

Corporate Governance

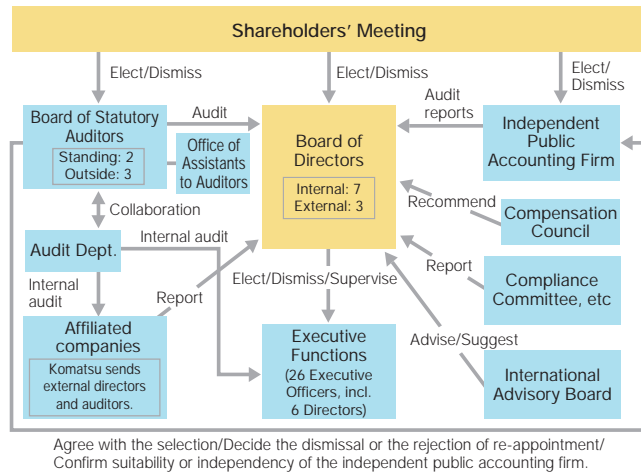
To become a company that enjoys even greater trust from all its stakeholders, Komatsu is strengthening corporate governance Group-wide to advocate corporate ethics and maintain and improve transparent and sound management.

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

As of June 22, 2007



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, 2007.] 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 Statutory Auditors and Auditors

Komatsu Ltd. has consistently ensured that the number of outside auditors represents at least half of the five statutory auditors. Each auditor attends Board of Directors meetings and other important meetings, audits the execution of duties by directors, and makes decisions concerning audit policies, duty assignments and other relevant matters at monthly meetings. They conduct appropriate audits by hearing the conditions of execution of management duties from the directors. [The Board of Auditors met 16 times in the fiscal year ended March 31, 2007.]

Each outside auditor performs his audits from an independent position throughout the year, based on the audit policies, plans, methods and assignments resolved in Board of Statutory Auditors' meetings. In both Board of Directors' meetings and Board of Statutory Auditors' meetings, each auditor offers opinions and suggestions based on his insight and rich experience.

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 works 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.

Directors' and Statutory Auditors' 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, and validity. Total remuneration and other compensation for directors and statutory auditors are publicly announced.

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. 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

We implement the following measures to ensure the directors' effective execution of duties.

- 1) In addition to holding monthly Board of Directors meetings on a regular basis, we hold extraordinary Board of Directors meetings as needed. Through participation of outside directors, we are working to maintain transparent and sound management. 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.

Framework to Ensure Appropriateness of Business Operations of the Komatsu Group

- a) 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. Furthermore, we position the *Komatsu's Code of Worldwide Business Conduct* as the code of business 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.
- b) Our important committees, such as the Compliance Committee, Risk Management Committee and Export Management Committee, shall implement their activities in light of the Komatsu Group, and the representatives of affiliated companies are required to participate in the meetings as needed.
- c) 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.
- d) Internal Audit Department of Komatsu not only audits Komatsu's divisions but also audits affiliated companies of the Komatsu Group or oversees the audits, and monitors and instructs affiliated companies so that they will build their structure in conformity with Komatsu's internal control and operate it correctly.