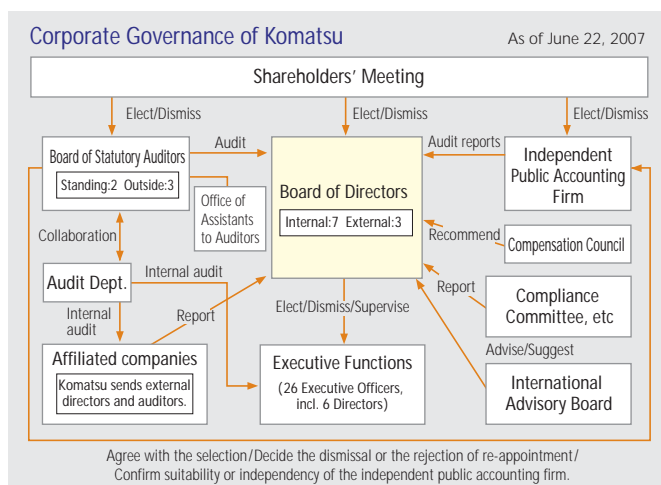


# Corporate Governance

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 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.

## 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.

## Outside Directors

As of June 22, 2007

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

## Board of Statutory Auditors and Auditors

Komatsu Ltd. has consistently ensured that the number of outside auditors represents at least half of the Board of Statutory Auditors. There are five auditors, of whom three are outside auditors. Each auditor attends Board of Directors meetings and other important meetings, audits the execution of duties by directors, and make decisions concerning audit policies, duty assignments and other relevant matters. They conduct appropriate audits by meeting every month and 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.] We have also established the Office of Auditors' Staff to exclusively assist auditors.

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 Auditor's meetings, each auditor offers opinions and suggestions based on his insight and rich experience.

## Outside Corporate Auditors

As of June 22, 2007

Name	Concurrent Office
Takaharu Dohi	Attorney at Law
Makoto Okitsu	Chairman, Teijin Limited
Hiroyuki Kamano	Partner, Kamano Sogo Law Offices

## Support for Outside Directors (and Outside Corporate Auditors)

As a general rule, we provide the outside directors (and the outside corporate 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.

## 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.

#### 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.

#### 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, and validity.

For the fiscal year ended March 31, 2007, remuneration and other compensation for directors and statutory auditors are shown below.

	Number of persons	Amount of remuneration and other compensation	Description
Directors	10	¥993 million	Incl. bonus, stock option and retirement bonus.
Statutory auditors	5	¥85 million	Incl. retirement bonus.
Total	15	¥1,078 million	-

#### 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

##### Safekeeping and Management of Information Related to Directors' Execution of Duties

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.

##### 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.

##### Operational Framework to Ensure Directors' Effective 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 that Directors' and Employees' Execution of Duties Comply with the Law and the Articles of Incorporation

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 six times to date), appointment of the executive officer in charge of compliance, and establishment of the Compliance Department. 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.

#### Framework to Ensure Appropriateness of Business Operations of Komatsu and 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.

#### Employees Responsible to Support Statutory Auditors When Performing Duties

We have established the Office of Auditors' Staff and allocated employees who work as full-time and part-time assistants to statutory auditors.

#### Independence of Assistants to Statutory Auditors from Directors

- a) Concerning the recruitment, appointment and personnel change of those employees who belong to the Office of Auditors' Staff, the approval of standing auditors is prerequisite.
- b) The full-time assistant is independent of the chain of command of Directors, and thus standing auditors conduct his or her performance evaluation.

#### Report-to-Auditors Structure and Framework to Ensure Effective Audits by Auditors

- a) Directors and executive officers regularly report to auditors concerning their execution of operations in charge of Board of Directors and Board of Statutory Auditors meetings.
- b) When directors discover serious violations of the law and/or important facts related to compliance, they shall report the concerned matter immediately to auditors.
- c) 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.



▲ KOMATSU'S CODE OF WORLDWIDE BUSINESS CONDUCT (7<sup>th</sup> edition)