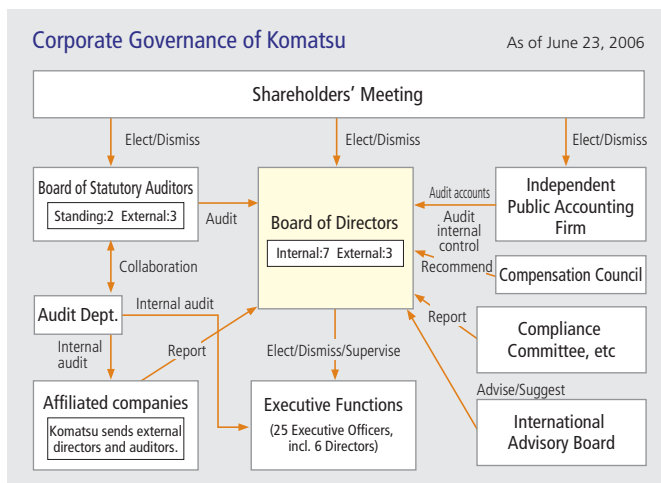


Corporate Governance

We, at Komatsu, believe our corporate value is the total sum of trust given to us by society and all stakeholders. To become a company which enjoys more trust from shareholders and all other stakeholders, Komatsu is working to strengthen corporate governance, improve management efficiency, advocate corporate ethics and ensure sound management on a group-wide basis.

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



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 external 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 16 times in the fiscal year ended March 31, 2006.] 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 external directors. When performing their duties, external 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.

External Directors As of June 23, 2006

Name	Concurrent Office
Toshio Morikawa	Advisor, Sumitomo Mitsui Banking Corporation
Hajime Sasaki	Chairman of the Board, NEC Corporation
Morio Ikeda	Chairman, Shiseido Company, Limited

Board of Statutory Auditors and Auditors

While Komatsu Ltd. has consistently ensured that the number of external auditors represents half of the Board of Statutory Auditors, the Company added one more auditor with the approval of shareholders at the annual shareholders' meeting held in June 2006, increasing the number of external auditors to three as shown in the table below. Thus, we have strengthened the Board of Statutory Auditors with three external and two standing auditors. Auditors attend Board of Directors meetings and other important meetings, hear the conditions of execution of management duties from the directors and appropriately audit directors' performance. [The Board of Auditors met 16 times in the fiscal year ended March 31, 2006.]

Our external auditors have extensive insights as top management officers or lawyer. Based on their expertise, they are responsible for auditing management decision-making processes as well as the legality and validity of the matters under discussion from their fair and neutral position.

External Auditors As of June 23, 2006

Name	Concurrent Office
Masahiro Yoshiike	Chairman, Taiyo Life Insurance Company
Takaharu Dohi	Attorney at Law
Makoto Okitsu	Chairman of the Board, Teijin Limited

Support for External Directors (and External Auditors)

As a general rule, we provide the external directors (and the external auditors) with the materials for Board meetings beforehand to ensure sufficient time for review. Concerning particularly important resolution matters, the Board of Directors discusses them in the Board meeting prior to the Board meeting where the concerned matters are scheduled for resolution. In this manner, we ensure that the directors will have sufficient time to review the matters before they resolve them and that they will be able to utilize the matters, which were pointed out during the earlier discussion, as proposals for review when resolving the concerned matters.

Directors' Remuneration

Concerning the director's remuneration, in 1999 we established the Compensation Council membered mostly by experts outside of the Company to ensure transparency, objectivity, validity and other related matters. The Council has reassessed the director's remuneration system in order to link it more directly with business performance of the Company. Concerning the auditor's remuneration, in light of his independence of the management, we have discontinued the business performance-linked bonus and unified the system for

the basic remuneration. We have also started reducing and phasing out the retirement bonus system for directors and auditors, and plan to abolish it in the fiscal year ending March 31, 2008 or later.

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. It meets twice a year to discuss and engage in information exchange. The term for advisors (see the table below for external advisors) is set for three years, and the current members are in the fourth session. IAB has met a total of 22 times to date since the first meeting.

External Advisors of the Fourth IAB Session

Name	Title
Ambassador J. Richard Fredericks	Former US Ambassador to both Switzerland and Liechtenstein, and Chairman, Dionis Capital
Sir David K.P. Li	Chairman and Chief Executive, The Bank of East Asia, Limited
Mr. David W. Oskin	Former Executive Vice President, International Paper Company
Dr. Hubertus von Gruenberg	Chairman of the Supervisory Board, Continental Aktiengesellschaft

Improvement of Internal Control

Directors' Execution of Duties

To ensure the efficiency of director's execution of duties, we are implementing the following.

- 1) As described earlier, we work to maintain transparent and sound management by strengthening the management and supervisory capabilities of the Board of Directors. We have also set up the operational rules of the Board of Directors.
- 2) We have defined the separation of duties for directors, executive officers and other senior officers, and set up the internal rules 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 execute their duties within the authority delegated by the Board of Directors.

Compliance

We have 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 to business rules through a variety of measures, including the provision

of *Komatsu's Code of Worldwide Business Conduct* (established in 1998 and revised five times to date), appointment of the executive officer in charge of compliance, and establishment of the Compliance Office. Moreover, Komatsu has established the internal reporting system where those who are discretely reporting questionable actions and other related matters in light of compliance will not be penalized.

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 countermeasures.

- 1) We have established the Risk Management Rules to correctly recognize and manage risks, for which 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 the conditions of risk measures in place, and take control of risks when they surface. The Risk Management Committee regularly reports reviews and activities to the Board of Directors.
- 3) We will establish an emergency headquarters when serious risks surface, and work to minimize the damage(s) and implement appropriate measures.

Information Management

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

We have established the Information Disclosure Committee to disclose information about important facts regarding decisions, facts regarding occurrences, and settlement of accounts concerning Komatsu Ltd. and other Komatsu Group companies in an appropriate manner based on laws and appropriate disclosure rules. The Committee takes control of, and works to improve the level of information disclosure.

Operational Framework to Ensure Effective Audits by Statutory Auditors

Statutory auditors of Komatsu 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, and important arbitrary documents. The Board of Statutory Auditors is regularly reported to by directors and executive officers concerning their execution of duties.

Furthermore, Komatsu has allocated employees who work as exclusive or concurrent assistants to statutory auditors. Concerning the recruitment, appointment and personnel

change of those employees, the approval of standing auditors is prerequisite. To ensure their independence, standing auditors conduct their performance evaluation.

Collaboration between Statutory 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 work to prevent frauds and errors. Statutory 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 Statutory Auditors, the Internal Audit Department maintains close and substantive collaborations with statutory auditors, for example, by providing information on a routine basis.

Collaboration between Statutory Auditors and Independent Public Accounting Firm

When making audit plans, statutory auditors exchange opinions with the contracted independent public accounting firm concerning audit policies, audit items focused upon and audit approaches in order to accomplish effective and efficient auditing. Statutory auditors also observe the independent public accounting firm when the firm audits Komatsu's business bases, affiliated companies and other related entities. They also hold meetings to exchange audit information as needed during a given fiscal year, thus improving mutual collaboration and engaging in expeditious auditing. Furthermore, statutory auditors evaluate the methods and results of the independent public accounting firm by checking important matters at each interim and fiscal year-end, receiving their audit report and hearing their audit summary.

When the Board of Statutory Auditors approves of audit and non-audit work by the accounting firm, the Board defines the policies, procedures and other related matters and conducts preliminary reviews of individual procedures in order to maintain the independence of the accounting firm from Komatsu Ltd. and its subsidiaries.

Internal Control by Independent Accounting Firm

Shares of Komatsu Ltd. are registered with the U.S. Securities and Exchange Commission. Therefore, Komatsu will be required to take its oath to the validity of internal control and procedures concerning financial reporting in accordance with the Sarbanes-Oxley Act of 2002 of the United States of America. The independent public accounting firm will initiate the audit of Komatsu's implementation of Section 404 of the Sarbanes-Oxley Act on a consolidated basis in the fiscal year ending March 31, 2007.

Proper Business Operations of the Komatsu Group

While respecting self-driven management of affiliated companies, we have introduced *Komatsu's Code of Worldwide Business Conduct*, which stipulates rules designed to contribute to the appropriate and effective management of the Komatsu Group as well as guidelines of conduct which are applicable to all affiliated companies belonging to the Komatsu Group. In addition, Komatsu's important committees, such as Compliance and Risk Management, operate with an eye on the Komatsu Group. Particularly important Group companies are required to regularly report their business conditions, including risks and compliance, to the Board of Directors of Komatsu Ltd.

Komatsu Ltd. also sends external directors and auditors to major Group companies to ensure their transparent and sound management.



Komatsu's Code of Worldwide Business Conduct