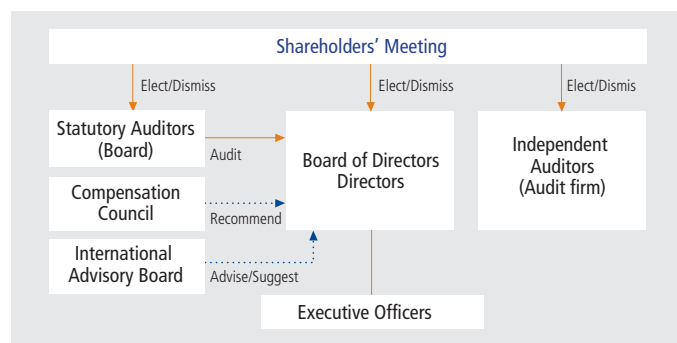


CORPORATE GOVERNANCE

To become a company which enjoys the continuously growing trust of its shareholders and all other stakeholders by maximizing its corporate value, Komatsu is working to improve management efficiency, advocate corporate ethics and ensure sound management on a Groupwide basis.

To further improve the transparency of the management to shareholders and investors, we disclose information in a fair and timely manner and actively engage in investor relations activities by holding meetings in Japan and abroad to explain business results.

Organizational Framework



Organizational Profile

In 1999 we introduced the executive officer system and have since worked to separate management decision-making and supervisory functions from executive functions within the confines of the law. At the same time, we reduced the number of members of the Board of Directors so that directors would be able to discuss important management matters thoroughly and make decisions promptly.

The Board of Directors meets every month, discusses and makes resolutions concerning important matters and decisions on management policies of the Komatsu Group. The Board of Directors also strictly supervises and oversees the execution of management duties by the representative and other directors. Of the 10 directors on the Board, we have increased the number of external directors from two to three to further ensure management transparency and objectivity.

With respect to four statutory auditors, we have consistently made sure that half of them are represented by external auditors. Each auditor attends Board of Directors meetings and other important meetings and audits the execution of duties by directors. The Board of Statutory Auditors conducts appropriate audits by meeting every month, making decisions concerning audit policies, duty assignments among themselves and hearing the conditions of execution of management duties from the directors.

Concerning the compensation of directors, we established the Compensation Council with a majority of external experts in 1999 and have since utilized the results of discussions to revise the compensation system for directors. We have also entered into consultation contracts with a multiple number of law firms, receiving advice on important legal issues as needed, and thus are working to reduce legal risks.

<International Advisory Board>

In 1995 we established the International Advisory Board (IAB) to receive advice and suggestions from foreign experts for the implementation of important globalization strategies. IAB consists of four foreign advisers and top management officers of the Komatsu Group. It meets twice a year to discuss and engage in information exchange and incorporates the results in our strategies. In 2004 we started the fourth session of IAB with new advisers. We have held a total of 20 IAB meetings since the first one.

Compliance

We are working to strengthen compliance so that each and every employee of the Komatsu Group observes the laws and regulations, and correctly understands and implements the business rules stipulated in *Komatsu's Code of Worldwide Business Conduct* (revised five times since its establishment in 1998). The Compliance Committee, established at the head office of Komatsu Ltd., is staffed by the President and CEO, other key senior officers and the representative of the labor union, with the auditors participating as observers. The Committee makes decisions on compliance-related policies, structure and other pertinent matters of the Komatsu Group, and discusses important matters.



The 20th International Advisory Board was held in June 2005.

To promote proactive participation designed to enhance corporate ethics on a Groupwide basis, we have assigned the duty of compliance to a director and have established the Compliance Department, a compliance-exclusive organization responsible for continuous management and guidance. We have also established the Business Rule Consultation Office to promptly respond to consultation requests and reports from employees of the Komatsu Group.

Internal Control

Subject to the Sarbanes-Oxley Act of the United States of America, Komatsu is steadily improving the internal control system required for financial reporting and timely disclosure of information.

We also have a system to carefully control and supervise the management transparency and efficiency of Komatsu Group companies. Under this system, Komatsu appoints directors, executive officers and high-ranking employees of Komatsu Ltd. as directors and auditors of major Group companies in Japan and abroad.

<Response to the Controls Requirements of Sections 302 and/or 404 of the Sarbanes-Oxley Act>

In April 2004, we created the Internal Control Development Group in the Corporate Accounting Department at Tokyo Head Office, which commenced preparation efforts as the exclusive project team for the Sarbanes-Oxley Act. With the Internal Control Development Group playing the leading role, all business units and Komatsu Group companies have worked together, making steady progress to meet the requirements of the Sarbanes-Oxley Act. Overseas subsidiaries, under the leadership of regional headquarters, are also preparing to follow the Sarbanes-Oxley Act while considering the conditions of host countries.

Audits by Internal Audit Department, Statutory Auditor and Independent Public Accounting Firm

Under the leadership of the Internal Audit Department, we form internal audit teams which are joined by staff members of the Legal, Compliance and other departments. Internal audit teams regularly audit business bases, subsidiaries and affiliated companies, both in Japan and overseas, evaluate the

effectiveness of their internal control, reinforce their risk management and work to prevent frauds and errors.

Statutory auditors form an audit opinion and inspect the appropriateness of audits conducted by independent public accounting firm by observing audits conducted by the Internal Audit Department and those by the independent public accounting firm. In addition to receiving reports from the independent public accounting firm concerning its audits of Komatsu's non-consolidated and consolidated financial statements, statutory auditors also work to facilitate information sharing by holding meetings regularly with the independent public accounting firm, including exchanging opinions concerning audit plans.

Statutory auditors, the Internal Audit Department and the independent public accounting firm collaborate with one another by regularly holding meetings for opinion exchange and taking other initiatives, and engage in efficient and effective audits.

Risk Management

Under the basic policy of risk management, Komatsu safekeeps human, physical, financial, credit and all other resources related to corporate activities, works to identify a variety of risks surrounding companies and prevent and/or mitigate (or minimize) the impact, should a risk occur.

The Risk Management Committee, established in 1996, devises Groupwide risk management policies, and checks and follows up on risk management measures in normal times. Should a risk surface, it establishes an emergency headquarters and conducts every possible activity to minimize the damage.

Reassessment of Director's Remuneration System

In 2004 Komatsu reassessed the director's remuneration system in order to link it more directly with business performance of Komatsu Ltd. Concerning the auditor's remuneration, in light of his independence of the management, Komatsu will discontinue the business performance-linked bonus and pay only the basic remuneration, starting with the payment in fiscal 2006, ending March 31, 2006. Komatsu has also started reducing and phasing out the retirement bonus system for directors, auditors and executive officers.