

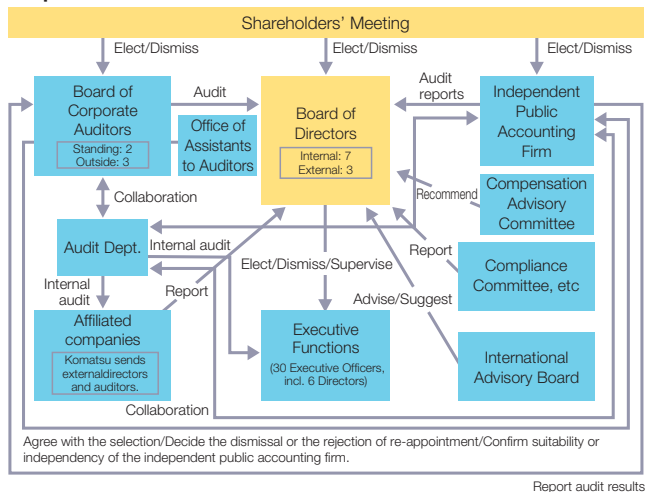
Enhancing Corporate Governance, Compliance, and Risk Management

Komatsu is strengthening corporate governance Group-wide to become a company that enjoys even greater trust from all its stakeholders. Under the principle of “compliance comes first,” the company has established a framework to ensure thorough compliance with best practices in business.

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.

Corporate Governance of Komatsu



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, 2009.] 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. ensures 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, 2009.]

When formulating an audit plan, corporate auditors exchange views with independent public accounting firm regarding audit policies, key matters, and main points with the aim to executing an effective and efficient audit. Corporate auditors create opportunities to exchange audit-related information with the independent public accounting firm as appropriate, including by attending audits of business units, affiliated companies, and other entities carried out by the independent public accounting firm, deepening their mutual collaboration and making auditing flexible.

Collaboration between Corporate Auditors and the Internal Audit Department

The Internal Audit Department, in cooperation with other related depart-

ments, 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 to them on a routine basis.

Remuneration for Directors and Corporate Auditors

In an effort to maintain an objective and transparent remuneration system, the policy and levels of remuneration for Directors and Corporate Auditors are deliberated by the Compensation Advisory Committee, which consists of four external members and one internal member. Taking its recommendations into consideration, the remuneration for Directors is determined by the Board of Directors, and the remuneration for Corporate Auditors is determined by discussions by the Corporate Auditors, respectively. The remuneration shall be subject to the resolution of the General Meeting of Shareholders, which is required under the Corporation Act. With regards to remuneration levels, comparison of other key, globally active manufacturers in Japan is made by the Compensation Advisory Committee and is reflected in its recommendations.

The remuneration for Directors is composed of a fixed, monthly remuneration and a variable remuneration linked to Komatsu's consolidated performance and stock price fluctuations. The variable remuneration is made up of the annual bonus, reflecting business results, and stock options, granted to give Directors the same perspective on earnings as shareholders, both of which have the purpose of motivating them to manage with the aim of enhancing corporate value. The remuneration for Corporate Auditors only consists of a fixed, monthly remuneration designed to support their independent position with authority to audit the execution of duties by the Directors without getting fettered by the movements of corporate performance of the Company.

International Advisory Board

In 1995 we established the International Advisory Board (IAB) to receive objective advice and suggestions from outside experts 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.

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.
- 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, executive officers and senior managers execute their 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.

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 at the Head Office 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, deliberates 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 all around the globe. 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.

● Upholding Thorough Compliance

In order to achieve 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 fully engages in awareness-raising initiatives through a permanent web page dedicated to compliance on its intranet along with well-developed compliance-related education and training tailored to employees' ranks and the types of operations for which they are responsible. The Group pursues early detection of risks and reforms at Komatsu business units and Group companies through monitoring during the course of financial audits and compliance and risk audits. This monitoring covers areas ranging from compliance with best practices in business to safety and environmental practices.

● Internal Reporting System

Komatsu has established consultation offices both internally at Komatsu

Group companies and externally at law firms, collectively known as the Business Rule Consultation Offices, to respond to consultations or reporting from Group company employees pertaining to best business practices or questionable actions. The Group fosters active consultations and reporting by clearly stating in *Komatsu's Code of Worldwide Business Conduct* and Group companies' workplace rules that employees using the reporting system will not be penalized.

● The State of Compliance in FY2008

During FY2008, the Komatsu Group experienced no substantial compliance-related infractions or incidents.

Implementing Risk Management

● Basic Principles and Structure for Risk Management

As Komatsu continues to make efforts to increase its corporate value, it recognizes as major risks those risk factors that could threaten the company's sustained growth, particularly compliance issues, environmental issues, product quality concerns, accidents, and information security problems. The company has adopted the following measures to counter these risks.

- 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 entire Komatsu Group, evaluate and improve upon 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 occur and implement appropriate measures to minimize damage.

● Implementing a Business Continuity Plan for Komatsu

Komatsu has formulated a Business Continuity Plan (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 training drills at the Head Office, assuming an earthquake occurring directly beneath the Greater Tokyo Metropolitan area. These drills 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 equipment to withstand earthquakes and step up measures to cope with concentrated torrential rainfalls. Komatsu has established a committee to respond to the incidence and spread of pandemic influenza. To help employees cope with the disease, an action manual has been developed covering prevention and out-break periods, with education and training also underway to ensure more thorough understanding.

*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. The company distributes 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. Komatsu revised its policy for personal information protection in February 2008, reinforcing its appropriate handling of such information.