

KOMATSU



Environmental & Social Report 2006

Company Profile

Company name: Komatsu Ltd.
Established: May 13, 1921
Head Office: 2-3-6, Akasaka, Minato-ku, Tokyo 107-8414, Japan
Representative: President and Chief Executive Officer Masahiro Sakane
Capital: Consolidated ¥67,870 million (US\$580 million*)
 (as of March 31, 2006)

Net sales: Consolidated ¥1,701,969 million (US\$14,547 million*)
 (for the fiscal year ended March 31, 2006)
 Non-consolidated ¥627,319 million (US\$5,362 million*)
 *U.S. dollar amounts are converted at the rate of ¥117 = US\$1.00, the prevailing rate announced by the Federal Reserve Bank of New York on March 31, 2006. Amounts less than 1 million have been omitted.

Main lines of business (Komatsu Group): Manufacture and sale of construction and mining equipment, industrial machinery & vehicles and electronics products. Komatsu also engages in other business areas such as housing, transportation and logistics equipment.

Komatsu Group profile: Number of companies (consolidated subsidiaries) 157 (as of March 31, 2006)

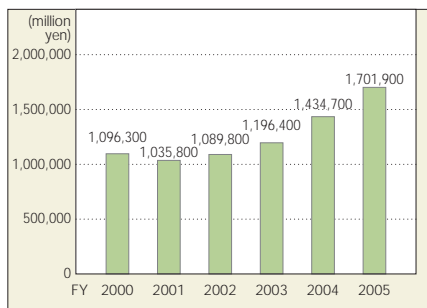
Number of employees: (as of March 31, 2006)

Non-consolidated	5,979
Consolidated	34,597
Domestic consolidated subsidiaries	12,229
Overseas consolidated subsidiaries	16,389

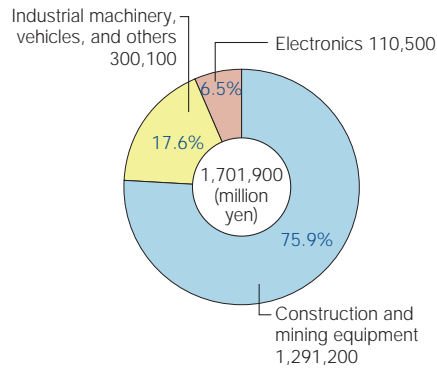
Number of employees by region: (as of March 31, 2006)

Japan	18,208
The Americas	7,408
Europe and CIS	3,326
China	1,650
Asia (excluding Japan and China) and Oceania	3,214
Middle East and Africa	791

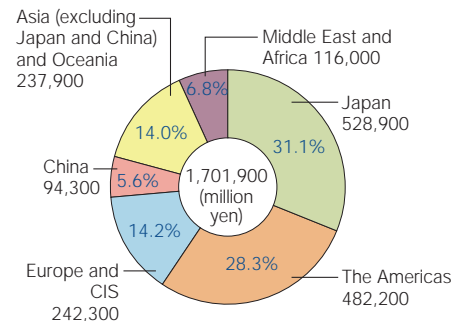
Changes in Consolidated Sales



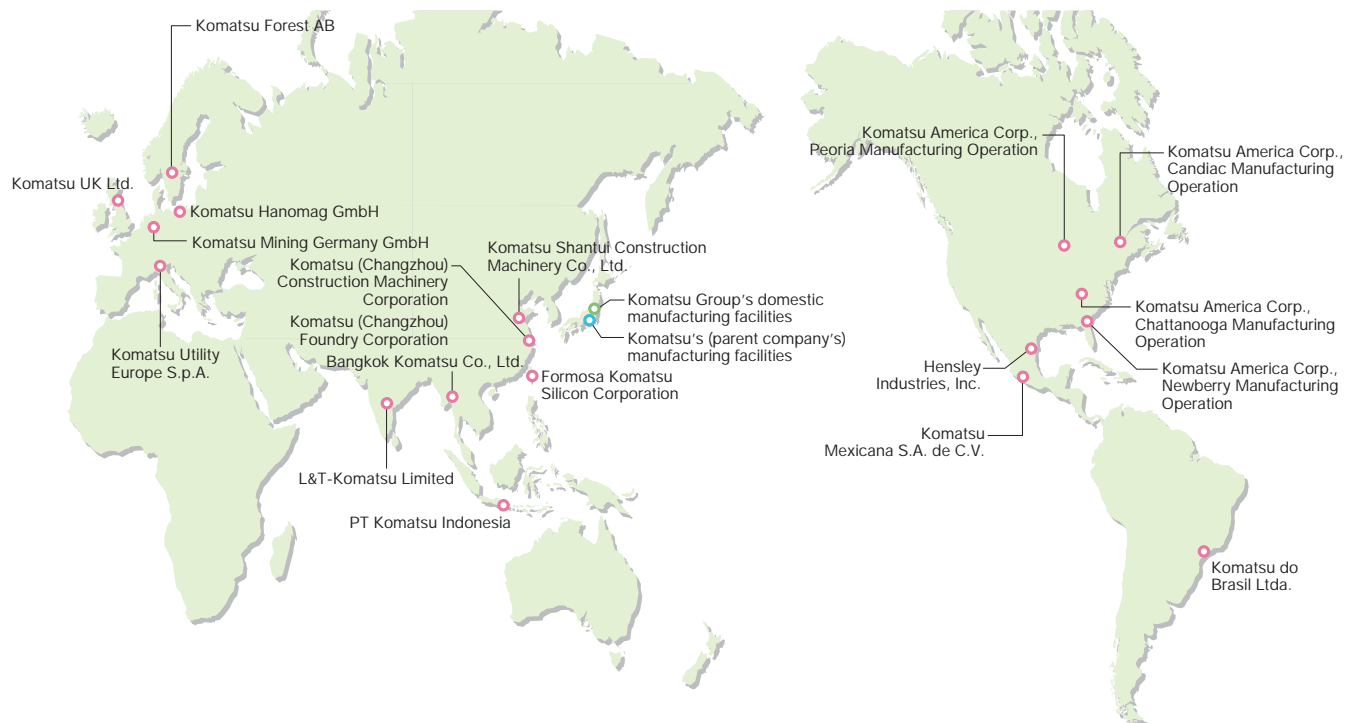
Sales by Operating Segments (FY2005)



Sales by Region (FY2005)



Scope of This Report



○ Komatsu's (parent company's) manufacturing facilities, specifically the following four plants:

The Awazu Plant (including the Defense Systems Division, Industrial Machinery Division, and Komatsu Machinery Corporation); the Osaka Plant; the Oyama Plant (including Komatsu Cummins Engine Co., Ltd., Industrial Power Alliance Ltd., Komatsu Castex Ltd. [Oyama Plant], and GIGAPHOTON, Inc.); and the Mooka Plant.

● Komatsu Group's domestic manufacturing facilities, specifically the above four plants and the following ten business units:

Construction Equipment Electronics Division (including Komatsu Electronics, Inc.); Komatsu Zenoah Co. (Kawagoe Plant, Koriyama Plant); Komatsu Electronic Metals Co., Ltd. (Hiratsuka Technical Center, Miyazaki Plant, Nagasaki Plant); Komatsu Forklift Co., Ltd.; Komatsu Engineering Corp. (Awazu Plant); Komatsu House Ltd.; and Komatsu Castex Ltd. (Himi Plant).

○ Komatsu Group's overseas manufacturing facilities, specifically the 19 business units appearing in the world map above.

Notes from the Editor

Editorial Policy

Komatsu published its first *Environmental Report* in 1994 and its second in 1997. Since FY2000 it has published this report annually, reflecting its efforts to boost awareness of the various measures for the environment undertaken in its business activities. Komatsu has conducted activities which demonstrate that fulfilling responsibilities to the greater society and making efforts to conserve the global environment rank among its top managerial priorities.

Beginning with the FY2004 report, Komatsu changed the title from its *Environmental Report* to its *Environmental & Social Report*. In this Report for FY2006, in addition to the Message from the President that appears annually, the company also presents comments regarding environmental and social issues from executive officers supervising these issues as well as the heads of relevant divisions. Additionally, in recognition of the company's business activities at the global level, this Report endeavors to cover Komatsu's environmental impact, environmental conservation efforts and social activities in regions overseas.

*Komatsu conducts business operations directly and through more than 150 subsidiaries and more than 40 equity method affiliates organized under the laws of countries throughout the world. In this report on environmental and social activities, "Komatsu" and "Komatsu Group" are at times used informally to refer to the activities of all or some of the Komatsu family of companies, without regard to their separate legal identities.

Period Covered

This report covers the data for the period from April 1, 2005 to March 31, 2006 as a general rule. However, a portion of the report also touches upon the period after April 1, 2006.

Guidelines Used

- "Environmental Report Guidelines 2003" (Ministry of the Environment of Japan)
- "The 2002 Sustainability Reporting Guidelines" (Global Reporting Initiative [GRI])

Subsequent Reporting Schedule

- Japanese version: Expected June 2007
- English version: Expected July 2007

■ Komatsu's Flagship Construction Equipment



PC200-8 hydraulic excavator



D155AX-6 bulldozer



HM300-2 articulated dump truck



WA500-5 wheel loader

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Special Story

The Spirit to Take On Environmental Measures

Diesel Engine Technology for a New Generation of Construction Equipment: The Development of "ecot3"



Masahiro Sakane
President and CEO

A handwritten signature in black ink, appearing to read "M. Sakane". The signature is fluid and cursive, written on a light-colored background.

On enhancing the total degree of trust received from all stakeholders

Since 2001, Komatsu has been implementing reforms to its business structure, and this has culminated in its achieving in FY2005 its highest level of both sales and profits in company history. While the enhancement and maintenance of profitability and financial fundamentals is of critical importance, financial performance alone does not ensure that a company will be regarded as a "responsible company."

I believe that corporate value is the total degree of trust received from society and all corporate stakeholders, and I convey this message to the employees of Komatsu at every opportunity. Continuing with these reforms to its business structure, under the second-stage Reform of Business Structure launched in FY2006, Komatsu has established the objective of further promoting managerial policies that recognize total market value as one of the corporate indicators reflecting the degree of the trust it enjoys. Total market value reflects more than just economic indicators such as corporate profitability and financial fundamentals, growth potential, or returns to shareholders and investors such as through the likelihood of yielding dividends. Instead, it incorporates a wide variety of assessments by corporate stakeholders regarding the degree to which the company has achieved solid results in such areas as human resources development, R&D, corporate strategy, corporate ethics, environmental efforts, managerial transparency, and information disclosure, among others. Therefore, Komatsu maintains that promoting managerial policy that takes into account total market value necessarily implies a certain degree of attention to not only the obvious area of ensuring compliance but also enhanced corporate social responsibility (CSR) and appropriate information disclosure.

The second-stage Reform of Business Structure includes a reform of the Komatsu Group's value chain by focusing on IT (information technology). Through this process Komatsu will be reinforcing its employees' approach of continuously looking to revise and improve things, which we call their "strength of job capabilities," while enabling the development of human resources at a global level through hands-on interaction.

Environmental conservation efforts

Among Komatsu's environmental efforts in FY2005, the one of greatest significance was the company's successful compliance with Tier III emissions regulations for diesel engines. Komatsu has developed leading-edge Tier III-compliant engine technology, called "ecot3," and mounted it on the PC200, a medium-sized hydraulic excavator that is one of the company's flagship products, achieving substantial reductions in both fuel consumption and generated noise. This model went on the market in Japan, the U.S., and Europe at the beginning of 2006. Products such as the PC200 that offer features that are head and shoulders above the competition are called DANTOTSU (Unique and Unrivaled) products, and Komatsu launches them in the market strategically. Products are identified as DANTOTSU products only if they have been evaluated as having overwhelmingly superior features in all three of the following critical areas: (1) environment-friendly technology, such as having low levels of emissions, fuel consumption, or generated noise, (2) safety, and (3) IT technology. By bringing together the product's development, manufacturing, sales, and after-sales service, Komatsu aims to strengthen what we call the "Spirit of Manufacturers." Komatsu's large AC servo press, a kind of industrial machinery, has also seen substantial improvements in both energy conservation and noise reduction, exemplifying our DANTOTSU products.

In order to keep pace with forecasted increases in demand for construction and mining equipment as well as large-sized presses, Komatsu has begun constructing new plants in the immediate vicinity of the port of Hitachinaka in Ibaraki Prefecture as well as the port of Kanazawa in Ishikawa Prefecture (the Ibaraki and Kanazawa Plants, respectively). By shipping products from plants located in the immediate vicinity of these ports by sea, it is possible to reduce dramatically the amount of CO₂ emitted during the process of physical distribution.

As Komatsu continues the environmental conservation activities that it has been implementing for years at its domestic manufacturing facilities, it is also strengthening the activities it undertakes to lower its environmental impact through the cooperative efforts of its overseas subsidiaries, sales and rental stores and suppliers.

Emphasis on compliance

The Komatsu Group has historically emphasized proper compliance with regulatory and other requirements. The Group has been increasing efforts in this area, recognizing that mistakes and irregularities might indeed occur at the individual or corporate level. Komatsu's position is that, should mistakes or irregularities occur, the company will not cover up or gloss over the issue, but rather will take the perspective that even such bad news serves a necessary function. Through proper disclosure, the company will use the incident as a means for strengthening the overall quality of Komatsu over the long term, which will lead to the enhancement of corporate value. Komatsu will always strive to attain the level of a company which society trusts through transparency and disclosure of information regarding its impacts on the environment.

The KOMATSU Way

As part of the second-stage Reform of Business Structure which I introduced above, one of the key themes chosen was the defining and incorporating of Komatsu's strengths into written policy as the "KOMATSU Way" and then sharing this at the global level. The KOMATSU Way will not be limited to manufacturing. Komatsu intends to set forth a KOMATSU Way which Komatsu should uphold as a company no matter the era nor the people involved, incorporating such issues as how it strengthens corporate governance and how it regards corporate value. Komatsu will then work to ensure that each Group company is firmly grounded in this philosophy and fulfills its independent responsibility to implement that philosophy.

The Basic Stance of Management

The entire Komatsu Group pursues Quality and Reliability and has the maximization of corporate value as a basic principle of management, promoting management that emphasizes corporate governance.

The Basic Stance of Management

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

Principles that Enhance Quality and Reliability

The Komatsu Group has established the following five points as principles reflecting what should be done in order to enhance its Quality and Reliability.

1. Provide environment-friendly, safe and innovative products and services from the viewpoint of our customers
2. Promote self-initiated innovations in technology and management
3. Promote consolidated management from global perspective
4. Work for the community as a responsible corporate citizen
5. Provide employees with opportunities for challenge and creativity

Emphasis on Corporate Governance

To maximize our corporate value, it is important for us to design a framework in which we can enhance our corporate value in a continuous, steadfast manner. This task calls for not only maximizing the market value of Komatsu by increasing the stock price and working to expand sales and profits but also striving to satisfy stakeholders, especially customers, to the fullest extent.

Top management officers of Komatsu Group companies are expected to have full awareness of Corporate Social Responsibility ("CSR"), eliminate risky business with no substance and conduct steady management, while making constant efforts to ensure the Quality and Reliability of management. They are also expected to promote corporate governance-driven management by revitalizing the Board of Directors, establishing an internal controls system, enhancing the transparency and soundness of management, and implementing other related measures.

All employees of Komatsu Group companies are expected not to postpone but to promptly work on solutions and corrections when they discover issues and/or problems related to the Rules in all business areas and domains.

Promotion of the "Spirit of Manufacturers"

It is extremely important for Komatsu as a manufacturer to promote reform based on the "Spirit of Manufacturers" concept in order to enhance its competitiveness.

This concept means that we, as a manufacturer, must provide products (hardware and software) that make our customers feel satisfied. It also means that we have to rise to every challenge and to produce safe and innovative products in the spirit of unified teamwork of all employees, from research and development, procurement, production and sales through after-sales service. It also emphasizes that we must care about environmental friendliness in all our activities through a product's lifecycle.

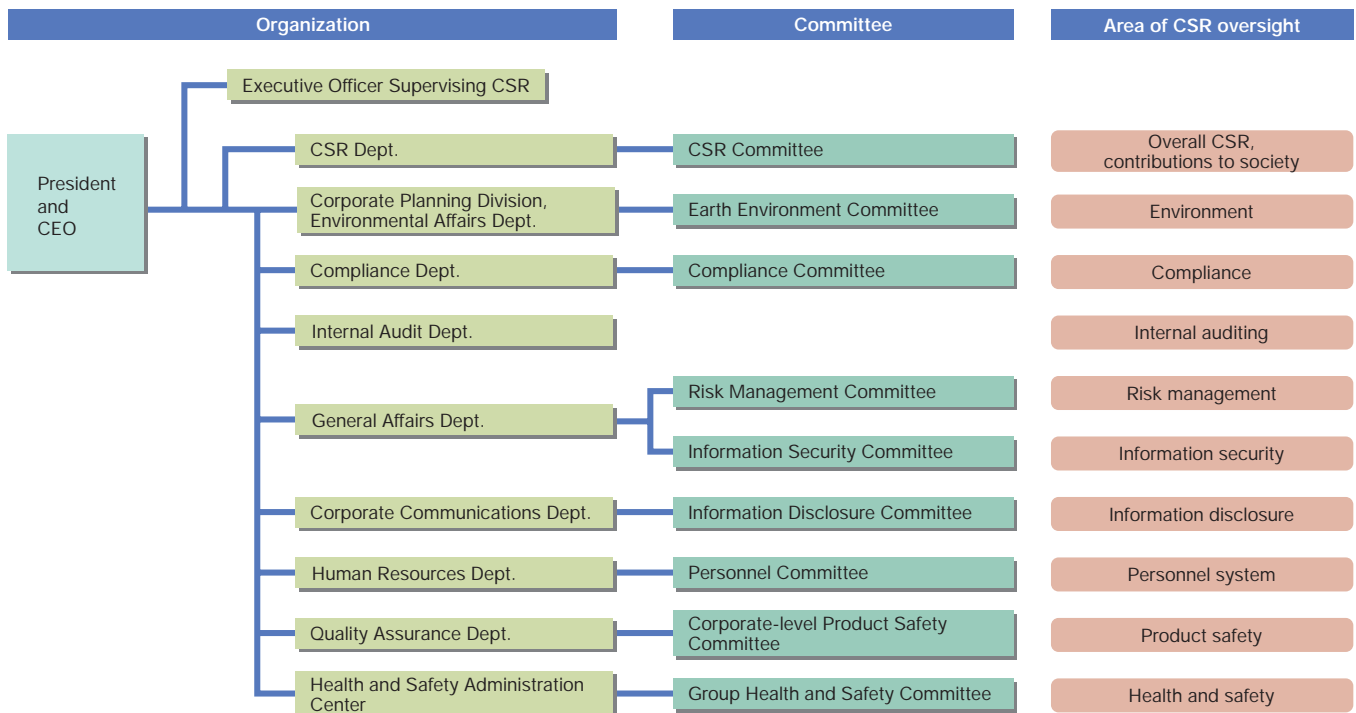
Establishment of the Corporate Social Responsibility (CSR) Department

In May of 2004, Komatsu established a Corporate Social Responsibility (CSR) Department within the Corporate Planning Division. This Department has corporate-level authority and responsibility for compliance and for the conducting of business administration that takes Komatsu's stakeholders fully into account. Its establishment solidified trust in the company that extends globally and reaches throughout the entire Komatsu Group. In April 2006 the CSR Department became a separate entity from the Corporate Planning Division, reporting directly to the office of the President.

Organization Related to Corporate Social Responsibility

"Corporate social responsibility" means either the responsibility that the company holds towards the greater society, or activities that enable a company to continue to receive the trust of society. The Komatsu Group is pursuing Corporate Social Responsibility through the organization set forth below.

Establishment of the Corporate Social Responsibility (CSR) Department



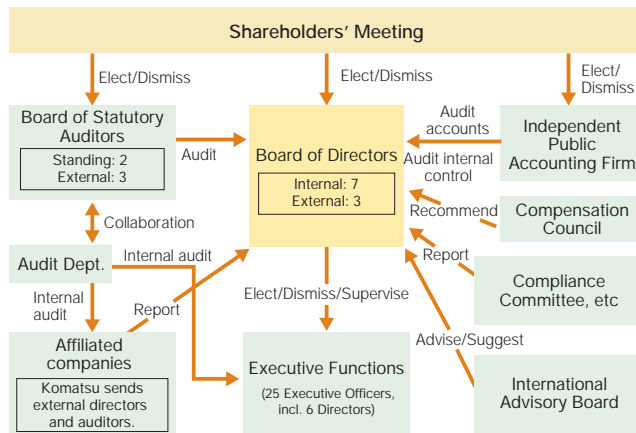
Corporate Governance, Compliance, and Risk Management

In order to promote management that emphasizes corporate governance, the Komatsu Group is working to develop and strengthen its Board of Directors, executive officer system, and internal control. Moreover, as a result of its policy of putting compliance at the forefront, Komatsu has been promoting the observance of best business practices, dissemination of information, and the development of relevant systems.

Corporate Governance

System for Corporate Governance

To become a company which enjoys even more trust from all its stakeholders, Komatsu is working to strengthen corporate governance while maintaining its well-established corporate ethics, managerial transparency, and sound business practices on a group-wide basis.



As of June 23, 2006

Organizational Profile

In 1999 Komatsu Ltd. introduced the executive officer system and has been working to separate management decision-making and supervisory functions from executive functions within the confines of the law. At the same time, the company has maintained the Board of Directors with a small number of members and appointed external directors and auditors. To improve the effectiveness of discussions in Board meetings, the company has promoted reforms in the operational aspect of Board meetings to ensure thorough discussions of important management agendas and quick decision-making.

Board of Directors and Directors

The Board of Directors meets every month and more often as needed. (The Board met 16 times in FY2005 [the fiscal year ended March 31, 2006].) In Board meetings, directors make decisions on management policies of the Komatsu Group, review and resolve important management matters, and strictly control and supervise the execution of management duties by all executive management personnel including the representative directors.

At present, of the ten directors on the Board, there are three external directors. When performing their duties, external directors offer opinions and suggestions from an independent position, based on their insight and rich experience. Their attendance rate at Board meetings is high, making contributions to ensure transparent and sound management through their active participation in discussions.

Board of Statutory Auditors and Auditors

While Komatsu Ltd. has consistently ensured that the number of external auditors represents half of the Board of Statutory Auditors, the company added one more auditor with the approval of shareholders at the annual shareholders' meeting held in June 2006, increasing the number of external auditors to three as shown in the figure above. Thus, Komatsu has strengthened the Board of Statutory Auditors with three external and two standing auditors. Auditors attend Board of Directors meetings and other important meetings, hear the conditions of execution of management duties from the directors and appropriately audit directors' performance. (The Board of Auditors met 16 times in FY2005.)

Komatsu's external auditors have extensive insights as top management officers or lawyers. Based on their expertise, they are responsible for auditing management decision-making processes as well as the legality and validity of the matters under discussion from their fair and neutral position.

International Advisory Board

In 1995 Komatsu established the International Advisory Board (IAB) to receive objective advice and suggestions from foreign experts. It meets twice a year to hold discussions and engage in information exchange. The term for advisors is set for three years, and the current members are in the fourth session. IAB has met a total of 22 times to date since the first session.

Improvement of Internal Control

To ensure the efficiency of director's execution of duties, Komatsu is implementing the following.

- As described earlier, Komatsu works to maintain transparent and sound management by strengthening the management and supervisory capabilities of the Board of Directors. Komatsu has also set up operational rules for the Board of Directors.
- Komatsu has defined the separation of duties for directors, executive officers and other senior officers, and set up internal rules to ensure appropriate and effective execution of duties by directors.
- To promote efficient management of the Board of Directors, Komatsu has established a Strategy Review Committee consisting of senior executive officers and senior managers. Based on the reviews of the Committee, each executive officer and each senior manager executes his or her duties within the authority delegated by the Board of Directors.

Operational Framework to Ensure Effective Audits by Statutory Auditors

Statutory auditors of Komatsu attend various committee meetings related to internal control and other important meetings as observers. They also look through Japanese-style consensus-based, approved documents, which contain important decisions of the company, and important arbitrary documents. The Board of Statutory Auditors is regularly reported to by directors and executive officers concerning their execution of duties.

Furthermore, Komatsu has allocated employees who work as exclusive or concurrent assistants to statutory auditors. Concerning the recruitment, appointment, and personnel change of those employees, the approval of standing auditors is prerequisite. Standing auditors conduct performance evaluations of these employees to ensure their independence.

Collaboration between Statutory Auditors and the Internal Audit Department

The Internal Audit Department, in cooperation with other related departments, regularly audits business bases and affiliated companies both in Japan and overseas, evaluates the effectiveness of their internal control, reinforces their risk management and works to prevent frauds and errors. Statutory auditors observe audits by the Internal Audit Department, form their own audit opinions, and give advice and recommendations to the Internal Audit Department.

In addition to reporting the audit results above to the Board of Statutory Auditors, the Internal Audit Department maintains close and substantive collaborations with statutory auditors, for example, by providing information on a routine basis.



Munenori Nakao
Senior Executive Officer
Supervising Compliance and CSR

As we work to maintain and improve Komatsu's corporate value, we recognize the steadfast promotion of corporate governance, compliance, and risk management as the most important issue of all. To realize this, the management of Komatsu demonstrates robust leadership, and the continuous efforts of all Komatsu Group employees to promote these same values are considered essential.

In particular, with Japan's Corporate Law having entered into effect in May 2006, I as the executive officer supervising compliance and risk management have been striving to conduct my duties with the urgency of constructing an internal control system for the corporate Group firmly in mind.

Following Best Business Practices (Compliance)

Compliance

Komatsu has established the Compliance Committee as the group to oversee compliance, and the Committee regularly reports its reviews and activities to the Board of Directors. Komatsu also established a framework to ensure thorough compliance to business rules through a variety of measures, including the provision of *Komatsu's Code of Worldwide Business Conduct* (established in 1998 and revised five times to date), appointment of the executive officer in charge of compliance, and establishment of the Compliance Office. Moreover, Komatsu has established an internal reporting system through which persons reporting questionable actions and other compliance-related matters will not be penalized.

State of Affairs in FY2005

In FY2005, as a result of inappropriately obtaining safety inspection clearance for a railroad service vehicle in the Japanese market, Komatsu and its subsidiary (at the time), as well as employees of both companies, were recipients of disciplinary action. With regard to this incident, Komatsu took steps to assess the situation quickly, issue public notification and apologies, eliminate the problem through the administrative guidance of governmental authorities, and implement policies to prevent recurrence. In addition, the Komatsu Group is making use of this incident as an opportunity to strengthen efforts to reinforce compliance at each Group company.

Risk Management

While Komatsu continues to make efforts to improve corporate value, it recognizes the problems related to compliance, in particular, environment, product quality, accidents, information security and other matters, as major risks for continuous growth and is thus implementing the following countermeasures.

- Komatsu has established Risk Management Rules to correctly recognize and manage risks, for which the company has appointed personnel in charge of individual risks, further promoting the build-up of a solid foundation for risk management.
- Komatsu has established a Risk Management Committee to devise risk management policies of the Komatsu Group, evaluate risk measures in place, and take control of risks when they surface. The Risk Management Committee regularly reports its reviews and activities to the Board of Directors.
- Komatsu will establish an emergency headquarters when serious risks surface, and work to minimize damage(s) and implement appropriate measures.

Activities in FY2005 and Future Plans

Formulation of a Business Continuity Plan* for Komatsu Head Office

In preparation for a possible strong local earthquake under the Greater Tokyo Metropolitan area, the Komatsu Head Office has formulated both a disaster response system and a Business Continuity Plan for the main divisions at the Head Office and established a plan so that even if an earthquake should strike, major operations will be able to be carried out without suspension, or restored after only a short suspension.

Furthermore, as a means by which communications can be maintained with certainty and efficiency in the immediate aftermath of a disaster, an Urgent Communications/Safety Assessment System has been introduced. In addition, pocket-sized manuals explaining what to

do in emergency situations have been distributed to establish firmly the system for initial actions to be taken.

Future Plans

The Komatsu Group intends to undertake actions in the following areas in the months and years to come.

- Improving the functions of the Risk Management Committee as a form of internal control
- Thoroughly reinforcing the Business Continuity Plan through education and other means

*Plan that systematizes major operations across the entire company such that they can continue without suspension or can be brought back after only a brief suspension.

Information Management

Komatsu safeguards and manages important information related to directors' execution of their duties, including the record of Board meetings and other consensus-based, approved documents, as stipulated by law and internal regulations.

It has established the Information Disclosure Committee to disclose information about important facts regarding decisions, facts regarding occurrences, and settlement of accounts concerning Komatsu Ltd. and other Komatsu Group companies in an appropriate manner based on laws and appropriate disclosure rules. The Committee takes control of, and works to improve the level of information disclosure.

Quality and Reliability

In order to be a company that is trusted by its customers, Komatsu is undertaking activities that fulfill its corporate social responsibility regarding product quality and product safety.

In Pursuit of Quality and Reliability

Komatsu pursues Quality and Reliability and considers the maximization of corporate value as the fundamental principle of its business. This Quality and Reliability is considered something that increases as it gains the trust of all the company's stakeholders, most notably its customers, in accordance with the Five Guidelines that comprise Komatsu's Basic Managerial Policy (see P. 3). In order to achieve this, Quality and Reliability must be at the top of its Management Principles, and it is important for it to be pursued through the active involvement of all employees of the Komatsu Group.

Promotion of the Spirit of Manufacturers

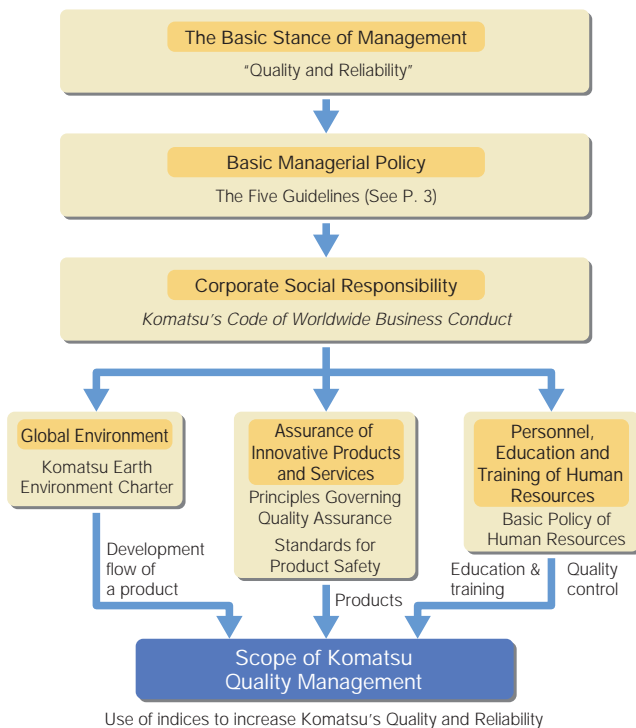
For Komatsu, a manufacturer, the Spirit of Manufacturers serves as the source of its competitive edge. This Spirit of Manufacturers that the Komatsu Group pursues is the provision of goods and services that bring satisfaction to its customers. This Spirit provides an ongoing challenge to all employees, from research and development personnel to sales and after-sales service providers, to manufacture safe and innovative products. At the same time, throughout all phases of a product's lifecycle, environmental friendliness is deemed important.

Regarding Quality Assurance

Fundamental Approach to the Pursuit of Quality Management

For Komatsu, putting the customer first constitutes one of its Basic Managerial Principles, and all divisions are responsible for putting this principle into practice, whether development, manufacturing, sales, after-sales service, or management. Komatsu considers a continuous process of reform and improvement to be fundamental. The scope of Komatsu's quality management is as indicated below. The company uses indices to promote such management.

■ Scope of Komatsu Quality Management



Principles Governing Quality Assurance

Komatsu has established the following principles regarding quality, which all subsidiaries and employees are responsible for putting into practice.

Principles that Increase Quality and Reliability

Provide environment-friendly, safe and innovative products/services and systems from the viewpoint of our customers.

Definition of Quality Assurance

The company has a responsibility to take actions that will ensure that it can provide products and services that the customer is able to purchase and use with peace of mind and satisfaction and be able to use for many years to come.

Principles Governing Quality Assurance

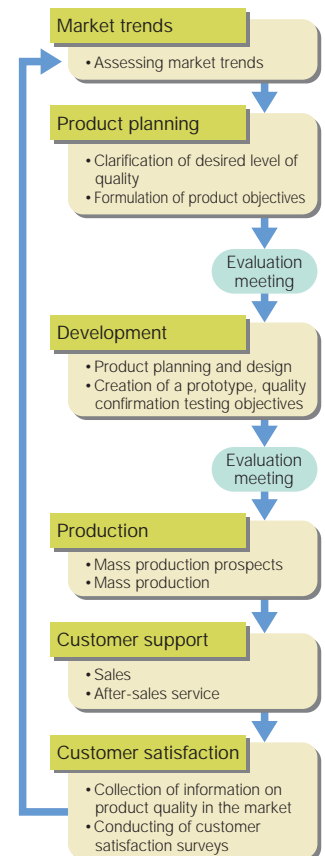
- (1) Being receptive to the views of the customer, considering issues from the perspective of the customer, and responding appropriately to the customer, thereby earning the customer's satisfaction, are fundamental to the job of every employee and constitute the responsibility of every employee. (Philosophy of putting customers first).
- (2) Complying with international standards and the legal frameworks particular to individual countries as a matter of course, and providing products and services that, looking at issues from the perspective of the customer, have incorporated proper regard for safety and peace of mind and that do not easily malfunction, are fundamental to the job of every employee and constitute the responsibility of every employee.
- (3) Providing products and services that incorporate proper regard for global environmental conservation is fundamental to the job of every employee and constitute the responsibility of every employee.
- (4) Providing products and services that are creative and provide benefits to the customer is fundamental to the job of every employee and constitute the responsibility of every employee.
- (5) Giving the customer a sense of safety, peace of mind, and satisfaction and the ability to use the product for many years to come is a source of happiness for every employee.

Mechanisms for Quality Assurance

At Komatsu, all employees in each division, from product planning to development, production, sales, and after-sales service, share a sense of working as a single unit to manufacture continuously products that are safe, innovative, and of high quality. In addition, through a strengthening of Komatsu's unique Spirit of Manufacturers system, the company is able to introduce to the market competitive DANTOTSU products and provide services and systems with substantial features.

Moreover, at each step of the development and production system, meetings are held to evaluate the product, and activities undertaken until the product is deemed to be suitable and specific objectives have been achieved. In this way, the company conducts quality assurance activities that firmly ensure Quality and Reliability.

Through such activities the company is able to provide products and services that take the global environment into account and comply with both international specifications and the regulatory frameworks of individual countries even as it works towards improved safety assurance and satisfaction for its customers.



Quality Assurance Activities at the Global Level

Komatsu's quality assurance activities at the global level enable it to provide products of uniform quality at all of its locations throughout the world. For that reason, the company aims for universally applied and uniform technical drawings, production systems, inspection methods, information collection, and quality management.

Concrete efforts include labeling certain of the global manufacturing locations with product development capabilities as "mother plants." These plants serve at the center of global development and manufacturing activities, with the leading-edge technologies and techniques developed there transferred to other manufacturing locations around the world. This results in an improvement of technology and enhancement of product quality across the entire company.

Promotion of Product Safety to Ensure Customer Safety and Peace of Mind

In order for Komatsu's customers to be able to use its products safely and with peace of mind, the company puts safety and peace of mind at the forefront in its quality assurance activities. By formulating Standards for Product Safety and associated Principles and having all employees comply with them, Komatsu aims to provide products that are safe, provide peace of mind, and are used for many years.

Information System for Product Safety and Services

In order to get information at as early a time as possible regarding problems with product safety in the marketplace, Komatsu has established an accident information system for product safety and conducts rapid responses to issues. Furthermore, it continuously makes improvements so that the company, including top management, can respond quickly through coordinated efforts, including (1) assessments of the cause of the incident and procedures to be taken, (2) contacting the relevant governing authorities, (3) deciding to take remedial measures such as conducting a recall of products still on the market.

Principles Governing Quality Assurance (Regarding product safety)
Complying with international standards and the legal frameworks particular to individual countries as a matter of course, and providing products and services which, looking at issues from the perspective of the customer, have incorporated proper regard for safety and peace of mind and that do not easily malfunction, are fundamental to the job of every employee and constitute the responsibility of every employee.

Standards for Product Safety

- Compliance**
The provision of products and services that comply with international standards and the legal frameworks particular to individual countries is fundamental to the job of every employee and constitutes the responsibility of every employee.
- Safety via prevention**
The provision of products and services that are safe and provide peace of mind and do no harm to the customer is fundamental to every employee and constitutes the responsibility of every employee.

- Security regarding accidents**
The provision of products and services that minimize any injury that might occur to a customer who has an accident is fundamental to every employee and constitutes the responsibility of every employee.
- Transparency**
The ongoing provision of advance safety warnings after receiving information from the customer and, in the case of a defect arising in a product or service, the efforts to undertake prompt response measures and information provision, are fundamental to every employee and constitute the responsibility of every employee.
- Improvement of organizational climate**
In order to create a corporate climate in which product safety is emphasized, the standardization of the safety management system and safety techniques as well as ongoing efforts to improve them are at all times fundamental to every employee and constitute the responsibility of every employee.

Information System Regarding Product Safety and Services

The provision of product safety information to customers is carried out mainly by the methods listed below. However, the company seeks to address each particular situation, with, for example, engineers or top managers visiting customers as the situation might require.

Methods for Provision of Product Safety Information to the Customer

- Direct indication on the product itself or in the user's manual
- Direct explanations to customers by Komatsu sales and service employees and sales and service employees of sales agencies
- Telephone consultations with the service division of each plant and the customer service representatives in quality assurance divisions

System for Dealing with Recalls

In recent years, the market has become more strictly aware of filing notices regarding recalls and means of dealing with them. Komatsu is also working to strengthen its organization to improve its ability to achieve comprehensive and rapid responses.

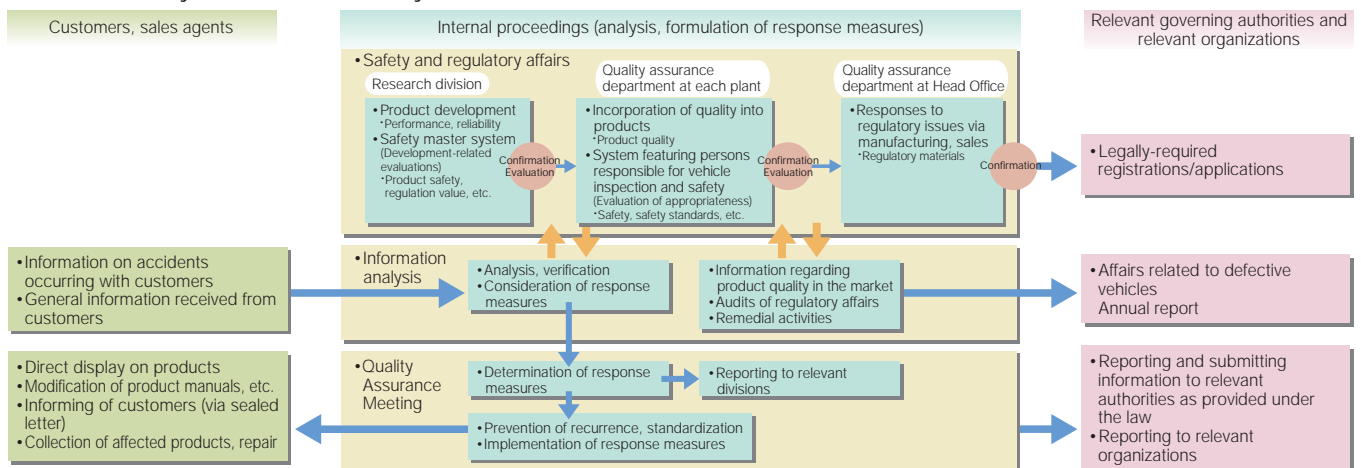
Procedure Governing Recalls

- Proposal for rectification of the situation based on information regarding the defect; decision regarding what measures the company will take towards the market
- File notice with relevant authorities as provided under the law
- Inform customers by appropriate means
- Take appropriate corrective measures, including, for example, repair, replacement, or refund

Efforts to Prevent Recalls

- Strengthening of system for collecting information on product quality in the market
- Promotion of technical verification of the problem involved in the recall and timely decision-making
- Strengthening of check system that features persons responsible for vehicle inspection and safety
- Regular auditing of recall-related operations

The Komatsu System for Product Safety



The Spirit to Take On Environmental Measures

Diesel Engine Technology for a New Generation of Construction Equipment:
The Development of "ecot3"



Construction equipment diesel engines, for which emissions regulations are tightening

By pursuing original technology in keeping with its position as one of the top manufacturers in the domestic market, Komatsu is independently developing key components that are indispensable for construction equipment. The diesel engine, the heart of the machine, is symbolic of such components. As with other internal combustion engines, these diesel engines used in construction equipment are currently confronting the major issue of how to respond to global environmental issues.

Diesel engines, while enjoying the significant merits of high combustion efficiency and low amounts of CO₂ emissions, have also been characterized by the demerits of emitting high amounts of NO_x (nitrogen oxide) and particulate matter (soot and other airborne particles). To overcome these shortcomings, emissions regulations governing diesel engines for construction equipment have been tightened in recent years. With the

launch of stricter regulations in 1996 in the U.S. marking the start of this trend, the U.S., Europe, and Japan have introduced emissions regulations with indicators for both NO_x and particulate matter. Since that time, the regulations have become progressively stricter in five-year intervals, and here in 2006 the U.S. and Europe's Tier III emissions regulations entered into force.

Bringing together Komatsu's leading-edge technologies: The latest-model diesel engine ecot3

Komatsu considers compliance with such emissions regulations of various countries to be critical issues yet at the same time views them as business opportunities. In the 1970's the company began promoting research in order to differentiate itself from the competition. In addition, Komatsu has consistently developed the latest technology one step ahead of regulatory requirements.

In 1998, the company entered into an alliance with Cummins, one of the U.S.' "Big Three" engine manufacturers, establishing

Industrial Power Alliance, Ltd. (IPA). Assembling engineers for construction equipment diesel engines, IPA boasts a world-leading system for research and development.

In order to comply with the Tier III emissions regulations entering into force in 2006, Komatsu has developed leading-edge engine technology known as "ecot3." Diesel engines utilizing the ecot3 technology have already made their debut in construction sites around the globe and are already delivering solid performances in the field.

Severe usage conditions unique to construction equipment that constituted a significant obstacle

Mobility, fuel efficiency, durability, reliability—the issue becomes how to meet these requirements, even those that conflict with each other, yet still comply with emissions regulations. The Tier III emissions regulations constituted a formidable challenge, even for Komatsu engineers. Tier III emissions levels are at about a third of the 1996 Tier I regulations, meaning that a high standard for



A diesel engine for construction equipment requires a number of original technologies. Our engineers are all proud to be involved in the development of these engines.

IPA Managing Director
Tohru Okazaki



I invested some three years in finding the best way to bring conflicting elements together to coexist and then determine how to fine-tune the design.

IPA Engine Development Group
Hatsuo Andou



For Komatsu, having such strengths in technology, emissions regulations are just a further push in the same direction. If we worried that it would lead to a step back for us, there would be no technological progress at all.

IPA Control Development Group
Takashi Sakasai

emissions had to be met.

One of the technologies noticed by the engineers that held the key to a breakthrough was the EGR system, which reduces NOx emissions. EGR is not a new technology and is already widely introduced in the world of on-road trucks. However, mounting that onto a diesel engine for construction equipment makes it a matter of an entirely different dimension. Its development started with a revision of an EGR for truck engines. However, the engineers soon found themselves up against a formidable obstacle.

Construction equipment operates in environments so severe that they have no comparison with those in which on-road trucks operate. The environmental conditions set for the development of the ecot3 included a temperature range from 50°C to -50°C and altitudes in excess of 4,000 m. In addition to that, the engine had to be able to withstand enormous amounts of dust, dirt, and sand. Furthermore, grades and types of water, engine oil, and diesel fuel for diesel engines used in construction equipment vary according to the environment in which the engine is being used.

Current emissions regulations are limited to Japan, the U.S., and Europe, but Komatsu has taken the stance that it will provide only construction equipment that meets these regulations, even in other areas of the globe. This means that these stringent conditions must be cleared for the various environmental contexts existing around the globe.

The conditions put upon the EGR were equally severe. Thus "improvements" to the existing model or other kinds of tweaking processes would not even begin to enable the company to achieve success. The engineers went back to zero and began to craft an EGR specifically designed for construction equipment diesel engines with their own hands.

Drawing blueprints and creating an experimental model to put it into concrete form, they ran tests to evaluate their experimental production and used the results as further feedback into the process. The development

of the EGR moved forward incrementally as the engineers repeated this cyclical process. Expressions such as "taking on state-of-the-art technology" may have a nice ring to them, but actually being on the front line involves only patient and unceasing trial and error. Using the analysis data resulting from the evaluation tests, the engineers bounced ideas and opinions off each other until late into the night. The engineers paid the most careful attention possible to everything from the quality of the material to the shape of each part of the engine, and in the case of one crucial part, the EGR valve, the engineers adopted a completely original design never used in an EGR before.

An original "Heavy Duty Cooled EGR" born from days and weeks of patient trial and error

In this way the days passed, and the prototype for the ecot3 was finally completed some five years after development started. The EGR mounted in the new engine was dubbed the "Heavy Duty Cooled EGR" in order to draw a clear line to existing technology. The words "Heavy Duty" also refer to the great personal investment of the many engineers who were involved in its development.

Yet why is it that Komatsu places such great importance on originality that it will go even to these lengths? Manufacturing crucial components within Komatsu is one major way in which it differentiates itself from other companies. There is also the major benefit of reducing the time required for development. Supporting that is the pride of Komatsu's engineering team, which creates the best construction equipment on the globe with their own hands.

In 2011 Tier IV emissions regulations will enter into force, with emissions to be reduced to a level about one-twentieth of that of the 1996 levels. Komatsu's engineers already have their eyes on 2011, and the wave of breakthroughs for the next generation of technology is already underway.



Tier III-compliant engine which incorporates Komatsu's advanced engine technology



I chose this job because I've always liked construction equipment ever since I was a little boy. I have been involved in this project since immediately after I joined the company, so I'm extremely fond of this engine.

IPA Combustion & Fuel System Group
Yoshiaki Kanzaki

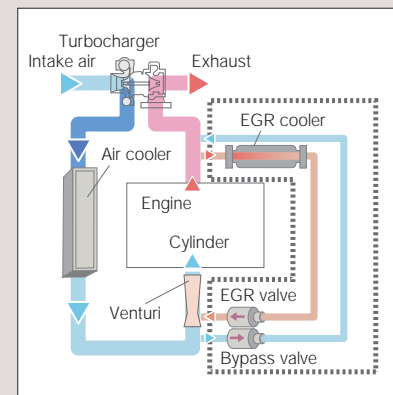


To ensure quality, evaluation tests constitute an absolutely essential process. In these tests we had to be particularly attentive to the fact that, among other things, regulation values and conditions in Japan, the U.S., and Europe are slightly different.

IPA Testing Group
Akira Kusakabe

Heavy Duty Cooled EGR

EGR (exhaust gas recirculation) is a system by which part of the exhaust gas that has already been combusted and whose oxygen content is low is rechanneled into the engine's cylinders. As a result, the binding of nitrogen and oxygen during combustion is kept under control, leading to lower amounts of NOx emissions. Komatsu's Heavy Duty Cooled EGR makes use of an original design to meet the unique quality requirements found in construction equipment while responding fully to the severity of the usage conditions.



Engine air induction system. Red line indicates EGR. By mounting originally-developed valves and the like, Komatsu has increased Quality and Reliability even further.

Komatsu's Relationship with the Environment and with Society

Komatsu considers "What Komatsu Can Do and What It Must Do" for the global environment and for society and promotes activities of the entire Komatsu Group to realize its vision.



Yasuo Suzuki
Director and Senior Executive
Officer
Supervising Environment

Komatsu's products have at each stage of their lifecycle, whether the manufacturing, logistics, sales, use, or recycling stages, a connection with society and the environment, and we are making efforts to reduce environmental impact at all of these stages.

At the manufacturing stage, we are striving to strengthen climate change mitigation measures (CO₂ emissions reduction activities) and zero emissions activities that we have been undertaking for years. In addition, by reforming our logistics by establishing plants near ports we aim to achieve significant CO₂ emissions reductions. At the sales and recycling stages, we seek to reduce our environmental impact through cooperation with affiliated businesses, sales agents, and service providers. At the usage stage, we are providing DANTOTSU products with overwhelmingly superior features, such as construction and mining equipment with excellence in fuel efficiency in compliance with Tier III emissions regulations and industrial machinery with significant energy conservation features and low noise emissions. By increasing the percentage of DANTOTSU products among our offerings in the years to come, it will be possible to not only increase our customers' satisfaction but also contribute to the realization of a sustainable society.

Business Activities and Their Impact on the Environment

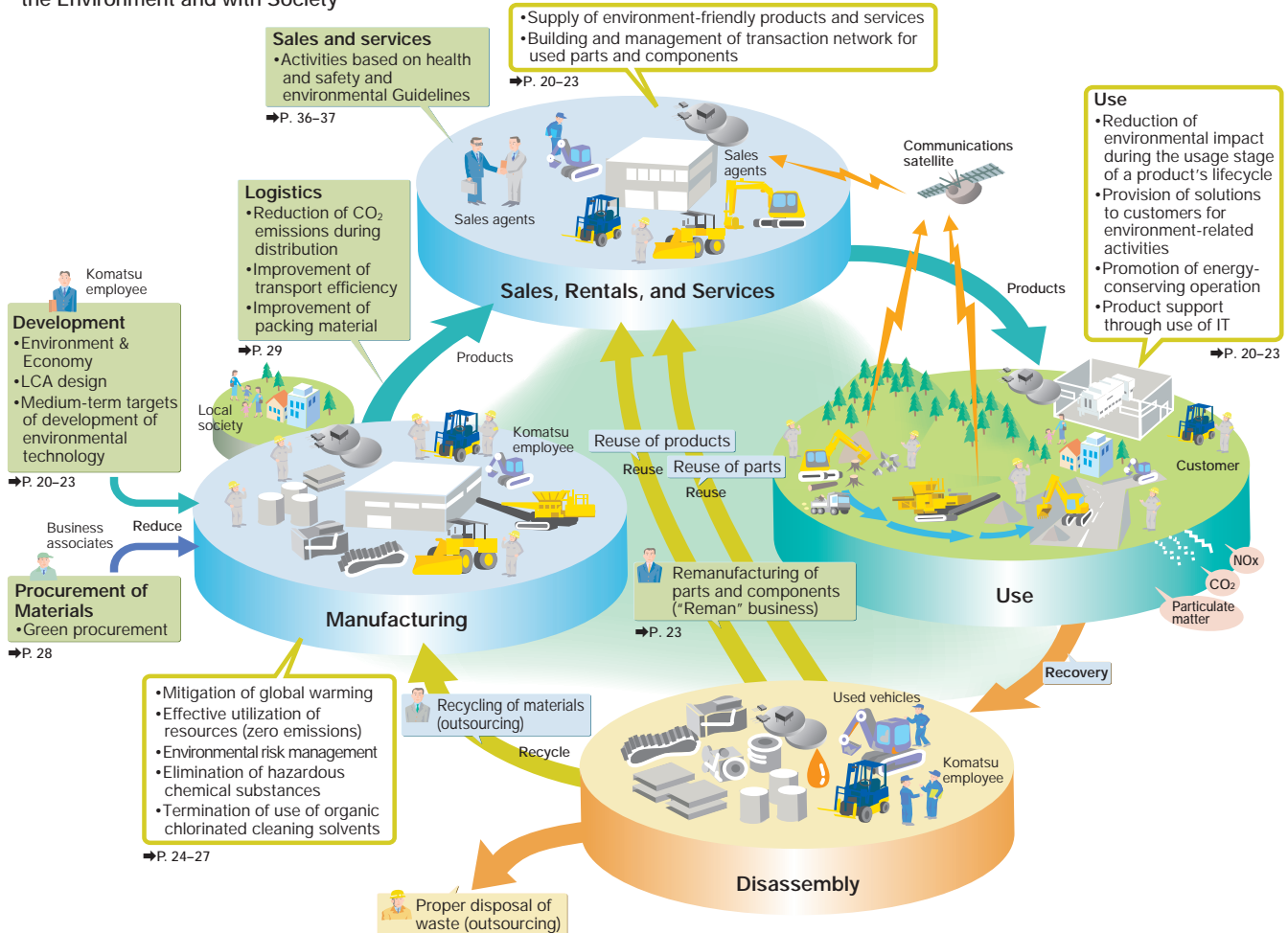
The Komatsu Group, in recognition of the fact that its business activities affect a number of stakeholders, most notably the residents of the area surrounding its activity sites, is promoting activities that will reduce environmental impacts.

Komatsu has focused its environmental activities chiefly in the area of construction and mining equipment, which exceeds 70% of the company's consolidated sales. As its primary initiatives, in addition to introducing an environmental management system based on

ISO14001, Komatsu supplies products with environment-friendly designs and has been boosting its environmental performance.

In 2003, Komatsu undertook a revision of its progress to date, newly delineating the following as its corporate principles: (1) Contributions to realization of a sustainable society; (2) Simultaneous realization of environmental and economic performance; and (3) Observance of corporate social responsibility. Expanding the scope of its activities to all its areas of business, Komatsu is undertaking these initiatives throughout the entire Komatsu Group, with subsidiaries operating at the global level responsible for implementation.

The Komatsu Group's Business Activities' Relationship with the Environment and with Society



Komatsu Earth Environment Charter

Rooted in its vision for realizing a sustainable society laid forth in the Komatsu Earth Environment Charter revised in July 2003, the Komatsu Group seeks to promote activities that, from a global viewpoint, reflect its awareness of its social responsibilities.

Komatsu Earth Environment Charter (July 2003 revision)

Corporate Principles

1. Contributions to Realization of Sustainable Society

The Komatsu Group recognizes conservation of the earth's environment for a sustainable society as among the most important tasks for mankind in the 21st century.

The Komatsu Group endeavors to contribute to this task by actively integrating environmental conservation into all of its business activities. The Komatsu Group reaffirms its long-term commitment to this effort as an important management priority.

2. Simultaneous Realization of Environmental and Economic Performance

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

3. Observance of Corporate Social Responsibility

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

Guidelines for Corporate Activity

1. Framework for Global, Group-wide Environmental Management System

1) Production facilities of the Komatsu Group, already with ISO certifications, will work to maintain and improve their environmental management system, while other production facilities, yet to be certified, will strive to acquire ISO certifications as soon as possible.

The Komatsu Group will also work to introduce and improve an environmental management system in all business domains other than production, and to implement a program of continuous improvement in environmental performance and in-house environmental auditing.

2) The Komatsu Environmental Committee develops environmental action plans for the Komatsu Group. Each division or affiliated company of the Komatsu Group is responsible for establishing its own mid- to long-term targets based on Group-wide action plans and for developing and implementing specific action plans.

The Komatsu Environmental Committee also develops common guidelines for an environmental manual for the Komatsu Group, and based on them, each division and affiliated company is responsible for providing for its own rules and procedures in accordance with respective circumstances.

2. Development of Products and Technology with Superior Environmental Quality and Economic Performance

1) The Komatsu Group seeks to develop and provide to customers superior products with world-leading environmental quality and economic performance. The Komatsu Group seeks to meet or surpass emission control performance and other environmental requirements applicable to its construction and mining equipment products. The Komatsu Group establishes common mid-range technology development goals for each business domain, and each development center is responsible for promoting the development of such technologies in a planned manner.

2) The Komatsu Group seeks to develop and provide superior environmental products and systems designed to offer customers optimal solutions in their environmental conservation efforts.

3. Promotion of Zero Emissions

1) The Komatsu Group works to facilitate Zero Emissions manufacturing at all of its manufacturing facilities worldwide by extending such activities as piloted and achieved at its manufacturing facilities in Japan.

The Komatsu Group also works to facilitate Zero Emissions and other environmental activities of its suppliers. To this end, the Komatsu Group seeks to expand its Green Purchase program and also offers technological support when suppliers may need to acquire ISO certifications.

2) The Komatsu Group promotes reduction of environmental impacts of its sales and product support activities. The Komatsu Group offers support to its distributor and affiliated rental companies in Japan by setting up model cases, providing environment-related information, establishing environmental management guidelines and undertaking other activities. For distributors and affiliated rental companies overseas, the Group also strives to extend similar activities, as appropriate considering their respective conditions.

3) The Komatsu Group works to improve life cycle assessment of its products and build a circulation-based business system designed to reduce environmental impact throughout product's life cycle.

4. Management of Environmental Risks and Observance of Corporate Social Responsibilities

1) Each division and affiliated company of the Komatsu Group is responsible for observing applicable environmental standards and regulations of the country or region where it is located as well as its own internal policies and standards, and working to improve its capability to anticipate and address environmental impacts.

2) The Komatsu Group promotes the consciousness of Group employees to the importance of environmental conservation and the responsibility of employees to fulfilling the Komatsu Group's commitment to this principle. To this end the Group also promotes education on environmental conservation for employees and special training for environmental management and auditing personnel.

3) The Komatsu Group promotes disclosure of information concerning its performance of environmental conservation activities. Each division and affiliated company of the Group promotes such disclosure as appropriate based on local circumstances.

Environmental Action Plan and Results for FY2005

Komatsu has formulated an Environmental Action Plan (implementation policies) in each field for the practical implementation of the Komatsu Earth Environment Charter. Komatsu specifies its operational targets every fiscal year and keeps checking yearly developments, facilitating establishment of a strong base to implement the Action Plan.

Environmental Management

Implementation policies	Objectives for FY2005	Results (Asterisks indicate results for FY2005)	Mid- and long-term objectives	Further information
1. Implement Environmental Action Plan	Draw up and promote the Plan	*Conducted internal environmental auditing	Strengthening of sales- and service-related environmental activities	P. 16
		*Held Third Global Safety and Environmental Affairs Meeting	Strengthening of overseas environmental activities	P. 17
2. Environmental education and training: Implement the Plan	Draw up and promote the Plan	*Held ten lectures for over 2,500 attendees	Continuation of activities and lateral extension of activities to overseas facilities	P. 17
3. Environmental communication: Publish an environmental report	Formulate and publish the communication plan	*Published the report in July 2006 with enhanced coverage of environmental and social aspects	Reinforce quality of content: release report earlier than in previous years	—
4. Environmental accounting: Manage operations using standard indices for assessing environmental impact	Establish control with a standard set of indices in Komatsu Group facilities	*Compared the development of Komatsu's four manufacturing facilities by applying standard indices for assessing environmental impact	Lateral expansion to Group manufacturing facilities	P. 19

Research and Development

Implementation policies	Objectives for FY2005	Results (Asterisks indicate results for FY2005)	Medium- and long-term objectives	Further information
1. Reduce the environmental impact of construction equipment •Develop lower-emitting diesel engines •Proactively meet exhaust emissions regulations •Develop environment-friendly construction equipment (GALEO series) •Meet noise and vibration regulations •Meet medium-term objectives for development of environmental technology	Develop engine compliant with foreign emissions regulations	*Developed engine technology "ecot3" to meet Tier III emissions regulations entering into force in Japan, the U.S., and Europe in 2006	Develop engine compliant with Tier IV emissions regulations entering into force in 2011	P. 8
	Develop hydraulic excavator	*Developed PC200/210-8 mid-sized hydraulic excavator; reduced fuel consumption by up to 10%	Expand number of models compliant with Tier III emissions regulations entering into force in 2006	P. 21
	Develop bulldozer	*Developed D155AX large bulldozer; improved fuel efficiency by 25%		P. 22
	Take measures prior to enforcement of regulations	*EU Noise Regulations: Had met the more stringent noise control directive that went into effect in 2002 *EU Vibration Regulations: Publicly disclosed operator vibration values for all models of machines in advance of entry into force in 2007	Further reduce noise and vibration levels in expectation of next-stage regulations (around 2010)	—
	Attain medium-term objectives (for FY2005)	*Attained all objectives in CO ₂ emissions reductions, recyclability ratio, and emissions of substances of environmental concern, except for hydraulic excavator recyclability ratio	Attain subsequent medium-term objectives (for FY2010). Work towards recyclability of counterweights in hydraulic excavators to improve recyclability ratio	P. 20
2. Provide customers with solutions for their environmental protection activities •Promote on-site recycling using mobile recycling equipment	Expand scope of application of recycling engineering and promote social recognition of recycling engineering	*Promoted on-site recycling of construction residuals at point of generation by mobile recycling equipment	Expand range of machines in the mobile recycling equipment series; expansion of areas of applicability	P. 22
3. Promote reuse and recycling •Promote Reman business •Reduce the environmental impact of Reman business •Acquire ISO14001 certification at Reman Centers	Put developments into actual use	*Promoted its Reman business (remanufacturing used machine components) on a global basis	Expand and promote Reman business	P. 23
	Acquired ISO14001 certification at one Reman Center	*Acquired ISO14001 certification at the Reman Center in Australia, for a total of five Centers acquiring certification out of seven Centers worldwide	Acquire ISO14001 certification within FY2006 at two remaining Centers	P. 23
4. Reduce environmental impact of industrial machinery •Address environmental issues from forge rolling machines	Develop large AC servo press	*Realized energy conservation (-40%), improvements in productivity (+35%), space minimization (-50%), noise reduction (-20dB)	Expand number of servo press models	P. 23

External Commendations on Environmental Conservation and Social Activities and External Evaluations

2005

- May** • Received Japan Construction Mechanization Association's Incentive Award for efforts to reduce environmental impact during construction work on Subway Line No. 13 (Tokyo Metro Co., Komatsu)
- Aug.** • Ranked 28th (Komatsu), 34th (Komatsu Forklift) in Nihon Keizai Shimbun newspaper's Second Annual Survey of Product Quality Management
• Attained 38th in CSR ranking in Japan, *Nikkei Business* magazine, FY2005 (Komatsu)
- Sep.** • Ranked 94th in Nihon Keizai Shimbun newspaper's "2005 Most Pleasant Companies to Work For" overall ranking (Komatsu)
- Oct.** • Ranked 20th in American magazine *BusinessWeek's* "The Asian BusinessWeek 50—Leaders" (Komatsu)
- Nov.** • Chief Master Hiroimi Kawashima (Komatsu Osaka Plant) receives official commendation from Ministry of Health, Labour and Welfare for preeminence as a technician (contemporary master craftsman) for FY2005
• Jungo Iwamoto, Shigenari Tsunoda, and Mamoru Okada receive the "Naniwa no Meiko" award of Osaka Prefecture, recognizing them as among Osaka's most preeminent technicians (Komatsu Osaka Plant)
- Dec.** • Ranked 85th (Komatsu), 154th (Komatsu Zenoah), and 237th (Komatsu Forklift) out of 558 manufacturing companies in Nihon Keizai Shimbun newspaper's: Nikkei Environmental Management Ratings

- Won an award in the Nikkei Annual Report Awards (Komatsu)

2006

- Feb.** • Won Gold Prize in the First Awards of Excellent Successful ESCO Business, sponsored by the Energy Conservation Center (Komatsu Oyama Plant)
• Received first prize in the Committee Chair's Award for Rationalization of Energy Use, presented by the Kanto Coordinating Committee for Effective Use of Electric Power (Komatsu Mooka Plant)
• Received commendation from the governor of Toyama Prefecture in FY2005 Energy Conservation Month Awards in Hokuriku District, (Komatsu Castex Himi Plant No. 1)
- Mar.** • Ranked 11th in Nihon Keizai Shimbun newspaper's Nikkei PRISM (Private Sector Multi Evaluation System) evaluation of top companies in Japan (Komatsu)
- May** • Tohatsu environmental rating of A (Komatsu) *34 companies earning A or above
• Received Japan Construction Mechanization Association's Contribution Prize for development of ultra-low noise technology for large-scale construction machinery (Komatsu)
• Received Toyo Keizai/Green Reporting Forum's Ninth Green Reporting Awards: Excellence Prize (Komatsu)

External Commendations on Environmental Conservation and Social Activities (Overseas Commendations)

2005

- May** • Low-noise small wheel loader received German "Blue Angel" eco-mark certification (Komatsu Hanomag GmbH)
• Awarded gold medal from Indian safety-related NPO Greentech Foundation (L&T-Komatsu Limited)
- Jun.** • Commended as "corporate friend of schools" by Suzano Region Education Supervision body (Komatsu do Brasil Ltda.)
- Aug.** • Received First Alto Tiete Region CSR Award, sponsored by daily newspaper *Mogi News*, São Paulo, Brazil (Komatsu do Brasil)
- Nov.** • Commended in Umeå, Sweden as "Best Company in Umeå," FY2005 (Komatsu Forest AB)

2006

- May** • Received British Royal Society for the Prevention of Accidents Gold Award for Occupational Health and Safety (Komatsu UK Ltd.)

■ Manufacturing

Implementation policies	Objectives for FY2005	Results (Asterisks indicate results for FY2005)	Medium- and long-term objectives	Further information
1. Environmental management system**: Encouraging Komatsu Group manufacturing facilities, including those overseas, to acquire ISO14001 certification by the end of FY2005	Acquire certification at one overseas facility Acquire integrated certification for Komatsu's four plants	*No newly-acquired certification *Upon Oyama Plant undertaking screening for certification renewal, undertook screening for integrated certification of Komatsu's four Plants (certification granted in May 2006)	Acquire integrated certification for the entire Komatsu company	P. 17
2. Reduction of greenhouse gas emissions: •Make a 25% improvement by FY2010 in volume of CO ₂ emissions per unit of manufacturing value from the level of achievement in FY1990 at Komatsu manufacturing facilities	Improve 1.5% year on year	*Improved 17.7% from the level of achievement in FY1990; attained a 4.1% improvement over the previous year	Achieve by FY2010	P. 24
•Make a 25% improvement by FY2010 in energy consumption per unit of manufacturing value from the level of achievement in FY1990 at Komatsu manufacturing facilities		*Improved 20.2% from the level of achievement in FY1990; represents a 0.3% increase over the previous year	Re-express objectives in terms of CO ₂ emissions volume	P. 24
•Make a 13% improvement in energy consumption per unit of manufacturing value from the level of achievement in FY2000 by FY2010 at the Komatsu Group's domestic manufacturing facilities		*Improved 14.3% from the level of achievement in FY2000; represents a 4.2% improvement over the previous year	Achieve by FY2005	P. 24
3. Effective use of resources •Maintain or make further progress on attainment of zero emissions (Komatsu parent company to maintain its zero emissions; Group companies to attain by the end of FY2005)	Attain zero emissions, including Group companies	*Attained zero emissions at all Group companies *Accomplished recycling ratio of 99.6% across the entire Komatsu Group	Maintain zero emissions; attain zero emissions at Komatsu Group manufacturing facilities overseas	P. 25
•Achieve a 50% reduction by the end of FY2005 in the unit waste volume from the level of achievement in FY1990 at Komatsu manufacturing facilities and Komatsu Castex Ltd. Himi Plant	Implement action plans at a model manufacturing facility Extend the activities to other manufacturing facilities	*Accomplished a 57% reduction in the unit waste volume from the FY1990 achievement level	Accomplish further reductions	P. 25
•Achieve a 50% reduction by the end of FY2005 in the unit waste volume from the level of achievement in FY1998 at the Komatsu Group's domestic manufacturing facilities		*Accomplished a 42% reduction in the unit waste volume from the FY1998 achievement level; represents a 10-percentage point improvement over the previous year	Achieve by FY2005	P. 25
•Achieve a 30% reduction by the end of FY2005 in unit waste processing costs from the level of achievement in FY2000 at the Komatsu Group's domestic manufacturing facilities		*Accomplished a 67% reduction in unit waste processing costs from the FY2000 achievement level	Accomplish further reductions	P. 25
•Achieve a reduction of greater than 5% by FY2005 in the volume of water consumed per unit of manufacturing value from the level of achievement in FY2002 at the Komatsu Group's domestic manufacturing facilities	Improve 5% year on year	*Accomplished a 28.1% reduction in the volume of water consumed per unit of manufacturing value from the FY2002 achievement level	Accomplish further reductions	P. 25
4. Environmental risk management •Implement voluntary reductions on the release of chemical substances Achieve a reduction of greater than 5% by FY2005 in the volume of PRTR-related substances released into the air per unit of manufacturing value from the level of achievement in FY2002	Firmly ensure the control of chemical substances; reduce volume of released chemical substances	*Increased 16.7% over the FY2002 achievement level	Achieve by FY2005; establish objectives and accomplish further reductions	P. 26
•Implement voluntary reductions on VOCs Achieve a reduction of greater than 50% by FY2006 in the volume of VOCs released per unit of manufacturing value from the level of achievement in FY2002		*Accomplished a 11.2% reduction from the FY2002 achievement level	Achieve by FY2006	P. 27
•Implement permanent measures required to renovate underground tanks in service for 20 or more years by FY2001 (142 tanks renovated out of 144 tanks at the Komatsu Group's domestic manufacturing facilities)	Renovate two remaining tanks	*Was unable to renovate (renovation extended to FY2006 or beyond)	Address sequentially all underground tanks in service for 20 or more years	P. 26

**Komatsu is responsible for setting overall direction for Komatsu Group companies regarding environmental management. Each subsidiary is responsible for the implementation of related policies and measures.

■ Procurement and Logistics

Implementation policies	Objectives for FY2005	Results (Asterisks indicate results for FY2005)	Medium- and long-term objectives	Further information
1. Green procurement •Promotion of improvements at suppliers through the establishment of environmental management systems and by specifying matters that require environmental consideration	Grasp suppliers' organizations for environmental management by means of Environmental Check Sheets	*Grasped organizations for environmental management among Komatsu "Midori-kai" group members by means of Environmental Check Sheets (61 of 126 companies have acquired ISO14001 certification)	Implementation of environmental management system of ISO14001 or an equivalent at suppliers by FY2008	P. 28
2. Environmental conservation in logistics •Develop and commercialize Information Clearing House (ICH) system in domestic heavy material logistics beyond individual corporate frameworks	Fully implement integrated transport reform domestically	*Attained a 91% truck loading ratio (objective for FY2006 is 85%) *Attained a 81% trailer loading ratio (objective for FY2006 is 75%)	Accomplish further improvements	P. 29

■ Sales and Services

Implementation policies	Objectives for FY2005	Results (Asterisks indicate results for FY2005)	Medium- and long-term objectives	Further information
1. Carry out occupational health and safety and environmental conservation activities at sales agencies and rental companies based on relevant guidelines	Distribute guidelines; enhance awareness of safety and environmental issues	*Distributed Occupational Safety and Health Management System and Environmental Guidelines for use by sales agencies and rental companies and launched implementation *Conducted education by means of Safety and Environment Newsletter	Provide support for activities to all sales agencies and rental companies based on Occupational Safety and Health Management System and Environmental Guidelines	P. 36

Business Activities and Environmental Impact

In addition to measuring quantitatively the relationship between business activities and the environment and understanding their environmental impact, Komatsu has formulated medium- and long-term objectives and is implementing measures that will reduce environmental impacts.

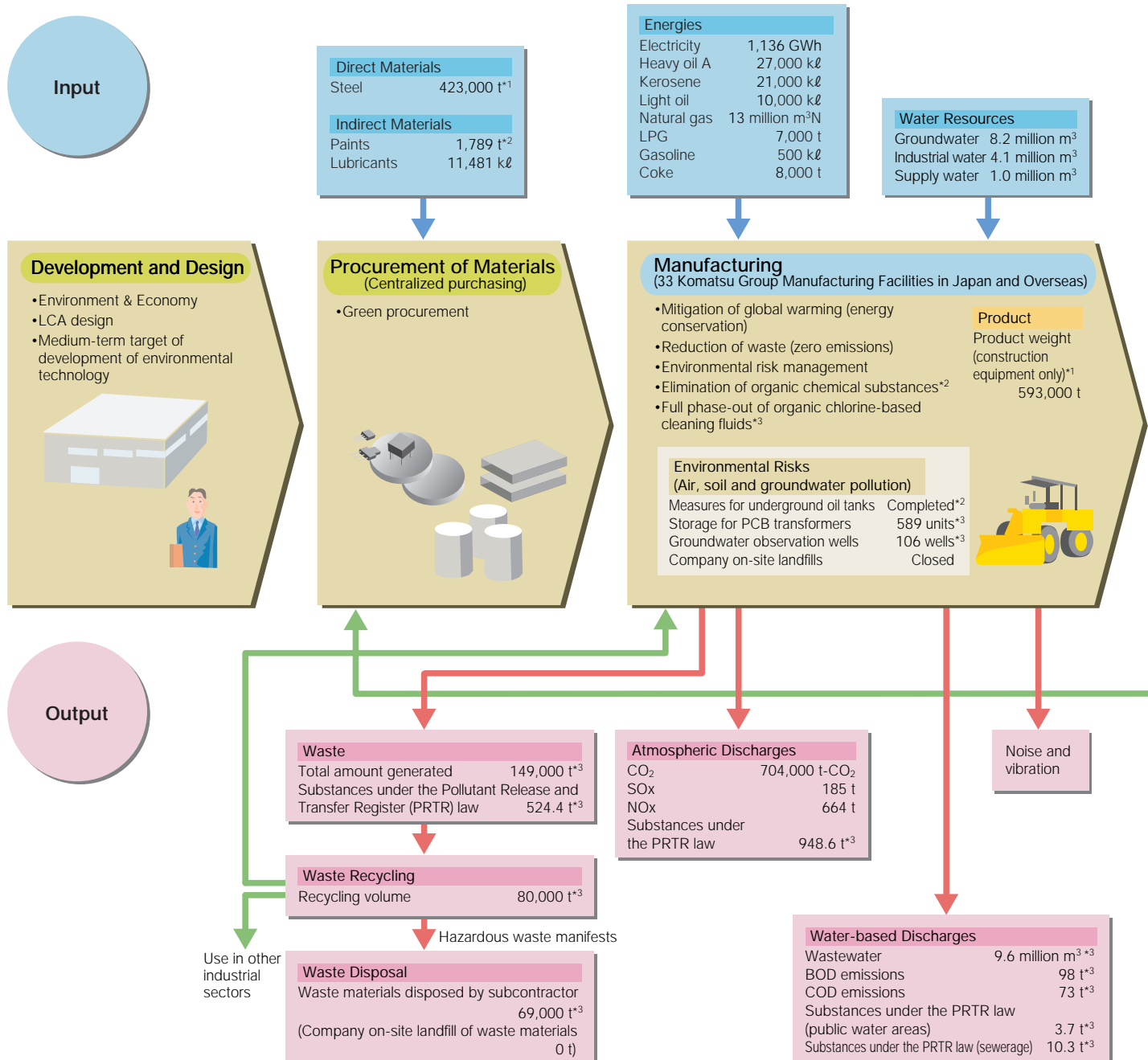
Business Activities and Environmental Impact

The Komatsu Group procures various parts and materials and, through the manufacturing process, utilizes natural resources, including raw materials, water, energy, and chemical substances, among others, to provide products to its customers. Such business activities

result in environmental impact at each stage in the process.

The Komatsu Group will continue to provide more highly value-added products and services while at the same time it seeks to understand the environmental impacts resulting from its business activities, formulate its medium- and long-term objectives, and implement measures to reduce such impacts.

Environmental Impact Resulting from Business Activities of Komatsu Group Companies, including Overseas Facilities (FY2005)



CO₂ emissions:

Figures for power and heavy oil (see Energy section of Input column) are calculated using the "CO₂ coefficient" in each area (in Japan, specified in the Ministry of the Environment of Japan's 1999 calculation guidelines based on the Law Concerning the Promotion of the Measures to Cope with Global Warming).

SO_x emissions:

Calculated by multiplying "S content by percentage" (based on element tables of suppliers) by the volumes of heavy oil, kerosene, light oil, and coke.

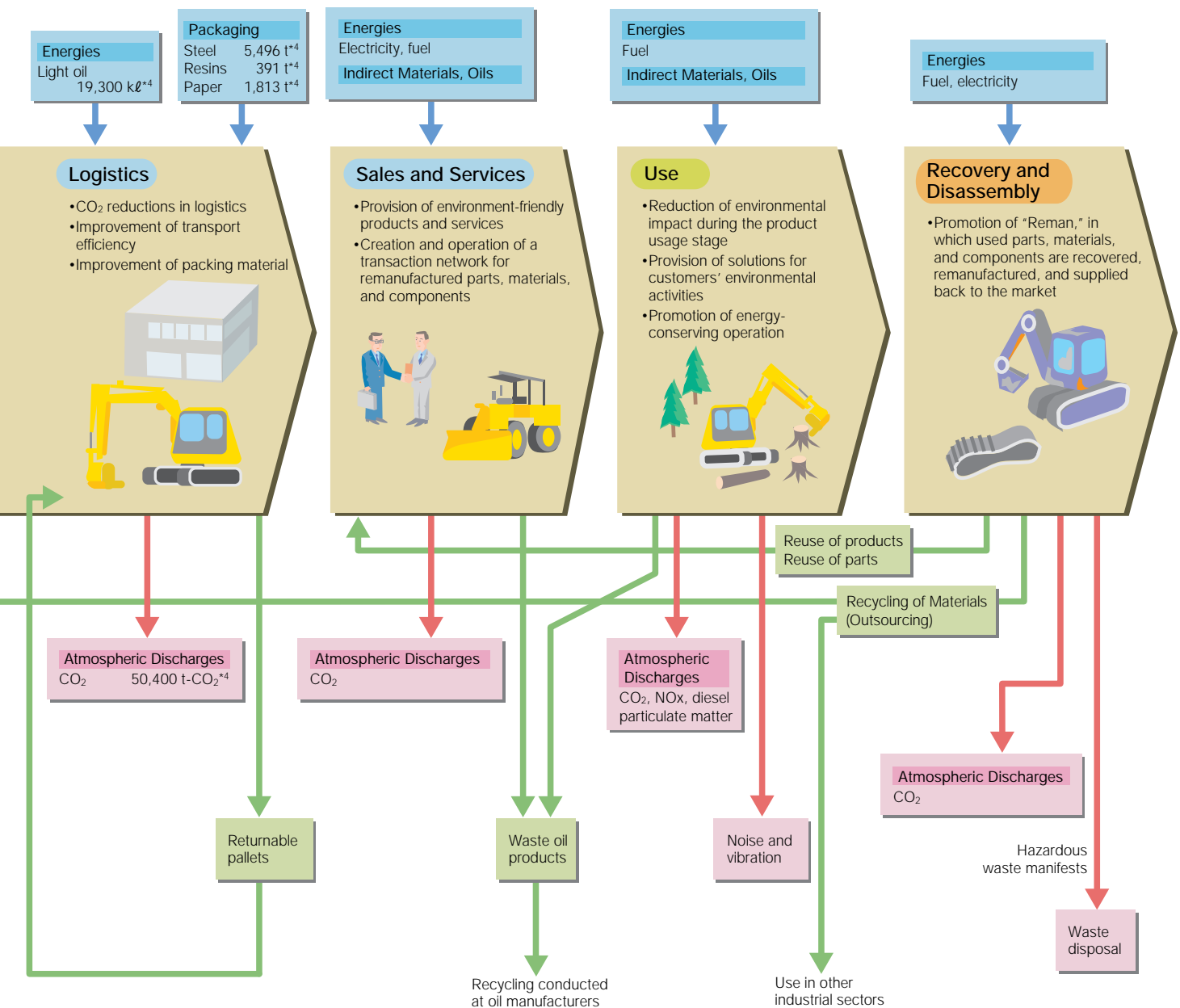
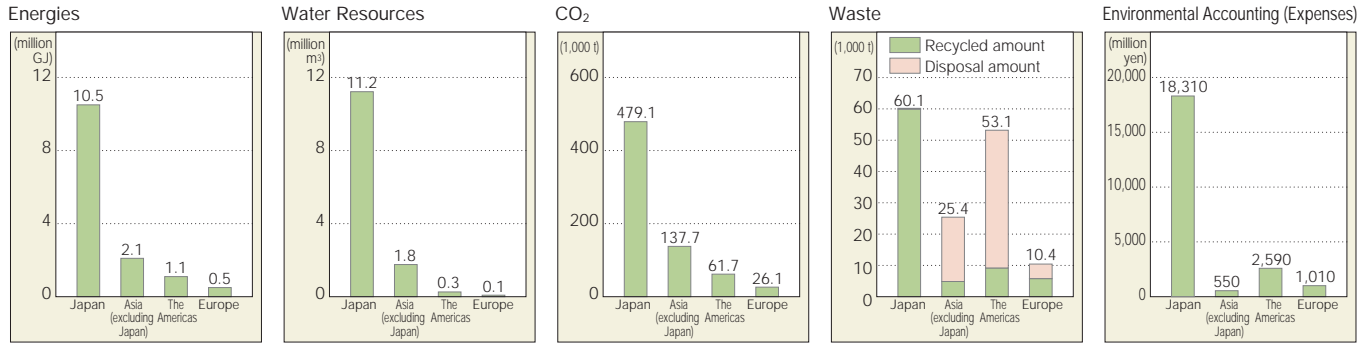
NO_x emissions:

Calculated by multiplying the "nitrogen oxide emissions units" (obtained at each Komatsu facility) by the heavy oil, kerosene, light oil, natural gas, and LPG used.

Emissions and transfer of substances covered by the PRTR Law:

Calculated by the "content ratio of specific chemical substances" contained in indirect materials multiplied by the "discharge or transfer rate." This calculation is based on the PRTR Law, which was designed to mandate the disclosure of the volume of specific chemical substances released into the environment to promote the management of such substances.

■ Environmental Impact Indicators and Environmental Accounting, Broken Down by Region



Coverage of Data

- *1 Related to domestic construction machinery manufacturing (excluding Komatsu Zenoah)
- *2 Komatsu manufacturing facilities
- *3 Komatsu Group's domestic manufacturing facilities
- *4 Logistics from procurement to sales related to domestic construction machinery

Environmental Management Structure

Komatsu has established an environmental management structure grounded in ISO14001 for its Group companies, including overseas manufacturing facilities. Also, as part of its efforts to fulfill its corporate social responsibilities, Komatsu conducts thorough environmental education for its employees.

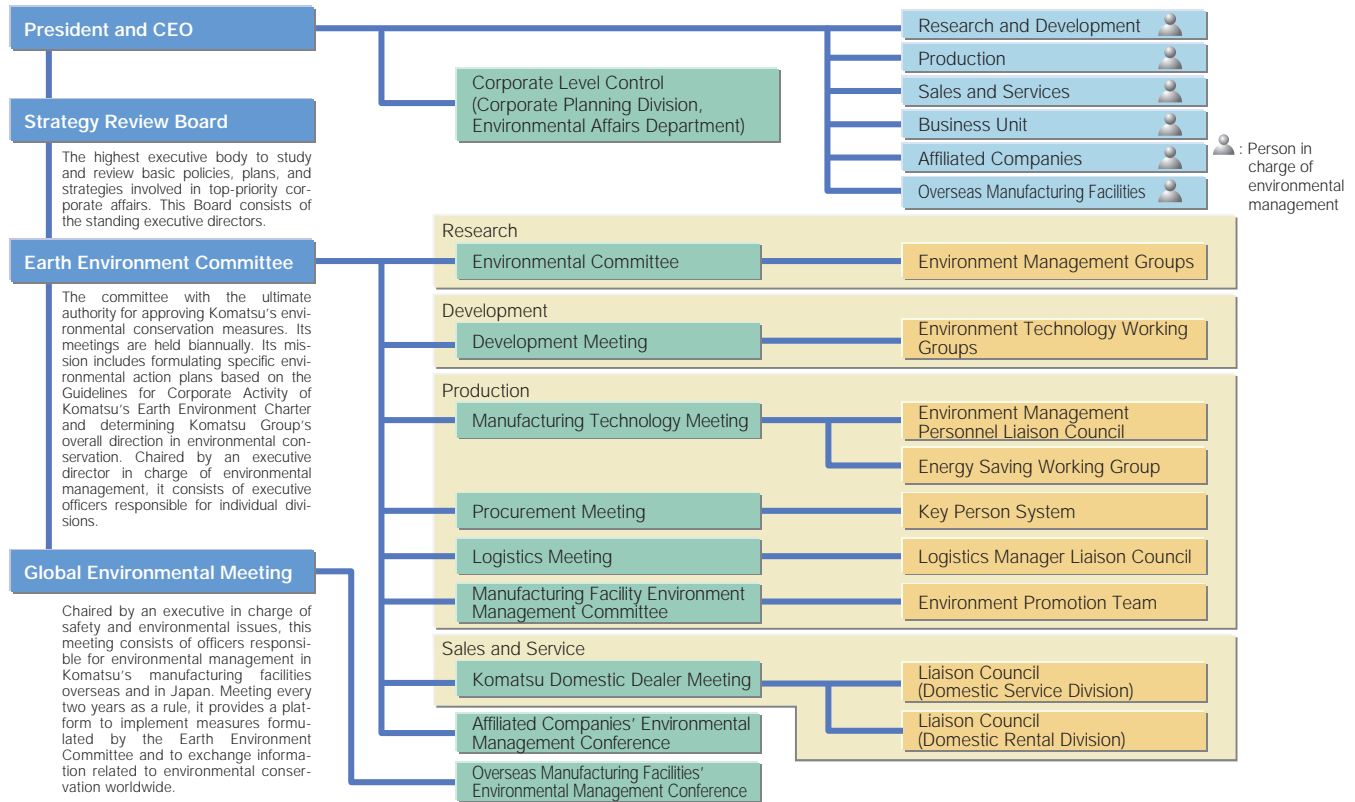
Overview of Environmental Management Structure

Komatsu Group recognizes that environmental issues are an integral part of its corporate mandate. As a cornerstone of this plan, it established the Earth Environment Committee in 1991 and created Komatsu's environmental management structure. Following this environmental initiative, it formulated the Komatsu Earth Environment Charter in 1992 and launched its environmental conservation activities.

The Strategy Review Board is responsible for matters related to corporate management while the Earth Environment Committee is in charge of examining individual policies. After the Earth Environment Committee formulates environmental policies, the executive officers of

the respective divisions and subsidiary companies are responsible for enhancing and applying these policies to meet their objectives in accordance with the functions of their own division or company. Further, an officer in charge of environmental conservation activities at each business unit implements these policies. When a policy includes important objectives, subcommittees of experts, so-called key persons, or working groups established in each division study them and work jointly with other divisions to develop solutions for environmental issues. In July 2003, the Environmental Affairs Department was established within the Corporate Planning Division to coordinate Komatsu Group-wide environmental activities.

Organizational Chart for the Environmental Management System



Environmental Auditing

Since FY1997, the Komatsu Group has been encouraging its Group companies to acquire ISO14001 certification. Through these efforts, all domestic manufacturing facilities acquired certification by FY2002.

With regard to environmental auditing, in accordance with ISO14001 stipulations, Komatsu conducts internal auditing as well as periodic review by external certification bodies. In addition, beginning in FY2004 the Komatsu Group launched internal environmental auditing, conducted by environmental experts from within the Group and focused primarily on environmental performance and legal compliance. It was decided that self-evaluations would be conducted at each of the Komatsu Group's domestic manufacturing facilities, making use of the newly-created Komatsu Environmental Risk Check Sheet. The Group intends to visit all domestic manufacturing facilities for these internal environmental audits within the course of three years. Apart from the above internal audits, the Komatsu Internal Audit Department implements business audits, including a review of the environment-related activities of each individual Group company, about every four years, with each company bearing independent responsibility for the findings and follow-up.

Joining the National Initiative "Team Minus 6%"**

Komatsu has for years adopted various measures to help mitigate climate change, including (1) setting thermostats to 28°C in the summer, (2) allowing business casual dress at the office, (3) disallowing engine idling in all company vehicles, (4) turning off interior lights during lunch breaks. From July 2005, Komatsu has also been participating in the national movement to combat climate change known as "Team Minus 6%." In keeping with this, Komatsu has redoubled its efforts to implement the setting of air conditioning to 28°C in summer and encouraged the wearing of light clothing in the summer (known in Japan as "Cool Biz"). Moreover, in the days around the summer solstice, the company participates in the Light Down Campaign, in which lighting on billboards and other outdoor lighting are turned off. In addition to making these efforts to reduce CO₂ emissions, Komatsu also calls on its affiliated companies to participate in the Team Minus 6% movement.

*The name "Team Minus 6%" refers to Japan's greenhouse gas emissions reduction target of 6% under the Kyoto Protocol.



Third Global Safety and Environmental Affairs Meeting Held

Komatsu held the Third Global Safety and Environmental Affairs Meeting in Japan from March 28 through 31, 2006. The meeting was participated in by representatives from 12 overseas subsidiaries in ten countries and six subsidiaries in Japan for discussions and tours of the Awazu and Osaka Plants.

For this meeting, Komatsu included on the agenda occupational health and safety activities in addition to environmental conservation. Partly because the regulations concerning occupational health and safety activities differ depending on the country, management for such activities has largely been left up to each subsidiary. However, in view of the fact that corporate social responsibility is growing in importance, the company believes it has become necessary to enhance at a global level awareness of occupational health and safety and to share good management methods within the Komatsu Group. In this way, the topic of management of occupational health and safety activities was also taken up beginning with this meeting, and the company launched its full-scale development of this topic at the global level through an exchange of views as well as presentations on concrete activities being implemented at each subsidiary in attendance.

In the area of environmental conservation activities, the participants discussed not only activities for the improvement of performance undertaken to date (managing quantitative targets, such as CO₂ emissions reductions and resource conservation targets), but also measures for environmental risk management (reductions in the amount of chemical substances used, prevention of leakage from tanks, and other preventative and response measures).



Meeting held at the Head Office

Environmental Education and Training

The Komatsu Group's fundamental education system distributes the responsibility for education such that the parent company develops educational materials and provides educational services on commonly relevant academic issues for use by Komatsu Group companies, whereas instruction regarding more hands-on matters, including unique features and points particular to individual business units, are conducted by relevant divisions in each business unit. In FY2005, Komatsu conducted almost the same curriculum for environmental education and training as in FY2004. As a means of further enhancing understanding of environmental issues, e-Learning was reintroduced after a two-year hiatus, starting with coursework on environmental studies incorporating the concepts of CSR, targeted at all managers. In FY2006, Komatsu plans to hold e-Learning based coursework

■ Courses in Environmental Education in Japan (excluding general environmental courses)

(Figures in parentheses indicate the number of officers required)

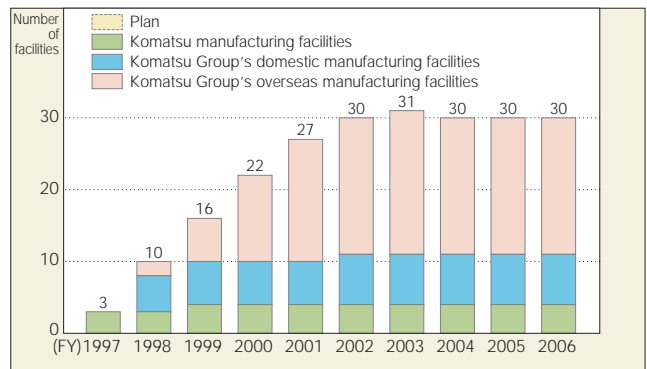
Venue	Course name	Target	Participants			
			FY2002	FY2003	FY2004	FY2005
Head Office	Advanced environmental education	Environmental specialists (Komatsu and affiliates)	0	17	0	28
	Overview of the ISO14000 series	Administrators (Komatsu, affiliates, and partner companies)	21	30	24	42
	Training of internal auditors	Environmental auditors (Komatsu, affiliates, and partner companies)	18	25	19	30
	Development and manufacturing (introductory)	Development and manufacturing staff	251	89	59	56
	Introductory lecture on ISO14001	Administrators (partner companies)	6 (from 5 companies)	0	2	0
	Commentary on environmental laws and regulations and environmental risk	Administrators and environmental specialists (partner companies)	6 (from 4 companies)	0	0	0
	Internal environmental auditing	Environmental auditors (partner companies): Integrated with "Training of internal auditors" course	N/A (integrated)	0	0	0
Administrative departments of plants	Education for enhanced environmental understanding (e-Learning)	Komatsu Group managers				1,294
	Basic environmental education	Managers and employees	413	169	784	269
	Overview of the ISO14000 series	Managers and employees	25	72	87	62
	Training of internal auditors	Environmental auditors	98	86	113	232
	Training new employees	New recruits	220	511	859	707
	Regulatory education and personnel exchange	Managers and employees	155	243	144	590
	Specialist training	Environmental conservation practitioners (persons involved in regulatory affairs, etc.)				553

ISO14001

Komatsu has made a Group-wide effort to acquire ISO14001 certification, an international standard.

In FY2005, Komatsu began efforts to receive ISO14001 integrated certification for its four plants as a first step towards acquiring ISO14001 integrated certification for the Group. The President of the Production Division, as a member of Komatsu's highest levels of management, pushed forward with raising the level of the company's environmental management system and reducing environmental risk. As a result, in April 2006, the company's four plants were able to undergo integrated screening at the same time that the Oyama Plant underwent inspection for its certification renewal, and finally integrated certification was acquired. In the future, Komatsu (non-consolidated) intends to acquire integrated certification that also covers the Head Office.

■ Current Status and Plan for Acquiring ISO14001 Certification (Manufacturing facilities)



geared to general employees as well as refresher courses for internal managers. Of course, with regard to the education of newly-hired employees, the company conducts e-Learning based coursework in addition to its classroom-based instruction.

The number of persons who have some environment-related certificate has far exceeded the minimum requirement. However, from the viewpoint of risk management, employees are encouraged to obtain a suitable certificate.

■ Number of Persons Having Environment-related Certificate

Certificate name	Number of persons with certificate			
	FY2002	FY2003	FY2004	FY2005
Pollution control administrators	266 (60)	250 (60)	243 (60)	247 (60)
Energy administrators	48 (11)	40 (11)	47 (11)	49 (11)
Environmental management system auditors	19	8	9	8

Environmental Accounting

In order to bring about the greatest possible environmental performance at the lowest possible cost, Komatsu manages its environmental activities based on a standard set of indices. The company will be developing this concept to Group domestic and overseas manufacturing facilities as well.

Concept of Environmental Accounting

Komatsu began releasing environmental accounting data in FY1999 in order to manage ongoing and effective environmental conservation activities and disclose to its customers, shareholders, and all other stakeholders the content, cost, and effects of those activities. In FY2000, the company expanded this environmental accounting to its overseas manufacturing facilities.

The costs of environmental conservation are calculated in accordance with guidelines and manuals published by the Ministry of the Environment.

Environmental accounting is still in the developmental stages. In the future, Komatsu intends to monitor efficiently the costs and effects of environmental conservation in light of the life cycles of its products and build a new environmental accounting system that can be an effective tool for evaluating environmental management.

Costs and Environmental Effects of Environmental Conservation

Komatsu's domestic investment increased by 37% year-on-year to 2,021 million yen as a result of increases in environmental conservation-related investment in keeping with the expansion in production capacity that occurred against the backdrop of expansion of the global market for construction and mining equipment, among other factors. In particular there was an increase in investment in measures to control environmental impact in manufacturing facilities, namely improvements in pollution mitigation and prevention equipment, including enhanced functioning capacities of wastewater processing facilities, and energy conservation-related measures.

Domestic research and development costs stayed at the same level as the previous fiscal year, at 13,449 million yen. This was a result of reducing the environmental impact of products, especially in the development of new products that meet the Tier III emissions regulations for diesel engines. As a result, the environmental conservation costs arising from R&D activities accounted for over 70% of the company's total expenditures, as in the previous year. With regard to

expenditures at its manufacturing facilities, Komatsu was able to reduce the cost of maintaining equipment through improvements in control efficiency and so on, offsetting fees for ESCO services and other energy conservation-related costs as well as fees resulting from greater amounts of waste for disposal resulting from increases in production volume (waste processing fees), ultimately resulting in holding expenditures to the same level as the previous fiscal year. These costs reflect expenses involved in surveys related to soil and groundwater contamination conducted at land tracts owned by the company as well as remedial countermeasures.

Concerning the effects of environmental conservation, numerical data about the following items have been disclosed.

- Environmental performance improvements that can be measured quantitatively
- Net economic effects that contribute to earnings through cost reduction and avoidance and that can be directly measured in monetary terms: in FY2005, Komatsu was able to achieve considerable positive economic effects as a result of energy conservation improvements.

The effects of reducing the environmental impact of Komatsu's products during use and the non-economic effects of external activities are still being estimated.

Management Based on Environmental Impact Point*1 (EIP)

With the aim of obtaining maximum ecological benefit (environmental performance) with minimum economic cost (financial performance), Komatsu integrated a standard set of indices for assessment of all environmental impacts attributable to manufacturing facilities. This has made it possible not only to express quantitatively (numerically) such qualitative terms as "environment-friendly plant" but also to show clearly the progress of targets and efforts.

In addition, as a rational environmental impact assessment index (JEPIX)*2 well adapted to the actual conditions of environmental activities in Japan was developed, Komatsu decided to adopt this analytical technique in FY2002. In addition, in order to enable visualization and facilitate understanding of which process is generating what envi-

Environmental Costs (Investments and expenses)

Top figure: Komatsu and Komatsu Group's domestic manufacturing facilities
Bottom figure: Komatsu Group's overseas manufacturing facilities (FY2004 excludes L&T-Komatsu Limited)

Category	Investment			Expenses		
	FY2004		FY2005	FY2004		FY2005
	Investment*1 (millions of yen)	Investment*1 (millions of yen)	Contents	Expenses*1 (millions of yen)	Expenses*1 (millions of yen)	Contents
(1) Business area cost	1,342	1,849		3,593	3,819	
	346	596		828	2,362	
1. Pollution prevention cost	712	995	•Installation and renovation of pollution mitigation/prevention facilities (conversion of effluent processing facilities, dust collecting equipment, etc.)	1,358	1,360	•Cost of maintaining equipment for mitigation/prevention of air and water pollution and for noise and vibration prevention (labor and depreciation costs)
	275	421		425	774	
2. Global environmental conservation cost	495	575	•Investment for implementing energy conservation measures, which include cogeneration systems and installing new ventilation systems	778	969	•Cost of maintaining energy conservation facilities, such as cogeneration systems (labor and depreciation costs)
	48	150		17	468	
3. Resource circulation cost	135	279	•Investment for reducing the volume of waste materials (establishment of resource recovery centers, installation of equipment for sludge dehydration, etc.)	1,456	1,491	•Waste materials processing cost
	23	25		386	1,120	
(2) Upstream/downstream cost	0	4		241	261	•Reduction of the environmental impact of components, etc. when shipping overseas
	12	0		60	740	•Reduction of the environmental impact of mass-production
(3) Administration cost	16	20	•Investment in beautifying manufacturing sites	623	623	•Cost of maintaining environment management systems
	6	0		187	423	•Cost of creating green spaces and beautifying manufacturing sites
(4) R&D cost*2	112	142	•Investment in research facilities for reduction of environmental impact	12,949	13,449	•Cost of R&D activities to reduce the environmental impact of products
	0	15		—*2	602	•Cost of R&D activities to develop environment-friendly equipment
(5) Social activity cost	0	0		3	7	
	0	0		2	7	
(6) Environmental remediation cost	0	6		229	149	•Cost of conducting surveys and remedial countermeasures related to soil and groundwater contamination
	0	0		1	7	
Total	1,471	2,021		17,638	18,309	
	364	611		1,077	4,142	

*1 All figures are rounded off to the nearest million yen.

*2 Environmental conservation cost involved in R&D cost includes only Komatsu UK Ltd.

ronmental impact, the analytical method known as the "material flow network" was adopted in FY2003.

Since FY2004, the level of management has risen, as seen in the increase in the wastes undergoing thermal recycling and in the number of chemical substances being assessed. As Komatsu is aiming for plants with truly zero emissions, it will be considering improvements from an even greater number of perspectives in the future.

*1 An integrated index of various environmental impacts

*2 The Environmental Policy Priorities Index for Japan, being developed at International Christian University as part of the 21st Century COE Program of the Ministry of Education, Culture, Sports, Science and Technology

Evaluation of Indices

Komatsu made an attempt to integrate the environmental impact of operations at each of its manufacturing facilities, associate the values obtained with environmental accounting, and use the two indices shown in the diagram below to evaluate the degree to which indices are being met for each of its manufacturing facilities.

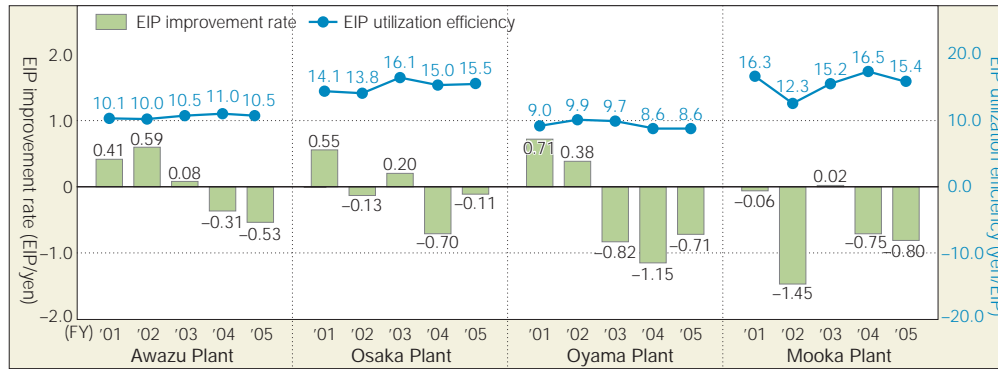
As a result, it was found that the Osaka Plant was most effective in reducing its environmental impact in FY2005. However, such gains

were unable to absorb the rising environmental impact resulting from increases in the volume of goods manufactured, and in fact every manufacturing facility saw a rise in environmental impact for two years in a row. In the future, a key issue will be how to lower total environmental impact even when there is a rise in production volume.

At the same time, the Osaka Plant obtained the equivalent value added (manufacturing amount) with the least integrated environmental impact. This is a result of vigorous energy conservation efforts since FY2004. From these facts, it follows that the Osaka Plant is the "most environment-friendly plant" when expressed in quantitative terms.

Komatsu considers it important to continue evaluating the degree of conformance to environmental standards set based on time-serial data obtained by using the two indices of overall environmental impact improvement efficiency and overall environmental impact utilization efficiency. In addition, Komatsu has plans to introduce this concept to the Komatsu Group's domestic and overseas manufacturing facilities in order to practice ecological business administration on a consolidated basis.

Comparison and Trend of EIP Improvement Rates/EIP Utilization Efficiency



EIP improvement rate:

- Effect of environmental impact reduction in relation to cost (EIP/yen) for environmental conservation activities, enabling Komatsu to measure the extent of environmental impact reduction for each monetary unit of 1 yen for environmental conservation activities.
- This enables the company to assess the effectiveness of environmental conservation activities.

EIP utilization efficiency:

- Manufactured value in relation to the degree of environmental impact (yen/EIP), enabling Komatsu to measure the amount of monetary value added (manufactured value) in relation to the degree of environmental impact.
- This enables the company to assess the environmental impact utilization efficiency rate directly related to business activities.

Cost of environmental conservation activities:
costs + investment amounts - depreciation amount
EIP: Environmental Impact Point

*A FY2003 change in the software used to calculate improvement rates and utilization efficiency rates resulted in slight changes in data compared with the data released in FY2002

Environmental Effects

Top figure: Komatsu and Komatsu Group's domestic manufacturing facilities
Bottom figure: Komatsu Group's overseas manufacturing facilities (FY2004 excludes L&T-Komatsu Limited)

Environmental impact reduction effects			Economic benefits				
Items of environmental impact	Reduction volume (t/year)	Rate of year-on-year changes (%)	Tangible benefits		Avoidance benefits of environmental risks* ²	Contribution to profits* ²	
			Type	Monetary value* ¹ (millions of yen)	Major activities		
CO ₂ emissions	-35,734	8.1	Energy conservation	1,085	•Introduction of cogeneration system	•There were no accidents or pollution in Japan during FY2005 that led to violations of the law. •No litigation costs were required in Japan during FY2005.	•Proceeds from mobile recycling equipment •Proceeds from value added due to reduced environmental impact of products (engines) •Proceeds from Reman business
	-8,785	4.1	Resource conservation	440	•Reuse of single-crystal silicon •Recycling of machining waste particles		
Water consumption	-9,126	0.1	Waste materials reduction	19	•Promotion of recycling through thoroughgoing sorting		
	69,168	-3.2	Gain on sale of valuables	395	•Reuse of furnace slag for roadbed materials •Sale of silicon scrap		
Waste materials generation	-1,631	2.8	Other	6			
	725	-0.8	Total	1,944			
				2,443			

*1 Figures are rounded off to the nearest million yen.

*2 Komatsu used statements instead of numeral figures to describe the "Avoidance benefits of environmental risks" and the "Contribution to profits." The company will further develop concepts and ways to understand effects in these categories. The sales amounts of businesses for content presented in "Contributions to profits" in FY2005 are as follows:

- Mobile recycling equipment business: 10.4 billion yen (Mobile recycling equipment and recycling plant sales)
- Engine business: 66.0 billion yen (While engine sales are derived from Komatsu's overall construction equipment business, the engine sales here are those of the Engines and Hydraulics Business Division, including both intra-company and other intra-Group sales and sales to companies that do not belong to Komatsu Group.)
- Reman business: 20.0 billion yen (Worldwide Reman business sales from April 2005 to March 2006)

Effects on Society during the Product Use Stage*

Environmental impact reduction effects	Tangible benefits
<ul style="list-style-type: none"> • Environmental impact reduction resulting from on-site recycling methods • Environmental impact reduction resulting from product operation • Waste components reduction resulting from Reman business 	<ul style="list-style-type: none"> • Reduction of expenses for processing waste materials • Savings in operating and maintenance costs • Reduction of repair costs

*Concerning the effects on society derived from product use by customers, the major items of qualitative information are shown here as a reference.

Providing Products and Services that Coexist with the Environment

Komatsu provides optimal environment-friendly solutions through its safe and innovative products and services.



Kunihiro Komiyama
Director and Senior Executive Officer
President, Development Division

Tier III emissions regulations for diesel engines newly entered into force in 2006. In conjunction with its overseas subsidiaries, the Komatsu Group acts in concert to introduce new kinds of machines to the market at the global level. In addition to compliance with various regulatory regimes, Komatsu seeks to create environment- and people-friendly products that incorporate enhanced fuel efficiency, reductions in vibrations and noise, and improvements to machine operator environments, among other achievements.

Furthermore, with regard to reductions in substances of environmental concern, we have strengthened our activities, setting forth medium-term objectives that are ahead of the trends in developed countries.

In FY2006, as we continue with these activities, Komatsu will be actively making efforts towards product development that looks ahead to the next generation of environmental conservation and safety measures.

Environment & Economy

Komatsu's Environment and Economy means that it provides satisfactory solutions for both environment and economic activities by superior manufacturing technologies. Developing environment-friendly products must be done at competitive cost. Otherwise, these products cannot establish a presence in the market and will not contribute to reducing environmental impact. In FY2005, Komatsu implemented Environment and Economy through the development of such products as:

- PC200-8 hydraulic excavator, D155AX-6 bulldozer, and other construction and mining equipment compliant with Tier III emissions regulations
- industrial machines such as the large AC servo press.

These resulted in increased user-friendliness as well as in reductions in CO₂ emissions.

Major Achievements in FY2005

- 1 Development of engine technology "ecot3," which satisfies Tier III emissions regulations for off-road vehicles in Japan, the U.S., and Europe
- 2 Development and introduction to the market of vehicles that satisfy Tier III emissions regulations
- 3 Attainment of objective for FY2005 stated in the medium-term target of development of environmental technology (formulated in 1999)
- 4 Promotion of on-site recycling method by mobile recycling equipment
- 5 Realization of Environment and Economy through development of industrial machinery such as the large AC servo press

Reducing Environmental Impact of Products

Reducing Substances of Environmental Concern

Komatsu has been making efforts to respond to the heightening of environmental conservation awareness overseas as well as reduce substances of environmental concern at an early stage. As one example, Komatsu has since 1990 been taking measures to eliminate products using asbestos and in FY1998 the company conducted response measures to OSHA^{*1} advisories, such as by preparing MSDS^{*2}.

In addition, in FY1999, using substances that were banned under relevant legal and regulatory frameworks^{*3} and substances that were regulated or banned in individual developed countries as a base, Komatsu stipulated its own list of substances banned from use and substances approved for use only in limited circumstances (see chart below). The company continues to promote reductions in use for those substances approved for limited use in keeping with its medium-term target of development of environmental technology.

^{*1} Abbreviation for the Occupational Safety and Health Administration, the U.S. federal administrative bureau governing occupational safety and health

^{*2} Abbreviation for Material Safety Data Sheet. An MSDS provides information on the chemical nature and means of handling Class 1 and Class 2 designated chemical substances

^{*3} Law Concerning the Examination and Regulation of Manufacture of Chemical Substances Control and others

Substances of Environmental Concern Banned for Use in Komatsu Products or Subject to Reductions

Designation	Number of substances	Name of substance
Banned	5	•PCBs •Asbestos •Specified chlorofluorocarbons •Trichloroethylene •Triethanolamine
To be reduced (subject to limited use)	12	•Mercury •Lead •Cadmium •Arsenic •Selenium •Chromium (VI) •Hydrofluorocarbons •Vinyl chloride •Chloroprene rubber •Halogenated flame retardants •Methyl alcohol* •Hexachlorobenzene*

*Now being considered for reductions

Making All Komatsu Products Asbestos-Free

With regard to construction and mining equipment, including replacement parts, Komatsu has realized a policy of making its products asbestos-free since December 1993, and its industrial machinery has been asbestos-free since 1996. As for other products, the Group has already successfully implemented a policy of Komatsu products being asbestos-free.

Komatsu's state of implementation of its asbestos-free policy has been available for public viewing on its website since August 2005.

Efforts towards Eliminating Asbestos in Komatsu Products

		FY1985	FY1990	FY1995	FY2000	FY2005
Construction and mining equipment	Mass-produced vehicles			June 1993		
	Replacement parts			December 1993		
	Engines			June 1993		
	Hydraulic equipment			March 1992		
Industrial machinery, vehicles, and others	Fabricating machineries and stamping presses			January 1996		
	Machine tools				January 2002	
	Forklifts					March 2004
	Agriculture and forestry equipment				March 2002	
Electronics	Temperature controllers			April 1993		

The light blue lines indicate the time after which no products using asbestos were shipped.

Life Cycle Assessment (LCA) Calculations

As general guidelines for reduction of the environmental impact of construction equipment, Komatsu set a three-item, medium-term target of development of environmental technology based on LCA (life cycle assessment) in FY1999. Since then, the company has been making efforts to reach that target for each piece of equipment being developed.

- CO₂ emissions reductions have been progressing on schedule with regard to the amount of emissions per unit of operations (determined for each type of equipment) through the use of engines designed to meet Tier III emissions regulations.
- Regarding the recyclability ratio, in order to assess whether or not the target ratio will be met for counterweights in hydraulic excavators, Komatsu is continuing its efforts to organize a system by which end-of-life counterweights are returned and processed.
- As for substances of environmental concern, the company is working to reduce the use of lead solder, which accounts for some 80% of these substances. Komatsu is using aluminum radiators in almost all kinds of equipment now in development (scheduled, for some kinds of equipment).

Turning its sights to targets for FY2010, the company will revise its plan for development of newly-called for elemental technology and undertake an upgrade of its software for calculating indexes.

Medium-term Targets of Development of Environmental Technology Based on LCA (set in FY1999)

Category	FY2005			FY2010	
	Target	Performance* ¹	Achieved target?	Target* ¹	
CO ₂ emissions	-5%	D155AX-6	-9.5%	Yes	-10%
		PC200-8	-9.2%	Yes	
		WA470-5	-9.3%	Yes	
Recyclability ratio	97% or more	D155AX-6	99.5%	Yes	99.5% or more
		PC200-8	78.8%	No* ²	
		WA470-5	98.9%	Yes	
Substances of environmental concern	-50%	D155AX-6	-95.8%	Yes	-75%
		PC200-8	-88.2%	Yes	
		WA470-5	-99.5%	Yes	

*¹ As compared with FY1998

*² Target expected to be met through the establishment of a system for recycling and processing hydraulic excavator counterweights

PC200/210-8 Hydraulic Excavator

The PC200/210-8, which features the leading-edge engine technology ecot3, is the first 20 ton-class hydraulic excavator in the industry compliant with the Tier III emissions regulations in Japan, the U.S., and Europe. Komatsu achieved a reduction of up to 10%* of fuel consumption through overall electronic controls of engine and hydraulic equipment developed and manufactured in-house.

*Compared with previous Komatsu models in the same class

KOMTRAX and Reports to Facilitate Energy-conserving Operation

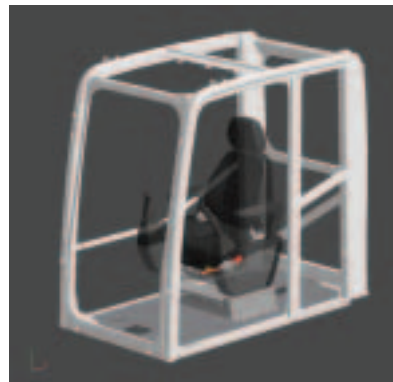
KOMTRAX stands for the Komatsu Tracking System, which uses state-of-the-art mobile communications technology and Internet-based technology to track from one's office such data for construction equipment as the current location, operating information, fuel indicator, vehicle cautionary information, and replacement schedule for consumable parts. KOMTRAX has already been introduced as a standard feature on equipment models. However, the PC200/210-8 boasts an upgraded version of the system.

Komatsu supports the environmental activities of its customers by providing them with reports that contain recommendations for the ideal operating mode, cessation of engine idling, and more, thereby enabling enhanced energy-conserving operation. These recommendations are based on data compiled by KOMTRAX such as length of operation, amount of fuel consumed, operating modes, and distribution of hydraulic pressure, among others.

Operator-friendly Design

Among high-volume production models, the PC200/210-8 is the first hydraulic excavator in the world to have a cab with an embedded structure that protects the operator if the excavator should overturn. It boasts a high ability to absorb shocks, and its durability and impact resistance have been increased dramatically. Featuring a newly-designed cab whose high rigidity and acoustic absorption level have resulted in a level of silent operation that makes it comparable with passenger cars, this model has met the Ministry of Land, Infrastructure and Transport's standards for ultra-low noise emissions.

In addition, the interior of the cab features a 7-inch large-scale multi-color liquid crystal display, significantly improving visibility and operability and assisting in the safety of the operator in various respects.



Hydraulic excavator cab embedded with structure protecting the operator in the event of an overturn

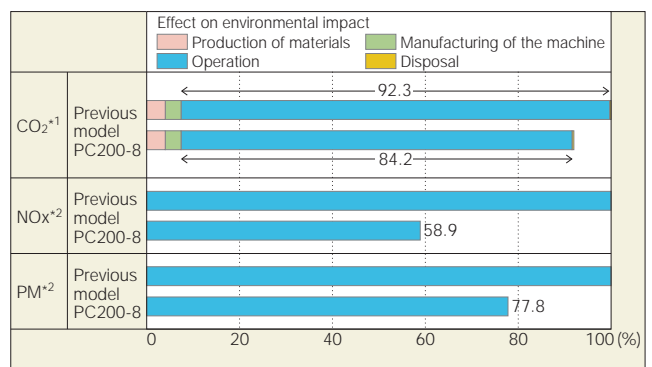


7-inch large-scale multi-color liquid crystal display

Life Cycle Assessment for the PC200-8

When a model of construction equipment is changed, a Life Cycle Assessment (LCA) is conducted in order to manage the emissions volumes of CO₂, NO_x, and particulate matter (PM). Through this process Komatsu was able to confirm that the PC200-8 has brought emissions reductions of 8%, 41%, and 22%, respectively.

Life Cycle Assessment Provisional Calculations for the PC200-8



*¹ For CO₂, the LCA of the previous model is set as the index level of 100%.

*² For NO_x and PM, a comparison of emissions volume is conducted, with the volumes of the previous model indicated here as 100%.

D155AX-6 Large Bulldozer

Featuring leading-edge engine technology ecot3, the D155AX-6 is mounted with the innovative Sigmadozer blade, which has substantially boosted dozing operational efficiency. This model increases productivity by 15%.

The Sigmadozer blade is a digging blade with a breakthrough shape derived from completely new excavation theory, utilizing an innovative anterior configuration in which the middle section of the blade excavates and heaps up earth. This increases the amount of dirt concentrated at the central part of the blade and reduces the amount falling away from the dozer at the far ends of the blade. By reducing the digging resistance, the movement of the dirt becomes smoother, making it possible to conduct large-volume dozing through the use of only limited power.

Adoption of Automatic Transmission with Lockup Torque Converter

In addition, through the adoption of an automatic transmission with lockup torque converter with superior transmission efficiency, a 10% reduction^{*1} in fuel consumption has been achieved.

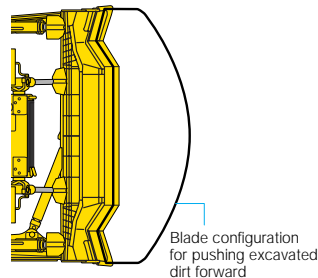
The automatic transmission, which eliminates gear shifting shocks, selects the appropriate level of transmission speed for the operation being undertaken, making it possible to run the dozer with the greatest efficiency at all times. The overall effects result in a 25%^{*1} jump in fuel efficiency.

Moreover, the D155AX-6 utilizes Komatsu's unique K-Bogie undercarriage system, which already has a successful track record on large-scale equipment, resulting in improved traction and operator comfort. In addition to dramatically reducing both noise and vibration, the newly-redesigned cab structure features ROPS^{*2} integrated into the cab itself and offers improved side visibility through elimination of the need for ROPS posts, allowing excellent visibility in every direction.

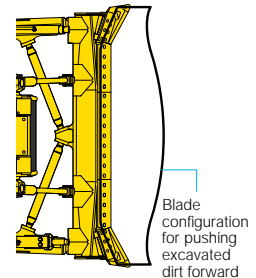
^{*1} Compared with previous Komatsu models in the same class

^{*2} Abbreviation of Roll-Over Protective Structures. These structures, attached to the construction equipment, protect the operator during a roll-over by the machine, and are designed to protect a seatbelt-wearing operator from being crushed.

Sigmadozer (D155AX-6)



Semi-U Blade (D155AX-5)



Providing Solutions for Customers' Environmental Activities

Developing Products that Coexist with the Environment

In response to the environmental challenges society faces, Komatsu provides environment-friendly products which coexist with nature as a high-quality and efficient solution created by optimum technology.

Promotion of On-site Recycling Using Mobile Recycling Equipment

To its customers in civil engineering and the demolition industry, Komatsu provides a means of on-site recycling which processes residuals that are generated at construction sites. This on-site recycling allows for effective utilization of residuals so that they are not discharged as waste while enabling reduced impact to the environment, insofar as virgin materials do not need to be brought in. For these reasons, the mobile recycling equipment that enables this on-site recycling is being adopted at a large number of construction sites.

In FY2005, in addition to the release of a new model of mobile tub grinder BR200T, which is very effective at crushing felled trees and demolition wood materials, the company has developed and put on the market the BR80T, a compact mobile tub grinder with a horizontal feeder that is ideal for crushing pruned branches from parks or long items in construction site residual matter. Other environment-friendly products well-received by Komatsu's customers include mobile tub grinders, mobile soil stabilizers, and mobile screens.

Mobile Tub Grinder BR200T-2

The BR200T-1, which can undertake large-capacity processing of felled trees and demolition wood materials, has undergone a full model change. The BR200T-2 features improved hydraulic efficiency through its new hydraulic system, which utilizes a twin-hydraulic motor in its hammer mill, as well as tremendous crushing capacity as a result of an expansion of the inner diameter of the tub. Furthermore, adjustments to the direction of the discharge belt conveyor make it possible to feed materials in a larger area, making it compatible with various workplace layouts. In addition, the BR200T-2 boasts a hydraulic reverse rotation fan that has been mounted on the BR120T to prevent blockages around the radiator grill.



Mobile tub grinder BR200T-2

Mobile Tub Grinder BR80T-1

Komatsu has launched the sale of the BR80T-1 that, despite a compact body, allows material feed at small-scale sites, such as when dealing with tree prunings in parks. The BR80T-1 features a horizontal feeder, making it useful in shredding long objects. The hydraulic drive flail cutter and the feed belt conveyor, which automatically controls the supply volume based on the loads of materials supplied, makes it possible to conduct high-efficiency crushing. With an operating weight of about 6 tons, and a body with a total length of 6,270 mm, total width of 1,960 mm, and total height of 2,395 mm, this compact model enables crushing operations to take place even in sites with limited workspace.



Mobile tub grinder BR80T-1

Efforts for Reuse and Recycling

Promoting the Reman Business

The Reman business consists of remaking used machine components into components of the same quality as newly-manufactured ones by various processes and supplying them to the market. The Komatsu Group is promoting the Reman business at Reman Centers installed at seven of its operation bases around the world. "Reman," an abbreviated version of the word "remanufacturing," offers the customers the following benefits.

- The same quality and performance as those of new components are guaranteed
- The cost of a "remanned" component is lower than that of a new one
- A proper level of inventory of "remanned" components permits reducing the idle time of construction equipment
- The recycling and reuse of components helps save resources and reduce waste

Providing Reman-related Information

Komatsu has set up "Reman-Net," networking Reman Centers around

the world. Komatsu is thus promoting its Reman operations at the global level and facilitating the active use of reused and recycled items.

Acquisition of ISO14001 Certification by Reman Centers

The seven Reman Centers around the world have been pursuing ISO14001 certification in order to promote environmental conservation. Four of the Centers acquired certification by FY2004 and the one in Australia acquired it in December 2005. The remaining two are aiming at acquiring it within FY2006. Furthermore, even at the five Centers that have already acquired certification, further environmental conservation efforts remain ongoing through daily operations and activities for inspections for maintaining and renewing certification.

Future Efforts

To increase the reuse rate of used components (parts), Komatsu is making efforts to improve further its recycling-related technology and reducing the amount of disposed parts through the development and introduction of recycling-related machines and technology as well as through the development of parts restored to an ideal size and parts designed exclusively for future use as remanufactured parts.

Efforts in the Industrial Machinery Division

Development of the Large AC Servo Press

The large AC servo press, developed jointly with Toyota Motor Corporation, replaces the clutch brake and pneumatic die cushion used in conventional mechanical presses with an AC servo drive, substantially increasing production capacity by about 1.35 times (compared with previous Komatsu machines). In addition, the large AC servo press enjoys the following superior features compared to conventional mechanical presses:

- Utilization of the servo motor recovery function leads to a 40% decrease in electricity consumed
- The servo motor allows control of the sliding speed and the touch speed to the die assembly can be reduced, resulting in a 20dB decrease in noise
- The drive has been simplified wherever possible, leading to improved maintainability
- The size of the press has been reduced by 50%, contributing to more effective use of space in customers' plants.



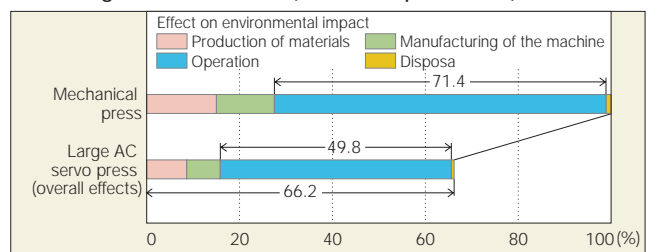
Large AC servo press

Life Cycle Assessment Provisional Calculations for the Large AC Servo Press

Life cycle assessment (LCA) provisional calculations of CO₂ emissions reduction effects were conducted on the large AC servo press.

Provisional calculations of the CO₂ emissions reductions per unit of production showed that compared to conventional mechanical presses, a significant reduction of about 34% is achieved due to the smaller size of the press, resulting in less input of materials, less processing and waste, and less electricity consumed during operation. In addition, it is possible to reduce the number of necessary lines by one-third as a result of increased press productivity. Combined with the reduction in the size of the press itself, it is possible to decrease the overall space required for the press line by about 43%, and there are cases of electricity required at the plant for lighting, air conditioning, and compressors being reduced by 64%.

Life Cycle Assessment Provisional Calculations for the Large AC Servo Press (Per unit of production)



Environmental Conservation in Manufacturing Operations

Komatsu is undertaking efforts for energy conservation to mitigate global warming as well as pursuing zero emissions by utilizing waste as resources.



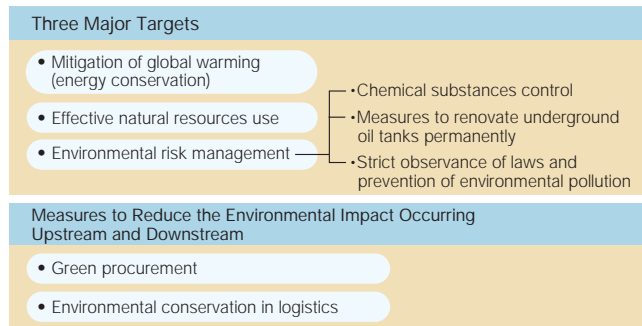
Susumu Isoda
Senior Executive Officer
President, Production Division

Through a series of activities from manufacturing to logistics, Komatsu has been promoting measures designed to be industry-leading in the areas of climate change mitigation measures, activities for the efficient use of resources, and reductions of substances of environmental concern, in keeping with its mid- to long-term environmental planning. In particular, in FY2006, Komatsu identified its Ibaraki Plant, currently under construction, as a model plant incorporating the consideration of environmental issues, with the installation of energy conservation equipment and the reduction of CO₂ emissions through the substantial shortening of the distances involved in logistics as examples of how Komatsu is promoting environmental conservation even further.

In the future, Komatsu will continue to carry out its responsibilities to society as it promotes the Spirit of Manufacturers revolution, with safety, environment, and a firm commitment to compliance as major premises for the continuation of its operations.

Environmental Conservation in Manufacturing Operations

Komatsu's manufacturing operations generate environmental impact through "input" to manufacturing, including the use of electricity and other forms of energy as well as various forms of natural resources, such as water and raw materials, and also through "output" from manufacturing, including air emissions, waste materials, and effluent. Based on this understanding, Komatsu plants are aiming to minimize environmental impacts from both input and output and Komatsu is actively committed to implementing environmental conservation activities at its manufacturing facilities. In addition, Komatsu is expanding this way of thinking into Komatsu manufacturing activities around the globe, thus resulting in global and Group-wide environmental conservation activities.



Mitigation of Global Warming (Energy conservation)

Basic Elements of Komatsu's Efforts

In order to mitigate global warming, Komatsu has since FY2005 amended its indicators to be the amount of CO₂ emissions per unit of manufacturing value with regard to electricity, fuel gas, fuel oil and any other type of energy consumed in its manufacturing operations. The company carries on its activities to save energy with a target of reducing energy consumption by 25% of the FY1990 figure by FY2010.

State of Affairs in FY2005

In FY2005, Komatsu succeeded in reducing the amount of CO₂ emissions per unit by 17.7% compared with the FY1990 base year figure. Furthermore, the company achieved a 4.8% reduction in the total amount of emissions compared with the FY1990 base year. Komatsu intends to conduct lateral extension of these activities towards the entire Group.

Means for Further Improvement

As for energy conservation on the demand side, the manufacturing divisions are at the core of efforts undertaken for reductions in amounts of energy consumed and other areas, as depicted in the chart on the right. With Working Group activities, lateral development among all business units is taking place. As for conservation on the supply side, the utility administrative divisions are the main focus of implementation, and significant effects have already been achieved, in particular by means of the efforts for improvements in energy conservation planned since FY2001 through ESCO*¹ (Energy Service Company) operations. In February 2006, Komatsu won the Gold Prize in the First Awards of Excellent Successful ESCO Business.

Efforts Undertaken by the Manufacturing Division

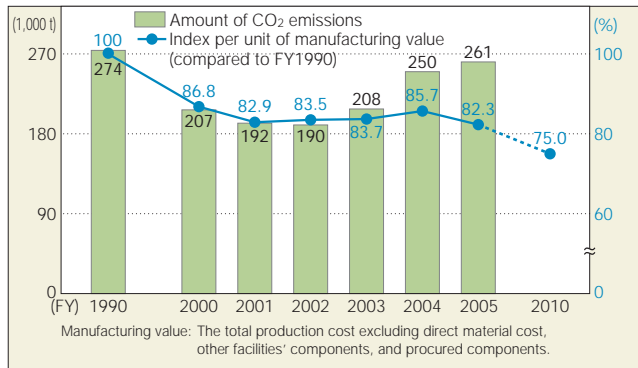
• Cutting stand-by electricity of manufacturing equipment
• Drying washed items using air blowing (reduction of pressurization)
• Introducing inverter-controlled pumps and motors
• Painting plant roofs with heat-insulating paint
• Introduction of high-efficiency lighting
• Distributing compressors

Efforts which Incorporated ESCO Operations as the Main Activity

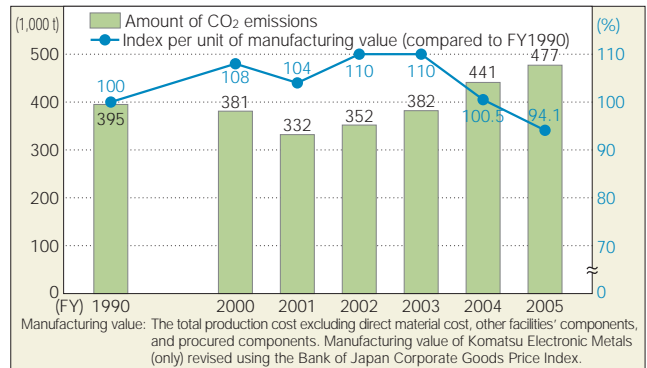
	Effort
FY2001	•Oyama Plant: Displacement air-conditioning equipment: gas turbine cogeneration
FY2002	•Awazu Plant: Absorption chiller cascade cooling, thermal recycling of cutting oil •Komatsu Zenoah Kawagoe Plant: Cogeneration •Komatsu Electronic Metals Nagasaki Plant: High-efficiency turbo freezer
FY2003	•Oyama Plant: Displacement air-conditioning equipment, high-efficiency lighting •Osaka Plant: Displacement air-conditioning equipment, high-efficiency lighting •Komatsu Zenoah Koriyama Plant: Cogeneration, displacement air-conditioning equipment
FY2004	•Awazu Plant: Cogeneration, displacement air-conditioning equipment
FY2005	•Oyama Plant: Displacement air-conditioning equipment, high-efficiency lighting in new plant
FY2006 (intended)	•Oyama Plant: Change of the energy source to natural gas for gas turbine cogeneration

*ESCOs (Energy Service Companies) provide comprehensive services with regard to energy conservation in factories or buildings, enabling a realization of energy conservation while maintaining the same performance as before, and they guarantee that energy conservation effects will result from the measures they recommend.

Amount of CO₂ Emissions by Komatsu Manufacturing Facilities and Komatsu Castex Himi Plant



Amount of CO₂ Emissions by Komatsu and the Komatsu Group's Domestic Manufacturing Facilities



Activities for the Effective Use of Resources

Waste

Zero emissions

In tandem with reducing the volume of waste materials at manufacturing operations, Komatsu concentrates on zero emissions* activities to recycle waste materials. As a result of Komatsu extending these activities to the Group's domestic manufacturing facilities, the Group as a whole attained a recycling ratio of 99.6% in FY2005. In addition, with the Shinshiro Plant of Komatsu House Ltd. attaining zero emissions, all domestic manufacturing facilities have now achieved zero emissions.

Reduction of Volume of Waste Generated

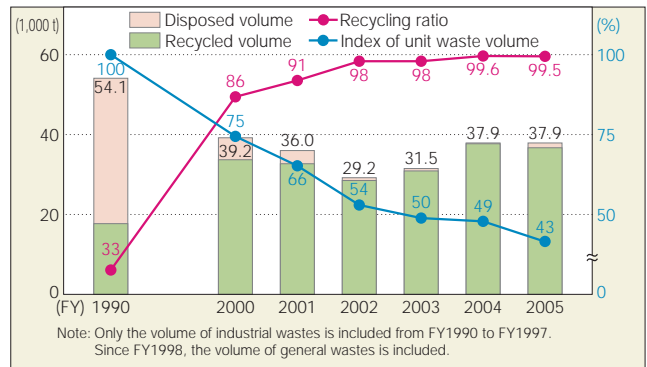
Concerning unit waste volume, the Komatsu Group has carried on activities to reduce waste volume to 50% of the FY1998 figure by FY2005. The promotion of strict waste separation as well as the use of waste materials as resources with value has brought about a ten-point improvement compared to the previous fiscal year. However, despite this, the target was unable to be attained. In addition, with regard to reducing waste processing costs, the Komatsu Group's domestic manufacturing facilities have established a target of reducing costs by 30% or more of the FY2000 figure by FY2005, and the company has already attained 67% reductions. This resulted from the increase in income from sales of materials of value made possible as a result of rapidly escalating resource prices. In the future Komatsu will reformulate its medium-term plans and make efforts to reduce the volume of waste generated.

*Komatsu defines "zero emissions" as a waste material recycling ratio of 99% or more.

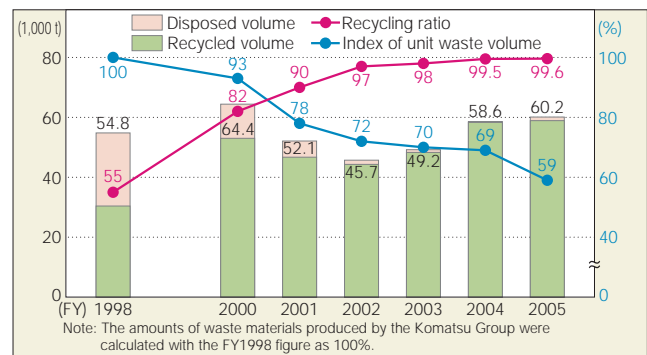
Conserving Water Resources

Since FY2003, Komatsu Group manufacturing facilities have been working towards a target of achieving by FY2005 a reduction of greater than 5% in the volume of water consumed per unit of manufacturing value from the level of achievement in FY2002. By practicing reuse during processing and by eliminating wasteful practices on a day-to-day basis, Komatsu was able to achieve 28.1% reductions compared with FY2002 and thereby attain its target. Most notably, through the reuse of wastewater from carburizing furnaces, the Awazu Plant has achieved 13.5% reductions compared with the previous fiscal year on a per unit basis. In the future Komatsu will reformulate its medium-term plans and make efforts to reduce the volume of water resources consumed.

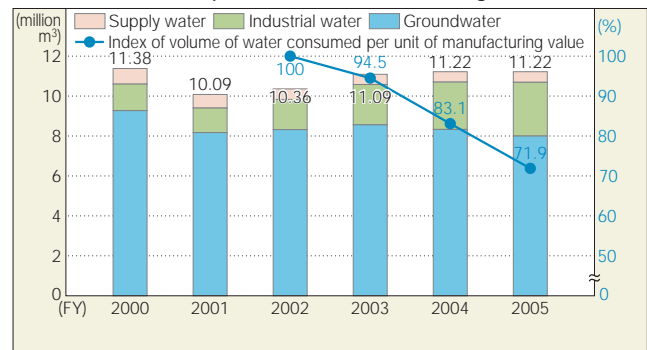
Volume of Waste Generated by Komatsu Manufacturing Facilities and Komatsu Castex Himi Plant



Volume of Waste Generated by Komatsu and the Komatsu Group's Domestic Manufacturing Facilities



Volume of Water Resources Used by Komatsu and the Komatsu Group's Domestic Manufacturing Facilities



Environmental Risk Management

In order to minimize the environmental risk that accompanies manufacturing activities, Komatsu is committed to acting in strict compliance with the legal framework stipulated by national and local authorities. In addition to thoroughly implementing pollution mitigation and prevention measures, Komatsu is making efforts to reduce the volume of chemical substances that it handles and uses.

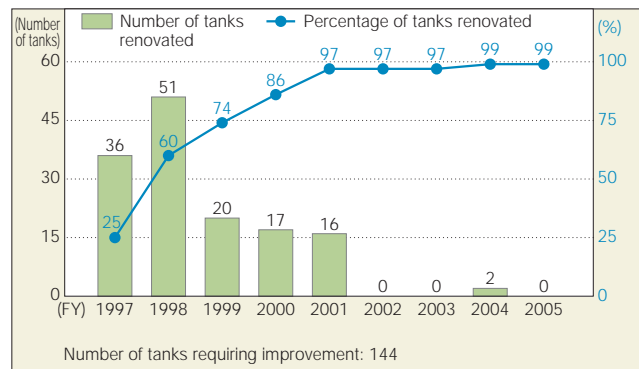
Compliance and Pollution Mitigation and Prevention

Komatsu Group companies are responsible for positively implementing periodic reporting of results of environmental measurement and keeping of measurement data in strict compliance with the applicable laws and regulations of the national and local authorities. In FY2005, the Komatsu Group experienced no environmental infractions or accidents in Japan.

Improvement of Underground Tanks

The replacement of existing underground tanks with above-ground tanks, the doubling of their tank walls, and the consolidation of underground tanks were carried out according to a plan. Of the 144 tanks in service for 20 years or more, 142 have already been subjected to improvements. As for the remaining two tanks, removal of the tanks is planned for FY2007, accompanying a change in the boiler fuel to natural gas. In the future Komatsu will take measures to address in order of precedence underground tanks that newly pass the 20-year mark.

Renovation of Underground Tanks in Operation More Than 20 Years at Komatsu and the Komatsu Group's Domestic Manufacturing Facilities



Management of PCB Wastes

Komatsu conducts proper storage and management of PCB wastes from transformers and other such items in accordance with the Law Concerning Special Measures Against PCB Waste and the Waste Disposal and Public Cleansing Law. As of March 2006, the Komatsu Group as a whole was in possession of approximately 650 drums of PCB wastes.

Komatsu has commissioned the Kitakyushu Office of the Japan Environmental Safety Corporation (JESCO) to treat its PCB wastes since December of 2004. However, starting with treatment of the Head Office's PCB wastes in FY2006, in the future Komatsu plans to arrange for early treatment in regional facilities.

Soil and Groundwater Contamination

The Komatsu Earth Environment Committee has established guidelines for the investigation of soil and groundwater contamination in Japan. Namely, Komatsu investigates the condition of soil/groundwater contamination at business units that are planned to be sold, closed, or demolished and, if necessary, takes suitable measures under the supervision of the local authority concerned. In addition, Komatsu conducted soil contamination investigations at plants currently in operation to check for contamination by organic chlorine-based chemical compounds, which had in the past been used in cleaning solvents and otherwise.

In FY2005, soil and groundwater investigations were conducted at eight business units, with investigations already complete at five of those sites. At four of these five business units, contamination surpassing the environmental quality standards for soil was not detected. For the one business unit in which a higher concentration was detected, the issue was restricted to the grounds of the unit, and cleanup operations are scheduled to take place in FY2006. Investigations will continue on the three business units whose investigations were not completed within FY2005.

In addition, Komatsu intends to undertake at its Group companies systematic investigations of soil and groundwater contamination arising from volatile organic compounds (VOCs).

Chemical Substance Control

The enforcement of the Pollutant Release and Transfer Register (PRTR) Law^{*1} obligates industrial plants to, on an annual basis, keep track of the amounts of Type 1 specified chemical substances (for substances handled in quantities of 1 ton or more) released and transferred and file notice with the authorities. Komatsu has been supervising the management of all relevant substances, even when quantities handled are less than 1 ton.

State of Chemical Substance Control in FY2005

With regard to the consumption of paints, which result in a substantial portion of emissions volume, Komatsu and Komatsu Group manufacturing facilities were able to reduce the amounts of discharge of xylene, toluene, and other substances by switching to chemical substances that government authorities have identified as posing less environmental risk. However, as a result of a significant increase in production volume, there was an increase in the amount of substances used, particularly paints. This led to an expansion of the volume of emissions into the air of substances covered under the PRTR, even though the amount per unit of manufacturing value decreased.

The Komatsu Group will continue to undertake efforts to reduce the amount of environmental impact through improvements toward the control of such substances, mainly through the reduction of VOC^{*2} emissions.

Komatsu's Guidelines for the Control of Chemical Substances

In order to develop products that take the environment fully into account and reduce environmental risk, Komatsu is implementing comprehensive control of chemical substances by means of the *Komatsu Guidelines for the Control of Chemical Substances*.

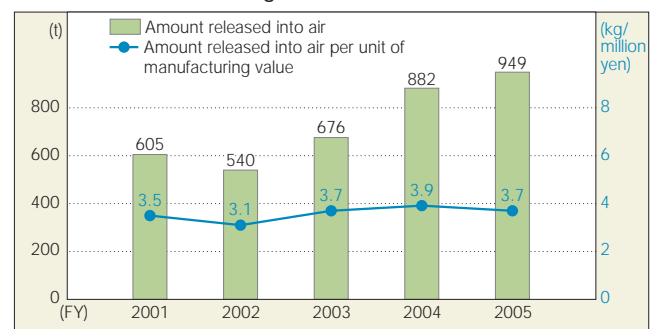
Based on the established criteria for risk assessment, Komatsu has classified chemical substances subject to supervision into the three ranked categories of

- prohibited substances: 712 types
- substances to be reduced: 1,244 types
- substances to be controlled properly: 1,464 types

and is controlling the amounts of release and transfer of each individual chemical substance. At the end of FY2003, in order to implement these guidelines, Komatsu introduced a Chemical Substance Management System, including to its affiliated companies. In FY2004, by the use of this management system, Komatsu was able to improve its ability to prevent environmental pollution by means of environmental impact assessments conducted in advance.

In FY2005, Komatsu took further steps to make full use of this system. However, in light of further increases in manufacturing volume, how to achieve reductions in the volume of chemical substances handled and released will indeed be a critical issue.

Changes in the Amounts of PRTR-related Substances Released into the Air at Komatsu and the Komatsu Group's Domestic Manufacturing Facilities



Reductions in Release of VOCs

VOCs found in paints account for over 90% of the volume of chemical substances released by Komatsu. As measures to deal with VOCs, significant reductions have already been achieved by changing the system for painting from a base coat/top coat dual-coat method to a system using single-coat paints that deliver the same performance through only one application.

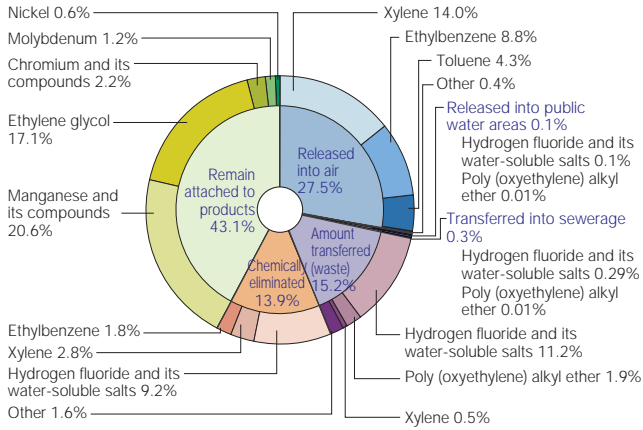
However, since the regulations in Japan concerning the release of VOCs will enter into force in FY2006, Komatsu has established a challenging target of achieving by FY2006 a 50% reduction in VOC releases

per unit of manufacturing value vis-à-vis a FY2002 baseline. The company is now undertaking efforts to attain that target. FY2005 saw only minimal reductions per unit as a result of increases in manufacturing volume. However, forthcoming improvements will include: (1) conversion to high-solid type paints (to reduce the amount of VOCs contained therein); (2) increases in coating efficiency; (3) introduction of emissions control equipment; and (4) conversion to water-based paints.

*1 PRTR Law: Law Concerning Reporting, etc. of Releases to the Environment of Specific Chemical Substances and Promoting Improvements in Their Management

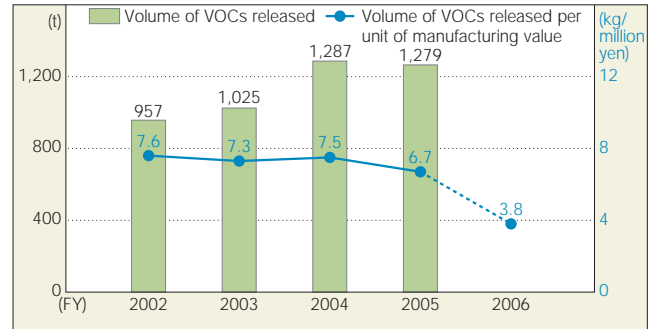
*2 VOC: Volatile Organic Compounds (primarily paint solvents)

Breakdown of the Amount of PRTR-related Substances Released and Transferred at Komatsu and the Komatsu Group's Domestic Manufacturing Facilities



Note: Substances handled in quantities of 1 ton or more

Volume of VOCs Released by Komatsu and the Komatsu Group's Domestic Manufacturing Facilities



Names of Class I Designated Chemical Substances and the Volumes Released and Transferred (Handled volume of 1 ton or more)

(Unit: tons)

Number under the PRTR Law	Name	Volume handled	Volume released				Volume transferred		Chemically transformed or eliminated	Volume contained in products
			Air	Water	Soil	Buried	Sewerage	Disposed		
311	Manganese and its compounds	728.5	1.1	—	—	—	—	11.5	—	714.7
283	Hydrogen fluoride and its water-soluble salts	720.8	0.4	3.4	—	—	—	10.1	317.1	—
63	Xylene	713.8	485.0	—	—	—	—	17.9	95.4	6.2
43	Ethylene glycol	600.3	0.1	—	—	—	—	7.3	0.0	592.9
40	Ethylbenzene	381.7	305.1	—	—	—	—	10.8	62.3	1.3
227	Toluene	182.3	147.3	—	—	—	—	4.5	5.8	9.5
68	Chromium and chromium (III) compounds	66.5	0.0	—	—	—	—	2.1	—	74.8
307	Poly (oxyethylene) alkyl ether (alkyl C=12-15)*1	65.5	0.3	0.3	—	—	—	0.2	64.6	0.0
346	Molybdenum and its compounds	41.3	0.0	—	—	—	—	—	0.1	41.2
231	Nickel	19.5	0.0	—	—	—	—	—	0.3	19.3
224	1,3,5-trimethylbenzene	18.0	8.5	0.0	—	—	—	—	0.2	1.4
69	Chromium (VI) compounds*2	16.2	—	—	—	—	—	—	5.8	0.0
266	Phenol	8.9	0.0	—	—	—	—	—	0.9	8.0
100	Cobalt and its compounds	6.3	—	—	—	—	—	—	0.2	6.0
16	2-aminoethanol	5.2	0.0	0.0	—	—	—	—	5.2	—
30	Bisphenol A type epoxy resin (liquid)	2.7	—	—	—	—	—	—	1.2	1.5
230	Lead and its compounds	2.3	—	—	—	—	—	—	1.9	0.4
232	Nickel compounds	2.0	—	0.0	—	—	—	—	0.8	1.1
25	Antimony and its compounds	2.0	—	—	—	—	—	—	0.8	1.1
299	Benzene	1.6	0.0	—	—	—	—	—	—	0.7
310	Formaldehyde	1.3	0.0	—	—	—	—	—	—	1.3
9	Bis (2-ethylhexyl) adipate	1.1	—	—	—	—	—	—	—	1.1
243	Barium and its water-soluble compounds	1.1	—	—	—	—	—	—	—	1.1
270	Di-n-butyl phthalate	1.0	0.8	—	—	—	—	—	0.1	0.1

*1 Limited to substances whose alkyl group has carbon number 12 to 15 and any mixtures of those substances.

*2 Chromium (VI) compounds are used in chromeplating, and approximately 70% is contained in products in the form of chromium metal.

Activities for Reducing Environmental Impact from Upstream and Downstream Operations

In keeping with the company's Environmental Action Plan for Procurement, Komatsu Group companies are responsible for conducting green procurement. Komatsu also continues to promote improvements in transport and packaging, bringing about greater efficiency in manufacturing and logistics through state-of-the-art technology such as electronic tags.



Tetsuro Kajiya
Executive Officer
President, Procurement Division

For Komatsu to provide to its customers products that are in harmony with the environment, it is necessary for raw materials and procured components and parts also to be goods and products that take the environment into account.

Komatsu utilizes two approaches to realize procurement that gives consideration to the environment—that is, Green Procurement. The first of these is the preferential purchasing of goods and products that have low environmental impact. At the same time, the company promotes towards its major business associates activities that educate and enlighten them with regard to environmental awareness as well as the creation of environmental management systems.

Green Procurement

Strengthening of Environmental Management in Major Business Associates

Promoting the Creation of Environmental Management Systems

In order for Komatsu systematically to enter into environmental conservation activities along with its business associates, Komatsu has distributed to these associates Environmental Check Sheets. In addition to becoming able to grasp their environmental management frameworks and environmental effects, Komatsu urges its business associates to acquire environmental management system (EMS) certification. However, since the current state of affairs, in which 61 of 126 companies have acquired such certification, is less than satisfactory, by FY2008 Komatsu will be promoting more strongly the acquisition of EMS certification such as ISO14001 or Eco-stage certification by every major business associate.

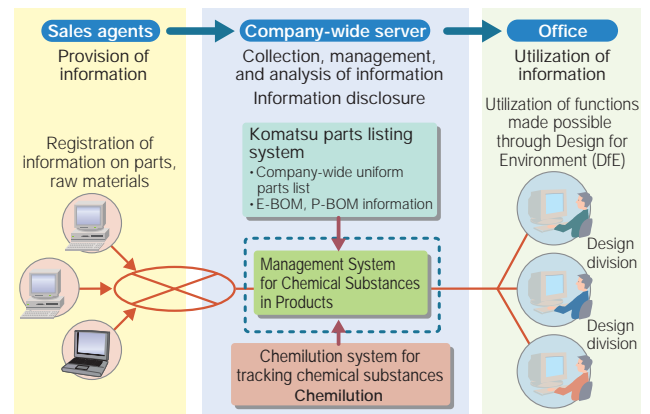
Reinforcement of Reductions in Substances of Environmental Concern

In order to reduce the substances of environmental concern derived from raw materials and other sources, in December 1999 Komatsu distributed its Green Procurement Guidelines and called for the management of substances of environmental concern. In the future, in addition to identifying the chemical substances used in Komatsu products and reducing or eliminating the use of regulated substances, the company will by FY2010 establish a system whereby information from business associates will be collected and tabulated in order to create a means for conducting information disclosure at any time, to be known as the Management System for Chemical Substances in Products.

Environmental Action Plan for Procurement

Item	Results from FY2005			Cf. medium-term expansion plan for green procurement items (formulated in FY2003)			
	Total amount purchased (thousand yen/year)	Amount of green procurement items purchased (thousand yen/year)	%	Plan for FY2005		Plan for FY2010	
				Amount of green procurement items purchased (thousand yen/year)	%	Amount of green procurement items purchased (thousand yen/year)	%
Stationery items, office supplies	15,500	10,100	65%	8,500	55%	9,000	58%
				1,000 items originally approved for purchase not reduced (enhancing the monetary proportion procured)			
Toner cartridges	23,200	5,100	22%	7,000	30%	10,000	43%
				70 items approved for purchase			
Copy paper	19,200	15,837	82%	6,000	31%	8,000	42%
				9 items originally approved for purchase reduced to 5, with 100% being green products			
Total	57,900	31,037	54%	21,500	37%	27,000	47%

Composition of the Komatsu System for Supporting Environment-friendly Design



Promoting the Procurement of Materials with Low Environmental Impact

Example of Green Procurement of Office Supplies and Office Automation Products

With regard to office supplies and office automation products, Komatsu is making efforts to improve the monetary proportion of procured goods that have been purchased under green procurement, such as products that have an eco-mark. The target for FY2005 of purchasing 41% of such supplies was met, with the actual figure being 54%. Komatsu will continue its activities to increase further the monetary proportion of products obtained through green procurement.

Environmental Conservation in Logistics

Ongoing Activities to Improve Logistics

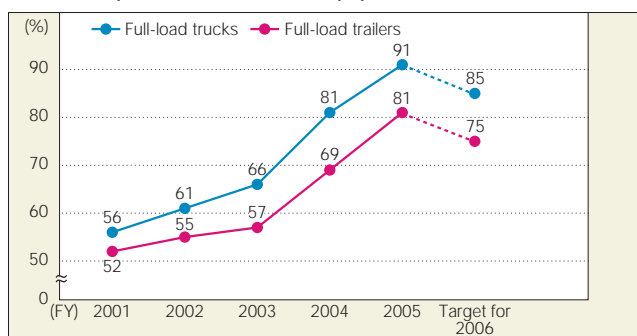
Improvements in the Manufacturing Process

In cooperation with Komatsu Forklift Co., Ltd., a Group company, Komatsu developed and introduced the KOMFORKAS system for forklift operation management, securing a 10% improvement in the rate of forklift utilization during the manufacturing process. In FY2006, Komatsu will expand the number of plants utilizing this system while introducing biodiesel fuel, among other measures.

Improvements in the Transport of Products

Building upon its results in FY2004, Komatsu has been actively expanding its collaborative transport alliance. As a result, the full-load round trip efficiency has improved dramatically for heavy load trailers and transport trucks, which in the past had been difficult to utilize in round trips due to insufficiencies in the number of vehicles available for logistics. Komatsu successfully realized its target under its five-year plan ahead of schedule.

Change in Full-load* Trucks and Trailers (for transport of construction equipment)



*Full-load ratio = number of loaded runs/total number of runs

Improvements in Packaging

Komatsu has been promoting process simplification (energy conservation) and return/reuse (resource conservation) through a change to steel pallets for packaging parts used in manufacturing by overseas companies. As a result, the company has achieved a steel-pallet implementation rate of 99.5% and a return/reuse rate over 90%.

In addition, these efforts were extended to replacement parts, which has been difficult to improve upon insofar as the shipping volume and shipment receiver vary with each shipment. By promoting the use of returnable packaging and steel pallets made to fit marine shipping containers, the company achieved approximately a 15% return ratio for packaging materials. The company intends to continue these efforts in FY2006 by expanding the parts and regions eligible for implementation.

Besides this, in FY2006, the company will promote packaging return/reuse (resource conservation) for parts supplied from Japanese corporations to Komatsu Group manufacturing facilities overseas.

Modal Shifts

At component plants for engines and hydraulic equipment, Komatsu has launched a shift from truck-based transport to rail-based transport in long-distance transport of components to vehicle body plants, resulting in 65 tons of annual CO₂ emissions reductions for FY2005. In the future, the company intends to expand the number of locations at which such measures are underway.

Building of New Plants

In order to meet expanding demand for construction equipment and industrial machinery, Komatsu has begun the construction of new environment-friendly plants at the ports of Hitachinaka in Ibaraki Prefecture and Kanazawa in Ishikawa Prefecture. Upon completion of these plants, through the reduction of overland transport of products to the ports, CO₂ emissions reductions of some 2,000 tons annually are expected.



Image of the Ibaraki Plant upon completion

Overview of Komatsu's Environmental and Social Activities to Date

- 1962 •Continuous support of the Flower Association of Japan since its founding
- 1990 •Annual Directors' Caravan for Inter-office Communication (discussion sessions held when executive directors visit business units launched)
- 1991 •Clarification of Komatsu's corporate approach (Change of company name in Japanese public relations to "Komatsu", adoption of new corporate brand logotype)
•Earth Environment Committee established
- 1992 •Komatsu Earth Environment Charter and Environmental Action Plan formulated
•Marking of plastic parts conducted
•Environment-friendly product mobile crusher BR60 put on the market
- 1994 •Statutory Auditors (Board) established
•First *Environmental Report* published
- 1995 •Transition to alternatives for chlorofluorocarbons in air conditioning in construction equipment completed

- Biodegradable hydraulic fluid put into practical use
- Specified chlorofluorocarbons and 1,1,1-trichloroethane completely phased out
- Objective of acquiring ISO14001 certification at all Komatsu manufacturing facilities stated
- 1996 •Successful planting and raising of trees in tropical forest of Indonesia (2,500 trees)
- 1997 •Compliance Department established
•Second *Environmental Report* published
- 1998 •Ethics Committee established (renamed Compliance Committee in 2001)
•First edition of *Komatsu's Code of Worldwide Business Conduct* published
- 1999 •Executive Officer system established
•Board of Directors reorganized (smaller Board; election of an external director)
•Compensation Council established
•All four Komatsu manufacturing facilities acquire ISO14001 certification
- 2000 •*Environmental Report* again published; thereafter, published annually
- 2001 •Environment-friendly construction equipment GALEO series put on the market, satisfying Tier II emissions regulations in Japan, the U.S., and Europe
- 2002 •All seven domestic Komatsu Group manufacturing facilities acquire ISO14001 certification
•All four Komatsu manufacturing facilities attain zero emissions
- 2003 •Environmental Affairs Department established
•Komatsu Earth Environment Charter revised
- 2004 •Corporate Social Responsibility Department established
•Sixth revised edition of *Komatsu's Code of Worldwide Business Conduct* published
•Komatsu Group business units acquiring ISO14001 certification total 30
- 2005 •Second Global Environmental Affairs Meeting convened
- 2006 •Environment-friendly construction equipment GALEO series put on the market, satisfying Tier III emissions regulations in Japan, the U.S., and Europe
•Third Global Safety and Environmental Affairs Meeting convened
•Attainment of zero emissions at all domestic manufacturing facilities

Environmental Activities of Overseas Manufacturing Facilities

Each of the Komatsu Group's overseas manufacturing facilities, in recognition of the effects its activities have on the environment, promotes activities that minimize environmental impacts. Additionally, each facility undertakes various activities aiming to coexist in harmony with its local host community and contribute to society.

Komatsu do Brasil Ltda.

The "Working with the Future" Project

Komatsu do Brasil Ltda. was established in 1975 in the city of Suzano, São Paulo, manufacturing and selling hydraulic excavators, bulldozers, and other medium- to small- sized construction equipment and foundry pieces.

In FY2005, Komatsu do Brasil, as part of its efforts to contribute to the host local community, in cooperation with the Suzano Region Education Supervision body and Municipal Department of Sports, Leisure and Recreation, launched a project entitled "Working with the Future (Trabalhando com o Futuro)." Over the course of five years, the project activities will work to develop the environment, society, and culture of the local community where employees and their families live.

Promotion of Various Local Activities

Environmental Education

The person supervising environmental issues at Komatsu do Brasil serves as a lecturer, conducting explanatory workshops for teachers and staff in local elementary and junior high schools regarding the importance of separating trash by type and means of promoting various activities.

Drama Events Taking Up the Theme of the Environment

The company put on plays at elementary and junior high schools, taking up the themes of environmental conservation and having good relations among family members. Approximately 2,200 people participated in these activities.

Dramas Taking Up the Theme of Local Culture

In March 2006, the company contracted with a professional performing troupe to put on plays at five elementary and junior high schools on the theme of local cultures in Brazil's five regions. Some 3,700 people attended these performances in total. Conducting a study of the local cultures of the areas taken up in the plays, the schools will hold an exhibition and presentation of results in June 2006.

Walking for the Environment

Over 1,000 residents of Suzano participated in a walking event from the grounds of Komatsu do Brasil to a park, the walk's final destination. On that day, to provide donations to local institutions, participants also contributed food. In the park there was also an exhibition of pictures made by participating elementary school students on the theme of environmental conservation.



The first walking event for the environment

External Evaluations of Activities Contributing to Host Local Society

The following awards were granted in recognition of these well-received activities.

- Received First Alto Tiete Region CSR Award, sponsored by local daily newspaper *Magi News*
- Commended as "corporate friend of schools" by Suzano Region Education Supervision body

Komatsu UK Ltd.

Received Gold Award for Occupational Health and Safety Activities

Komatsu UK Ltd. is located in the suburbs of Newcastle, UK, and manufactures and sells hydraulic excavators.

Komatsu UK was selected to receive the British Royal Society for the Prevention of Accidents (RoSPA) Gold Award for Occupational Health and Safety. The awards ceremony was held in May 2006 at the Hilton Birmingham Metropole Hotel. David Rawlins, RoSPA Awards Manager, said, "Komatsu UK Ltd. have demonstrated how seriously they take health and safety management and are a fine example to many other companies. We would like to see more organizations following their lead by providing a positive example."

Andy Robertson, Komatsu UK Senior Health, Safety and Environment Officer said, "This award is recognition for an excellent year's safety performance at Komatsu UK, as a result of an extensive risk assessment program, along with the implementation of counter-measures to hazards reported by employees and Safety Representatives."

Komatsu UK intends to utilize the receipt of the RoSPA award as an opportunity to more fully implement its health and safety management system, leading to even better results in the future.



Richie Coyles, Design Department Safety Representative receiving the Gold Award from Deputy President of RoSPA Lord Jordan of Bournville

Social Contribution Activities by Komatsu UK

The Pinetree Centre

Komatsu UK has provided one of its buildings, The Pinetree Centre, to be utilized to benefit local businesses and to support charity work. The Pinetree Centre is managed by a not-for-profit company and offers low-cost office space with accommodation for start-up businesses. The charity work being performed includes the offering of IT training for people with disabilities.

The Sports and Social Committee

Each year the Sports and Social Committee selects one charity to support by way of fundraising events. Selection of the charity is conducted by employees as well as Komatsu UK's Charity Panel. During 2005 Sunningdale School, a school for children with learning difficulties and special needs, was selected as the charity.

Komatsu UK's fund raising activities to support the school included raffles and the family day and dinner dance, with £15,100 raised over the course of the year. The ceremony to present the funds raised took place in April 2006 on the occasion of the dinner dance, with Komatsu UK Managing Director Peter Howe and Sports and Social Committee Member Trevor Brown handing the check to the Sunningdale School Head Master.

Komatsu Hanomag GmbH

Celebrating 170 Years in Business at Family Day

Komatsu Hanomag GmbH, located in Hanover, Germany, manufactures and sells wheel loaders and wheeled excavators. Hanomag, predecessor to the present company, was founded in 1835 as an iron foundry and machine tools factory and joined the Komatsu Group in 1989. Boasting such a long corporate history, the name Hanomag is known throughout Germany.

Family Day

In 2005, Komatsu Hanomag celebrated its 170th year in business. On September 9, about 170 representatives of business associates and other guests from around Germany and 17 other countries around the globe gathered at the company. The next day, September 10, was deemed Family Day, and for the entire day the company was opened to employees and their families. This was the second holding of Family Day, continuing from the previous year. The event is designed so that employees' family members are able to see what the employees experience on a daily basis and get to know the company better. Some 2,500 people visited the company that day.

A full array of the wheel loaders manufactured at the company was available for viewing on the company grounds. In addition, the very first wheeled excavator made at the plant since the recent transfer of



Family Day

manufacturing from Komatsu UK was on display.

The employees' family members were excited to see the strength of the large-scale construction machinery. Long lines formed as people waited for their chance to ride on a wheel loader, children tried their skills on the trampoline, climbing wall, and other child-friendly attractions, and the grounds were filled with chatter and laughter as participants bustled around holding charbroiled sausages and potatoes.

Efforts for the Environment

Reductions of VOC Emissions

Komatsu Hanomag, in an effort to reduce emissions of VOCs (Volatile Organic Compounds) during the painting process, has switched over to water-based paints. Although in FY2005 the company did not meet the reduction targets, it will continue to work towards its targets for FY2007.

Recipient of "Blue Angel" Eco-mark, Widely-recognized around EU

In 2005 Komatsu Hanomag earned the "Blue Angel (Blauer Engel)" eco-mark for meeting low-noise requirements in its small wheel loaders. Launched in 1977, the Blue Angel is the eco-mark with the longest history in the world. It is awarded through deliberations of a committee appointed by the German Minister for Environment to products and services that give high consideration to both environmental conservation and user protection. Viewing noise minimization around construction equipment as essential for protecting health and the environment, Komatsu Hanomag will continue its efforts to improve its results even further.

European Health, Safety and Environment Meeting Held in UK

The first European Health, Safety and Environment (HS&E) Meeting was convened by Komatsu UK over two days, from August 31 to September 1, 2005. Fifteen people participated in this meeting from European regional overseas subsidiaries Komatsu Europe International NV, Komatsu Forest AB, Komatsu Utility Europe S.p.A., Komatsu Hanomag GmbH, as well as UK sales agent Marubeni Komatsu Ltd., and the Tokyo Head Office, in addition to the host company Komatsu UK.

On the first day, Komatsu UK gave a presentation that included an overview of its management systems for health and safety and environmental conservation as well as the state of relevant activities. After that, attendees took a tour of the plant, seeing for themselves the plant's state of affairs and participating in a question and answer session at the site.

On the second day, all the participants took part in an exchange of views. As a result of this meeting, they agreed that in order to promote more efficient health and safety and environmental conservation activities as the Komatsu Group, common indicators across the Komatsu Group are necessary.

The second European HS&E Meeting is expected to be convened within 2006, hosted by a different European subsidiary.



Exchanging views at the meeting



Visiting the plant

Komatsu Forest AB

Best Company in Umeå

Komatsu Forest AB is located in Umeå, a city of 120,000 people in the northern part of Sweden near the Arctic Circle, manufacturing and selling wheeled forestry equipment. In January 2004, Komatsu purchased Partek Forest AB, the second largest manufacturer of forestry equipment in the world, from the Kone Corporation of Finland, renaming it Komatsu Forest AB.

Commended as "Best Company in Umeå"

Komatsu Forest was selected by the Swedish city of Umeå where it is located as the "Best Company in Umeå" for FY2005, in recognition of its significant contributions to the development of Umeå and the surrounding community. A company is selected for this award annually, and this marked the second time that Komatsu Forest received the commendation, 20 years since its first commendation. An awards ceremony was held in November 2005.

"Open House" Day

In commemoration of the bestowing of this prestigious award, the company opened its plant to the citizens of the host local community in December 2005, with some 800 people visiting the company

grounds. The company allowed visitors to view the area inside the plant for assembly line operations, and many people took advantage of this opportunity to tour the plant. Numerous participants listened attentively to explanations of the forestry equipment while others talked and laughed with each other as they enjoyed cakes and sausages from the barbecue corner, making for an enjoyable day for the entire family even on such a cold weekend in the middle of winter.



Awards ceremony



"Open house" day

L&T-Komatsu Limited

Safety-related Activities Awarded a Gold Medal

Located in Bangalore, India, L&T-Komatsu Limited manufactures and sells hydraulic excavators and hydraulic equipment.

For its activities to promote safety, in May 2005 the company was awarded a gold medal from the Greentech Foundation. Greentech is one of three major safety-related organizations in India and well-known for its emphasis on practice. L&T-Komatsu has for many years taken proactive efforts to improve its record on safety, as shown by its acquisition of OHSAS18001 certification in 2003. As just one example of its efforts, operations had historically included the horizontal stacking of steel sheets, which were later inverted through the use of cranes and transported by forklift. This was modified to a safer system of transport in which the sheets are stacked vertically in an area for exclusive use, from which a factory conveyor belt carries the sheets to the welding area. Besides a reduction in the risk of accidents arising

from crane usage, this change also reduced the amount of storage space needed and time required to complete operations.

Through such proactive efforts to improve safety over the long term, the number of accidents in 2005 was only one-fifth the number recorded in 1994. The award was in recognition of these efforts.



Upon receiving the gold medal from Greentech

Komatsu Shantui Construction Machinery Co., Ltd.

Social Contribution Activities

Komatsu Shantui Construction Machinery Co., Ltd. is located in the city of Jinan in Shandong, China, and manufactures and sells hydraulic excavators.

Every year since 1997 the company has been contributing funds to local elementary and junior high schools as social contributions to the local area, centered on contributions to the host local community. During the first few years, annual contributions were of 100,000 yuan. However, in recent years contributions have reached as high as approximately 400,000 yuan. Most of these funds are used in the construction of classrooms and other buildings, with some also going to the purchase of education-related indoor equipment.



Ceremony marking the completion of construction of an elementary school



Commemorative marker

Activities for Society

Internally, Komatsu's activities for society include personnel system revisions and health and safety management improvements. Externally, the company emphasizes activities that contribute to society. Moreover, through various types of communication activities, Komatsu works to strengthen trust-based relationships with its stakeholders both inside and outside the company.

Action Plans and Activities Undertaken in FY2005

Komatsu undertakes a wide variety of activities for society. In particular, it strongly promotes efforts concerning personnel, communication

with its stakeholders, and social contributions. These activities deepen the trust given to Komatsu by its employees, shareholders, and the host local society, all of whom are stakeholders in the company.

Action Plan

Implementation policies	Results (Asterisks indicate results for FY2005)	Medium- and long-term objectives	Further information
1. Personnel			
•Creation of an organization with human resource development and dynamism	Personnel system that reflects accurately the abilities and the achievements of employees Full implementation of education and training for employees	Extension of KOMATSU Way and TQM education company-wide Human resources development at the global level	P. 33–35
•Provision of a safe and comfortable work environment	*Implementation of model workplace activities on risk assessment *Convening of Global Safety and Environmental Affairs Meeting	Revision and implementation of safety management activities on a daily basis through the participation of all employees Introduction of Occupational Safety and Health Management System (OSHMS)	P. 35
2. Communication with company stakeholders			
•Establishment of trust-based relationship through the release of appropriate information in a timely manner	*Shareholders' meetings convened in Osaka, Kanazawa *Provision of a website with substantial IR information	Further implementation of these activities	P. 36–37
3. Social contributions			
•Promotion of social contributions as a member of the host local community	*Provision of assistance to areas affected by large-scale disasters (two instances) Promotion of ongoing activities *Formulation of guidelines for the provision of disaster assistance	Further implementation of these activities	P. 38–39

Komatsu's Relationship with Its Employees



Masakatsu Hioki
Executive Officer
General Manager, Human Resources,
Supervising safety

Efforts regarding personnel and health and safety all have people—namely, Komatsu's employees—as stakeholders. However, the beneficiaries are not only the employees themselves, but also their families and other relevant parties, with the effects reaching the host local society.

The role of being responsible for personnel and health and safety can be summarized in a single phrase—specifically, ensuring a safe and comfortable work environment. When implemented, it energizes each individual, energizing work performance and enhancing forward-looking attitudes. I intend to fulfill my responsibilities completely, confirming anew that employees are treated fairly and that, with regard to health and safety, the creation of a safe and comfortable work environment becomes possible not through quick fixes but rather through a series of steady efforts with the participation of all employees.

Enhancing the Quality and Reliability of Employees

For a business, it is said that people, goods, money, information, and time are valuable assets and resources. Among these, even if the four elements other than “people” remain constant, if “people” are different, the results will be different. Therefore, “people”—the employees of Komatsu Group companies—are an irreplaceable asset for the Group. Komatsu recognizes the role of the personnel system in raising the quality and the reliability of the company's human resources and endeavors to create a system by which it can provide a workplace with opportunities for both creative and challenging endeavors. The company works to maximize the degree of trust from its employees.

Basic Policy on Global Human Resources

Personnel systems reflect the history and the culture of each particular region, and it is thus important to understand correctly the differences in systems and recognize those differences. The fundamental principles common to all Komatsu Group companies for personnel systems is set forth in the *Komatsu's Code of Worldwide Business Conduct* as stated below. Each region uses these principles as a base to create a personnel system that has a competitive-edge compared with other companies.

- (1) The uniqueness, character and privacy of individual employees shall be respected.
- (2) Employees shall be fairly appraised and treated. They will not be unjustly discriminated against for reason of national or regional origin, race, religion, age, sex, or disability. Should any form of violation be discovered, such as sexual harassment or any other unlawful employment practices, it will be investigated and appropriate actions will be taken.
- (3) Komatsu will develop personnel policies with a consideration for employees' needs. Human resource policies and procedures shall be disclosed to the employees as fully as is appropriate.
- (4) In each region, the Komatsu Group will comply with the ordinances concerning the rights of employees and work to maintain and manage the mental and physical health of employees. (Taken from Chapter 5 of *Komatsu's Code of Worldwide Business Conduct*)

In addition to these principles, Komatsu also prohibits the use of child labor, which is a problem in certain regions overseas.

Furthermore, during the hiring of new employees, Komatsu has set forth Komatsu's Three Principles for Hiring in the same way, namely:

- The company does not consider age or gender in hiring decisions.
- The company does not consider national or regional origins in hiring decisions.
- The company does not consider religious affiliation or beliefs in hiring decisions.

The company conducts hiring practices based on these principles and discloses them publicly on its website.

Efforts Undertaken by Komatsu

Personnel System that Reflects Accurately the Abilities and the Achievements of Employees

Typically in Japan, personnel systems are based on the assumption that employees will work for a single company for a long time. Therefore, during the designing of the system, a company must consider the degree to which the element of continued service be reflected. In keeping with the view that personnel systems emphasizing length of service do not necessarily fairly reflecting employees' abilities and achievements, Komatsu has been accurately evaluating the achievements of individual employees for many years. It has also made great efforts to utilize a system that reflects employees' achievements and ability, considering the reflection of employee performance within the personnel system to be the basis for making fair evaluations of its employees.

Komatsu has undertaken a further strengthening of this approach since 2003 and revised its personnel system accordingly. The most significant revisions have been as follows.

Wages for General Employees Calculated in Conjunction with Achievements and a Performance-based Grade System (2004)

Wages are now linked with improvements in employees' working capabilities, and have been decoupled with continued service to the extent possible.

Salaries for Managers based on Managerial Duties (including the Abolition of the Qualification System) and Monetary Awards for Departmental Achievements (2003)

Salaries for managers are determined based on the importance of the positions held and the degree of responsibility carried. Moreover, insofar as competition among divisions contributes to a heightening of Komatsu's overall competitiveness, performance of the division is also reflected in managers' salaries. Since FY2006, this system was extended to general employees at the level of assistant manager.

Bonuses Awarded Based on Achievements (2004)

Bonuses as given in Japan are not an incentive as they are overseas; instead, they are as a rule given to all employees. Through an agreement reached between labor and management, Komatsu has stipulated its bonus system as being connected to corporate performance, with the amount calculated based on a pre-determined formula. As a result, there is no need for future negotiations between labor and management regarding bonuses.

Cash Balance-configured Point System for Retirement Allowances and Pensions (2004)

This system for retirement allowances and pensions lies in between the defined-contribution system and the defined-benefit pension plan. Under this system, retirement allowances are not determined by years of continued service. Instead, they reflect the performance demonstrated in each fiscal year and the contributions made to the company.

Development of Human Resources

The most basic principle for the development of human resources is individual employees working towards higher objectives on their own and advancing their own careers. From the perspective of supporting the autonomy of such employees, the company provides education and training and conducts planned job rotations. For many years, major corporations in Japan including Komatsu have been involved with human resource development, and Komatsu considers it impor-

tant to strengthen further investment in people, as the company's management base has now been thoroughly prepared. In particular, the company is undertaking new investments in people. These include the extension of the KOMATSU Way to Group foreign employees overseas and the development of commonly-shared education regarding Total Quality Management (TQM) and the development of a succession plan for management overseas.

Through employee education Komatsu is working to create a fully-developed curriculum with the principal goal of supporting autonomy among its employees.

Issues for the Future

Komatsu should invest particular effort in the future with regard to the following topics.

- Extension of the KOMATSU Way and TQM education company-wide
- Creation of a safe and comfortable work environment
- Further enhancement of diversity in the workplace

Extension of the KOMATSU Way and TQM Education Company-wide

As Komatsu has grown and developed, there has emerged a clear sense of what is quintessentially Komatsu-like—that is, what Komatsu enjoys as its strengths. The values and fundamental principles that support those strengths and the style by which it puts them into practice have been set down in writing as the KOMATSU Way. Komatsu is now undertaking efforts to make it something shared by all Group companies, including those overseas. The KOMATSU Way constitutes a continuation of the reform under which Quality and Reliability are pursued; emphasis on the importance of the individual work site; and the ability to develop a principle quickly and completely and transfer it into practice. As a problem-solving method to support this ability to develop and apply a principle, Komatsu has for many years utilized TQM and hopes to develop it as an educational method, along with the KOMATSU Way, to be shared by all Group employees around the world.

Creation of a Safe and Comfortable Work Environment Creation of a Safe and Comfortable Work Environment

The creation of a safe and comfortable work environment involves the issue of how the company can treat its employees fairly. Komatsu has already changed its personnel system to the kind described above, in which ability and performance are better reflected. The issue to be taken up next is how to evaluate each individual employee fairly and appropriately. For that reason, in April of 2004, the company conducted refresher training of all managers regarding how to conduct evaluations. After that, training in means of evaluation has been given to newly-appointed managers, and e-Learning based follow-up education is being conducted. Furthermore, an evaluations committee has been established jointly with the labor union at each business unit for the purpose of confirming that evaluations are conducted properly. Komatsu has provided individual feedback on evaluations to managers since 1998 and to non-managerial employees since 2001. The company has also set up a consultation office through which employees can express complaints and concerns.

Moreover, Komatsu is undertaking efforts to create a basis upon which employees can take on greater challenges. The public posting of personnel vacancies was introduced in 1986, with positions posted twice annually on a regular basis. Additionally, Komatsu is working to create well-developed educational programs both inside and outside the company, in which employees can participate voluntarily.

Creation of Safe and Healthful Companies and Workplaces

The importance of mental health in addition to physical health is increasing. While health management is primarily the responsibility of the individual employee, employee health is important for the company as well. In addition to regular health checks of employees, Komatsu is giving attention to health issues for family members by conducting mental health checks and checks for employees' spouses.

Further Enhancement of Diversity in the Workplace Gender-equal Opportunity

Currently the number of women in managerial positions is low compared with the number of men, and Komatsu recognizes this as an issue to be addressed. In addition, the thorough realization of working conditions such as child-care leave and shorter working hours would contribute to an environment that facilitates productive careers, particularly for women. Through the revised labor agreement of 2003, Komatsu increased its flexibility in this area, allowing, for example, child-care leave to be taken for up to two years between the date of childbirth and the date on which the child enters nursery school (after

reaching his or her first birthday) and shorter work hours for childrearing (no less than five hours per workday) from the child's first birthday up to the March 31st immediately following the child's fourth birthday. Komatsu will continue to enhance its efforts to create workplaces that take into account the needs of working mothers and parents.

Employment of Persons with Disabilities

Insofar as the manufacturing division's operations involve dealing with heavy objects, the hiring of persons with physical disabilities brings with it various challenges. Komatsu recognizes its hiring rate of persons with disabilities as warranting attention, and the company is determined to work to employ more disabled persons.

Health and Safety

Message from Komatsu President Regarding Health and Safety

At the Komatsu Group's Safety and Health Conference, President and CEO Masahiro Sakane sent a message that, with a view to creating a company and workplace with no safety incidents or illness, the company will promote steady and ongoing management of health and safety issues and address various issues regarding health and safety in a prioritized and timely fashion. The major points of his address were as follows.

- The Komatsu Group shall, first of all, strive to "ensure a safe and comfortable work environment" and "maintain and promote employees' health."
- The Komatsu Group shall promote "proactive occupational safety and health activities" in order for all employees to achieve the above commitment by working together as one team.
- Each and every person in a senior management position of the Komatsu Group shall acknowledge as top priority tasks the above two matters and shall execute daily duties accordingly.

Overview of Health and Safety System

The Komatsu Group is working towards thorough implementation of the system depicted in the chart below.

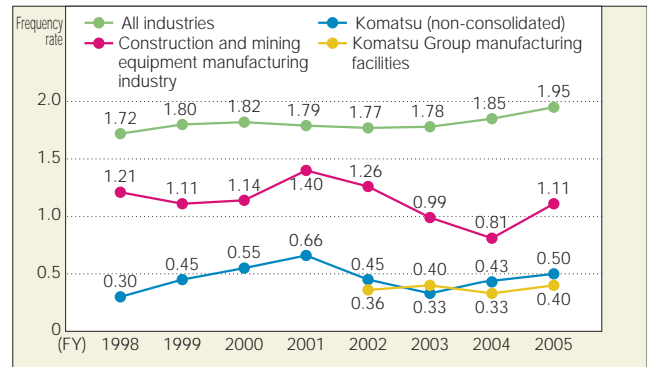
Overview of Health and Safety System

	Komatsu Head Office	Group companies and Komatsu divisions
Organization	<ul style="list-style-type: none"> • Health and Safety Administration Center (Centralized Group-level office) • Human Resources Department (Centralized Group-level office with consultative services) 	<ul style="list-style-type: none"> • Plant managers, division head (managers supervising overall health and safety) • Division head supervising general affairs and human resources • Section head supervising health and safety • Managers supervising health and safety in each division, persons assigned to the promotion of health and safety, persons overseeing health and safety, etc. • Employees
Meetings	<ul style="list-style-type: none"> • Group Health and Safety Committee • Group Safety Supervisor Meeting • Group Safety and Health Conference 	<ul style="list-style-type: none"> • Health and Safety Committee

Activities in FY2005 and Plans for FY2006

Working towards the goal of introducing an Occupational Safety & Health Management System (OSHMS), Komatsu has conducted activities to assess the state of affairs at its four plants and has undertaken diagnostic activities to determine the degree to which the fundamental basis for OSHMS is in place.

Incidence Rate of Work-related Accidents (Frequency rate of missed work)



Introducing an Occupational Safety & Health Management System

Risk assessment activities were launched at all the manufacturing facilities of the Komatsu Group in 2004. In FY2005, in order to further solidify the basic approach to risk assessment, "model workplace" activities were implemented at each company and division within the Group and the number of workplaces introducing such activities has been expanded. In FY2006, building upon the foundation of these accomplishments, Komatsu will develop its activities to acquire certification in OSHMS at each of its plants.

Mental Health

With regard to mental health issues, Komatsu asks its managers to pay close attention to their subordinates' situation at the workplace, notice at an early stage if there are symptoms, and then enlist mental health specialists to provide well-grounded guidance or advice. Since 2003, Komatsu has been educating managers regarding mental health, with the aim of fostering better understanding and awareness.

Additionally, the company has established at each business unit a system through which counseling can be conducted by a mental health professional, keeping full respect for the protection of employees' privacy. Since 2004, Komatsu has introduced on a trial basis an Employee Assistance Program that makes use of specialized external institutions. Since FY2005, this system has been introduced in earnest to all Group companies in Japan, enabling employees and their families to find solutions to their concerns. In the future the company intends to expand further education relevant to this area, facilitating the creation of a positive and healthy workplace.

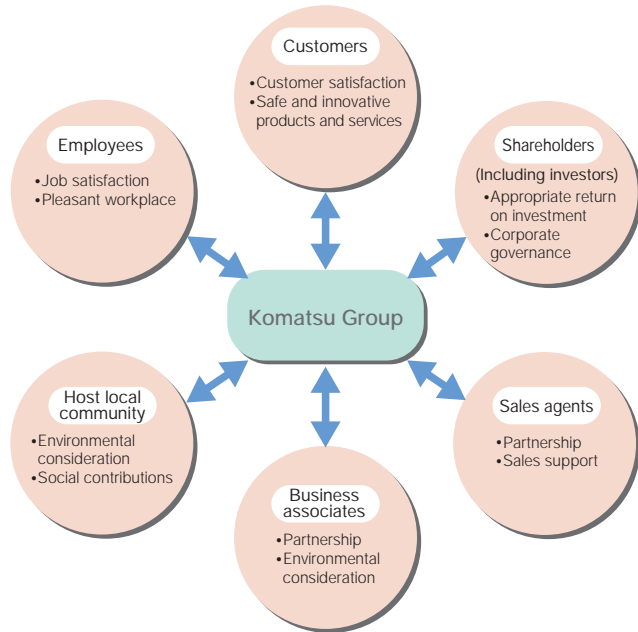
Communication with Company Stakeholders

Komatsu recognizes its stakeholders as equal and steady partners. Thus the company discloses accurate information in an appropriate and equitable manner and works to build and maintain a long-term, proper, and sincere trust relationship with its stakeholders.

Stakeholders

The Komatsu Group takes advantage of various opportunities to communicate with a large number of stakeholders. The Group listens to the expectations and demands of its various stakeholders, first of all its customers, in addition to its shareholders, sales agents, business associates, members of the host local community, and of course its employees. It also works to create a solid partnership with them.

Komatsu's Relationship with its Stakeholders



Communication with Customers

Komatsu considers communication with its customers to be of great value to ensure that its products can be used safely and with peace of mind. In particular, in order for its construction equipment to be put to the greatest possible use by its customers, Komatsu has assembled a large collection of construction and environmental recycling equipment at the Komatsu Techno Center in the city of Izu, Shizuoka Prefecture, and welcomes customers to visit for inspection tours and test-drive these machines. In addition, the company conducts study sessions on a wide variety of topics, including explanations of means for improving operational skills, operating techniques to limit fuel consumption, and new products with features never before offered, among other topics.



- Overview of the Komatsu Techno Center
- Demonstration area: 14,000 m²
- Excavation area: 4,000 m²
- Outside track: 900 m × 10 m
- All-weather demonstration viewing stand
- Demonstration models: Approx. 40 types

Customers from a major construction firm during a research trip to the Techno Center

Maximizing Customer Satisfaction

In order to determine whether its quality assurance activities are actually contributing to increased customer satisfaction, Komatsu conducts checks of customer satisfaction on a regular basis. Komatsu takes the valuable opinions, needs, and evaluations of its customers very seriously and uses them to improve quality assurance activities even further.

Method for Ascertaining the Extent to Which Customers Are Satisfied

- (1) After the sale of new products or improved models of vehicles, sales and service representatives visit the customers directly and interview them regarding the vehicle
- (2) Komatsu collects input from the customer or the sales agent on survey items it sets forth
- (3) Sales and service representatives of Komatsu's sales agents, in the course of their day-to-day interactions with customers, listen to points brought up by the customers during visits and contact Komatsu regarding those points, treating them as business information

Communication with Shareholders

In addition to providing accurate information in a timely way, Komatsu seeks to further enhance its managerial transparency through its investor relations (IR) efforts actively conducted both domestically and overseas. At the time of mid-term and term-end earnings announcements, as a rule the company conducts explanatory sessions for analysts and institutional investors on the same day that earnings are announced. Furthermore, for the benefit of overseas investors, explanatory sessions are conducted two to three times annually, with primary focus given to the U.S., Europe, and Asia.

Shareholders' Meetings

Komatsu convenes shareholders' meetings twice annually in Japan, at two different locations, with representatives explaining the company's performance and management strategy. In 2005 these meetings were conducted in Osaka in November and Kanazawa in December, with the Osaka meeting drawing some 1,300 attendees, the highest number in company history, and the Kanazawa meeting enjoying 420 people in attendance. At these meetings the company fielded questions concerning such topics as forecasts for future performance, efforts towards enhanced compliance, and manufacturing to be conducted at the new Kanazawa Plant now under construction. Since their launch in 1997, these meetings have been convened 21 times, with over 6,400 shareholders participating to date.

Information Disclosure on the Komatsu Website

Soon after their publication, Komatsu makes sales and profit gains reports, annual reports, the company fact book, financial statements, mid-year reports, reports on business operations, and various types of IR materials available on its website in a section titled "Investor Relations."

Since the term ending March 2006, the company has made available on its website footage of an interview with President and CEO Masahiro Sakane on settlement of accounts to boost communication with its stakeholders.



Shareholders' meeting convened in Osaka

Partnerships with Sales Agents

Komatsu is also pursuing corporate social responsibility (CSR)-related activities which are guided by an emphasis on safety and the environment in the sales and service divisions.

As one example of these activities, in April 2005, Komatsu distributed to 33 domestic sales agencies and 25 Group rental companies "A Management System for Occupational Safety and Health: A Manual for Komatsu Sales Agencies and Rental Companies" and "Environmental Guidelines: A Manual for Komatsu Sales Agencies and Rental Companies," introducing the system and guidelines to these companies across the country.

With the Management System for Occupational Safety and the Health and Environmental Guidelines that have adopted a PDCA (Plan-Do-Check-Action) approach, Komatsu will enjoy improvements in safety and the environment through the repeating of that cyclical approach.

Komatsu has set as a goal the steady expansion of PDCA activities into these agencies and companies to which the Management System and Guidelines have been distributed, adopting a cooperative structure through which there are follow-up checkups on management systems, explanations of the contents of the Environmental Guidelines, checks of the state of implementation during diagnoses regarding safety and environmental compliance, and, when necessary, guidance and study sessions conducted directly onsite. In addition, Komatsu provides backup support for these agencies and companies in safety and the environment, such as through safety promotion activities when industrial accidents occur at these companies, informing them of revisions made to safety- and environment-related laws, and the distribution of the Safety and Environment Newsletter.

Efforts to Improve Environmental Awareness in Close Cooperation with Business Associates

Komatsu urges its business associates to establish and maintain a system by which the companies can be certain of complying with environmental regulations. In order to support a change in awareness at its business associates, Komatsu conducted the following kinds of environmental education.

Promotion of Activities to Enhance Environmental Awareness

In order to enhance environmental awareness at its business associates, every year Komatsu conducts study tours of companies with particular excellence in environmental management and seminars and lectures on the environment. In FY2005, 78 persons from 59 companies participated in these activities. Komatsu will continue to work to enhance environmental awareness.

Relationship with the Host Local Community

A company cannot continue to operate without a good relationship with the people in the host local community. Komatsu pursues harmonization of interests with the local community through close dialogue and strives to be a company that is as open as possible and that contributes to the community as a responsible corporate citizen.

Ishikawa Regional Sports Festival at the Komatsu Dome

The Awazu Plant sponsored a large-scale sports festival held in November 2005, with Group and partner companies from around Ishikawa Prefecture also taking part. Some 2,000 participants, including the companies' employees and their family members, thoroughly enjoyed the 11 competitive events. At the festival site, the commerce and industry association for the Awazu Station area set up stalls, enabling the participants to interact with the people in the host local community.



Participants parade onto the field to start the Ishikawa Regional Sports Festival

Kids' Tour of Working Vehicles

The Komatsu Techno Center in the city of Izu, Shizuoka Prefecture, holds a "Kids' Tour of Working Vehicles" every year during the spring and summer vacation, with children and their parents from around the country enjoying demonstrations of construction equipment and study tours of exhibits. In FY2005, Kids' Tours were held over two days in April 2005, three days in August, and three days the following March, with a total of approximately 2,300 parents and children participating.



- Hydraulic excavator: PC400-7
Weight: 42.4 tons
Flywheel horsepower: 257 kW (350 PS)
Bucket capacity: 1.9 m³



- Dump truck: HD985-3
Payload capacity: 100 tons
Weight when empty: 79.8 tons
Flywheel horsepower: 753 kW (1,024 PS)



- Hydraulic excavator: PC01-1 (the smallest-class hydraulic excavator in the world)
Weight: 300 kg
Flywheel horsepower: 2.6 kW (3.5 PS)
Bucket capacity: 0.008 m³

Visitors are able to ride in the driver's seat on hydraulic excavators and dump trucks

Communication with Company Employees

Twice every year, the President and CEO of Komatsu himself visits Komatsu's business units to explain to all its employees the state of the company, and the session held at the Head Office is conveyed to Komatsu's inter-offices and subsidiaries around the globe. This communication is not merely one-way explanations from the company head to the employees; instead, it includes opportunities for the employees to ask questions and give their views regarding managerial issues or day-to-day operations, thus representing true two-way communication.



Meeting with the President

Social Contributions

In order to bring about a rich society as it acts in harmony with people as a responsible corporate citizen, Komatsu has formulated five basic principles concerning its social contributions and is taking action in three distinct areas.

Basic Stance on Social Contributions

Komatsu believes that it is essential for it not only to conduct business but also to act in harmony with society as a responsible corporate citizen. For that reason, as one part of its social responsibility, the Group as a whole is actively taking on social contribution activities on a continuing basis.

Komatsu's basic stance on social contributions (the purpose and the five basic principles concerning its social contributions) is as follows.

Purpose

The Komatsu Group and its employees, as local community members, will contribute to society.

Basic Principles: Contributions shall be:

- Consistent
- In the public interest
- Voluntary
- Acceptable by employees
- Not aimed at advertisement.

Major Areas of Activities

Komatsu's main activities for social contributions are in the following three areas.

- Promotion of culture and education and development of the host local community
- Promotion of sports
- Recovery from disasters and humanitarian assistance

Promotion of Culture and Education and Development of the Host Local Community

Support for the Flower Association of Japan

As one of its contributions to society, Komatsu has been supporting the Flower Association of Japan ever since its founding in 1962. Through its cultivation and nurture of cherry trees, the Association is helping create a beautiful natural environment and a rich society.

Creating Places Renowned for their Cherry Trees

Ever since its founding, the Association has provided gifts of saplings to organizations and institutions nationwide that want to create notable venues for viewing cherry blossoms. Some 2.2 million saplings have been gifted to date. In recent years the Association has also turned its attention to the preservation and management of the cherry trees that it has helped to plant, conducting training workshops in various locations to foster the ability to nurture and maintain the trees. In this way, the Association supports the maintenance and development of notable sites for cherry blossom viewing at the local level.

National Cherry Tree Symposium

Every year, the Flower Association of Japan holds the National Cherry Tree Symposium as a forum for the presentation of various research findings related to cherry trees. The 2005 Symposium was held on May 6–7 in the town of Ikawa, Akita Prefecture, with some 600 people participating, including cherry tree researchers from around the country and representatives of local governments with notable sites for cherry blossom viewing. The 2006 Symposium convened on April 3–4 in the city of Beppu in Oita Prefecture and attracted approximately 700 participants. Topics included reports on the preservation of notable cherry blossom viewing sites as well as on goodwill activities between Japan and China through the planting of cherry trees.

Creating Local Communities Rich in Flowers

Activities to create local communities rich in flowers are grounded in the fundamental philosophy of having coexistence between the natural environment and human beings. Through the creation of a sound material-cycle society or of a living environment that is beautiful and comfortable, the Flower Association of Japan aims to raise the quality of life for local residents. The Association serves as the secretariat for the Competition of Japan in Bloom (sponsored by the Ministry of Agriculture, Forestry and Fisheries and the Ministry of

Land, Infrastructure and Transport), held in October every year, and over 1,400 entries are fielded annually.



Working to create local communities rich in flowers

Research Investigation into Strengthening and Rehabilitation of Cherry Trees

At the Flower Association of Japan's Yuki farm in Ibaraki Prefecture, research is being advanced into the propagation of saplings through tissue culturing and the strengthening and rehabilitation of trees using microorganisms, enhancing the technological capabilities around the country with regard to cherry tree conservation. Furthermore, the Association is promoting the rehabilitation of important cherry trees, such as Yamatakajindai-zakura cherry tree, designated as a national natural treasure, or the Sakurakabu cherry tree of Izu-Oshima Island, in cooperation with local authorities and others.

Rehabilitation of the Yamatakajindai-zakura Cherry Tree

The Yamatakajindai-zakura cherry tree of Hokuto City in Yamanashi Prefecture is an ancient Edohigan tree (botanical name: *Prunus pendula*) and in 1922 became the first cherry tree in Japan to be designated as a national natural treasure. The tree is said to be between 1,800 and 2,000 years of age, and legend tells of wishes to rehabilitate the tree as early as 700 years ago. In recent years it has suffered from harmful insects that have taken hold, among other things, and the branches have become weaker compared with its heyday.

The Flower Association of Japan, in conjunction with local authorities, has since 2002 conducted the planning and supervising of restoration work on Jindai-zakura cherry tree, for a period of four years. In 2004 new branches had grown to a length roughly double those of the previous year, and thus the fruits of their efforts have already come to be seen little by little.



Yamatakajindai-zakura cherry tree in Spring 2005. A roof to prevent the decay of the trunk was taken away, and many cherry blossoms appeared

Support of Education and Learning Industry-academia Tie-ups

Komatsu has entered into industry-academia tie-up agreements with four universities, namely Shandong University (Shandong, China, 2003), Yokohama National University (2004), The Graduate School of Engineering of Osaka University (2005), and Kanazawa University Graduate School of Natural Science & Technology (2005). In addition to pursuing leading-edge technology collaboratively, through partnerships with nearby Komatsu business units, Komatsu is assisting in returning some of outcomes of these activities to the host local communities.

Dispatching of Lecturers to Universities and the Like

Komatsu dispatches lecturers upon request to instruct university students in internal corporate technology development or corporate management.

Cooperative Research with Universities

In addition to conducting joint research aimed at reducing the environmental impact of construction equipment, Komatsu promotes research to pursue state-of-the-art or future-looking technologies, after discussing the intersection between Komatsu "needs" and university "seeds."

Study Tours of Plants for Elementary and Junior High School Students

In response to requests for social studies-related study tours from local elementary and junior high schools, Komatsu conducts study tours of the plant and of recycling operations and provides opportunities to ride construction equipment.

Instruction Regarding Environmental Conservation

All of Komatsu's domestic manufacturing facilities have attained zero emissions. From the stance that the results of those efforts should be utilized in activities in the host local community, the Oyama Plant has released all the know-how it has developed to date regarding zero emissions to the public. Through instructing the 15 companies in the Oyama Industrial Park, the Oyama Plant contributed to the attainment of zero emissions by all companies in the Park. In addition, taking up the theme of ESCO, which the Oyama Plant has proactively introduced, Komatsu has accepted research and study groups from both in Japan and abroad, including from various ASEAN nations. Furthermore, between 2003 and 2005, the company conducted over 40 lectures to outside audiences.

Contributions to the Host Local Community

"Open House" Day

Komatsu holds "open house" days, inviting local residents, partner companies, and family members of employees, thereby building communication with the host local community.

Cooperation with Local Events

Each business unit participates in and cooperates with festivals and other events sponsored by its local chamber of commerce.

Sports Facilities Open to the Public

Each business unit opens up its gymnasium, field, tennis courts, various other recreational facilities, and so on to citizens' groups in their areas, fostering harmony with the host local community.

Head Office Rooftop Gardens Open to the Public

The rooftop gardens of the Head Office in Minato Ward, Tokyo have been open since 1966 in the case of the Japanese-style Sakura Cherry Garden and since 2001 in the case of the Western-style deck garden. Komatsu opens its rooftop gardens to the public every Friday from 2 PM to 4 PM.

Promotion of Sports

Komatsu Women's Judo Club

The Komatsu Women's Judo Club was founded in April 1991 as part of the company's 70th anniversary commemorative activities. Since that time the club has won the championship of the All Japan Company Judo Club Competition four times. Members of the club have also demonstrated a record of excellence in individual competitions both in Japan and abroad, winning the gold medal at the Athens Olympics in 2004, among other awards.



Women's Judo Club

Judo for Kids

In addition to its regular practice, the Komatsu Women's Judo Club offers lessons for children twice a week to support the growth of the next generation of athletes.



Judo for kids

Komatsu Electronic Metals Track and Field Club

The Komatsu Electronic Metals Track and Field Club receives the support of many in the host local community and participates in events such as in the New Year's Ekiden (long-distance relay race) and the Around the Kyushu Ekiden as the team representing Nagasaki Prefecture.



New Year's Ekiden

Recovery from Disasters and Humanitarian Assistance

Assistance to the Areas Impacted by Hurricane Katrina

As reconstruction assistance for the areas impacted by Hurricane Katrina, which struck the United States in September 2005, Komatsu America Corp. made a donation to the American Red Cross through the form of matching gifts.



A donation to the American Red Cross

Assistance to the Areas Impacted by the Earthquake in Pakistan

As reconstruction assistance for the areas impacted by the October 2005 earthquake in Pakistan, Komatsu, in collaboration with its Group companies, made a donation of construction equipment. In addition, Komatsu donated funds through the Japanese Red Cross Society.

Development of Criteria for Emergency Assistance after Natural Disasters

Assistance demands urgent, immediate responses. In order to enable more rapid initial action towards emergency assistance, Komatsu has formulated criteria for deciding the specific nature of its assistance through cooperation with its Group companies near the disaster area.

Contributions to Welfare Associations, Provision of Information on Welfare Assistance Activities

Each business unit makes financial contributions to the Japanese Red Cross Society, the Akai Hane ("red feather") community chest fundraising campaign, and more. Also, through the company's intranet, Komatsu provides information on welfare assistance activities to its employees.

Support for Employees' Social Contribution Activities

With a view to supporting employees' social contribution activities, Komatsu allows its workers to take short or extended leaves of absence for volunteer activities, and for activities of particular prominence the company awards official commendation. Official commendation for volunteer activities in FY2006 went to three employees, notably an individual who has given assistance to the disabled and the elderly by organizing a volunteer group.

Environmental Data by Domestic Manufacturing Facility

Overview	Manufacturing facility	Awazu Plant <small>(established in 1921)</small>	Osaka Plant <small>(established in 1952)</small>	Oyama Plant <small>(established in 1962)</small>
	Location	Komatsu, Ishikawa Prefecture	Hirakata, Osaka Prefecture	Oyama, Tochigi Prefecture
	Main products	Small and midsize bulldozers; small hydraulic excavators; mini, small, and midsize wheel loaders; large presses; tunnel machinery; armored vehicles, etc.	Large bulldozers, midsize and large hydraulic excavators, mobile recycling machinery (crushers, soil stabilizers, tub grinders, etc.)	Engines for construction/industrial machinery, diesel generators, hydraulic equipment, excimer lasers, etc.
	Site/building area <small>(1,000 m²)</small>	796/173	554/157	594/193
	Number of employees	3,928	2,785	2,466
	Date of ISO14001 certification acquisition	September 1997	July 1997	May 1997

*The number of employees includes those working for Komatsu affiliates on the premises.

*Established year means as Komatsu Group.

Compliance Conditions to Major Regulations	Air										
	Item	Unit	Facility	Regulated value	Actual value	Facility	Regulated value	Actual value	Facility	Regulated value	Actual value
	Nitrogen oxides (NOx)	ppm	Boiler	180	110	Boiler	150	12.7	Diesel engine	950	830
			Heating furnace	180	38	Metal furnace	180	37.9	Gas turbine	70	20
		ppm	Diesel engine	950	790	Paint drying furnace	230	8.0			
						Compressor	300	8.1			
	Sulfur oxides (SOx)	—	K-value regulation	17.5	2.17	Regulation of total emissions (m ³ N)	2.616	0.002	K-value regulation	7.0	2.84
	Soot and dust	g/m ³ N	Boiler	0.3	0.002	Boiler	0.03	0.001	Diesel engine	0.1	0.049
			Heating furnace	0.2	0.001	Metal furnace	0.1	0.013	Gas turbine	0.05	Less than 0.001
		g/m ³ N	Diesel engine	0.1	0.026	Paint drying furnace	0.1	0.002			
						Compressor	0.08	0.014			

*Regulated values are in accordance with the Air Pollution Control Law and local regulations.

Compliance Conditions to Major Regulations	Wastewater																	
	Item	Regulated value according to the Water Pollution Control Law Unit	Regulated value				Actual value				Regulated value				Actual value			
			Regulated value	Maximum	Minimum	Average	Regulated value	Maximum	Minimum	Average	Regulated value	Maximum	Minimum	Average	Regulated value	Maximum	Minimum	Average
	pH	5.8-8.6	5.8-8.6	7.4	6.0	6.6	5.8-8.6	7.6	7.2	7.3	5.8-8.6	7.4	7.1	7.3				
	BOD	160 mg/l	80	12	0.8	3.2	25	4.1	1.0	2.4	25	11.2	3.7	7.8				
	COD	160 mg/l	80	22.0	2.3	7.1	25	5.3	2.6	4.0	25	15.6	4.6	11.3				
	Suspended substances (SS)	200 mg/l	120	10.0	1.0	3.7	80	7.6	0.8	3.3	50	14.5	1	8.7				
	Mineral oils	5 mg/l	5	ND	ND	ND	3	0.6	ND	0.4	5	0.5	ND	0.5				
	Copper	3 mg/l	3	0.05	0.05	0.05	3	ND	ND	ND	3	ND	ND	ND				
	Zinc	5 mg/l	5	0.19	ND	0.10	5	0.07	ND	0.04	5	ND	ND	ND				
	Nitrogen	120 mg/l	120	17	1.9	5.8	120	9.2	2.9	6.05	20	5.5	2.5	4.0				
	Phosphorus	16 mg/l	16	2.5	ND	0.6	16	0.57	0.06	0.32	2	0.4	0.2	0.3				
	Cadmium	0.1 mg/l	0.1	ND	ND	ND	0.01	ND	ND	ND	0.1	ND	ND	ND				
Lead	0.1 mg/l	0.1	ND	ND	ND	0.01	ND	ND	ND	0.1	ND	ND	ND					
Chromium (VI)	0.5 mg/l	0.5	ND	ND	ND	0.05	ND	ND	ND	0.1	ND	ND	ND					
Trichloroethylene	0.3 mg/l	0.3	ND	ND	ND	0.03	ND	ND	ND	0.3	ND	ND	ND					
Tetrachloroethylene	0.1 mg/l	0.1	ND	ND	ND	0.01	0.0017	0.0009	0.0013	0.1	ND	ND	ND					
Dichloromethane	0.2 mg/l	0.2	ND	ND	ND	0.02	ND	ND	ND	0.2	—	—	—					
1,1,1-trichloroethane	3 mg/l	3	0.0008	ND	0.0006	1	0.0017	ND	0.0011	3	ND	ND	ND					

*Regulated values are in accordance with the Water Pollution Control Law and local regulations. *ND ("not detected") indicates a value below the lower limit of detection.

*ND is considered to be the lower limit of detection when calculating the average. *Other items are confirmed to be below the regulated value.

Major Performance	Environmental impact					
	Item	Actual value		Item	Actual value	
	Total CO ₂ emissions	55,574 t-CO ₂		Total CO ₂ emissions	37,036 t-CO ₂	
	NOx total amount	79,539 kg		NOx total amount	1,435 kg	
	SOx total amount	5,142 kg		SOx total amount	1 kg	
	Total emissions of waste	3,584 t		Total emissions of waste	3,420 t	
	Amount recycled	3,552 t		Amount recycled	3,420 t	
	Recycling ratio	99 %		Recycling ratio	100 %	
	BOD emissions	9,995 kg		BOD emissions	469 kg	
	COD emissions	21,980 kg		COD emissions	783 kg	
	Wastewater	3,111,314 m ³ /year		Wastewater	194,050 m ³ /year	
	Wastewater	568,800 m ³ /year				
	Energy consumption					
Item	Actual consumption	Converted to calorie equivalents (GJ)	Item	Actual consumption	Converted to calorie equivalents (GJ)	
Electricity	79,336 MWh	813,193	Electricity	79,426 MWh	814,117	
Heavy oil A	6,663 kℓ	259,375	Heavy oil A	0 kℓ	0	
Kerosene	21 kℓ	795	Kerosene	131 kℓ	4,881	
Light oil	110 kℓ	4,228	Light oil	0 kℓ	0	
LPG, et al.		113,115	LPG, et al.		128,455	
Total		1,190,707	Total		947,452	
Electricity			Electricity	89,936 MWh	921,844	
Heavy oil A			Heavy oil A	2,353 kℓ	91,602	
Kerosene			Kerosene	14,193 kℓ	528,774	
Light oil			Light oil	4,136 kℓ	159,286	
LPG, et al.			LPG, et al.		12,468	
Total			Total		1,713,974	

*Data for the Awazu Plant include data for Komatsu Engineering (Awazu)

Mooka Plant (established in 1971)	Construction Equipment Electronics Division (established in 1966)	Research Division (established in 1985)	Komatsu Zenoah Co. Kawagoe Plant (established in 1965)
Mooka, Tochigi Prefecture	Hiratsuka, Kanagawa Prefecture	Hiratsuka, Kanagawa Prefecture	Kawagoe, Saitama Prefecture
Large wheel loaders, dump trucks, motor graders, road-related equipment, etc.	Control equipment for construction equipment, thermoelectric modules, temperature control equipment, etc.	R&D on business fields of the Komatsu Group	Mini construction equipment, small outdoor power equipment (trimmers/brush cutters, chipper shredders, etc.)
301/66	40/2	197/23	107/44
1,279	558	210	808
April 2000	March 2000	—	July 2002

Facility	Regulated value	Actual value	Facility	Regulated value	Actual value	Facility	Regulated value	Actual value	Facility	Regulated value	Actual value
Boiler	180	55	N/A	—	—	Service generator	180	163	Cogeneration engine	950	910
Diesel engine	950	580				Cold/hot water generator	134	34	Hot water boiler	180	70
K-value regulation	8.0	1.6 or less				K-value regulation	11.5	0.38	K-value regulation	9.0	0.12
Boiler	0.3	0.005	N/A	—	—	Service generator	0.1	0.013	Cogeneration engine	0.1	0.045
Diesel engine	0.1	0.048				Cold/hot water generator	0.26	0.001	Hot water boiler	0.3	0.006

Regulated value	Actual value			Regulated value	Actual value			Regulated value	Actual value			Regulated value	Actual value		
	Maximum	Minimum	Average		Maximum	Minimum	Average		Maximum	Minimum	Average		Maximum	Minimum	Average
5.8-8.6	7.8	6	7.2	5.0-9.0	8.4	6.0	7.2	5.8-8.6	7.5	7.4	7.5	5.0-9.0	7.8	6.6	7.2
25	18.0	ND	3.3	600	280	30	124	10	10	2	5.7	600	215	ND	58
25	24.0	1.6	9.1	—	—	—	—	25	7	3	5.7	160	140	1	48.1
50	6.8	ND	5.1	600	140	18	68	65	15	1	7.7	600	150	ND	17.9
5	ND	ND	ND	5	ND	ND	ND	5	ND	ND	ND	5	3.4	ND	2.1
3	0.1	0.1	0.1	3	ND	ND	—	1	ND	ND	ND	3	ND	ND	ND
5	1.2	ND	0.2	5	0.03	0.03	—	1	0.03	0.02	0.02	5	ND	ND	ND
120	17.0	4.2	11.4	—	—	—	—	—	—	—	—	240	33	ND	11.8
16	5.6	0.2	2.7	32	2.3	2.3	—	—	—	—	—	32	0.8	ND	0.3
0.1	ND	ND	ND	0.1	ND	ND	—	0.1	ND	ND	ND	0.1	ND	ND	ND
0.1	ND	ND	ND	0.1	ND	ND	—	0.1	ND	ND	ND	0.1	ND	ND	ND
0.1	ND	ND	ND	0.5	ND	ND	—	0.5	ND	ND	ND	0.5	ND	ND	ND
0.3	ND	ND	ND	0.3	ND	ND	—	0.3	—	—	—	0.3	ND	ND	ND
0.1	ND	ND	ND	0.1	ND	ND	—	0.1	—	—	—	0.1	ND	ND	ND
0.2	ND	ND	ND	0.2	0.002	0.002	—	0.2	—	—	—	0.2	ND	ND	ND
3	ND	ND	ND	3	ND	ND	—	3	—	—	—	3	ND	ND	ND

Item	Actual value	Item	Actual value	Item	Actual value	Item	Actual value
Total CO ₂ emissions	16,761 t-CO ₂	Total CO ₂ emissions	1,942 t-CO ₂	Total CO ₂ emissions	2,451 t-CO ₂	Total CO ₂ emissions	7,327 t-CO ₂
NOx total amount	206,470 kg	NOx total amount	0 kg	NOx total amount	1,492 kg	NOx total amount	57,767 kg
SOx total amount	9,609 kg	SOx total amount	0 kg	SOx total amount	67 kg	SOx total amount	1,211 kg
Total emissions of waste	1,845 t	Total emissions of waste	328 t	Total emissions of waste	342 t	Total emissions of waste	1,666 t
Amount recycled	1,845 t	Amount recycled	328 t	Amount recycled	319 t	Amount recycled	1,666 t
Recycling ratio	100 %	Recycling ratio	100 %	Recycling ratio	93 %	Recycling ratio	100 %
BOD emissions	109 kg	BOD emissions	1,205 kg	BOD emissions	25 kg	BOD emissions	3,113 kg
COD emissions	302 kg	COD emissions	— kg	COD emissions	25 kg	COD emissions	2,569 kg
Wastewater	33,085 m ³ /year	Wastewater	14,276 m ³ /year	Wastewater	4,424 m ³ /year	Wastewater	53,448 m ³ /year

Item	Actual consumption	Converted to calorie equivalents (GJ)	Item	Actual consumption	Converted to calorie equivalents (GJ)	Item	Actual consumption	Converted to calorie equivalents (GJ)	Item	Actual consumption	Converted to calorie equivalents (GJ)
Electricity	5,063 MWh	51,896	Electricity	5,058 MWh	51,845	Electricity	4,211 MWh	43,159	Electricity	6,113 MWh	62,656
Heavy oil A	4,967 kl	193,368	Heavy oil A	0 kl	0	Heavy oil A	190 kl	7,397	Heavy oil A	1,284 kl	49,982
Kerosene	26 kl	951	Kerosene	0 kl	0	Kerosene	93 kl	3,463	Kerosene	2 kl	82
Light oil	272 kl	10,464	Light oil	0 kl	0	Light oil	10 kl	367	Light oil	188 kl	7,258
LPG, et al.	10,483		LPG, et al.	0		LPG, et al.		1,008	LPG, et al.		16,604
Total	267,163		Total	51,845		Total	55,393		Total	136,583	

Environmental Data by Domestic Manufacturing Facility

Overview	Manufacturing facility	Komatsu Zenoah Co. Koriyama Plant (established in 1995)	Komatsu Electronic Metals Co., Ltd. Nagasaki Plant (established in 1985)	Komatsu Electronic Metals Co., Ltd. Miyazaki Plant (established in 1973)
	Location	Koriyama, Fukushima Prefecture	Omura, Nagasaki Prefecture	Miyazaki-gun, Miyazaki Prefecture
	Main products	Hydraulic cylinders, swivel joints, gear pumps	Mirror-polished wafers, epitaxial wafers	Mirror-polished wafers, wafers for discrete products
	Site/building area (1,000 m ²)	296/23	144/41	59/14
	Number of employees	331	1,266	700
	Date of ISO14001 certification acquisition	July 2002	April 1998	December 1998

*The number of employees includes those working for Komatsu affiliates on the premises.

*Established year means as Komatsu Group.

Compliance Conditions to Major Regulations	Air															
	Item	Unit	Facility	Regulated value	Actual value	Facility	Regulated value	Actual value	Facility	Regulated value	Actual value					
	Nitrogen oxides (NOx)	ppm	Cogeneration engine	950	742	Boiler	260	105	Boiler	180	71					
	Sulfur oxides (SOx)	—	K-value regulation	11.5	0.85	K-value regulation	17.5	0.02	K-value regulation	17.5	0.62					
	Soot and dust	g/m ³ N	Tempering (electric) furnace	0.2	0.003 or less	Boiler	0.3	0.01	Boiler	0.3	0.002					
				Baking (electric) furnace	0.2							0.003 or less				
					Cogeneration engine							0.2	0.033			

*Regulated values are in accordance with the Air Pollution Control Law and local regulations.

Compliance Conditions to Major Regulations	Wastewater														
	Item	Unit	Regulated value according to the Water Pollution Control Law				Regulated value				Regulated value				
			Regulated value	Actual value	Maximum	Minimum	Average	Regulated value	Actual value	Maximum	Minimum	Average	Regulated value	Actual value	Maximum
	pH	5.8-8.6	5.8-8.6	8.5	7	7.4	5.9-8.5	7.2	6.6	7.0	5.8-8.6	7.5	7.1	7.3	
	BOD	160 mg/l	40	19	1.5	10.0	180	43.6	18.9	30.7	25	3.9	0.8	2.2	
	COD	160 mg/l	40	18	6.6	12.2	180	29.3	6.8	14.1	160	4.1	1.3	2.2	
	Suspended substances (SS)	200 mg/l	70	28	ND	7.2	180	24	7	15	30	13	1	2.8	
	Mineral oils	5 mg/l	1	ND	ND	ND	3	1	ND	0.6	5	ND	ND	ND	
	Copper	3 mg/l	2	ND	ND	—	1	ND	ND	ND	3	0.01	ND	0.01	
	Zinc	5 mg/l	4	ND	ND	—	0.5	0.04	0.03	0.04	5	ND	ND	ND	
Nitrogen	120 mg/l	120	8.6	8.6	—	216	126	32	74	120	4.8	4.8	—		
Phosphorus	16 mg/l	16	2.8	2.8	—	3.2	0.23	0.05	0.11	16	0.05	0.05	—		
Cadmium	0.1 mg/l	0.1	ND	ND	—	0.01	ND	ND	ND	0.1	ND	ND	ND		
Lead	0.1 mg/l	0.1	0.02	ND	0.011	0.01	ND	ND	ND	0.1	ND	ND	ND		
Chromium (VI)	0.5 mg/l	0.1	ND	ND	ND	0.05	ND	ND	ND	0.2	ND	ND	ND		
Trichloroethylene	0.3 mg/l	0.3	—	—	—	0.03	ND	ND	ND	0.3	ND	ND	ND		
Tetrachloroethylene	0.1 mg/l	0.1	—	—	—	0.01	ND	ND	ND	0.1	ND	ND	ND		
Dichloromethane	0.2 mg/l	0.2	—	—	—	0.02	ND	ND	ND	0.2	ND	ND	ND		
1,1,1-trichloroethane	3 mg/l	3	—	—	—	0.03	ND	ND	ND	3	ND	ND	ND		

*Regulated values are in accordance with the Water Pollution Control Law and local regulations. *ND ("not detected") indicates a value below the lower limit of detection.

*ND is considered to be the lower limit of detection when calculating the average. *Other items are confirmed to be below the regulated value.

Major Performance	Environmental impact						
	Item	Actual value		Item	Actual value		
	*Refer to the Business Activities and Environmental Impact (P. 14) for details on the methods used to calculate amounts. *Total emissions of waste are expressed as a composite of the amount recycled and the amount disposed. *Recycle ratio is calculated by dividing the amount recycled by the amount generated. *Total emissions of BOD and COD are calculated by multiplying the average concentration by the amount of wastewater.	Total CO ₂ emissions	12,099 t-CO ₂		Total CO ₂ emissions	134,727 t-CO ₂	
		NOx total amount	99,670 kg		NOx total amount	14,252 kg	
		SOx total amount	984 kg		SOx total amount	161 kg	
		Total emissions of waste	996 t		Total emissions of waste	8,317 t	
		Amount recycled	996 t		Amount recycled	8,303 t	
		Recycling ratio	100 %		Recycling ratio	100 %	
		BOD emissions	173 kg		BOD emissions	71,029 kg	
		COD emissions	211 kg		COD emissions	32,529 kg	
Wastewater		17,344 m ³ /year		Wastewater	2,311,145 m ³ /year		
Wastewater		2,756,845 m ³ /year					
Energy consumption							
Item	Actual consumption	Converted to calorie equivalents (GJ)	Item	Actual consumption	Converted to calorie equivalents (GJ)		
Electricity	8,706 MWh	89,240	Electricity	325,527 MWh	3,336,652		
Heavy oil A	2,882 kℓ	112,196	Heavy oil A	0 kℓ	0		
Kerosene	0 kℓ	0	Kerosene	3,815 kℓ	142,132		
Light oil	0 kℓ	0	Light oil	1 kℓ	49		
LPG, et al.		16,397	LPG, et al.		1,261		
Total		217,833	Total		3,480,094		
					1,115,382		

Komatsu Electronic Metals Co., Ltd. Hiratsuka Technical Center (established in 1961)	Komatsu Forklift Co., Ltd. Tochigi Plant (established in 1968)	Komatsu Castex Ltd. Himi Plant (established in 1952)	Komatsu House Ltd. (established in 1971)
Hiratsuka, Kanagawa Prefecture	Oyama, Tochigi Prefecture	Himi, Toyama Prefecture	Shinshiro, Aichi Prefecture
R&D on wafers	Forklift trucks, automated guided vehicles, automated warehouses, refrigerated warehouses, etc.	Iron castings, steel castings, molds for casting, etc.	Prefabricated structures for businesses
27/9	217/48	403/63	31/10
105	924	749	74
November 1998	February 1998	January 2000	March 2002

*Komatsu Castex Ltd. is the successor company of the former Komatsu Castex Ltd. established in 1952.

Facility	Regulated value	Actual value	Facility	Regulated value	Actual value	Facility	Regulated value	Actual value	Facility	Regulated value	Actual value
N/A	—	—	Small boilers*	(260.0)	120	Annealing furnace	200	63	Boiler	250	84
						Annealing furnace (small)	180	35			
						Calciners	220	9			
			K-value regulation	7.0	1.73	K-value regulation	17.5	5 or less	K-value regulation	9.0	0.28
N/A	—	—	Small boilers*	(0.5)	0.003	Fuel sulfur (%)	0.96	0.4 or less	Boiler	0.3	0.042
						Annealing furnace	0.25	0.01 or less			
						Annealing furnace (small)	0.2	0.01 or less			
						Calciners	0.15	0.01			
						Arch furnace	0.1	0.01 or less			
						Cupola furnace	0.2	0.01 or less			

*Regulated values of NOx, soot and dust are in accordance with self-regulatory measures, because these boilers are small.

Regulated value	Actual value			Regulated value	Actual value			Regulated value	Actual value			Regulated value	Actual value		
	Maximum	Minimum	Average		Maximum	Minimum	Average		Maximum	Minimum	Average		Maximum	Minimum	Average
5.7-8.7	7.5	6.4	7.2	5.8-8.6	7.5	7.0	7.2	5.8-8.6	8.5	6.8	7.3	5.8-8.6	7.4	6.1	6.6
300	6.1	1.1	2.8	25	17.8	0.8	6.4	20	3.8	0.7	2.3	160	13	1.9	7.7
—	7.2	ND	2.7	25	9.9	2.1	5.0	120	6	2.2	3	160	40	5.2	15.2
300	16	2.3	10.8	50	7	ND	3.4	100	36	3	12.0	200	30	ND	3.4
5	1	ND	0.6	5	0.6	ND	0.5	5	1.8	ND	0.6	5	ND	ND	ND
3	ND	ND	ND	3	ND	ND	ND	1	ND	ND	ND	—	—	—	—
3	0.12	ND	0.07	5	0.06	ND	0.05	1	ND	ND	ND	—	—	—	—
120	11	8.8	9.9	20	5.1	1.4	3.2	60	—	—	—	120	81	3.7	29.7
16	0.1	0.1	0.1	2	0.59	0.16	0.37	8	—	—	—	16	14	0.1	2.4
0.1	ND	ND	ND	0.1	ND	ND	ND	0.1	ND	ND	ND	—	—	—	—
0.1	0.006	ND	0.005	0.1	ND	ND	ND	0.1	ND	ND	ND	—	—	—	—
0.5	ND	ND	ND	0.1	ND	ND	ND	0.5	ND	ND	ND	—	—	—	—
0.3	ND	ND	ND	0.3	ND	ND	ND	0.3	—	—	—	—	—	—	—
0.1	ND	ND	ND	0.1	ND	ND	ND	0.1	—	—	—	—	—	—	—
0.2	ND	ND	ND	0.2	ND	ND	ND	0.2	—	—	—	—	—	—	—
3	ND	ND	ND	3	ND	ND	ND	3	—	—	—	—	—	—	—

Item	Actual value	Item	Actual value	Item	Actual value	Item	Actual value
Total CO ₂ emissions	2,345 t-CO ₂	Total CO ₂ emissions	10,864 t-CO ₂	Total CO ₂ emissions	64,410 t-CO ₂	Total CO ₂ emissions	1,090 t-CO ₂
NOx total amount	0 kg	NOx total amount	7,299 kg	NOx total amount	10,812 kg	NOx total amount	427 kg
SOx total amount	0 kg	SOx total amount	4,547 kg	SOx total amount	24,454 kg	SOx total amount	932 kg
Total emissions of waste	75 t	Total emissions of waste	2,988 t	Total emissions of waste	21,930 t	Total emissions of waste	369 t
Amount recycled	74 t	Amount recycled	2,977 t	Amount recycled	21,782 t	Amount recycled	349 t
Recycling ratio	99 %	Recycling ratio	100 %	Recycling ratio	99 %	Recycling ratio	95 %
BOD emissions	179 kg	BOD emissions	267 kg	BOD emissions	872 kg	BOD emissions	56 kg
COD emissions	170 kg	COD emissions	208 kg	COD emissions	1,280 kg	COD emissions	110 kg
Wastewater	63,937 m ³ /year	Wastewater	41,905 m ³ /year	Wastewater	379,200 m ³ /year	Wastewater	7,278 m ³ /year

Item	Actual consumption	Converted to calorie equivalents (GJ)	Item	Actual consumption	Converted to calorie equivalents (GJ)	Item	Actual consumption	Converted to calorie equivalents (GJ)	Item	Actual consumption	Converted to calorie equivalents (GJ)
Electricity	6,107 MWh	62,597	Electricity	12,678 MWh	129,953	Electricity	116,012 MWh	1,189,123	Electricity	759 MWh	7,779
Heavy oil A	0 kℓ	0	Heavy oil A	1,606 kℓ	62,522	Heavy oil A	2,756 kℓ	107,281	Heavy oil A	102 kℓ	3,971
Kerosene	0 kℓ	0	Kerosene	16 kℓ	596	Kerosene	1,517 kℓ	56,529	Kerosene	1 kℓ	30
Light oil	0 kℓ	0	Light oil	108 kℓ	4,141	Light oil	0 kℓ	0	Light oil	11 kℓ	424
LPG, et al.	0	0	LPG, et al.	22,151	22,151	LPG, et al.	120,970	120,970	LPG, et al.	8,218	8,218
Total	62,597	62,597	Total	219,362	219,362	Total	1,473,902	1,473,902	Total	20,421	20,421

Environmental Data by Overseas Manufacturing Facility

The Americas

Overview	Manufacturing facilities	KAC				KMX	KDB	Hensley
		Komatsu America Corp.				Komatsu Mexicana S.A. de C.V.	Komatsu do Brasil Ltda.	Hensley Industries, Inc.
		Chattanooga Manufacturing Operation	Candiac Manufacturing Operation	Peoria Manufacturing Operation	Newberry Manufacturing Operation			
Location		Tennessee, U.S.A.	Quebec, Canada	Illinois, U.S.A.	South Carolina, U.S.A.	Sahagún, Mexico	São Paulo, Brazil CEP	Texas, U.S.A.
Main products		Hydraulic excavators, motor graders	Wheel loaders	Large wheel loaders, large dump trucks	Utility equipment (small construction equipment)	Attachments for construction and mining equipment	Hydraulic excavators, bulldozers	Buckets, teeth, edges and adapters
Number of employees		283	259	502	136	173	582	493
Date of ISO14001 certification acquisition		April 1998	October 1999	March 2002	March 2004	September 2001	January 2002	—
Energy consumption	Electricity MWh	10,715	6,391	18,330	3,232	4,047	30,885	36,466
	Heavy oil, light oil, et al. kℓ	321	—	103	—	12	396	117
	Natural gas thousand m ³	1,238	553	3,206	31	—	—	3
	LPG, et al. t	LPG 31	—	LPG 32	LPG 18	LPG 36	LPG 521.64	—
	Total energy consumption GJ	167,391	43,783	289,768	34,012	40,829	188,906	363,683
Environmental impact	CO ₂ t-CO ₂	9,112	1,133	23,317	1,876	2,194	3,957	20,137
	Water consumption t	12,485	6,233	56,884	504	32,717	16,246	132,248
	Total emissions of waste t	1,817	1,351	2,596	105	11	9,274	37,995

Europe

Overview	Manufacturing facilities	KUK	KOHAG	KMG	KUE	KFAB
		Komatsu UK Ltd.	Komatsu Hanomag GmbH	Komatsu Mining Germany GmbH	Komatsu Utility Europe S.p.A.	Komatsu Forest AB
		Birtley, United Kingdom	Hannover, Germany	Düsseldorf, Germany	Este (PD), Italy	Umeå, Sweden
Location						
Main products		Hydraulic excavators	Wheel loaders, compactors	Ultra-large hydraulic excavators	Utility equipment (small construction equipment)	Forestry equipment
Number of employees		459	481	401	631	345
Date of ISO14001 certification acquisition		December 1998	September 2000	July 2002	November 2001	October 2003
Energy consumption	Electricity MWh	10,082	7,363	7,033	4,858	2,930
	Heavy oil, light oil, et al. kℓ	793	—	8	—	—
	Natural gas thousand m ³	1,700	828	1,385	994	—
	LPG, et al. t	—	—	—	—	—
	Total energy consumption GJ	177,647	101,700	117,297	67,998	10,548
Environmental impact	CO ₂ t-CO ₂	8,875	5,835	6,664	4,604	134
	Water consumption t	15,546	5,286	12,309	12,412	4,960
	Total emissions of waste t	2,268	502	5,345	1,987	317

Asia

Overview	Manufacturing facilities	KI	BKC	LTK	KSC	KCCM	KCF	FKS
		PT Komatsu Indonesia	Bangkok Komatsu Co., Ltd.	L&T-Komatsu Limited	Komatsu Shantui Construction Machinery Co., Ltd.	Komatsu (Changzhou) Construction Machinery Corp.	Komatsu (Changzhou) Foundry Corporation	Formosa Komatsu Silicon Corporation Mailiao Plant
		Jakarta, Indonesia	Chonburi, Thailand	Bangalore, India	Shandong, China	Jiangsu, China	Jiangsu, China	Yunlin, Taiwan R.O.C.
Location								
Main products		Hydraulic excavators, bulldozers, wheel loaders	Hydraulic excavators	Hydraulic excavators	Hydraulic excavators	Wheel loaders, hydraulic excavators, dump trucks	Iron castings and foundry molds for construction and mining equipment	Silicon wafers
Number of employees		724	238	685	402	220	269	468
Date of ISO14001 certification acquisition		June 2000	September 2001	June 1999	December 2000	September 2000	December 1999	March 2001
Energy consumption	Electricity MWh	31,792	4,635	9,828	3,665	1,905	21,421	87,827
	Heavy oil, light oil, et al. kℓ	2,651	342	236	826	498	693	1,362
	Natural gas thousand m ³	—	—	—	13.72	—	—	—
	LPG, et al. t	LPG 737	LPG 58	LPG 77	Coal 2	LPG 65	Coal, LPG 8,053	—
	Total energy consumption GJ	444,512	65,818	119,389	46,820	38,384	508,853	875,974
Environmental impact	CO ₂ t-CO ₂	26,604	4,509	7,444	3,581	2,802	41,976	50,779
	Water consumption t	108,172	17,454	70,182	111,094	36,684	142,990	1,227,012
	Total emissions of waste t	810	498	1,534	1,511	403	16,313	4,314

- Notes 1. All data, except the number of employees, were derived from performances of all manufacturing facilities during FY2005. The number of employees was based on the companies' data as of March 31, 2006.
2. Conversion to CO₂ and total energy consumption were based on statistical data of each region, country, and that of IEA for 2000.
3. Total emissions of waste are expressed as a composite of the amount recycled and the amount disposed.

Regarding the Independent Review

Komatsu views the independent review process as crucial for ensuring the integrity and objectivity of its *Environmental & Social Report*. For that reason, Komatsu has received an independent review from Tohatsu Environmental Research Institute Ltd., a member of the

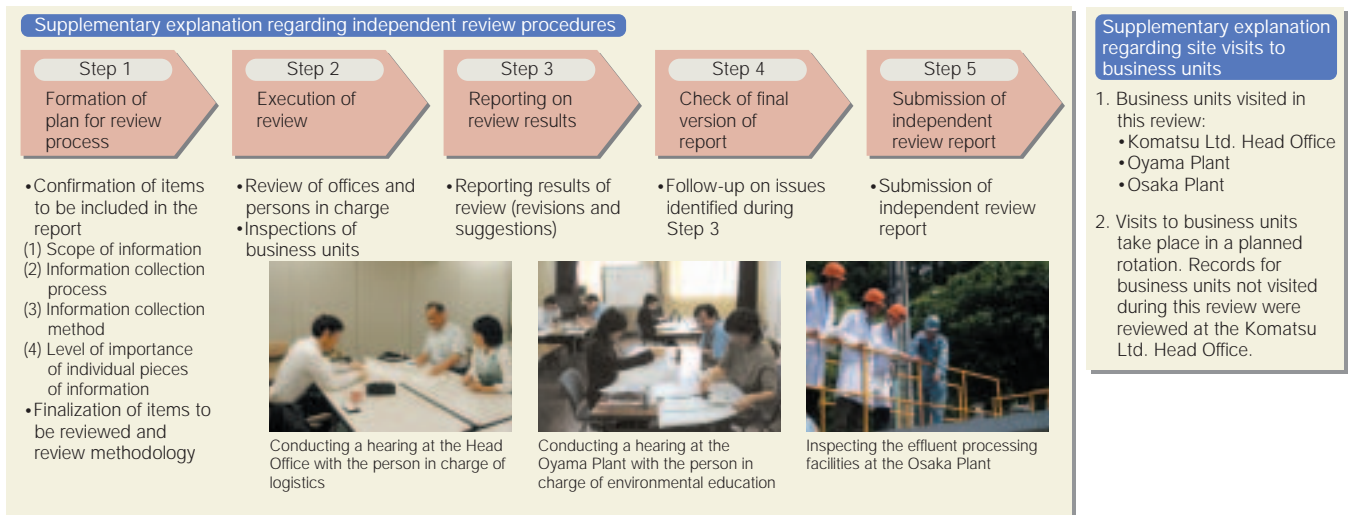
Deloitte Touche Tohmatsu Group. The results are as represented below with regard to the information appearing in the *Environmental & Social Report 2006*.

<http://www.teri.tohatsu.co.jp/>



Supplementary Explanation Regarding the Conducting of Independent Review Procedures

As a supplementary explanation, the following provides an overview of the review procedures conducted during an independent review.



Komatsu Ltd.

2-3-6, Akasaka, Minato-ku, Tokyo 107-8414, Japan
CSR Department and Environmental Affairs Department

•Further information on Komatsu's environmental activities can be found on the Komatsu website.

<http://www.komatsu.com/CompanyInfo/csr/>

•Komatsu welcomes your comments.

E-mail: kankyo@komatsu.co.jp

TEL: +81-3-5561-2616 (CSR Department)

FAX: +81-3-3505-9662

TEL: +81-3-5561-2646 (Environmental Affairs Department)

FAX: +81-3-3582-8332

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