

# Compliance and Risk Management

Under the principle of “compliance comes first,” Komatsu is establishing a framework to ensure thorough compliance with best practices in business.

## Promoting Compliance

### Frameworks for Promoting Compliance

To make certain that the entire Komatsu Group complies with the rules of the business community, Komatsu has appointed an executive officer in charge of compliance and established the Compliance Department to handle this issue exclusively. The Compliance Committee, chaired by the President and CEO, reviews the Group's action policies and important issues, while regularly reporting the state of compliance-related activities to the Board of Directors.

### Strengthening Compliance

#### ■ *Komatsu's Code of Worldwide Business Conduct*

The company has formulated *Komatsu's Code of Worldwide Business Conduct* (established in 1998 and revised six times to date) as a compilation of best business practices to be observed by officers and employees of Komatsu Group companies both in and outside Japan. The code addresses such topics as fair business practices, non-discriminatory personnel systems, endeavors for the global environment, appropriate information management, and internal control structure. The text of the code has been released to the public in its entirety.

#### ■ Towards Thorough Compliance

For continual awareness among employees about compliance, the Group is working to raise their consciousness of best business practices by displaying in every Komatsu Group business unit posters listing The Five Principles of Compliance, a condensed version of *Komatsu's Code of Worldwide Business Conduct*. Beyond this, the Group strives to provide effective awareness-raising through the use of e-Learning as well as well-developed compliance-related education and training that is tailored to employees' ranks and the types of operations they are engaged in. Furthermore, during internal audits of Komatsu business units and Group companies, the Komatsu Group

not only conducts financial audits but also monitors their compliance with business rules and safety and environmental practices, enabling early detection of risks and improvement.

#### ■ Internal Reporting System

Komatsu established the Business Rule Consultation Office in 1998 through which employees from any Group company can consult with the company about issues pertaining to best business practices or report questionable actions. By clearly stating in *Komatsu's Code of Worldwide Business Conduct* and Group companies' workplace rules that employees using the internal reporting system will not be penalized, the Group fosters active consultations and reporting.

### The State of Compliance in FY2006

In July 2005, Komatsu Ltd. failed to realize that its dissolution of a finance subsidiary in the Netherlands that had already ceased business operations is considered a “material fact” (a fact that affects investors' decision-making) under the Securities and Exchange Law of Japan, and began the redemption of some of its own shares from the market before the dissolution was disclosed. The results of the investigation by the Japanese Securities and Exchange Surveillance Commission (SESC) were that the dissolution of the subsidiary did constitute a material fact and that consequently Komatsu's pre-disclosure redemption of its own shares was equivalent to a prohibited transaction under the Securities and Exchange Law (insider trading). In March 2007, under order from the Financial Services Agency of Japan, Komatsu Ltd. paid an administrative surcharge of 43.78 million yen.

After the start of the SESC investigation, Komatsu Ltd. promptly made public notification of this incident and, under the guidance of the authorities, launched measures to strictly prevent a reoccurrence, including a revision of its internal system and rules and education and training courses that thoroughly address the relevant laws.

## Risk Management

### Basic Principles and System for Risk Management

While Komatsu continues to make efforts to improve corporate value, it recognizes the problems related to compliance, in particular, environment, product quality, accidents, information security, and other matters, as major risks for continuous growth and is thus implementing the following countermeasures.

Komatsu has established 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.

Komatsu has established a Risk Management Committee to devise risk management policies of the Komatsu Group, evaluate risk measures in place, and take control of risks when they surface. The Risk Management Committee regularly reports its reviews and activities to the Board of Directors.

Komatsu will establish an emergency headquarters when serious risks surface, and work to minimize damage(s) and implement appropriate measures.

### The State of Risk Management in FY2006

#### ■ Implementing a BCP\* for Komatsu

Komatsu has formulated a BCP to carry out major operations without suspension, or restore them after only a short suspension, should a disaster or accident occur.

In FY2006, the company conducted a BCP simulation, assuming an earthquake occurring directly beneath the Greater Tokyo Metropolitan area, a disaster said to be highly likely. The simulation aimed to

enable employees to take correct actions in the event of a real emergency, particularly through reinforcing the system dealing with the initial stages of response. Moreover, in order to reduce potential earthquake damage, the company installed an earthquake warning system at the Head Office building, which sounds an alarm just before a large vibration hits, and then held emergency drills.

\*Business Continuity Plan: A plan that systematizes major operations across the entire company such that they can continue without suspension or can be brought back after only a brief suspension.

#### ■ Promoting Risk Management throughout the Group

To reinforce the risk management structure across the Group, Komatsu is working to enhance the level of management at each Group company through explanatory meetings and study sessions on risk management and BCPs.

Additionally, Komatsu is strengthening its Group-wide system for communications in times of emergency by introducing tools such as an emergency contact and safety confirmation system and broad-area wireless devices.

#### ■ Consolidating Information Security

With the Information Security Committee established in 2005 at the core, Komatsu is developing a structure for information security for the entire Group and implementing various control measures.

In FY2006, Komatsu distributed an Information Security Guidebook to all employees in order to raise their consciousness of thorough compliance to rules. With this guidebook as a base, the company engaged in awareness-raising activities such as explanatory sessions and education and training (e-Learning) for every employee at its business units.