

Corporate Governance

To become a company that enjoys even greater trust from all its stakeholders, Komatsu is strengthening corporate governance Group-wide to advocate corporate ethics and maintain and improve transparent and sound management.

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 outside directors and auditors. To improve the effectiveness of discussions in Board meetings, we have 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 15 times in the fiscal year ended March 31, 2008.] 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 10 directors on the Board, there are three outside directors. When performing their duties, outside 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 Corporate Auditors and Auditors

Komatsu Ltd. has consistently ensured that the number of outside corporate auditors represents at least half of the Board of Corporate Auditors. There are five corporate auditors, of whom three are outside auditors. The Board of Corporate Auditors makes decisions concerning audit policies, duty assignments and other relevant matters. Each corporate auditor attends Board of Directors meetings and other important meetings, audits the execution of duties by directors, and conducts appropriate audits by meeting every month and hearing the conditions of execution of management duties from the directors. [The Board of Corporate Auditors met 15 times in the fiscal year ended March 31, 2008.]

Each outside auditor performs his audits from an independent position throughout the year, based on the audit policies, plans, methods and assignments resolved in Board of Corporate Auditors' meetings. In both Board of Directors' meetings and Board of Corporate Auditors' meetings, each auditor offers opinions and suggestions based on his insight and rich experience.

■ Collaboration between Corporate 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. Corporate 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 Corporate Auditors, the Internal Audit Department maintains close and substantive collaborations with corporate auditors, for example, by providing information on a routine basis.

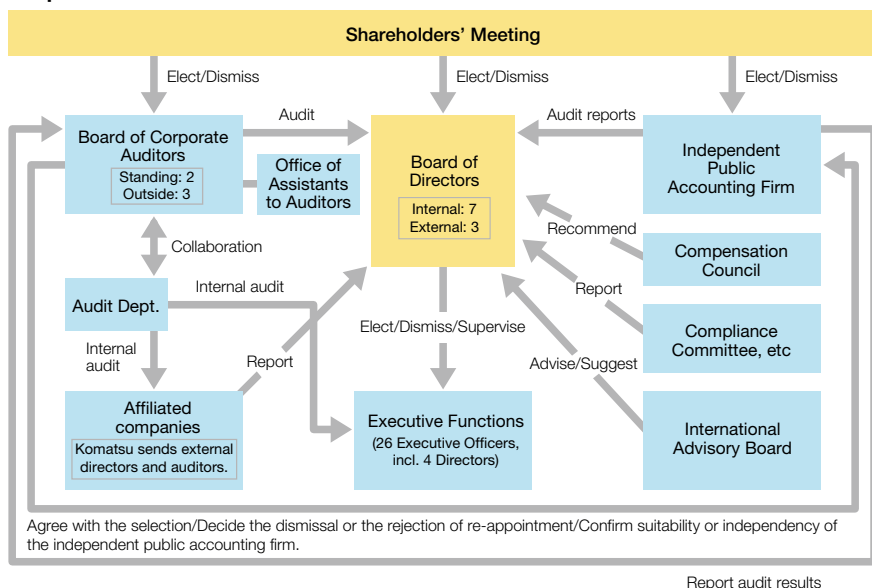
■ Directors' Remuneration

Concerning the directors' remuneration, in 1999 we established the Compensation Council membered mostly by experts outside of the Company to ensure transparency, objectivity, and validity. Total remuneration and other compensation for directors and corporate auditors are publicly announced.

■ International Advisory Board

In 1995 we established the International Advisory Board (IAB) to receive objective advice and suggestions from outside experts, both foreign and Japanese, for what Komatsu should work for as a global company. As a general rule, it meets twice a year to discuss and engage in information exchange.

Corporate Governance of Komatsu



Improvement of Internal Control

■ System to Ensure Directors' Execution of Duties

To ensure the efficient execution of duties by directors, we implement the following:

- 1) The Board of Directors meets every month and more often as needed. It strives to maintain transparency and soundness of management through the participation of outside directors. We have also established the Regulations of the Board of Directors and the Standards for Agenda of Board Meetings, thereby clarifying the matters on which the Board of Directors should make decisions.
- 2) Together with the introduction of the Executive Officer System, we have defined the separation of duties for directors, executive officers and senior managers, and set up internal rules including the Regulations of Decision-Making Authority, to ensure appropriate and effective execution of duties by directors.
- 3) To promote efficient management of the Board of Directors, we have established the 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.

■ Framework to Ensure Appropriateness of Business Operations of the Komatsu Group

- 1) We have established the Regulations of Affiliated Companies and relevant rules to contribute to proper and efficient operation of Group management while respecting the independence of the management of affiliated companies. We have also positioned *the Komatsu Code of Worldwide Business Conduct* as the code applicable to all companies affiliated with the Company. Based on these regulations and the code of business conduct, each company of the Komatsu Group stipulates various regulations for the proper promotion of duties.

- 2) Important committees of the Company, including the Compliance Committee, Risk Management Committee and Export Control Committee, take actions with the entire Group in view, and allow representatives of affiliated companies to take part in their meetings as needed.

- 3) The Company makes particularly important affiliated companies regularly report to the Board of Directors of the Company on the status of business, including risks and compliance.
- 4) The Internal Audit Department of the Company audits each division of the Company and implements or supervises auditing of major affiliated companies that belong to the Komatsu Group. It also monitors and instructs each affiliated company so that it will build its structure in conformity with the Company's internal control and operate it correctly.

■ Basic Policy Pertaining to the Elimination of Antisocial Forces

It is the basic policy of the Company to prohibit the Komatsu Group from having any relation whatsoever with antisocial movements or groups that threaten the order and security of civil society from the perspectives of social justice and corporate social responsibility.

- 1) This policy is provided in the *Komatsu Code of Worldwide Business Conduct* and diffused throughout the Company as well as each company of the Komatsu Group.
- 2) The Company works with police and other relevant external organizations to prevent the involvement of antisocial movements or groups in its management and quell any harmful effects they may bring about.
- 3) The Company is doing its utmost to collect information and receive education training from external organizations, and shares information throughout the Komatsu Group.