

Basic Stance and Present Conditions Concerning Internal Control (Translation)

The Komatsu Group works to improve its internal control according to the Basic Policies of Internal Control below.

1. Basic Policies Concerning Internal Control

We at Komatsu Ltd. define our corporate value as the total sum of trust given to us by society and all stakeholders.

We recognize that strengthening corporate governance is important in order for us to enhance our corporate value. To improve the substantiality of discussions in Board meetings, we have maintained the Board of Directors with a small number of members and to ensure transparent and sound management we have appointed outside directors and auditors. To enhance the effectiveness of corporate governance and ensure thorough discussions and quick decision-making, we have promoted reforms in the operational aspect of the Board meetings.

2. Safekeeping and Management of Information Related to Directors' Execution of Duties

We safekeep and manage important information related to directors' execution of their duties, including the records of Board meetings and other consensus-based, approved documents, as stipulated by law and internal regulations.

3. Regulations Concerning Risk Management

While we continue to make efforts to improve corporate value, we recognize the problems related to compliance, in particular, environment, product quality, accidents, information security and other matters, as major risks for continuous growth and are thus implementing the following measures.

- 1) We have established the Risk Management Rules to correctly recognize and manage risks. The Company has appointed personnel in charge of individual risks, further promoting the build-up of a solid foundation for risk management.
- 2) We have established the Risk Management Committee to devise risk management policies of the Komatsu Group, check and follow up on the conditions of risk measures in place, and take control of risks when they surface. The Risk Management Committee regularly reports review results and activities to the Board of Directors.
- 3) We will establish an emergency headquarters when serious risks surface, and implement appropriate measures to minimize the damage(s).

4. Efficient Execution of Duties by Directors

We implement the following measures to ensure that directors will execute their duties efficiently.

- 1) In addition to holding monthly Board meetings, the Board of Directors holds Board meetings as needed. Through participation by outside directors in the Board meetings, we work to maintain transparent and sound management. We have established the Rules of the Board of Directors

and the Standards for Agenda of Board Meetings, thereby clarifying the matters for which the Board of Directors must make decisions.

- 2) Together with the introduction of the Executive Officer System, we have stipulated the separation of duties between directors and executive officers. To ensure that directors, executive officers and other officers will execute their duties efficiently and correctly, we have established the internal regulations, including the Rules of Decision-Making Authority.
- 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 done by the Committee, each executive officer and each senior manager execute their duties with the authority delegated by the Board of Directors.

5. Compliance of Directors' and Employees' Execution of Duties with the Law and the Articles of Incorporation

The Board of Directors makes decisions on important management matters in accordance with the law and the Rules of the Board of Directors. Based on the decisions made by the Board of Directors, each director not only executes his/her own duties but also supervises employees for the execution of their duties, and reports the conditions thereof to the Board of Directors.

We have also established the Compliance Committee as the group to oversee compliance, and the Committee regularly reports its reviews and activities to the Board of Directors.

We have also established a framework to ensure thorough compliance with business rules through a variety of measures, such as the stipulation of Komatsu's Code of Worldwide Business Conduct as the Rules of the Business Community which all directors and employees must follow in addition to the law. Other measures include appointment of the executive officer in charge of compliance, and creation of the Compliance Department. Through all of these, we work to supervise, educate and train directors and employees.

In addition, we have established the internal reporting system where those who are discretely reporting questionable actions in light of the law and business rules will not be penalized.

6. Appropriateness of Business Operations of Komatsu and the Komatsu Group

- 1) We have devised the Regulations for Affiliated Companies and related rules in order to contribute to appropriate and efficient management of the Komatsu Group, while respecting self-driven management of affiliated companies. Each affiliated company receives prescribed management and support of the department or division of Komatsu Ltd. in charge. We position Komatsu's Code of Worldwide Business Conduct as the code of conduct applicable to all affiliated companies of the Komatsu Group. Based on these regulations and the code of business conduct, each company of the Komatsu Group has devised its own regulations designed to correctly promote business operations.

- 2) We assign and dispatch directors and auditors from Komatsu Ltd. to major affiliated companies in order to strengthen corporate governance on a group-wide basis and monitor their management.
- 3) Our important committees, such as the Compliance Committee, Risk Management Committee and Export Management Committee, carry out their activities by considering the Komatsu Group, and the representatives of affiliated companies are required to participate in the meetings as needed.
- 4) Especially important affiliated companies are required to report their business conditions, including risks and compliance, to the Board of Directors of Komatsu on a regular basis.
- 5) The Internal Audit Department of Komatsu not only audits Komatsu's divisions but also audits affiliated companies or oversees the audits. The Internal Audit Department also monitors and instructs each affiliated company so that it will build its structure in conformity with Komatsu's internal control and operate it correctly. The Internal Audit Department regularly reports internal control and auditing conditions to the Board of Directors, and also reports to the Board of Statutory Auditors as needed.

7. Employees to Support Auditors for Execution of Their Duties, when They Ask for Such Employees

We have established the Office of Auditors' Staff and allocated employees who work as full-time and part-time assistants to statutory auditors.

8. Independence of Such Employees (Assistants to Statutory Auditors) from Directors

- 1) Concerning the personnel matters (recruitment, appointment and personnel change) of those employees who belong to the Office of Auditor's Staff, the approval of standing auditors is prerequisite.
- 2) The full-time assistant is independent of the chain of command of Directors, and thus standing auditors conduct his or her performance evaluation and other similar matters.

9. Report-to-Auditors Structure and Effective Audits by Auditors

- 1) In accordance with the law, statutory auditors receive reports by directors, executive officers and other senior managers concerning the conditions of execution of their respective duties.
- 2) When directors discover serious violations of the law and /or important facts related to compliance, they shall report the concerned matter immediately to auditors.
- 3) Statutory auditors 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 as well as important arbitrary documents.
- 4) Statutory auditors can appoint legal consultants and other advisers whose skills are necessary for them to execute their duties.