

The KOMATSU Way

It was a journey of self-discovery from the past and self-confidence for the future. It all began in September 2005, when we reassessed our own strengths and weaknesses as part of the first-stage Reform of Business Structure project. It took a little over 10 months for the working group to compile *The KOMATSU Way*. They reviewed the contents of QC Handbooks from 1963 to the present, which include Komatsu words of wisdom which have been passed down at workplaces over the years. The working group also conducted over 50 hours of interviews with 40 employees -- both current and retired -- some of whom are considered the legendary "meisters" of our plants.

➔ In this feature story section, we would like to highlight some major contents of The KOMATSU Way which was put in writing for Komatsu Group employees last year. Born in Japan, The KOMATSU Way has just begun to reach our people in different parts of the world for possible modifications. We feel certain that the core values in the following pages are universal and thus capable of withstanding the passage of time and people, transcending cultural diversity and national borders.



What is The KOMATSU Way?



▲ Meitaro Takeuchi

Background: Building the spirit of challenge

When Komatsu was established in 1921, Meitaro Takeuchi, founder, spelled out his founding principles as "Globalization," "Quality First," "Technology Innovation," and "Human Resource Development." Just like many other companies operating around the world today, we've come a long way with ups and downs in our history of

86 years. Just to mention a few, our forerunners met a series of critical challenges --- post-war recovery and building a business from scratch in 1946, complete deregulation of the Japanese construction equipment market in January 1964, which opened to foreign competition, and the Plaza Accord of 1985 which caused an 8.5% appreciation of the Japanese yen within a mere 24 hours of announcement of the Accord, at a time when our export sales accounted for about 54% of total sales.

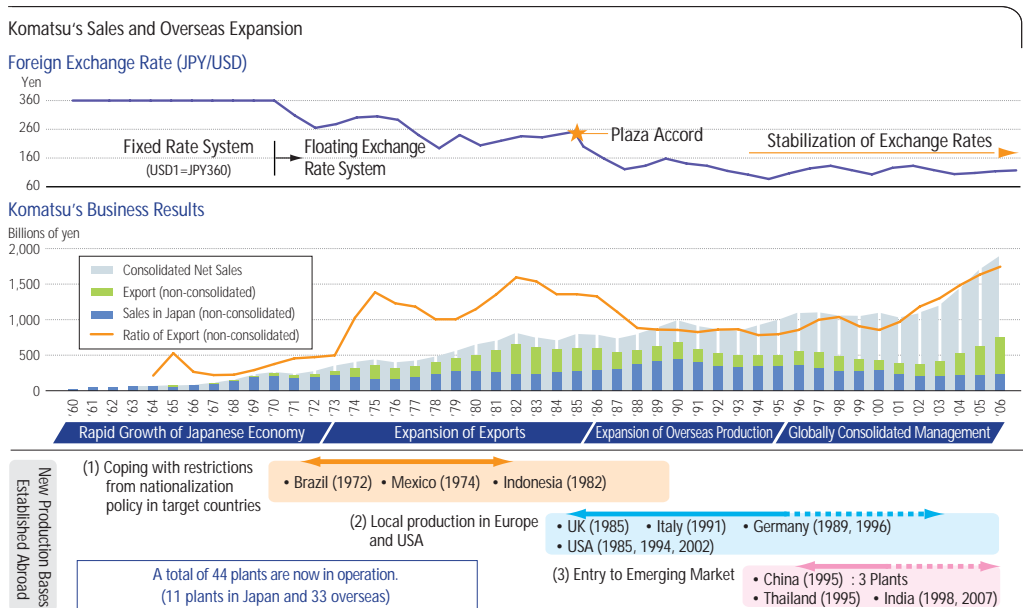
While many people in Japan were talking about how many weeks or months at most it would take for Komatsu to go under due to the market liberalization, our forerunners were busy round the clock developing and introducing bulldozers with dramatic improvements in quality. To the great surprise of the Japanese people, however, the forerunners not only made

the Company stronger by taking on the international challenge, but also demonstrated and embedded those founding principles as our corporate DNA. The KOMATSU Way is built on Komatsu's strengths which are substantiated by the beliefs, patterns of behavior and know-how that our forerunners learned from their experiences of both success and failure of the past, and it is our corporate DNA that we would like all employees of the Komatsu Group around the world to keep throughout the passage of time.

Today, just for the construction and mining equipment, we generate about 80% of total sales away from Japan, about half of our workforce represents non-Japanese citizens, and we operate 33 manufacturing facilities in 16 countries, outside of Japan. Now that *The KOMATSU Way* is available in printed form, we have a tool for sharing our corporate DNA with all Komatsu Group people working around the world.

The KOMATSU Way: Defining the values for all Komatsu employees around the world

The cornerstone of our management lies in commitment to Quality and Reliability in order to maximize our corporate value. We define our corporate value as the total sum of trust given to us by all our stakeholders and society. To improve this trust, we



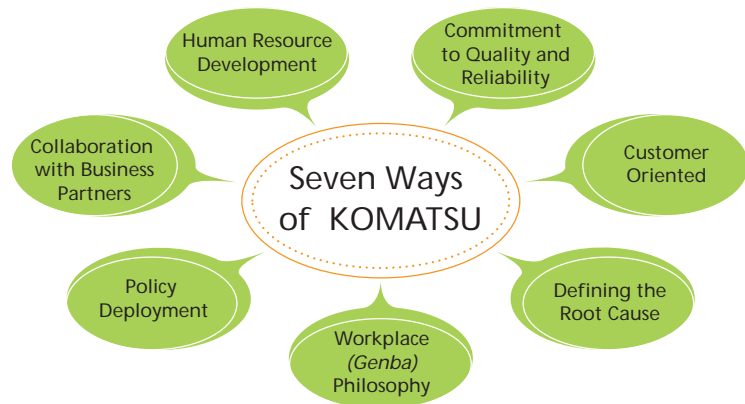
The KOMATSU Way

Corporate Governance

Five Principles

1. Vitalize the functions of the board of directors.
2. Take the initiative in communicating with all our stakeholders.
3. Comply with the rules of the business community.
4. Never put off responses to risks.
5. Keep thinking about your successor.

MONOZUKURI



have consistently worked to strengthen our corporate governance and *Monozukuri* or manufacturing competitiveness. Such efforts have transformed into the source of Komatsu's strengths, becoming two core components of The KOMATSU Way.

When we speak about *Monozukuri* at Komatsu, we mean not only plant floors but rather all value-chain activities in which we are engaged -- in the spirit of teamwork -- by suppliers and distributors in addition to internal operations ranging from development, production, sales and service to administration. In The KOMATSU Way, we have identified the seven core values that support our *Monozukuri*.

1) Commitment to Quality and Reliability:

Quality is our top-priority commitment, and thus we will never make any compromise on quality.

2) Customer Oriented:

By valuing the opinions of our customers, we continue to offer the products and services that they are proud to own.

3) Defining the Root Cause:

By clearly defining all processes from product planning to machine conditions in the field, we always work to find and fix the root cause of problems in order to prevent the problem from recurring.

4) Workplace Philosophy:

Workplaces (*Genba* in Japanese) offer information which should constitute the foundation of our policies, strategies, improvement plans and other vital initiatives. It's important to emphasize and look at the facts of workplaces, making information "visible."

5) Policy Deployment:

As soon as top management policies are announced, employees on all levels understand their respective roles, make their own activity plans, and implement them on their initiative.

6) Collaboration with Business Partners:

In all operations from development to sales and after-sales service, we work together with our business partners from around the world to solve problems and improve operations, share know-how and work for our mutual growth as "One Komatsu."

7) Human Resource Development:

It is the human resources, i.e., employees, that support sustainable corporate growth. Employees are the most valuable corporate asset and thus human resource development and educational programs for employees are indispensable worldwide.

To ensure The KOMATSU Way is established throughout the Komatsu Group worldwide, we formed KOMATSU Way Division in July 2006. Since then it has conducted a number of promotional and educational activities, including 56 presentations by Kunio Noji, Director (currently President and CEO). In the following pages, we would like to introduce our human resource development efforts, one of the seven ways of Komatsu, and some programs that have been put in place over the years as well as more recently.

Human Resource Development Programs



All-Komatsu QC Convention: Sharing innovative ideas to improve workplace capabilities

KOMATSU Way Division hosted the 38th annual All-Komatsu QC Convention on November 18, 2006. Held at our Oyama Plant and its nextdoor neighbor, Komatsu Forklift's (currently, KOMATSU Utility Co., Ltd.'s) Tochigi Plant, it accommodated a total of 72 groups, including 16 from abroad and eight from suppliers, which made presentations covering a diverse range of QC activities on the plant floor and in staff and administration operations. Highlights of this Convention were two groups from the United Kingdom and China winning first place. Komatsu UK's Production Improvements Team presented close-knit teamwork activities by its assembly and manufacturing engineering people. Komatsu Shantui Construction Machinery's Production Management Team introduced its activities which have improved supply-chain management by means of directly linking distributors and plants.

All-Komatsu Technology Olympics: Showcasing individual engineering expertise

Third Saturday of October every year is designated as Komatsu's Skills Day. The Production Division and Human Resources Department jointly held the 29th annual All-Komatsu Technology Olympics at the Mooka and Osaka plants from October 19 to 21, 2006. A total of 120 engineers, including 29 from abroad and 11 from suppliers, participated in the competitive events of machining, welding, assembly, painting, parts inspection and mechatronics maintenance. Highlights of the 2006 Olympics include Miyuki Miyamura



▲ All-Komatsu Technology Olympics

from the Awazu Plant winning first place in the parts inspection event, the first female champion in the history of this competition, and Chen Yu from Komatsu Shantui Construction Machinery in China, coming in second place for the welding event and Stephen Boal from Komatsu UK in England, receiving third place in the painting event.

Global Training Institute: Sharing Komatsu ways of supporting customers' work

Our Product Support Division offers the Global Training Institute (GTI), a 12 to 13-week, comprehensive product support program, every year to facilitate the growth of candidates for key managerial positions of local product support operations at our overseas subsidiaries and distributors. With 120 subjects in the curriculum, the GTI emphasizes the strategy of the product lifecycle business and the concept of win-win-win (customers-distributors-Komatsu as manufacturer) relationship.

Held in Japan, Europe and the United States from October 17, 2006 to February 23, 2007, the third GTI was participated in by 13 selected employees from eight Komatsu Group companies, including Komatsu Ltd. in Japan, and one from PT United Tractors Tbk, our Indonesian distributor. To date, a total of 38 persons, including four from our distributors, representing 11 countries, have completed the GTI.

Global Management Seminar: Sharing the values that Komatsu stand by

Following the previous fiscal year, our Human Resources Department in the Tokyo Head Office sponsored the second Global Management Seminar in Tokyo from April 11 through 14, 2007. A total of 13 presidents and senior managers from 11 subsidiaries in seven countries attended the seminar, where senior officers of Komatsu Ltd. made presentations concerning Komatsu's strategies for management, globalization, R&D, production and so forth. This seminar also included the presentations on The KOMATSU Way by Masahiro Sakane, president and CEO (currently Chairman of the Board) as well as the general manager of KOMATSU Way Division. It's an urgent task for all of us in the Komatsu Group now to share the same values so that we will be able to drive our efforts in the same direction, as we continue to grow overseas in the spirit of global teamwork.



Brian Kober,
Vice President,
Corporate Planning and Strategy,
Komatsu America Corp.

"I was most impressed to learn that The KOMATSU Way has been distilled from the entire history of Komatsu. Each of the seven elements of The KOMATSU Way came about from the reaction of the company to real threats or challenges over its 86-year history.

"In my current role as head of Corporate Planning and Strategy, the concepts and tools around policy deployment make it the one of the seven ways that relates to me most in my workplace today. Komatsu persevered through its challenges of the past by directly and clearly communicating its priorities to each member of the workforce.

"The exciting thing is that The KOMATSU Way is fluid and alive. It is an unfinished work, and so serves as a great framework for where to start when you are facing a new problem, but leaves the ultimate solution, and extension of the principles up to the creativity of the team."



Mike Blom,
Deputy Managing Director,
Komatsu Southern Africa (Pty) Ltd.

"I have worked for the company for 26 years. In my previous visits to our Japanese operations, especially at plants, I remember that The KOMATSU Way has always been there, maybe not in written form or stated policy, but ingrained in the behavior of its employees. This has not been the way for many overseas operations.

"The most critical aspect of The KOMATSU Way is the fact that Komatsu executive management in Japan has proactively taken steps to engender the philosophy of The KOMATSU Way to all its international operations. At Komatsu Southern Africa, the process of disseminating it has begun already and will continue in various phases during the course of the year. At present, we need to emphasize the human resource development and workplace (Genba) philosophy in our operation. The major competitive advantage we can create over our competitors will be through our people. The KOMATSU Way is the best tool for this urgent need.

"This is the first time I have been involved in the deep understanding on how Komatsu does things and I am excited and proud to be part of it."



Jorge Hosokawa,
Director, Manufacturing,
Komatsu do Brasil Ltda.

"Even though I translated the contents of The KOMATSU Way into Portuguese and gave the translation to all managers at Komatsu do Brasil in March 2007, I have deepened my understanding of The KOMATSU Way in this seminar. Most notably, I was impressed when Mr. Noji encouraged us to promote The KOMATSU Way to meet our needs. I am sure that all other participants felt the same.

"Without any doubt, all the seven ways are essential to strengthen our operation in Brazil, mainly because we are the global supply base of D41 and D51 bulldozers for the Komatsu Group. We need to improve more and reinforce our jobs through The KOMATSU Way. I am sure that the seven ways are highly valued tools and concepts, not only for the Company but also for the professional growth of each one of us. It is the level of our workers' knowledge, skills and professionalism that ensures the quality of our products. That's my job to maintain and upgrade their level."



Hubert Bruening,
General Manager, Working Gear Division,
Komatsu Hanomag GmbH

"I believe "Commitment to Quality and Reliability" of the seven ways reflects the core of Komatsu. As a matter of fact, during the Global Management Seminar, I "found" this management policy to be the major reason that I feel proud to work for Komatsu.

"The KOMATSU Way means a tool for me. During this seminar, I realized its importance as it gives answers to why we are proud to work for Komatsu, why Komatsu is successful, and why we do things in the company as they are done. It is The KOMATSU Way that sharpens the positive Komatsu aspects and ensures that we run the same way in the same direction with the highest efficiency.

"I would like to mention that it has been impressive to see how top management gives flexibility to each region of the world, to each company of the Komatsu family, to each manager – how to implement The KOMATSU Way without leaving any doubt about The KOMATSU Way itself."



The KOMATSU Way in Practice



Accomplishing Successful Production Start-up of the PC200-8 Hydraulic Excavator around the World

As we have globalized our operation, it has become more important for us to manufacture our products with uniformity in product quality for customers around the world. Most recently, in response to Tier 3 emission standards for diesel engines in North America and Europe. Effective since January 2006, our plants in Japan, the United States, Europe and Thailand mounted our in-house developed "ecot3" Tier 3-compliant engines on 21 models, including the new PC200-8 hydraulic excavator. We would like to show how our people at our U.S. and Thai plants worked to accomplish production start-up of our global standard excavator model as simultaneously as possible with the Osaka Plant, their Mother plant.



▲ PC200-8 hydraulic excavator

Chattanooga Manufacturing Operation in the United States: Demonstrating policy deployment capabilities

Komatsu America Corp.'s Chattanooga Manufacturing Operation (CMO) produces five models of hydraulic excavators, ranging from 20 to 40 tons, and three models of articulated dump trucks. To ensure smooth launchings of Tier 3-compliant models, including the PC200LC-8 updated hydraulic excavator, they formed a special, cross-functional team in April 2005. The team consisted of people from design engineering, production planning, procurement, cost management, manufacturing engineering, manufacturing, quality assurance and warehouse departments. Jay Fuchita, senior manager of design engineering, was the team leader responsible for overall schedule status checks, and Bruce Nelson, senior manager of manufacturing administration, was the sub leader responsible

for overall logistics and parts inventory. Five team members traveled to Japan to take part in the start-up production for three of the models of hydraulic excavators at the Osaka Plant.

The special team created the master schedule for each department's activities and required dates of completion. From May through September, they met monthly as a total group, and weekly in October for the assembly line-on scheduled for November 7, 2005. For the PC200LC-8, the team still met weekly until the end of November by when all issues had been thoroughly discussed for solutions. Each department had its own meetings to discuss the schedule and activities it was responsible for. The department leader was responsible for updating the master schedule with his/her department's activities and reporting it in the team meetings. CMO's Mother Plant – Osaka – made sure to send all Komatsu Technical Information on-time to allow CMO to meet its schedule.

A sense of urgency was in the air. All employees knew that they could afford to make no mistake since they only had a lead-time of five months for six models, including one after-model change. To ensure trouble-free production, they created an individualized list for all parts for the warehousing operation which was being outsourced by CMO. In this way they were able to achieve the correct and in-time delivery of parts to assembly work centers on the plant floor.



▲ Assembly line at CMO



Bruce Nelson
Senior Manager, Manufacturing Administration
Chattanooga Manufacturing Operation
Komatsu America Corp.

" We actually had no major problem because everyone communicated very well with each other and we all made sure to help each department so that all necessary activities were carried out on time. We also ensured that actual assembly went well by having a special team follow the first time production through the entire manufacturing process and record the problems as they occurred. The team met weekly after production start-up to correct any problems found in the manufacturing process and we solved all problems within three weeks."



Bangkok Komatsu: Making commitments to Quality and Reliability

Bangkok Komatsu Co., Ltd. (BKC) is positioned as an exclusive production base of the Komatsu Group for PC200 hydraulic excavators. Having survived the currency crisis of July 1997, BKC exports about 80% of its total production volume of 3,200 units, mainly to North America and Greater Asia, today.

As soon as BKC received Komatsu Technical Information concerning the PC200-8 model from its Mother Plant in Osaka in June 2005, BKC started holding its original First Product Meeting program for suppliers to share technical information concerning the parts and establish goals with them on an individual basis. BKC first introduced this program in 2001 for the production start-up of the PC200-7 model, because they discovered many technical problems in locally made parts. The meetings with suppliers are held under the leadership of the Purchase Department and joined by the Quality Assurance Department before actual purchase of the parts. In typical meetings, the Purchase Department uses about 30% of the time to discuss purchase-related matters, such as delivery and costs, with suppliers, while the Quality Assurance Department uses about 70%, for technical issues. There are also three quality specialists, two specializing in parts and one in machine performance, who have received training at the Osaka Plant. They play the important roles of arranging and monitoring frequency of the meetings, and reviewing the item coverage ratio, which is the percentage of parts for each



▲ Bangkok Komatsu Co., Ltd.

product discussed in the meetings.

At BKC, communication is one of the most important key words in all activities. Thus, the First Product Meeting program is considered to be a perfect tool to enhance communication in order to achieve the target of production start-up.



Hirun Huntrakul
Quality Assurance Manager
Bangkok Komatsu Co., Ltd.

" Our successful start-up for the PC200-8 model lies significantly with the First Product Meeting. For the PC200-8, we reviewed 819 items with about 40 suppliers individually, which translates into an item coverage ratio of 85%, compared to 60% for PC200-7 in 2001. For most items, we had one or two meetings, but for difficult items, such as dies and molds for the production of door cover assembly and engine hoods, we had eight to ten meetings at maximum. To solve the problems, we also had a good support from the Mother Plant. I realize that this meeting program is not easy, but I would like to take a strong leadership in driving this kind of activities to make BKC the best quality factory in the world."

