Corporate Governance

Basic Stance on Corporate Governance

To become a company which enjoys more trust from shareholders and all other stakeholders, the Company 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 for its shareholders and investors, the Company discloses information in a fair and timely manner and actively engages in investor relations’ activities by holding meetings with shareholders and investors.

Corporate Governance Framework

At the Company, the Board of Directors is positioned as the core of corporate governance, and to improve the effectiveness of discussions at meetings of the Board of Directors, the Company has worked to put in place a system to ensure thorough discussions at meetings of the Board of Directors, the Company of corporate governance, and to improve the effectiveness of discussions by the Audit & Supervisory Board Members, respectively, permitted by laws and regulations, and while appointing both Outside Directors and Outside Audit & Supervisory Board Members, limits the Board of Directors to a small number of members.

Corporate Governance of the Company (As of June 30, 2019)

Composition of the Board of Directors

The Company holds Board of Directors’ meetings periodically at least once every month. The Board of Directors deliberates and makes resolutions on important matters, determines management policies of Komatsu, and rigorously controls and supervises the execution of duties by all members of the executive management team including Representative Directors. Of the eight (8) Directors on the Board, three (3) are Outside Directors to ensure transparent and objective management.

Directors’ Execution of Duties

In FY2018, the Board of Directors met 15 times. The Board made decisions on important management matters based on the Standards for Matters to be Referred to a Meeting of the Board of Directors, and reported on business execution. Business execution reports cover virtually 100% of businesses on a consolidated net sales basis. Even extremely small-scale businesses are reported at a meeting of the Board of Directors, mainly with respect to safety, compliance, and risk. Sufficient time is secured to ensure full discussions at a meeting of the Board of Directors

Human Resource Advisory Committee

The Human Resource Advisory Committee, consisting of three (3) Outside Directors (one of them as Committee Chairperson), Chairperson of the Board and President, discusses appointment and discharge of senior management officers including President (CEO), and reports the results to the Board of Directors. Based on the report, the Board of Directors discusses and decides appointments of the candidates for directors and Audit & Supervisory Board Members as well as appointments and discharges of executive and other officers.

Compensation Advisory Committee

In an effort to maintain an objective and transparent remuneration system, the policy and levels of remuneration for Directors and Audit & Supervisory Board Members of the Company are determined by the Compensation Advisory Committee, which consists of four (4) external members (one (1) outside expert, two (2) Outside Audit & Supervisory Board Members and one (1) Outside Director) and one (1) internal member. Taking its reports and recommendations into consideration, the remuneration for Directors is determined by the Board of Directors, and the remuneration for Audit & Supervisory Board Members is determined by discussions by the Audit & Supervisory Board Members, respectively, within the range previously determined by resolution of the General Meeting of Shareholders.
Corporate Governance Reforms

The Company has proceeded to implement reforms to its corporate governance system in order to ensure effective and adequate performance of matters related to decision making, management and supervision, such as separation of corporate management from business execution, enhancement of corporate management decision making by the Board of Directors, strict management and supervision of business execution, measures undertaken by Outside Directors to improve transparency and objectivity of management, and measures undertaken by the Audit & Supervisory Board to appropriately audit Directors’ execution of duties. As a means to supplement executive functions, the Company established the International Advisory Board (IAB) in 1995. Through the IAB, the Company aims to secure objective advice and suggestions from experts from Japan and abroad about how to function as a global company by exchanging opinions and holding discussions. Going forward, the Company will pursue increases to the effectiveness of the Board of Directors while appointing Outside Directors to ensure transparency and soundness and promoting openness and accountability in management.

Board of Directors

2019:
1. President and Representative Director
2. Representative and Executive Director
3. Director and Senior Executive Officer
4. Outside Director
5. Director and Senior Executive Officer
6. Director and Senior Executive Officer

2020:
1. President and Representative Director
2. Director and Senior Executive Officer
3. Director and Senior Executive Officer
4. Outside Director
5. Outside Director
6. Outside Director

Audit & Supervisory Board

1994:
3 members (1 Outside Director)
2006:
6 members (2 Outside Directors)

Executive Officer System (1999)
Global officers (2016)

Compensation Advisory Committee (1999) 4 outside members, 1 standing member
Human Resource Advisory Committee (2015) 3 outside members, 2 standing members
International Advisory Board (1995) 3–4 domestic and overseas experts
Hitachi & Innovation International Advisory Board (2015) 6 overseas experts
Compliance Committee (2001) Members of senior management and labor representatives

Other organizations and systems

ESG Issues

Outline of Operations

Komatsu’s Growth Strategies

ESG Issues

Corporate Profile
Corporate Governance

Komatsu’s Independence Standards for Outside Directors and Outside Audit & Supervisory Board Members

The Company emphasizes independence when selecting Outside Directors and Outside Audit & Supervisory Board Members, and has therefore established its own “Independence Standards for Outside Directors and Outside Audit & Supervisory Board Members.” In addition, through its departments engaged in business transactions with the companies where candidates for Outside Board Members are concurrently employed (or execute the representative directors, other Directors and Audit & Supervisory Board Members, and management of the Company and its main subsidiaries, and hold liaison meetings and individual interviews with the standing Audit & Supervisory Board Members of subsidiaries in Japan. Through these activities, they monitor the upgrading and implementation status of the internal control system.

They also periodically exchange opinions with the Internal Auditing Department and the Accounting Auditors and maintain close contact to enhance the effectiveness of audits.

The Company has allocated the required employees to the Office of Corporate Auditors’ Staff to assist the Audit & Supervisory Board Members in their duties, and allocates, and appropriately manages and executes, a budget to cover the anticipated expenses necessary for execution of the Audit & Supervisory Board Members’ duties based on the audit plan.

Basic Stance

Independent Outside Board Members are defined as Outside Board Members who have no potential conflict of interest with ordinary shareholders of the Company. In the event that they are controlled by the top management of the Company or they can critically control the top management of the Company, they are deemed to have a conflict of interest with ordinary shareholders of the Company. Therefore, the Board of Directors determines that they have no independence from the Company.

Independence (Except)

Based on the basic stance above, the Board of Directors determines an Outside Board Member who is listed below has no independence from the Company.

1) Person engaged in transactions or execution of business with the Company or its subsidiary as his/her major business partner (This is applicable to a business partner or a person engaged in business execution with the Company or its subsidiary, and the Company or its subsidiary can give significant influence on the decision-making of the concerned partner or person.)
2) Main business partner of the Company or person engaged in business execution thereof (This is applicable to a business partner or a person engaged in business execution with the Company, and the concerned business partner or person engaged in business execution thereof can give significant influence on the Company’s decision making.)
3) Consultant(s), certified public accountant(s), lawyer(s) or other professional(s) obtaining large amounts of money or other financial benefits, other than remunerations of Outside Board Members of the Company (when such financial benefits are obtained by an incorporated entity, this matter applies to a person belonging to such organization.)
4) Person who is applicable to any of 1) through 3) above for last one year
5) Spouse or a relative in second degree of an important person among the following persons (person engaged in business execution of subsidiaries of the Company, etc.)
Evaluation of the Effectiveness of the Board of Directors

Komatsu is working to improve the effectiveness of the Board of Directors and performs annual evaluations and analyses of the effectiveness of the Board of Directors for this reason.

Evaluation Process

1. **Survey**
   - After discussion by the Board of Directors on the matters to be used for FY2018 evaluation, based on the Board’s remarks, the Company conducted a survey of directors and outside directors, as well as a survey of management of each Business unit. The survey was conducted by an outside third party.

2. **Collection of survey results from all Directors and Audit & Supervisory Board Members**
   - As a result of the survey, the Company was able to obtain the results of the directors and outside directors’ opinions on their own Board meetings.

3. **Discussion among Outside Directors and Outside Audit & Supervisory Board Members based on survey responses**
   - Discussions were held among outside directors and audit & supervisory board members on the results of the survey.

4. **Report of discussion results, evaluation and analysis of effectiveness, and discussion of the matters for improvement of Board of Directors**
   - The report was presented at the meeting of the Board of Directors.

Survey Topics:

- Composition of the Board of Directors
- Contents of agendas
- Straightforward and meaningful discussions
- Provision of information and presentation of agendas by executives
- Structure through which important matters are reported, proposed, and followed up
- Succession plans for CEO
- Other items

Overview of Results of FY2018 Evaluation

The assessment shows a generally high level of achievement for each item and confirms that there were no serious problems concerning the effectiveness. As in the case of the previous survey, the Company received excellent evaluations for monthly reports by the President himself in Board meetings. The Company also enjoyed high marks for new efforts, such as improved diversity of the Board with a female director present.

Succession Plans

One of the items that has been contained in the Code of Conduct for Leadership/Top Management described in the KOMATSU Way since its establishment in 2006 is “continue to think about your succession plan.” The KOMATSU Way positions the cultivation of management successors as an important task that can only be entrusted to top management. Members of top management are thus expected to always have clearly defined successors and to take steps to foster within these successors the capacity to identify the underlying causes of issues by providing them with opportunities to experience and gain understanding of various work sites.

The Human Resource Advisory Committee, which comprises the chairman of the Board, the president, and outside directors, consistently engages in discussions regarding the selection and cultivation of candidates for positions as next the president (CEO) and the next president (CEO) to follow.

Remuneration Systems

In an effort to maintain an objective and transparent remuneration system, the policy and levels of remuneration for Directors and Audit & Supervisory Board Members of the Company are deliberated by the Compensation Advisory Committee. Taking its reports and recommendations into consideration, the remuneration for Directors is determined by the Board of Directors, and the remuneration for Audit & Supervisory Board Members is determined by discussions by the Audit & Supervisory Board Members, respectively, within the range previously determined by resolution of the General Meeting of Shareholders. With regards to remuneration levels, their comparison by position at other key, globally active manufacturers in Japan is made by the Compensation Advisory Committee and is reflected in its reports and recommendations. The remuneration for Directors excluding the Outside Directors (hereinafter “Internal Directors”) comprises basic remuneration (fixed remuneration) and performance-based remuneration linked to the Company’s consolidated performance for a single fiscal year bonus in cash and the Stock-Based Remuneration A as well as the performance-based remuneration (Stock-Based Remuneration B) that will reflect the degree of achievement of the targets raised in the mid-term management plan, so that it will further contribute to the enhancement of the medium- and long-term corporate value of the Company, by linking the remuneration. The remuneration for Outside Directors only consists of basic remuneration (fixed remuneration) designed to support their role to make recommendations with respect to the overall management of the Company as a member of the Board of Directors. Furthermore, the remuneration for Audit & Supervisory Board Members only consists of basic remuneration (fixed remuneration) designed to support their independent position with authority to audit the execution of duties by Directors without getting fettered by the movements of corporate performance of the Company. The retirement allowance system for Directors and Audit & Supervisory Board Members was termi- nated as of June 2007.

Composition of Remuneration of Directors and Audit & Supervisory Board Members

<table>
<thead>
<tr>
<th>Internal Directors</th>
<th>Basic Remuneration (Fixed Remuneration)</th>
<th>Performance-Based Remuneration for a Single Year</th>
<th>Performance-Based Remuneration Linked to Performance of Mid-Term Management Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monthly remuneration x 12 months</td>
<td>Bonus in Cash (2/3, in principle)*</td>
<td>Stock-Based Remuneration A (1/3, in principle) Restricted Stocks</td>
<td>Stock-Based Remuneration B Restricted Stocks</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Outside Directors and Audits</th>
<th>Basic Remuneration (Fixed Remuneration)</th>
<th>Performance-Based Remuneration Linked to Performance of Mid-Term Management Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monthly remuneration x 12 months</td>
<td>Not influenced by Company performance</td>
<td>Performance-Based Remuneration Linked to Performance of Mid-Term Management Plan</td>
</tr>
</tbody>
</table>

* The upper limit for Bonus in Cash is set at 12 months’ worth of monthly remuneration; the remainder of bonuses is to be paid as Stock-Based Remuneration A.

Performance-Based Remuneration Linked to Performance of Mid-Term Management Plan

The Company will pay Internal Directors the equivalent of a three-month portion of monthly remuneration every fiscal year as remuneration linked to the period of the Company’s Mid-Term Management Plan by granting restricted stock as stock-based remuneration, after the expiry of the period of the mid-term management plan, the number of shares on which to lift transfer restrictions (within a range of 0-100%) will be decided based on the achievement of the management targets of the Mid-Term Management Plan and as a general rule, the restriction of transfer on the shares will be lifted after three years from delivery.

Management Targets, Valuation Bases and Valuation Indicators in Previous Mid-Term Management Plan (FY2016-FY2018)

<table>
<thead>
<tr>
<th>Management Targets</th>
<th>Valuation Bases and Valuation Indicators</th>
</tr>
</thead>
<tbody>
<tr>
<td>Growth (At a growth rate above the industry’s average)</td>
<td>Comparison of growth rate of consolidated sales with those of major competitors*1</td>
</tr>
<tr>
<td>Profitability (At the industry’s top-level operating income ratio)</td>
<td>Comparison of consolidated operating income ratio with those of major competitors*2</td>
</tr>
<tr>
<td>Financial Position (At the industry’s top-level financial position)</td>
<td>Comparison of net debt-to-equity ratio<em>3 with those of major competitors</em>4</td>
</tr>
<tr>
<td>Management focused on ESG (Environment, Social and Corporate Governance)</td>
<td>Achievement rate of targets in respect of mid-term ESG activities</td>
</tr>
</tbody>
</table>

*1 Relative comparison with domestic and foreign major competitors in the same industry
*2 Net debt-to-equity ratio = Interest-bearing debt – Cash and cash equivalents / Shareholders’ equity of the Company
ESG Issues

Corporate Governance

Risk Management

While continuing to make efforts to raise its corporate value, the Company recognizes the problems related to legal compliance, environment, product quality, disasters and information security in particular, and other matters, as major risks for continuous growth and has thus implementing the following countermeasures.

1) The Company shall establish “Risk Management Rules” to correctly recognize and manage risk. In accordance with the rules, the Company has appointed personnel in charge of individual risks, further promoting the build-up of a solid foundation for risk management.
2) The Company shall establish Risk Management Committee to devise risk management policies of Komatsu, evaluate risk measures in place, and take control of risks when they emerge. The Risk Management Committee regularly reports its reviews and activities to the Board of Directors.
3) The Company shall establish an emergency headquarters when serious risks emerge, and work to minimize damage(s) and implement appropriate measures.

In FY2018, the Risk Management Committee met twice a year. The Committee evaluated status of implementation of risk measures and worked to prevent risks from surfacing. It also reported on its reviews and activities to the Board of Directors. The Committee also worked to improve the risk management systems on a group worldwide basis including at subsidiaries.

Compliance

The Company shall establish the “Compliance Committee” as Komatsu to oversee compliance, and the Committee regularly reports its reviews and activities to the Board of Directors. The Company shall also establish a system to ensure all Directors and employees thorough compliance to business rules as well as laws and regulations through a variety of measures, including the provision of “Komatsu Code of Worldwide Business Conduct,” appointment of the Executive Officer in charge of compliance, and establishment of the Compliance Department. Through all of these, we work to supervise, educate and train Directors, Audit & Supervisory Board Members and employees.

In addition, the Company shall establish the internal reporting system where those who are discretely reporting questionable actions in light of laws and regulations and business rules will not be given any disadvantageous treatment.

The Compliance Committee conducts various activities, such as revising the Komatsu Code of Worldwide Business Conduct, providing various education and disseminating information, and upgrading and operating internal reporting system. It also reports on its reviews and activities to the Board of Directors. The Compliance Committee met twice in FY2018. The Committee also conducted a “visualization survey” of latent risks. Monthly publication of the Company bulletin “Compliance for Everyone” continued into its 14th year. The Committee also conducts periodic audits with regard to major compliance risks and strives to prevent them from surfacing.

Compliance and Risk Audits

As a part of its risk management activities, Komatsu has been conducting compliance and risk audits (CR audits) since FY2008. These audits cover areas not included in the J-SOX audits. * CR audits also seek to identify latent compliance risks, with a particular focus on confirming and evaluating the status of legal compliance. Through these audits, we strive to raise the control and compliance awareness levels at each company and in every department.

Going forward, we aim to improve our case-by-case audit methods and raise the operational level of CR audits as a part of risk management functions.

* Audits conducted in accordance with the Financial Instruments and Exchange Act of Japan to evaluate internal controls related to financial reporting

Implementation Status of Compliance and Risk Audits

<table>
<thead>
<tr>
<th>Year</th>
<th>FY2018</th>
<th>FY2017</th>
<th>FY2016</th>
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<tbody>
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Stakeholder Engagement

In order to gain more trust from all stakeholders, the Company is strengthening corporate governance and top management is practicing direct engagement with stakeholders.

Corporate Value = Total Sum of Trust Given to Us by Society and All Stakeholders

Share information on the Komatsu Group’s vision and the issues it faces (employees, suppliers, distributors)

Provide as many opportunities for engagement as possible and practice proper information disclosure to facilitate understanding of Komatsu

Major Investor Relations Activities in FY2018

To further improve the transparency of management for 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.
Executive Officers and Global Officers

As of June 30, 2019

### Executive Officers

#### Senior Executive Officers (Sanmu)

- **Yuichi Iwamoto**
  - Chief Technology Officer (CTO)
  - Supervising Research & Development and Environment

- **Hiroyuki Terada**
  - President, Procurement, Production Division
  - President, Production Division (Responsible for Parts & Reman)

- **Kazuya Sato**
  - President, Quality Assurance Division

- **Seiichi Fuchita**
  - President, Development Division

- **Taiichiro Kitatani**
  - Supervising Research & Development

- **Naoki Fujita**
  - General Manager, ICT Project Department

- **Masaki Nobuhara**
  - President, Japanese Domestic Marketing, Construction Equipment Marketing Division

- **Koichi Honda**
  - General Manager, Human Resources Department

- **Yasuji Nishiuara**
  - Vice President, Mining Business Division

- **Keiko Fujinawa**
  - General Manager, Department for Promotion of Distribution HR Development, Construction Equipment Marketing Division

- **Akihiko Nakazawa**
  - General Manager, Komatsu Economic Strategy Research Center

- **Chikako Shikke**
  - President, Smart Construction Promotion Division

- **Yasuo Suzuki**
  - Iwate Plant Manager, Production Division

- **Yuushi Oshikawa**
  - Vice President, Development Division

- **Takashi Kusaba**
  - General Manager, Vehicle Development Center 3, Development Division

- **Kazuaki Miura**
  - Vice President, Japanese Domestic Marketing, Construction Equipment Marketing Division

- **Takeshi Horiishi**
  - Chief Financial Officer (CFO)

- **Masahide Okamoto**
  - Asano Plant Manager, Production Division

- **Takayuki Furukoshi**
  - Osaka Plant Manager, Production Division

- **Takashi Yasukawa**
  - President, Production & Procurement Division

#### Executive Officers (Global)

### North America

- **Rodney Schrader**
  - Chairman & CEO, Komatsu America Corp.

- **Jun Ohshima**
  - Vice President and President, North America M&O Division, Komatsu America Corp.

- **Jeffrey Dawes**
  - President & CEO, Komatsu Mining Corp.

- **Korekiyo Yanagisawa**
  - EVP & CIO, Komatsu Mining Corp.

### Latin America

- **Rafael Salvetti**
  - President, Underground and Hard Rock Mining, Komatsu Mining Corp.

- **John Koetz**
  - President, Surface Mining, Komatsu Mining Corp.

- **Jorge Mascena**
  - President & CEO, Modular Mining Systems, Inc.

- **John Fiedler**
  - President, Hanley Industries, Inc.

### Asia/Oceania

- **Pratjejo Dewo S.**
  - President, PT Komatsu Indonesia

### China

- **Yasuhiro Inagaki**
  - Chairman of All-China Operations

### Europe

- **Mitsujiro Ueno**
  - President and CEO, Komatsu Europe International NV

### Global Officers

#### North America

- **Peter Salesitt**
  - Managing Director, Komatsu UK Ltd.

- **Ralf Petzold**
  - Managing Director, Komatsu Germany GmbH

- **Gökkel Güner**
  - President and CEO, Komatsu Germany GmbH

- **Enrico Prandini**
  - Managing Director, Komatsu Italia Manufacturing S.p.A.

- **Somak Singha**
  - Managing Director, Komatsu South Africa (Pty) Ltd.

- **Sean Taylor**
  - Managing Director, Komatsu Australia Pty. Ltd.

### Asia/Oceania

- **Michael Blom**
  - Managing Director, Komatsu South Africa (Pty) Ltd.

### Europe

- **Paul Blanchard**
  - Managing Director, Komatsu UK Ltd.

- **Ralf Petzold**
  - Managing Director, Komatsu Germany GmbH

- **Göksel Güner**
  - President and CEO, Komatsu Germany GmbH

- **Enrico Prandini**
  - Managing Director, Komatsu Italia Manufacturing S.p.A.

### Africa

- **Afro China**
  - Managing Director, Komatsu South Africa (Pty) Ltd.