comprehensive income (loss) at March 31, 2002 will be reclassified into earnings within twelve months from that date. No cash flow hedges were discontinued during the year ended March 31, 2002 as a result of anticipated transactions that are no longer probable of occurring.

Undesignated Derivative Instruments

The companies have entered into interest rate swap contracts not designated as hedging instruments under SFAS No. 133 as a means of managing the Company and its group companies' interest rate exposures for short-term and long-term debts. Forward contracts and option contract (purchased) not designated as hedging instruments under SFAS No. 133 are also used to hedge certain foreign currency exposures. The changes in fair value of such instruments are recognized currently in earnings.

Notional principal amounts of derivative financial instruments outstanding at March 31, 2002 and 2001 are as follows.

| | Millions of yen | | Thousands of U.S. dollars |
|---|-----------------|--------------|------------------------------|
| | 2002 | 2001 | 2002 |
| Forwards and options: | | | |
| Sale of foreign currencies | (Yen) 28,870 | (Yen) 33,074 | \$ 217,068 |
| Purchase of foreign currencies | 27,328 | 28,528 | 205,474 |
| Option contracts (purchased) | 3,171 | 3,395 | 23,842 |
| Interest swap, currency swap and interest rate cap agreement | 308,477 | 295,448 | 2,319,376 |
| | | | |

Net foreign currency transaction gains of (Yen)1,109 million (\$8,338 thousand), gains of (Yen)2,908 million, and losses of (Yen)4,323 million for the years ended March 31, 2002, 2001 and 2000, respectively, were included in the determination of net income (loss).

56

19. The Fair Value of Financial Instruments

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- (1) Cash and Cash Equivalents, Time Deposits, Trade Notes and Accounts Receivables, Other Current Assets, Short-Term Debt, Trade Notes and Accounts Payables, and Other Current Liabilities

The carrying amount approximates fair value because of the short maturity of these instruments.

- (2) Investment Securities

The fair values of investment securities available for sale are based on quoted market prices.

- (3) Installment Receivables

The fair values of installment receivables are based on the present value of future cash flows through maturity, discounted using estimated current interest rates. The fair values computed on such a basis approximate the carrying amounts (Note 3).

- (4) Long-Term Debt

The fair values of each of the long-term debts are based on the quoted price in the most active market or the present value of future cash flows associated with each instrument discounted using the current borrowing rate for similar debt of comparable maturity.

- (5) Derivative Financial Instruments

The fair values of derivative financial instruments, consisting principally of foreign currency contracts and interest swap agreements, are estimated by obtaining quotes from brokers.

The carrying amounts and the estimated fair values of the financial instruments, including financial instruments not qualifying as hedge, as of March 31, 2002 and 2001, are summarized as follows:

| | Millions of yen | | | |
|---|--------------------|-------------------------|--------------------|--------------|
| | 2002 | | 2001 | |
| | Carrying amount | Estimated fair value | Carrying amount | Esti fair |
| Investment securities | (Yen) 50,651 | (Yen) 50,651 | (Yen) 68,788 | (Yen) |
| Long-term debt, including current portion | 299,799 | 296,143 | 272,375 | |
| Derivatives: | | | | |
| Foreign exchange contracts | | | | |
| Assets | 983 | 983 | 574 | |
| Liabilities | 657 | 657 | 549 | |
| Interest rate swap, cross currency swap and cap agreements | | | | |
| Assets | 786 | 786 | 312 | |
| Liabilities | 10,872 | 10,872 | 1,050 | |
| | | | | |

Limitations

Fair value estimates are made at a specific point in time, based on relevant

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market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could affect the estimates.

20. Business Segment Information

Under SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, in deciding how to allocate resources and in assessing performance. The operating segments are managed separately because each operating segment represents a strategic business unit that offers different products and services.

The companies operate on a worldwide basis principally with three operating segments: 1) Construction and mining equipment, 2) Electronics, 3) Others.

57

The following tables present certain information regarding the companies' operating segments and geographic information at March 31, 2002, 2001 and 2000, and for the years then ended:

Operating segments:

| | Millions of yen | |
|---|-----------------|-----------------|
| | 2002 | 2001 |
| Net sales: | | |
| Construction and mining equipment-- | | |
| Customers | (Yen) 731,340 | (Yen) 718,147 |
| Intersegment | 7,018 | 7,400 |
| Total | 738,358 | 725,547 |
| Electronics-- | | |
| Customers | 76,769 | 117,745 |
| Intersegment | 236 | 492 |
| Total | 77,005 | 118,237 |
| Others-- | | |
| Customers | 227,782 | 260,477 |
| Intersegment | 37,191 | 49,221 |
| Total | 264,973 | 309,698 |
| Elimination | (44,445) | (57,113) |
| Consolidated | (Yen) 1,035,891 | (Yen) 1,096,369 |
| Operating income (loss): | | |
| Construction and mining equipment | (Yen) 881 | (Yen) 22,203 |
| Electronics | (14,925) | 2,887 |
| Others | 4,976 | 6,450 |
| Total | (9,068) | 31,540 |

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| | | | | | |
|--|-------|-----------|-------|-----------|-----|
| Corporate expenses and elimination | | (4,153) | | (3,725) | |
| Consolidated operating income | | (13,221) | | 27,815 | |
| Interest and other income | | 34,278 | | 30,718 | |
| Interest expense | | 16,842 | | 22,194 | |
| Other expenses | | 110,939 | | 16,275 | |
| Consolidated income (loss) before income taxes | (Yen) | (106,724) | (Yen) | 20,064 | (Ye |
| Identifiable assets: | | | | | |
| Construction and mining equipment | (Yen) | 879,732 | (Yen) | 868,611 | (Ye |
| Electronics | | 181,746 | | 240,592 | |
| Others | | 231,287 | | 254,960 | |
| Corporate assets and elimination | | 47,517 | | 39,032 | |
| Consolidated | (Yen) | 1,340,282 | (Yen) | 1,403,195 | (Ye |
| Depreciation and amortization: | | | | | |
| Construction and mining equipment | (Yen) | 36,442 | (Yen) | 32,317 | (Ye |
| Electronics | | 17,235 | | 20,210 | |
| Others | | 6,217 | | 11,388 | |
| Consolidated | (Yen) | 59,894 | (Yen) | 63,915 | (Ye |
| Capital expenditures: | | | | | |
| Construction and mining equipment | (Yen) | 46,354 | (Yen) | 47,380 | (Ye |
| Electronics | | 18,927 | | 16,476 | |
| Others | | 9,187 | | 15,454 | |
| Consolidated | (Yen) | 74,468 | (Yen) | 79,310 | (Ye |

Transfers between segments are made at estimated arm's-length prices. Operating income (loss) represents net sales less cost of sales and selling, general and administrative expenses. Identifiable assets are those assets used in the operations of each segment. Unallocated corporate assets consist primarily of cash and cash equivalents and marketable investment securities maintained for general corporate purposes.

Other expenses include impairment loss on long-lived assets in the electronics segment of (Yen)52,242 million (\$392,797 thousand), (Yen)4,337 million and (Yen)4,474 million for the years ended March 31, 2002, 2001 and 2000, respectively.

58

Geographic Information:

Net sales recognized by sales destination for the years ended March 31, 2002, 2001 and 2000 are as follows:

| | Millions of yen | | | Tho |
|-------|-----------------|-------|-------|-------|
| | 2002 | 2001 | 2000 | U.S |
| ----- | ----- | ----- | ----- | ----- |

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| | | | | |
|--|-----------------|-----------------|-----------------|----|
| Japan | (Yen) 478,187 | (Yen) 586,865 | (Yen) 553,822 | \$ |
| Americas | 262,341 | 241,091 | 242,609 | |
| Europe | 128,029 | 126,479 | 123,633 | |
| Asia (excluding Japan) and Oceania ... | 126,363 | 117,136 | 99,558 | |
| Middle East and Africa | 40,971 | 24,798 | 36,032 | |
| ----- | | | | |
| Consolidated net sales | (Yen) 1,035,891 | (Yen) 1,096,369 | (Yen) 1,055,654 | \$ |
| ----- | | | | |

Net sales recognized by geographic origin and long-lived assets at March 31, 2002, 2001 and 2000, and for the years then ended are as follows:

| | Millions of yen | | | Tho U.S. |
|--------------------|-----------------|-----------------|-----------------|-------------|
| | 2002 | 2001 | 2000 | |
| ----- | | | | |
| Net sales: | | | | |
| Japan | (Yen) 564,537 | (Yen) 662,025 | (Yen) 615,580 | \$ |
| U.S.A. | 266,701 | 241,745 | 245,002 | |
| Europe | 108,191 | 112,257 | 114,742 | |
| Other | 96,462 | 80,342 | 80,330 | |
| ----- | | | | |
| Total | (Yen) 1,035,891 | (Yen) 1,096,369 | (Yen) 1,055,654 | \$ |
| ----- | | | | |
| Long-lived assets: | | | | |
| Japan | (Yen) 309,315 | (Yen) 320,194 | (Yen) 277,693 | \$ |
| U.S.A. | 115,812 | 139,132 | 134,991 | |
| Europe | 13,913 | 9,664 | 9,032 | |
| Other | 31,701 | 32,670 | 26,087 | |
| ----- | | | | |
| Total | (Yen) 470,741 | (Yen) 501,660 | (Yen) 447,803 | \$ |
| ----- | | | | |

No individual country within Europe or other areas had a material impact on net sales or long-lived assets. There were no sales to a single major external customer for the years ended March 31, 2002, 2001 and 2000.

59

The following information shows net sales and operating income (loss) recognized by geographic origin for the years ended March 31, 2002, 2001 and 2000. In addition to the disclosure requirements under SFAS No. 131, the Company discloses this information as supplemental information in light of the disclosure requirements of the Japanese Securities and Exchange Law, which a Japanese public company is subject to:

| | Millions of yen | | | Tho U.S. |
|-------|-----------------|------|------|-------------|
| | 2002 | 2001 | 2000 | |
| ----- | | | | |

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Net sales:

| | | | | | | | |
|--------------------|-------|-----------|-------|-----------|-------|-----------|----|
| Japan-- | | | | | | | |
| Customers | (Yen) | 564,537 | (Yen) | 662,025 | (Yen) | 615,580 | \$ |
| Intersegment | | 125,525 | | 142,645 | | 143,569 | |
| ----- | | | | | | | |
| Total | | 690,062 | | 804,670 | | 759,149 | |
| ----- | | | | | | | |
| Americas-- | | | | | | | |
| Customers | | 267,111 | | 242,182 | | 245,367 | |
| Intersegment | | 17,070 | | 10,194 | | 8,624 | |
| ----- | | | | | | | |
| Total | | 284,181 | | 252,376 | | 253,991 | |
| ----- | | | | | | | |
| Europe-- | | | | | | | |
| Customers | | 108,191 | | 112,257 | | 114,742 | |
| Intersegment | | 9,682 | | 13,551 | | 14,665 | |
| ----- | | | | | | | |
| Total | | 117,873 | | 125,808 | | 129,407 | |
| ----- | | | | | | | |
| Others-- | | | | | | | |
| Customers | | 96,052 | | 79,905 | | 79,965 | |
| Intersegment | | 6,869 | | 3,652 | | 4,750 | |
| ----- | | | | | | | |
| Total | | 102,921 | | 83,557 | | 84,715 | |
| Elimination | | (159,146) | | (170,042) | | (171,608) | (|
| ----- | | | | | | | |
| Consolidated | (Yen) | 1,035,891 | (Yen) | 1,096,369 | (Yen) | 1,055,654 | \$ |

Operating income (loss):

| | | | | | | | |
|---------------------------------|-------|----------|-------|---------|-------|---------|----|
| Japan | (Yen) | 130 | (Yen) | 29,253 | (Yen) | 955 | \$ |
| Americas | | (10,562) | | (2,302) | | 12,354 | |
| Europe | | 3,077 | | 5,945 | | 4,284 | |
| Others | | (354) | | 364 | | 2,202 | |
| Corporate and elimination | | (5,512) | | (5,445) | | (2,477) | |
| ----- | | | | | | | |
| Consolidated | (Yen) | (13,221) | (Yen) | 27,815 | (Yen) | 17,318 | \$ |

Identifiable assets:

| | | | | | | | |
|-------------------------------------|-------|-----------|-------|-----------|-------|-----------|-----|
| Japan | (Yen) | 948,294 | (Yen) | 1,030,872 | (Yen) | 941,282 | \$ |
| Americas | | 354,438 | | 343,967 | | 289,123 | |
| Europe | | 82,102 | | 83,389 | | 73,560 | |
| Others | | 106,626 | | 98,057 | | 83,760 | |
| Corporate assets and elimination .. | | (151,178) | | (153,090) | | (12,445) | (|
| ----- | | | | | | | |
| Consolidated | (Yen) | 1,340,282 | (Yen) | 1,403,195 | (Yen) | 1,375,280 | \$1 |

Overseas sales:

| | | | | | | | |
|----------------|-------|---------|-------|---------|-------|---------|----|
| Americas | (Yen) | 262,341 | (Yen) | 241,091 | (Yen) | 242,609 | \$ |
| Europe | | 128,029 | | 126,479 | | 123,633 | |
| Others | | 167,334 | | 141,934 | | 135,590 | |
| ----- | | | | | | | |
| Total | (Yen) | 557,704 | (Yen) | 509,504 | (Yen) | 501,832 | \$ |

Transfers between segments are made at estimated arm's-length prices. Operating income (loss) represents net sales less cost of sales and selling, general and administrative expenses. Identifiable assets are those assets used

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in the operations of each segment. Unallocated corporate assets consist primarily of cash and cash equivalents and marketable investment securities maintained for general corporate purposes.

60

21. Subsequent Event

On May 10, 2002, the Company and its subsidiaries Komatsu Forklift Co., Ltd. and Komatsu Zenoah Co. have reached an agreement on stock for stock exchanges (hereinafter referred to as "the Exchanges"). The exchange ratios were determined as a result of discussions by the concerned companies with reference to the exchange ratios calculated by independent third-party organizations. At present, the Company holds approximately 52% and 54% of the shares of Komatsu Forklift Co., Ltd. and Komatsu Zenoah Co. respectively and expects to issue 39,822,359 shares of common stock upon the Exchanges. The Company will conduct the Exchanges by a simplified procedure as specified in Article 358 of the Commercial Code of Japan, which does not require the approval at its shareholders' meeting. The Exchanges will be carried out in October 2002 and Komatsu Forklift Co., Ltd. and Komatsu Zenoah Co. will become wholly owned subsidiaries of the Company.

Since May 2000, the Company has built business cooperation on a global basis with Linde AG of Germany in the areas of production and sales of forklift trucks. In May 2002, in order to construct a closer cooperative relationship, the Company and Linde AG have reached a basic agreement under which two companies will transform Komatsu Forklift Co., Ltd. into their joint venture company. The Company and Linde AG expect to conclude the joint-venture agreement by the end of November 2002 and establish this joint-venture company subject to the approval of the Anti-Trust Authorities.

61

Report of Independent Public Accountants

To the Shareholders and the Board of Directors of Komatsu Ltd.:

We have audited the accompanying consolidated balance sheets of KOMATSU LTD. (a Japanese corporation) and consolidated subsidiaries as of March 31, 2002 and March 31, 2001 and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended March 31, 2002, expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Komatsu Ltd. and consolidated subsidiaries as of March 31, 2002 and 2001, and the results of

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their operations and their cash flows for each of the three years in the period ended March 31, 2002, in conformity with accounting principles generally accepted in the United States of America (see Note 1).

As discussed in Note 1 to the consolidated financial statements, the Company and its subsidiaries changed the method of accounting for derivative instruments and hedging activities effective April 1, 2001.

Also, in our opinion, the amounts translated into U.S. dollars in the accompanying consolidated financial statements have been computed on the basis set forth in Note 1.

/s/ Arthur Andersen

Tokyo, Japan
May 10, 2002

62

KOMATSU LTD. AND CONSOLIDATED SUBSIDIARIES

SUPPLEMENTAL NOTES TO CONSOLIDATED FINANCIAL STATEMENTS TO CONFORM WITH REGULATION S-X

A. TRADE NOTES AND ACCOUNTS RECEIVABLE

Interest charged on installment receivables ranges principally from 2.5% to 5.5% annually.

At March 31, 2002 and 2001 trade notes and accounts receivable were comprised of the following:

| | Millions of Yen | | Thousands of U.S. dollars |
|------------------------------------|-----------------|---------------|------------------------------|
| | 2002 | 2001 | 2002 |
| Notes: | | | |
| Affiliated companies | (Yen) 894 | (Yen) 1,154 | \$ 6,722 |
| Other | 127,595 | 137,933 | 959,361 |
| Total | 128,489 | 139,087 | 966,083 |
| Accounts: | | | |
| Affiliated companies | 27,919 | 46,573 | 209,917 |
| Other | 198,474 | 222,934 | 1,492,286 |
| Total | 226,393 | 269,507 | 1,702,203 |
| Unearned interest | (2,568) | (2,938) | (19,308) |
| Allowance for doubtful receivables | (15,221) | (10,998) | (114,444) |
| Total | (Yen) 337,093 | (Yen) 394,658 | \$ 2,534,534 |

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B. DEFERRED INCOME TAXES AND OTHER CURRENT ASSETS

At March 31, 2002 and 2001 deferred income taxes and other current assets were comprised of the following:

| | Millions of Yen | | Thousands of U.S. dollars |
|------------------------------|-----------------|-------------|---------------------------|
| | 2002 | 2001 | 2002 |
| Prepaid expenses | (Yen) 2,634 | (Yen) 3,909 | \$ 19,804 |
| Short-term loans receivable: | | | |
| Affiliated companies | 12,574 | 16,447 | 94,541 |
| Other | 20,374 | 21,093 | 153,188 |
| Total | 32,948 | 37,540 | 247,729 |
| Deferred income taxes | 43,313 | 26,937 | 325,662 |

A-1

| | | |
|-------|---------------|--------------|
| Other | 30,534 | 26,413 |
| Total | (Yen) 109,429 | (Yen) 94,799 |

C. DEFERRED INCOME TAXES AND OTHER CURRENT LIABILITIES

At March 31, 2002 and 2001 deferred income taxes and other current liabilities comprised of the following:

| | Millions of Yen | |
|--|-----------------|---------------|
| | 2002 | 2001 |
| Accrued expenses | (Yen) 150,810 | (Yen) 113,161 |
| Liability for derivative financial instruments | 4,299 | - |
| Customers' advances and employees' deposits | 15,445 | 17,897 |
| Deferred income taxes | 10 | 576 |
| Total | (Yen) 170,564 | (Yen) 131,634 |

D. UNAPPROPRIATED RETAINED EARNINGS

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At March 31, 2002 consolidated unappropriated retained earnings included the companies' share of undistributed earnings of 50% or less owned companies accounted for by the equity method amounting to (Yen)7,195 million (\$54,098 thousand).

E. INTEREST AND OTHER INCOME

Interest and other income for the years ended March 31, 2002, 2001 and 2000 were comprised of the following:

| | Millions of Yen | | |
|---|-----------------|--------------|--------------|
| | 2002 | 2001 | 2000 |
| Interest and other income: | | | |
| Interest- | | | |
| Installment receivables | (Yen) 5,960 | (Yen) 6,755 | (Yen) 6,842 |
| Other | 3,613 | 3,622 | 5,028 |
| Dividends | 1,324 | 1,073 | 1,062 |
| Net gains on sales of marketable securities and investments | - | 11,991 | 16,993 |
| Gains on sales of property | 16,454 | 3,440 | 23,777 |
| Insurance commission | 547 | 533 | 504 |
| Gain on electric contract settlement | 5,665 | - | - |
| Miscellaneous | 715 | 3,304 | 1,651 |
| Total | (Yen) 34,278 | (Yen) 30,718 | (Yen) 55,857 |

F. OTHER EXPENSE

A-2

Other expense for the years ended March 31, 2002, 2001 and 2000 were comprised of the following:

| | Millions of Yen | | |
|--|-----------------|--------------|--------------|
| | 2002 | 2001 | 2000 |
| Other expense: | | | |
| Loss on marketable securities | (Yen) 8,696 | (Yen) - | (Yen) - |
| Loss on disposal or sale of fixed assets | 7,202 | 5,565 | 14,367 |
| Exchange gain or loss, net | 1,109 | - | 4,323 |
| Other | 11,559 | 6,373 | 6,224 |
| Total | (Yen) 28,566 | (Yen) 11,938 | (Yen) 24,914 |

SCHEDULE II

KOMATSU LTD. AND CONSOLIDATED SUBSIDIARIES

VALUATION AND QUALIFYING ACCOUNTS

| Column A ----- Description ----- | Column B ----- Balance at beginning of fiscal period ----- | Millions of Y ----- Column C ----- Additions ----- | |
|--|---|---|---------------------------------------|
| | | Charged to costs and expenses ----- | Charged to other accounts ----- |
| Valuation and qualifying accounts deducted from assets to which they apply: | | | |
| Allowance for doubtful receivables | | | |
| Year ended March 31, 2002 (c) | (Yen) 10,061 | (Yen) 8,126 | - |
| Year ended March 31, 2001 | (Yen) 12,208 | (Yen) - | - |
| Year ended March 31, 2000 | (Yen) 12,535 | (Yen) 1,150 | - |
| Valuation allowance of deferred tax assets | | | |
| Year ended March 31, 2002 (c) | (Yen) 19,910 | (Yen) 37,547 | - |
| Year ended March 31, 2001 | (Yen) 20,551 | (Yen) 8,621 | - |
| Year ended March 31, 2000 | (Yen) 20,412 | (Yen) 11,322 | - |

| Column A ----- Description ----- | Column E ----- Balance at end of fiscal period ----- | Thousands of U.S. dollars ----- Column E ----- Balance at end of fiscal period ----- |
|---|---|--|
| | | Valuation and qualifying accounts deducted from assets to which they apply: |
| Allowance for doubtful receivables | | |
| Year ended March 31, 2002 (c) | (Yen) 15,221 | \$ 114,444 |
| Year ended March 31, 2001 | (Yen) 10,998 | |
| Year ended March 31, 2000 | (Yen) 12,208 | |

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| | | |
|--|--------------|------------|
| | ===== | |
| Valuation allowance of deferred tax assets | | |
| Year ended March 31, 2002 (c) | (Yen) 47,847 | \$ 359,752 |
| | ===== | ===== |
| Year ended March 31, 2001 | (Yen) 19,976 | |
| | ===== | |
| Year ended March 31, 2000 | (Yen) 20,551 | |
| | ===== | |

- (a) Principally uncollectible accounts and notes charged to the allowance
- (b) Realization or expiration of net operating loss carryforwards
- (c) At the beginning of fiscal 2002, the Company changed the consolidated closing date for certain overseas subsidiaries from December 31 to March 31. As a result, balance at April 1, 2001 does not tie into balance at March 31, 2001.

A-4

Report of Independent Public Accountants

To the Shareholders and the Board of Directors of Komatsu Ltd.:

We have audited the accompanying consolidated balance sheets of KOMATSU LTD. (a Japanese corporation) and consolidated subsidiaries as of March 31, 2002 and 2001, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended March 31, 2002, expressed in yen. These financial statements and the schedules referred to below are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Komatsu Ltd. and consolidated subsidiaries as of March 31, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2002, in conformity with accounting principles generally accepted in the United States of America (see Note 1).

As discussed in Note 1 to the consolidated financial statements, the Company and its subsidiaries changed the method of accounting for derivative instruments and hedging activities effective April 1, 2001.

Also, in our opinion, the translated amounts in the accompanying consolidated financial statements translated into U.S. dollars have been computed on the basis set forth in Note 1.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The information in the supplemental notes

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and a schedule listed in the index to consolidated financial statements are presented for purposes of complying with the Securities and Exchange Commission's rules and are not part of the basic financial statements. These supplemental notes and the schedule have been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, fairly state, in all material respects, the financial data required to be set forth therein, in relation to the basic financial statements taken as a whole.

/s/ Arthur Andersen

Tokyo, Japan
May 10, 2002

B-1

EXHIBIT INDEX

| Exhibit number ----- | Title ----- | Subsequently Numbered Page ----- |
|-------------------------|---|--|
| Exhibit (1) | Articles of Incorporation of Komatsu Ltd. (Translation) | 1 |
| Exhibit (2) | Certificate of English Translations | 9 |
| Exhibit (99) | Assurances letter concerning the audit by Arthur Andersen | 10 |