

Promoting Compliance and Risk Management

Under the principle of “compliance comes first,” Komatsu has established a framework to ensure thorough compliance with best practices in business.

Promoting Compliance

Frameworks for Promoting Compliance

To make certain that the entire Komatsu Group complies with the rules of the business community, Komatsu has appointed an executive officer in charge of compliance and established the Compliance Department to handle this issue exclusively. The Compliance Committee, chaired by the President and CEO, reviews the Group's action policies and important issues, while regularly reporting the state of compliance-related activities to the Board of Directors.

■ *Komatsu's Code of Worldwide Business Conduct*

The company has formulated *Komatsu's Code of Worldwide Business Conduct* (established in 1998 and revised six times to date) as a compilation of best business practices to be observed by officers and employees of Komatsu Group companies both in and outside Japan. The code addresses fair business practices, non-discriminatory personnel systems, endeavors for the global environment, appropriate information management, internal control structure, and other topics. The text of the code has been released to the public in its entirety.

■ Enacting Thorough Compliance

For continual awareness among employees about compliance, the Group is working to raise their consciousness of best business practices by displaying in every Komatsu Group business unit posters listing The Five Principles of Compliance, a condensed version of

Komatsu's Code of Worldwide Business Conduct. The Group raises awareness through e-Learning and well-developed compliance-related education and training tailored to employees' ranks and the types of operations they are responsible for. During internal audits of Komatsu business units and Group companies, the Komatsu Group conducts financial audits and monitors compliance with business rules and safety and environmental practices, leading to early detection of risks and reforms.

■ Internal Reporting System

Komatsu established the Business Rule Consultation Office in 1998 through which employees from any Group company can confer about issues pertaining to best business practices or report questionable actions. By clearly stating in *Komatsu's Code of Worldwide Business Conduct* and Group companies' workplace rules that employees using the internal reporting system will not be penalized, the Group fosters active consultations and reporting, maximizing the usefulness of this consultation system.

The State of Compliance in FY2007

In FY2007, the Komatsu Group experienced no substantial compliance-related infractions or incidents.

Risk Management

Basic Principles and System for Risk Management

As Komatsu continues to make efforts to increase its corporate value, it recognizes problems related to compliance, particularly environment, product quality, accidents, information security, and other matters as major risks for continuous growth and has therefore adopted the following countermeasures.

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

The State of Risk Management in FY2007

■ Implementing a Business Continuity Plan (BCP)* for Komatsu

Komatsu has formulated a BCP to carry out major operations without suspension, or restore them after only a short suspension, should a disaster or accident occur.

The company conducted a BCP simulation at the Head Office, assuming an earthquake occurring directly beneath the Greater Tokyo Metropolitan area—a disaster said to be highly likely. The simulation aimed to empower employees to take appropriate actions in the event of an actual emergency. Komatsu's manufacturing plants have used their BCPs to strengthen the ability of buildings and equip-

ment to withstand earthquakes and establish or reconfirm their systems governing initial actions to be taken in the event in particular that a business associate suffers damage.

*A 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.

■ Promoting Risk Management throughout the Group

To reinforce the risk management structure across the Group, Komatsu is refining the level of management at each Group company through explanatory meetings and study sessions on risk management and BCPs.

Additionally, Komatsu is strengthening its Group-wide system for communications in times of emergency by introducing emergency contact and safety confirmation systems, broad-area wireless devices, and other useful tools.

■ Consolidating Information Security

With the Information Security Committee established in 2005 at the core, Komatsu is developing a structure for information security for the entire Group and implementing various control measures.

Komatsu has distributed an Information Security Guidebook to all employees with a view to raising their consciousness of thorough compliance with rules. The company has also inaugurated explanatory sessions, education and training (e-Learning), and similar awareness-raising activities at its business units. The company revised its policy for personal information protection in February 2008, reinforcing its appropriate handling of such information.