Corporate Governance Report

Last Update: July, 29, 2016

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The corporate governance of Komatsu, Ltd. (the "Company") is described below.

I. Basic Views on Corporate Governance, Capital Structure, Corporate Profile and Other Basic Information

1. Basic Views

The Company believes its corporate value is the total sum of trust given to the Company by society and all stakeholders. 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.

[Reasons for Non-compliance with the Principles of the Corporate Governance Code]

The Company implements all principles of the Corporate Governance Code.

[Disclosure Based on the Principles of the Corporate Governance Code] [Updated]

[Principle 1-4: Cross-shareholdings]
<Policy on cross-shareholding>
In light of avoiding risks resulting from stock price fluctuations and improving asset efficiency, the Company owns no listed shares except for the cases in which business relationships with invested companies and/or business cooperation with the Company are needed.
<Standards, etc for voting rights>
When executing the voting rights of cross-shareholdings, the Company evaluates and judges individually and specifically in light of maintaining and/or improving its corporate value, primarily by considering the business relationships, conditions of business cooperation with the Company, and mid- to long-term return on investment.

The Company also holds review meetings of concerned departments in order to decide voting rights and monitor the voting conditions. Furthermore, the Company works to ensure that employees in related departments understand the basic policy of voting.

[Principle 1-7: Related Party Transactions]
When transactions might be considered as applicable to those between the Company and director(s) and/or executive officer(s), the said person checks with the executive officer in charge of supervising compliance for individual cases in accordance with its internal rules. The Company also conducts investigations of related party transactions with directors, Audit & Supervisory Board Members, executive officers and senior managers to confirm the non-existence of any conflict-of-interest transactions every year.

Based on Companies Act and the Company's standards for matters to be referred to a meeting of the

Board of Directors, when the director intends to engage in conflict-of-interest transactions, concerned transactions need to be approved by the Board of Directors. Important matters related to any conflict-of-interest transactions must be reported to the Board of Directors.

[Principle 3-1] Full Disclosure]
(i) Company objectives (e.g., business principles), business strategies and business plans
<Management principle>
The corner stone of Komatsu Group's management lies in commitment to pursue Quality and Reliability and to maximize its corporate value. The Company believes its corporate value is the total sum of trust given to the Company by society and all stakeholders.
<The KOMATSU Way>
The KOMATSU Way embodies the values that all employees of the Komatsu Group, including top management, must eternally inherit at their respective workplaces. The KOMATSU Way states in writing the Company's strengths, beliefs that support the strengths, basic attitudes toward working at the Company, and patterns (styles) of behavior, all of which have been built by its forerunners in the course of growth of the Company and based on its founder's guiding principles,. The Company works to inherit and anchor it among all Komatsu Group employees.
<Management and CSR>
The Komatsu Group defines its CSR activities as responding to the needs of society through its core business. Based on this definition, the Komatsu Group devises and promotes important activities on a global scale. The Komatsu Group also turns the cycle of CSR and management, as it checks to see whether on-going activities are meeting the needs of society and the times.

Management principles of the Company and The KOMATSU Way are explained on the Company's website below.
http://www.komatsu.com/CompanyInfo/profile/basics_management/

The relationship between management and CSR of the Company is explained on the Company's website below.
http://www.komatsu.com/CompanyInfo/csr/2016/outline/outline03.html

< Business strategies and Business plans >
The Komatsu Group embarked on the “Together We Innovate GEMBA Worldwide: Growth Toward Our 100th Anniversary (2021) and Beyond” three-year mid-range management plan in April 2016. Under this plan, the Komatsu Group is making focused efforts on 1) Growth strategies based on innovation, 2) Growth strategies of existing businesses, and 3) Structural reforms designed to reinforce the business foundation.
The Komatsu Group employees worldwide will team up with distributors, suppliers and other partners, innovate customers’ GEMBA (workplace) together with them, and provide innovation designed to create new values, thereby working for growth of our core businesses of construction and mining equipment as well as industrial machinery toward our 100th anniversary and beyond.

The mid-range management plan is explained on the Company's website below.
http://www.komatsu.com/CompanyInfo/ir/results/201604/midmgtplan.pdf

(ii) Basic views and guidelines on corporate governance
The Company's basic view is the same as expressed in "1. Basic Views ".
The Company works to strengthen its corporate governance by complying with the idea and principles of the Corporate Governance Code as its basic policy.

(iii) Policies and procedures in determining the remuneration of the senior management and directors
They are the same as expressed in the "Disclosure of Policy on Determining Remuneration Amounts and Calculation Methods" to be described later.

(iv) Policies and procedures in the appointment of the senior management and the nomination of directors and Audit & Supervisory Board Members candidates
The Human Resource Advisory Committee, consisting of three (3) Outside Directors, Chairperson of the Board and President, discusses appointment and discharge of senior management officers and offers advice

and suggestions to the Board of Directors. Based on these, the Board of Directors discusses and decides appointments of the candidates for directors and Audit & Supervisory Board Members as well as appointments and discharge of executive and other officers.

(v) Explanations with respect to the individual appointments and nominations based on (iv)
Career summaries of individual candidates for directors and Audit & Supervisory Board Members are shown in notices of Ordinary General Meetings of Shareholders and Annual Securities Report.

The reasons for appointing Outside Directors and Outside Audit & Supervisory Board Members are the same as expressed, respectively, in "II. Business Management Organization and Other Corporate Governance Systems regarding Decision-making, Execution of Business, and Oversight in Management", "Directors", "Outside Directors' Relationship with the Company (2)", and "Audit & Supervisory Board Members", "Outside Audit & Supervisory Board Members' Relationship with the Company (2)".

[Principle 4-1: Roles and Responsibilities of the Board (1)]
Supplementary Principles 4-1-1
The Company specifies the standards for matters to be referred to a meeting of the Board of Directors which includes the base amount according to their importance to management and covers more matters than stipulated in laws and the Articles of Incorporation. Concerning the matters to be decided on other management levels, the Company stipulates the authority standards in the "Decision-making Authority Rule" of its internal rules, which clearly defines the job authorization of concerned positions.

[Principle 4-9: Independence Standards and Qualification for Independent Directors]
The standards for independence of Outside Directors and Audit & Supervisory Board Members of the Company are disclosed on the Company's website below.
http://www.komatsu.com/CompanyInfo/ir/corporate_governance/independence_criterion.html

[Principle4-11:Preconditions for Board and Audit & Supervisory Board Members Board Effectiveness]
Supplementary Principle 4-11-1
The Company strives to maintain transparency and soundness of management by appointing Outside Directors and Outside Audit & Supervisory Board Members, while limiting the members of the Board of Directors small so that discussions at the Board of Directors are more substantial. At present, the Board of Directors consists of ten (10) members, three (3) of whom are independent Outside Directors. Inside Directors are appointed from senior managers of different core functions of the Company, such as development, production, marketing, human resources, and accounting and finance, etc. The Company clearly identifies in light of on-going management tasks what specialization, knowledge and experience it expects to Outside Directors and Audit & Supervisory Board Members and then selects Outside Directors and Audit & Supervisory Board Members. The Human Resource Advisory Committee, consisting of three (3) Outside Directors, Chairperson of the Board and President, discusses the appointment and discharge of senior management officers and offers advice and suggestions to the Board of Directors. Based on these, the Board of Directors discusses and decides appointments of the candidates for directors and Audit & Supervisory Board Members as well as appointments and discharge of executive and other officers.

Supplementary Principle 4-11-2
In the event that Director or Audit & Supervisory Board Member, (excluding Outside Directors or Outside Audit & Supervisory Board Members) concurrently assumes office as executive officers of a listed company other than the Company, the Director or Audit & Supervisory Board Member is required to get approval of the Board of Directors based on the standards for matters to be referred to a meeting of the Board of Directors.
State of cross-assumption of office is described in the Company's notices of ordinary shareholders meetings and Annual Securities Report.

Supplementary Principle 4-11-3
In its meeting held in April of every year, the Board of Directors reports the state of progress of agendas adopted in the previous fiscal year. Additionally, the Company has enhanced the effectiveness of the Board of Directors by incorporating opinions and requests of Outside Directors into the operation of the Board of Directors. The Company has recently assessed the effectiveness of the Board of Directors in compliance with the corporate governance code.

1. Processes of Analysis and Assessment
The Company conducted a survey for all Directors and Audit & Supervisory Board Members concerning the composition and election of the Board of Directors, the contents of agendas, operations of Board meetings, self-assessment of Directors and Audit & Supervisory Board Members and other matters, and received the replies from all of them surveyed. The Company reported all replies, including attached comments, in the meeting of the Board of Directors, held in May 2016, analyzed and assessed the effectiveness and matters discussed for improvement. Based on this discussion, the Company reported the effectiveness and improvement measures of the Board of Directors in its meeting held in June, 2016.

In FY2015, the Company held free discussions concerning corporate governance, listened to the opinions of Directors and Auditors, and worked to improve the operation of Board meetings.

2. Outline of the Assessment
The assessment shows a generally high level of the composition and election of the Board of Directors of the Company, the content of agendas, operation of Board meetings, self-assessment of Directors and Auditors and other matters, and confirms that there were no serious problems concerning the effectiveness of the Board of Directors.

To further enhance the effectiveness of the Board of Directors, there were some constructive suggestions concerning the number of the Board of Directors, its composition, agendas, meetings of Outside Directors, development of succeeding executives, preparation of materials for Board meetings, assessment methods in the future and other matters. The Company has incorporated them into its improvement measures.

The Assessment also included an opinion about the characteristics of the Board of Directors of the Company, such as the fact that the President explains the latest important matters and topics in detail at every Board meeting, the process in which the days for discussions and resolutions of important agendas are separated, and materials used are sufficiently examined in detail.

[Principle 4-14: Director and Audit & Supervisory Board Members Training]
Supplementary Principle: 4-14-2
The Company explains to Outside Directors and Audit & Supervisory Board Members its business, financial position, organization and the like at the time of their assuming office. The Company trains inside Directors and Audit & Supervisory Board Members as needed before they assume office. The Company also provides continuous training to Directors and Audit & Supervisory Board Members as needed even after they have assumed office.

[Principle 5-1: Policy for Constructive Dialogue with Shareholders]
Policies on operations and efforts to promote constructive dialogue with shareholders and investors are described as follows.
1) The Company engages in fair and timely disclosure of information to all stakeholders, including shareholders and investors, and emphasizes the importance of direct communication by the President.
2) The Company appoints the Director and Senior Executive Officer in charge of supervising investor relations (IR), defines the departments responsible for IR activities, and promotes collaborations among all related departments.
3) The Company works to endeavor to identify its shareholder Ownership structure and create a means of dialogue other than individual meetings.
(Investor briefings of business results, information for shareholders and investors on the website, meeting and plant tours with individual shareholders, meeting with individual and institutional investors in Japan and abroad, etc.)
4) The President and Senior Executive Officer in charge of supervising IR periodically reports on the state of dialogue to the Board of Directors, executive officers and related departments.
5) The Company stipulates the internal rule to control insider information and sets the Information Disclosure Committee which checks on the contents of statutory disclosures and controls insider information.

2. Capital Structure

Foreign Shareholding Ratio	More than 30%

[Status of Major Shareholders] [Updated]

Name / Company Name	Number of Shares Held	Shareholding Ratio (%)
Japan Trustee Services Bank, Ltd. (Trust Account)	47,724,500	4.91
The Master Trust Bank of Japan, Ltd. (Trust Account)	45,252,600	4.65
State Street Bank and Trust Company 505223 (Standing proxy: Mizuho Bank, Ltd., Settlement & Clearing Services Division)	38,809,817	3.99
Taiyo Life Insurance Company	34,000,716	3.49
Nippon Life Insurance Company	26,626,423	2.73
Sumitomo Mitsui Banking Corporation	17,835,711	1.83
The Bank of New York Mellon SA/NV 10 (Standing proxy: The Bank of Tokyo-Mitsubishi UFJ, Ltd.)	16,574,118	1.70
State Street Bank West Client - Treaty 505234 (Standing proxy: Mizuho Bank, Ltd., Settlement & Clearing Services Division)	13,729,182	1.41
Japan Trustee Services Bank, Ltd. (Trust Account 7)	13,128,300	1.35
The Bank of New York Mellon as Depositary Bank for Depositary Receipt Holders (Standing proxy: Sumitomo Mitsui Banking Corporation)	12,230,013	1.25

Controlling Shareholder (except for Parent Company)	-
Parent Company	None

Supplementary Explanation [Updated]

1) Conditions as of March 31, 2016 are described above.
2) The figures of "Shareholding ratio (%)" in the table are rounded down to the second decimal place.
3) 28,742 thousand shares (2.95% of the total number of shares issued) of treasury stock held by the Company are excluded from the list.
4) All shares held by Japan Trustee Services Bank, Ltd. and The Master Trust Bank of Japan, Ltd. are held through trusts.
5) The Bank of New York Mellon as Depositary Bank for Depositary Receipt Holders is a registered shareholder of The Bank of New York Mellon, the depositary of the Company's American Depositary Receipts.
6) The Company received a copy of the Report of Possession of Large Volume relating to the Company's shares filed in the joint names of Walter Scott & Partners Limited and three joint holders at the date of July 12, 2013 under the Financial Instruments and Exchange Act of Japan. However, the description in the table is as the same with that in the shareholders' list of the Company and does not reflect the information in the Report, because the Company currently is not able to confirm the actual state of shareholdings as of March 31, 2016.
7) The Company received a copy of the Report of Possession of Large Volume relating to the Company's shares filed in the joint names of BlackRock Japan Co., Ltd. and seven joint holders at the date of April 6, 2015 under the Financial Instruments and Exchange Act of Japan. However, the description in the table is as the same with that in the shareholders' list of the Company and does not reflect the information in the Report, because the Company currently is not able to confirm the actual state of shareholdings as of March 31, 2016.
8) The Company received a copy of the Report of Possession of Large Volume relating to the Company's

shares filed in the name of Harris Associates L. P. at the date of October 5, 2015 under the Financial Instruments and Exchange Act of Japan. However, the description in the table is as the same with that in the shareholders' list of the Company and does not reflect the information in the Report, because the Company currently is not able to confirm the actual state of shareholdings as of March 31, 2016.

3. Corporate Attributes

Listed Stock Market and Market Section	Tokyo Stock Exchange First Section
Fiscal Year-End	March
Type of Business	Machinery
Number of Employees (consolidated) as of the End of the Previous Fiscal Year	More than 1000
Sales (consolidated) as of the End of the Previous Fiscal Year	More than JPY1 trillion
Number of Consolidated Subsidiaries as of the End of the Previous Fiscal Year	From 100 to less than 300

4. Policy on Measures to Protect Minority Shareholders in Conducting Transactions with Controlling Shareholder

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5. Other Special Circumstances which may have Material Impact on Corporate Governance

None

II. Business Management Organization and Other Corporate Governance Systems regarding Decision-making, Execution of Business, and Oversight in Management

1. Organizational Composition and Operation

Organization Form	Company with Audit & Supervisory Board

[Directors]

Maximum Number of Directors Stipulated in Articles of Incorporation	15
Term of Office Stipulated in Articles of	1 year

Incorporation	
Chairperson of the Board	Company Chairperson
Number of Directors	10
Number of Outside Directors	3
Number of Independent Directors	3

Outside Directors' Relationship with the Company (1) [Updated]

Name	Attribute	Relationship with the Company*										
		a	b	c	d	e	f	g	h	i	j	k
Masayuki Oku	From another company					△						
Mitoji Yabunaka	Other											
Makoto Kigawa	From another company											

* Categories for "Relationship with the Company"

* "○" when the director presently falls or has recently fallen under the category;
"△" when the director fell under the category in the past

* "●" when a close relative of the director presently falls or has recently fallen under the category;
"▲"when a close relative of the director fell under the category in the past

a. Executive of the Company or its subsidiaries
b. Non-executive director or executive of a parent company of the Company
c. Executive of a fellow subsidiary company of the Company
d. A party whose major client or supplier is the Company or an executive thereof
e. Major client or supplier of the listed company or an executive thereof
f. Consultant, accountant or legal professional who receives a large amount of monetary consideration or other property from the Company besides compensation as a director/Audit & Supervisory Board Member
g. Major shareholder of the Company (or an executive of the said major shareholder if the shareholder is a legal entity)
h. Executive of a client or supplier company of the Company (which does not correspond to any of d, e, or f) (the director himself/herself only)
i. Executive of a company, between which and the Company outside directors/Audit & Supervisory Board Members are mutually appointed (the director himself/herself only)
j. Executive of a company or organization that receives a donation from the Company (the director himself/herself only)
k. Others

Outside Directors' Relationship with the Company (2) [Updated]

Name	Designation as Independent Director	Supplementary Explanation of the Relationship	Reasons of Appointment
Masayuki Oku	○	Mr. Masayuki Oku held the positions of Representative Director and Senior Managing Director, Representative Director and Deputy	Having served as Representative Director of Sumitomo Mitsui Banking Corporation, Mr. Masayuki Oku has been active internationally in the financial field and has considerable knowledge and rich experience in the business world.

		President, and Representative Director and President of Sumitomo Mitsui Banking Corporation (including the former The Sumitomo Bank, Ltd.) from January 2001 to April 2011.	Utilizing this knowledge and experience, his recommendations concerning the overall management of the Company are expected to help to sustain and improve transparency and soundness of management and enhance corporate governance. Therefore, the Company appointed him as an Outside Director. Mr. Masayuki Oku is unlikely to have a conflict of interest with general investors and is considered as an Independent Director. Mr. Oku serves as Chairperson of the Board of Sumitomo Mitsui Financial Group, Inc. and held the positions of Representative Director and Senior Managing Director, Representative Director and Deputy President, and Representative Director and President of Sumitomo Mitsui Banking Corporation (including the former The Sumitomo Bank, Ltd.) from January 2001 to April 2011. However, more than five (5) years have passed since his retirement from Sumitomo Mitsui Banking Corporation, and he currently has no involvement with the execution of business at the said bank. Because the Company and its consolidated subsidiaries have several lenders and the said bank is only one lender among the several lenders of the Company and its consolidated subsidiaries, the said bank is not a business partner which has a significant impact on the Company's decision making. As of the end of the most recent fiscal year, the balance of loans from the said bank was JPY 88.9 billion, which was 19.4% of the total amount of loans.
Mitoji Yabunaka	○	-	Having served as Vice-Minister for Foreign Affairs, Mr. Mitoji Yabunaka has been active in such fields as international policy coordination and overseas consular work, and has considerable knowledge and rich experience in international relations. Utilizing this knowledge and experience, his recommendations concerning the overall management of the Company are expected to contribute to the mitigation and avoidance of risk in the Company's global business operations, and to the enhancement of

			the Company's mid- and long-term corporate value. Therefore, the Company appointed him as an Outside Director. Mr. Mitoji Yabunaka is unlikely to have a conflict of interest with general investors. For this reason, the Company considers him as an Independent Director.
Makoto Kigawa	○	-	Having served as Representative Director of Yamato Holdings, Co., Ltd. and Yamato Transport Co., Ltd., Mr. Makoto Kigawa has considerable knowledge and rich experience in the business world, including use of ICT, business model innovation and so forth, and engaging in strategic and advanced corporate management, among others. Utilizing this knowledge and experience, his recommendations concerning the overall management of the Company are expected to contribute to appropriate monitoring of the management strategies of the Company, and to the enhancement of the Company's medium- and long-term corporate value. Therefore, the Company nominates him as a candidate for Outside Director. Mr. Makoto Kigawa is unlikely to have a conflict of interest with general investors. For this reason, the Company considers him as an Independent Director. Mr. Kigawa serves as Representative Director and Chairman of Yamato Holdings Co., Ltd. The Company and its consolidated subsidiaries have transactions with Yamato Holdings Co., Ltd.'s subsidiaries, including Yamato Transport Co., Ltd. for payment of transportation expenses, etc. However, the amount of the payment is less than 0.1% of the consolidated total of cost of sales and selling, general and administrative expenses of the Company and its consolidated subsidiaries for the most recent fiscal year.

Voluntary Establishment of Committee(s) Corresponding to Nomination Committee or Remuneration Committee	Established

Committee's Name, Composition, and Attributes of Chairperson [Updated]

	Committee Corresponding to Nomination Committee	Committee Corresponding to Remuneration Committee
Committee's Name	Human Resource Advisory Committee	Compensation Advisory Committee
All Committee Members	5	5
Full-time Members	0	0
Inside Directors	2	1
Outside Directors	3	1
Outside Experts	0	1
Other	0	2
Chairperson	None	Outside Experts

Supplementary Explanation

<Human Resource Advisory Committee>
The Human Resource Advisory Committee, consisting of three (3) Outside Directors, Chairperson of the Board and President, discusses appointment and discharge of senior management officers and offers advice and suggestions to the Board of Directors. Based on these, the Board of Directors discusses and decides appointments of the candidates for directors and Audit & Supervisory Board Members as well as appointments and discharge 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 deliberated by the Compensation Advisory Committee, which consists of four (4) external members (two (2) Outside Audit & Supervisory Board Members, one (1) Outside Director and one (1) outside expert) 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.

Similarly, the Audit and Supervisory Board discusses and decides the amounts for Audit & Supervisory Board Members. The chairperson of the Committee is elected by mutual vote from the four (4) external members every year.

[Audit & Supervisory Board Members]

Establishment of Audit & Supervisory Board	Established
Maximum Number of Audit & Supervisory Board Members Stipulated in Articles of Incorporation	5
Number of Audit & Supervisory Board Members	5

Collaboration between Audit & Supervisory Board Members, the Independent Public Accounting Firm and the Internal Audit Departments

[Collaboration Between Audit & Supervisory Board Members (including Outside Audit & Supervisory Board Members) and Independent Public Accounting Firm and Processes]

To complete the audit process effectively and efficiently, Audit & Supervisory Board Members exchange opinions with the contracted independent public accounting firm concerning audit policies, audit items to be focused upon and audit approaches. Audit & Supervisory Board Members also observe the independent public accounting firm, when the firm audits Komatsu's business bases, subsidiaries and affiliates and other related entities. Audit & Supervisory Board Members and the independent public accounting firm also hold meetings to exchange audit information as needed during a given fiscal year. These exchanges lead to better collaboration between Audit & Supervisory Board Members and the independent public accounting firm and a more expeditious audit process. In addition, Audit & Supervisory Board Members receive reports of the independent public accounting firm's review at the end of the first, second and third quarters, and review and confirm important financial statement matters at the end of the second quarter and the fiscal year-end. Furthermore, Audit & Supervisory Board Members evaluate the methods and results of the independent public accounting firm's review and audit by listening to their summaries and receiving their review and audit reports at the meetings of the Audit & Supervisory Board Members.
When the Audit & Supervisory Board approves the engagement of an accounting firm to perform audit and non-audit work, the Board defines the policies, procedures and other related matters for such work, and conducts preliminary reviews of individual procedures in order to maintain the independence of the accounting firm from the Company and its consolidated subsidiaries.

[Collaboration Between Audit & Supervisory Board Members (including Outside Audit & Supervisory Board Members) and the Internal Audit Department and processes]
The Internal Audit Department, in cooperation with other related departments, regularly audits business bases and subsidiaries and affiliates both in Japan and overseas, evaluates the effectiveness of their internal control, reinforces their risk management and works to prevent misconduct and errors. Audit & Supervisory Board Members 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 the audit results reported by the Internal Audit Department to the Audit & Supervisory Board, the Audit & Supervisory Board Members closely maintain substantive cooperation with the Internal Audit Department, such as receiving various pieces of information relevant to their duties on a routine basis.

[Collaboration Between the Internal Audit Department and the Independent Public Accounting Firm and processes]
In assessing the effectiveness of internal control implemented by the Internal Audit Department, the Independent Public Accounting firm collaborates with the Internal Audit Department as needed by exchanging opinions and sharing information.

[Relationship Between Audit & Supervisory Board Members (including Outside Audit & Supervisory Board Members), the Internal Audit Department, the Independent Public Accounting Firm and Certain Committees and Corporate Departments Concerning Internal Control]
Corporate departments concerning internal control over matters, including corporate planning, accounting, financing, administration and legal departments as well as certain committees concerning internal control, including the "Compliance Committee" and "Risk Management Committee" mutually collaborate with Audit & Supervisory Board Members, the Internal Audit Department and the independent public accounting firm.

Appointment of Outside Audit & Supervisory Board Members	Appointed
Number of Outside Audit & Supervisory Board Members	3
Number of Independent Audit & Supervisory Board Members	3

Outside Audit & Supervisory Board Members' Relationship with the Company (1)

Name	Attribute	Relationship with the Company*												
		a	b	c	d	e	f	g	h	i	J	k	l	m
Kunihiro Matsuo	Lawyer								△					
Hirohide Yamaguchi	From another company													
Eiko Shinotsuka	Academic													

* Categories for "Relationship with the Company"

* "○" when the Audit & Supervisory Board Member presently falls or has recently fallen under the category;
"△" when the Audit & Supervisory Board Member fell under the category in the past

* "●" when a close relative of the Audit & Supervisory Board Member presently falls or has recently fallen under the category;
"▲"when a close relative of the Audit & Supervisory Board Member fell under the category in the past

a. Executive of the Company or its subsidiary
b. Non-executive director or accounting advisor of the Company or its subsidiaries
c. Non-executive director or executive of a parent company of the Company
d. Audit & Supervisory Board Member of a parent company of the Company
e. Executive of a fellow subsidiary company of the Company
f. A party whose major client or supplier is the Company or an executive thereof
g. Major client or supplier of the Company or an executive thereof
h. Consultant, accountant or legal professional who receives a large amount of monetary consideration or other property from the Company besides compensation as an Audit & Supervisory Board Member
i. Major shareholder of the Company (or an executive of the said major shareholder if the shareholder is a legal entity)
j. Executive of a client or supplier company of the Company (which does not correspond to any of f, g, or h) (the Audit & Supervisory Board Member himself/herself only)
k. Executive of a company, between which and the Company outside directors/Audit & Supervisory Board Members are mutually appointed (the Audit & Supervisory Board Members himself/herself only)
l. Executive of a company or organization that receives a donation from the Company (the Audit & Supervisory Board Member himself/herself only)
m. Others

Outside Audit & Supervisory Board Members' Relationship with the Company (2) [Updated]

Name	Designation as Independent Audit & Supervisory Board Member	Supplementary Explanation of the Relationship	Reasons of Appointment
Kunihiro Matsuo	○	Mr. Kunihiro Matsuo was a party to a legal consultant agreement with the Audit & Supervisory Board of the Company from October 2007 until June 23, 2009, which was the day before his appointment as Outside Audit & Supervisory Board Member of the Company.	Mr. Kunihiro Matsuo was a party to a legal consultant agreement with the Audit & Supervisory Board of the Company from October 2007 until June 23, 2009, which was the day before his appointment as Outside Audit & Supervisory Board Member of the Company. Mr. Matsuo's legal consultant duties for the Audit & Supervisory Board were only undertaken to help strengthen the functions of Audit & Supervisory Board Members and Audit & Supervisory Board, which have a function of auditing the Board of Directors from an independent

			standpoint and did not give rise to any interests between Mr. Matsuo and the Board of Directors or in terms of the execution of business. Since the day Mr. Matsuo took office as Audit & Supervisory Board Member of the Company, he has received only the remuneration for Audit & Supervisory Board Member from the Company. Having served as Prosecutor-General of the Supreme Public Prosecutors Office, Mr. Kunihiro Matsuo has rich experience in the legal profession. Utilizing this experience, the Company expects him to execute his duties as Outside Audit & Supervisory Board Member from the standpoint of a specialist. Therefore, the Company appointed him as an Outside Audit & Supervisory Board Member. Mr. Kunihiro Matsuo is unlikely to have a conflict of interest with general investors. For this reason, the Company considered him as an Independent Audit & Supervisory Board Member.
Hirohide Yamaguchi	○	-	Having served as Deputy Governor of the Bank of Japan, Mr. Hirohide Yamaguchi has been active internationally in the financial field and has considerable insight and rich experience in the finance world. Utilizing this insight and experience, the Company expects him to execute his duties as Outside Audit & Supervisory Board Member from the standpoint of a specialist. Therefore, the Company appointed him as an Outside Audit & Supervisory Board Member. Mr. Hirohide Yamaguchi is unlikely to have a conflict of interest with general investors. For this reason, the Company considered him as an Independent Audit & Supervisory Board Member.
Eiko Shinotsuka	○	-	After engaging in research in economic fields at Japan Center for Economic Research, Ms. Eiko Shinotsuka, in addition to professor emeritus at Ochanomizu University, has the experience of having served as a member of the Policy Board of the Bank of Japan, Chairperson of the Cooperation Conference for the Gender Equality Promotion of the Cabinet Office, Executive Director of the Japan Legal Support Center and Commissioner of the National Personnel Authority, etc. and she has

			held numerous other official posts in public office up until now. Accordingly, she possesses wide-ranging knowledge and abundant experience, the Company expects her to execute her duties as Outside Audit & Supervisory Board Member from the standpoint of a specialist. Therefore, the Company appointed her as a candidate for Outside Audit & Supervisory Board Member. Ms. Eiko Shinotsuka is unlikely to have a conflict of interest with general investors. For this reason, the Company considered her as an Independent Audit & Supervisory Board Member.

[Independent Directors/Audit & Supervisory Board Members]

Number of Independent Directors/Audit & Supervisory Board Members [Updated]	6

Matters relating to Independent Directors/Audit & Supervisory Board Members

The Board of Directors of the Company has defined the standards for the independence of Outside Directors and Outside Audit & Supervisory Board Members.
The standards for independence of Outside Directors and Audit & Supervisory Board Members of the Company are disclosed on the Company's website below.
http://www.komatsu.com/CompanyInfo/ir/corporate_governance/independence_criterion.html

Outside Directors Masayuki Oku, Mitoji Yabunaka and Makoto Kigawa and Outside Audit & Supervisory Board Members Kunihiro Matsuo, Hirohide Yamaguchi and Eiko Shinotsuka are unlikely to have a conflict of interest with general investors, because there are no special interests between them and the Company. Accordingly, they are considered to be Independent Directors or Audit & Supervisory Board Members.

[Incentives]

Incentive Policies for Directors	Performance-linked Remuneration / Stock Options

Supplementary Explanation

Two-thirds (2/3) of the total amount of performance-based remuneration shall be paid in the form of cash as Directors' bonuses and the amount remaining after deducting the Directors' bonuses shall be paid by granting Stock Acquisition Rights as stock-based remuneration for the purpose of fostering the same perspective on corporate value with the shareholders and consequently clarifying their incentive to enhance the long-term corporate value of the Company.

Recipients of Stock Options	Inside Directors / Outside Directors / Employee / Parent Company's Directors

Supplementary Explanation

To raise their morale and their motivation to contribute to the improvement of the consolidated performance

of the Company, but also for the purpose of clarifying their incentive to enhance the long-term corporate value of the Company by fostering the same perspective on corporate value with the shareholders.

[Director Remuneration]

Disclosure of Individual Directors' Remuneration	Selected Directors

Supplementary Explanation **[U**pdated]

Remunerations related to amounts of remunerations for Directors and Audit & Supervisory Board Members [147th term (April 1, 2015 - March 31, 2016)]

Classification	Number of Persons Paid	Total Amount of Remuneration Paid				
		Monetary Remuneration			Non-monetary Remuneration	
		Fixed Remuneration	Bonus	Total	Stock-Based Remuneration	
Director	10	JPY 437 mil	JPY 192 mil	JPY 629 mil	JPY 99 mil	JPY 728 mil
(Outside Director included above)	3	JPY 40 mil	JPY 9 mil	JPY 49 mil	JPY 4 mil	JPY 52 mil
Audit & Supervisory Board Member	6	JPY 129 mil	–	JPY 129 mil	–	JPY 129 mil
(Outside Audit & Supervisory Board Member included above)	4	JPY 45 mil	–	JPY 45 mil	–	JPY 45 mil
Total	16	JPY 566 mil	JPY 192 mil	JPY 758 mil	JPY 99 mil	JPY 857 mil
(Outside Director and Outside Audit & Supervisory Board Member included above)	7	JPY 85 mil	JPY 9 mil	JPY 94 mil	JPY 4 mil	JPY 97 mil

Notes:
1. As of the end of the fiscal year, there are ten (10) Directors (three (3) of whom are Outside Directors) and five (5) Audit & Supervisory Board Members (three (3) of whom are Outside Audit & Supervisory Board Members). However, the numbers and amounts in the table include that for one (1) Audit & Supervisory Board Member who retired as of the close of the 146th Ordinary General Meeting of Shareholders in June 2015.
2. It was resolved at the 135th Ordinary General Meeting of Shareholders, held in June 2004, that the maximum amount of remuneration to be paid to Directors in total per month (excluding bonuses and stock-based remuneration) shall not exceed ¥60 million (however, not including salaries as employees) and it was resolved at the 143rd Ordinary General Meeting of Shareholders, held in June 2012, that the maximum amount of remuneration to be paid to Audit & Supervisory Board Members in total per month shall not exceed ¥13.5 million. It was also resolved at the 141st Ordinary General Meeting of Shareholders, held in June 2010, that the maximum amount of remuneration to be paid to Directors in the form of Stock Acquisition Rights to be granted as stock-based remuneration shall not exceed ¥360 million in total per year (however, not including salaries as employees) and the maximum amount of remuneration to be paid to Outside Directors in total per year shall not exceed ¥50 million out of those ¥360 million.
3. Stock-based remuneration represents the amount of expense allocated as remuneration for Directors, which are not monetary, in accounting for the fiscal year.
4. The portions of salaries as employees for Directors concurrently serving as employees are not paid.
5. Amounts of less than JPY one (1) million are rounded to the nearest million yen.

Remunerations related to individually disclosed remunerations, etc. for Directors [the 147th term (April 1, 2015 – March 31, 2016)]
Tetsuji Ohashi, Director: JPY168 million (including bonus and stock acquisition rights)
Kunio Noji, Director: JPY155 million (including bonus and stock acquisition rights)

Notes:
1) Stock-based remuneration represents the amount of expense allocated as remuneration for Directors, which are not monetary, in accounting for the fiscal year ended March 31, 2016. More specifically, Tetsuji Ohashi and Kunio Noji have each been granted the right to acquire 116 shares (Upon exercise of each Stock Acquisition Rights, 100 common shares of the Company will be delivered) of the common stock of the Company. The value for stock-based remuneration that has been recorded by the Company from an accounting perspective for the fiscal year ended March 31, 2016 has been calculated pursuant to the Accounting Standard for Share-based Payments of Japan by multiplying the fair value per share (¥1,989 per share) as of the grant date (August 3, 2015) by the number of shares granted.
2) The portions of salaries as employees for Directors concurrently serving as employees are not paid.
3) Amounts of less than JPY one (1) million are rounded to the nearest million yen.

Policy on Determining Remuneration Amounts and Calculation Methods	Established

Disclosure of Policy on Determining Remuneration Amounts and Calculation Methods

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, which consists of four (4) external members (two (2) Outside Audit & Supervisory Board Members, one (1) Outside Director and one (1) outside expert) 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.

With regards to remuneration levels, comparison of other key, globally active manufacturers in Japan is made by the Compensation Advisory Committee and is reflected in its recommendations.

The remuneration for Directors is comprised of fixed remuneration (paid monthly) and performance-based remuneration linked to Komatsu's consolidated performance. The total amount paid of performance-based remuneration shall be calculated each year by evaluating the basic indicators of ROE[*1] and ROA[*2] at the ratio described in the below table and making adjustments for growth (growth rate of consolidated sales), profitability (profit margin of segment) and financial soundness (achievement rating of net debt-to-equity ratio[*3]).

[Basic Indicators]
Consolidated ROE[*1] 70%
Consolidated ROA[*2] 30%

[Adjustment Indicators]
Adjustment according to growth rate of consolidated sales and profit margin of segment
Adjusted by achievement rating of the net debt-to-equity ratio[*3]

Notes:
1)ROE=Net income attributable to Komatsu Ltd. for the year/[(Komatsu Ltd. shareholders' equity at the beginning + Komatsu Ltd. shareholders' equity at the end of the fiscal year)/2]
2)ROA=Income before income taxes and equity in earnings of affiliated companies/[(total assets at the beginning + total assets at the end of the fiscal year)/2]
3)Net debt-to-equity ratio = (Interest-bearing debt – Cash and cash equivalents – Time deposits) / Komatsu

Ltd. shareholders' equity

With regards to the performance-based remuneration levels, the upper limit shall be twice the annual fixed remuneration (twelve (12) × monthly remuneration) of the Director, and the lower limit shall be zero (0) payment (remuneration in this case will comprise only the fixed remuneration).
Two-thirds (2/3) of the total amount of performance-based remuneration shall be paid in the form of cash as Directors' bonuses (provided, however, the upper limit is twelve (12) × monthly remuneration), and the amount remaining after deducting the Directors' bonuses shall be paid by granting Stock Acquisition Rights as stock-based remuneration for the purpose of fostering the same perspective on corporate value with the shareholders and consequently clarifying their incentive to enhance the long-term corporate value of the Company. However, the total amount of performance-based remuneration to Outside Directors shall have the upper limit of one-third (1/3) of the annual fixed remuneration in consideration of their role and standing.
Furthermore, the remuneration for Audit & Supervisory Board Members only consists of fixed remuneration (paid monthly) 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 terminated as of June 2007.

[Supporting System for Outside Directors and/or Audit & Supervisory Board Members]

As a general rule, the Company provides materials for Board of Directors to Outside Directors and Outside Audit & Supervisory Board Members in advance of the meetings so that they have sufficient time to review the matters that are to be discussed. With respect to matters that may be of particular importance, the Board of Directors discusses them at the Board of Directors prior to the Board of Directors where such matters are scheduled for resolution. In this manner, the Company ensures that the Directors have sufficient time to review the matters before decisions are made and that they will have an opportunity to consider the points noted in earlier discussions before deciding upon such matters.

2. Matters on Functions of Business Execution, Auditing, Oversight, Nomination and Remuneration Decisions (Overview of Current Corporate Governance System) [Updated]

(1) Overview of Current Corporate Governance System (the reference material at the end of this Report: see the schematic diagram.)
Having introduced the Executive Officer System in 1999, the Company has worked to separate management decision making and supervisory functions from executive functions to the extent permitted by laws and regulations. The Company also limits the Board of Directors to a small number of members and appoints Outside Directors and Outside Audit & Supervisory Board Members. To improve the effectiveness of discussions at meetings of the Board of Directors, the Company has worked to reform their operational aspect, primarily by putting in place a system to ensure thorough discussions of important management matters and prompt decision making.

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 ten (10) Directors on the Board, three (3) are Outside Directors to ensure transparent and objective management.

Furthermore, at least half of the five (5) Audit & Supervisory Board Members are Outside Audit & Supervisory Board Members. The Audit & Supervisory Board determines such matters as audit policies and the division of duties among Audit & Supervisory Board Members. Each Audit & Supervisory Board Member attends meetings of the Board of Directors and other important meetings, and audits the execution of duties by Directors. Meetings of the Audit & Supervisory Board are in principle held periodically at least once every month, and the Board performs appropriate audits by such means as hearing reports from members of the executive management team on their execution of duties. The Company has also established the Office of Corporate Auditors' Staff to assist the Audit & Supervisory Board Members in their duties.

To promote efficient management of the Board of Directors, the Company has established a Strategy Review Committee consisting of Senior Executive Officers and senior managers. Based on the reviews of the Committee, Executive Officers and senior managers execute their duties within the authority delegated by the Board of Directors.

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.

The Human Resource Advisory Committee, consisting of three (3) Outside Directors, Chairperson of the Board and President, discusses appointment and discharge of senior management officers and offers advice and suggestions to the Board of Directors. Based on these, the Board of Directors discusses and decides appointments of the candidates for directors and Audit & Supervisory Board Members as well as appointments and discharge of executive and other officers.

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, which consists of four (4) external members (two (2) Outside Audit & Supervisory Board Members, one (1) Outside Director and one (1) outside expert) 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.

Furthermore, the Company works to mitigate legal risks by securing timely advice from expert law offices regarding important legal issues.

(2) Accounting Auditor

The Company has entered into an audit contract with KPMG AZSA LLC and receives audit services for its accounts in connection with both consolidated and non-consolidated financial statements. Certified public accountants who executed an accounting audit of the Company and other information are as follows:

[Certified public accountants]
Hiroshi Miura (engaged for two (2) consecutive years in auditing)
Masafumi Tanabu (engaged for one (1) year in auditing)
Shin Suzuki (engaged for four (4) consecutive years in auditing)

[Audit Corporation]
KPMG AZSA LLC

[Assistants involved in auditing work]
Twenty-one (21) other certified public accountants
Thirty-six (36) associates

(3) Outside Directors and outside Audit & Supervisory Board Members

Outside Directors of the Company perform their duty of contributing to the maintenance of management transparency and soundness by providing advice and suggestions based on their considerable insight and rich experience from an independent standpoint for proposed items and their discussions at the meetings of the Board of Directors. Outside Audit & Supervisory Board Members perform their duty of enforcing audit activities throughout the fiscal year based on the audit policy, audit plan, audit method and assignment of duties, which they discussed and decided at the meeting of the Audit & Supervisory Board in collaboration with Standing Audit & Supervisory Board Members, as well as provide comments as necessary based on their professional standpoint and rich experience at the meetings of the Board of Directors and of the Audit & Supervisory Board.

3. Reasons for Adoption of Current Corporate Governance System

The Company organizes the above framework 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.

III. Implementation of Measures for Shareholders and Other Stakeholders

1. Measures to Vitalize the General Meetings of Shareholders and Smooth Exercise of Voting Rights [Updated]

	Supplementary Explanations
Early Notification of General Meeting of Shareholders	The Company sends out the notice of convocation about three (3) weeks in advance of the date of the meeting. See below for the dates of sending the notices and the dates (bracketed) of General Meetings of Shareholders held for the last three (3) years. May 31, 2016 and (June 22): 22 days in advance June 2, 2015 and (June 24): 22 days in advance May 27, 2014 and (June 18): 22 days in advance
Scheduling General Meetings of Shareholders Avoiding the Peak Day	Since the General Meeting of Shareholders in 2003 the Company has held Ordinary General Meeting of Shareholders earlier than the date when the largest number of Japanese companies hold general meetings of shareholders.
Allowing Electronic Exercise of Voting Rights	Since the General Meeting of Shareholders in 2004, the Company has allowed for electronic exercise of voting rights in addition to in writing. Electronic exercise of voting rights allowed for by the company is a measure that shareholders access to the Company's website via personal computers, smart phones or mobile phones and exercise their voting right.
Participation in Electronic Voting Platform and other improvements in voting environments geared towards institutional investor	The Company participates in the Electronic Voting Platform operated and managed by ICJ, Inc. for institutional investors.
Providing Convocation Notice in English	The Company sends the notices of convocation in English to standing proxies of foreign shareholders, etc., as requested, while simultaneously sending the notices in Japanese. The Company also provides the notices in English on its website for browsing.
Other	Since the General Meeting of Shareholders in 2015, the Company disclosed the notices of convocation (in Japanese and English) on the TDnet and The Company's website for browsing prior to sending the notices. (Date of disclosure in 2016: May 27 or two (2) business days in advance of sending the notices) To facilitate a better understanding of the Company among shareholders, the Company sets up a special exhibition space where they can see Komatsu Group's leading-edge technologies, CSR activities, etc. after the end of the General Meeting of Shareholders.

2. IR Activities

	Supplementary Explanations
Preparation and Publication of Disclosure Policy	The Company defines the basic policy, methods of information disclosure, practice of the silent periods and future business outlook as its policy on information disclosure, and posts them on its website.
Regular Investor Briefings for Individual Investors	The Company holds meetings with individual shareholders at different locations in Japan twice a year as a general rule, where top management explains business performance and strategies. The Company also invites them to plant tours a few times a year. Additionally, the Company holds meetings with individual investors a few times a year.
Regular Investor Briefings for Analysts and Institutional Investors	The Company holds meetings with securities analysts and institutional investors, when (on the same days, as a general rule) it discloses the second-quarter and full-year business performances, where top management explains business performance and strategies. When the Company discloses the first and third-quarter business performances, it holds teleconferences to explain its performance. The Company also holds meetings to introduce its business operations and offers plant tours in Japan and abroad periodically.
Regular Investor Briefings for Overseas Investors	For foreign investors, the Company holds meetings in the United States, Europe and Asia twice or three times a year, as a general rule, where top management explains business performance and strategies.
Posting of IR Materials on Website	The Company discloses sales and profit gains reports, Komatsu Reports (integrated reports), corporate information, annual securities reports, quarterly reports and IR materials on its website promptly after their official disclosure. The Company also discloses interview videos of the President concerning business performance and strategies, and audio recordings of Q&A comments during briefings for securities analysts. URL in Japanese: http://www.komatsu.co.jp/CompanyInfo/ir/ URL in English: http://www.komatsu.com/CompanyInfo/ir/
Establishment of Department and/or Manager in Charge of IR	The Company has established the department in charge of investor relations and appointed the director in charge of investor relations. Through them, the Company ensures fair and timely disclosure of information, while working to further improve the transparency of management through active IR activities in Japan and abroad.
Other	-

3. Measures to Ensure Due Respect for Stakeholders [Updated]

	Supplementary Explanations
Stipulation of Internal Rules for Respecting the Position of Stakeholders	Komatsu's Worldwide Code of Business Conduct, which stipulates the Rules of the Business Community to be followed by executives and employees of Komatsu Group companies around the world, requires timely and fair disclosure of accurate information in order to develop and maintain the long-term relationship of trust.
Implementation of Environmental Activities, CSR Activities etc.	The Company has created the Komatsu Earth Environment Charter, in which the Earth environment is defined as one of the most important management tasks of the Company, and thoroughly promotes environmental conservation efforts. The Company also engages in CSR activities in which it can capitalize on its strengths and which are valuable for society. To help stakeholders better understand these activities, the Company used to produce and distribute CSR & Environmental Reports and disclosed them on its website until FY2012. Since FY2013, the Company has integrated the CSR & Environmental Report and the annual report to produce the Komatsu

	Report and has since disclosed Komatsu Reports on its website. In 2004, the Company created the CSR Department to promote CSR efforts of the entire Komatsu Group.
Development of Policies on Information Provision to Stakeholders	The Company works to actively disclose information related to all areas of management to shareholders and other stakeholders after thoroughly considering safekeeping confidential information.
Other	The Company engages in a variety of measures designed to create workplaces where all employees feel comfortable working. As part of this commitment, the Company promotes the work-life balance practice among all employees by not only working to reduce total working hours but also improving a variety of supporting programs. (1) Reduction of total working hours: The Company has set the following specific targets after working with the Komatsu Labor Union: two thousand and one hundred (2,100) hours per year for total working hours and use of eighteen (18) or more days per year on average for paid holidays. (2) Improvement of supporting programs: The Company has continued to expand activities of the childcare support program since the creation of the Next-Generation Childcare Support Study Group in the Company. Continuous achievements include extension of the childcare leave (maximum: three (3) years) and introduction of the childcare leave when the spouse is transferred in 2011, and expansion of childcare support subsidies under the Cafeteria Plan in 2013. In FY2014, the Company introduced the Life Support Paid Holiday Program, which employees can use according to their living conditions, such as off-work injuries, child births, childcare, and elder care, in addition to regular paid holidays. This program offers five (5) days to each employee per year and allows him/her to accumulate forty (40) days at maximum. Since FY2013, the Company has focused supporting efforts on employees who need to care for family members, including the introduction of the subsidies program as a financial aid through which they can receive subsidies during paid holidays for caring for family members, and start of a new internal information site which offers care information. In FY2014, the Company introduced the work-at-home program as a flexible work initiative, which is applicable to employees caring for children or other family members. For FY2015, the number of paid holidays taken by employees was eighteen point four (18.4) days on average and the number of employees who used the childcare leave was eighty-nine (89) (including nine (9) men). The reinstatement rate from childcare leave was 96.7%, and six (6) employees took advantage of the subsidies program for caring for family members. For more information concerning the Company's efforts on the life-work commitment, see the website below. http://www.komatsu.com/CompanyInfo/csr/2016/people/people03.html Concerning women's empowerment, the Company is actively promoting various measures such as proactive employment and development of women as well as creating an environment where women can maintain a career after child bearing. With the 3 year mid-range management plan which started in April 2016, we have set and begun working towards the goal of having a ratio of women in management of 7% by April 2018 and 10% by April 2021. From FY2015, the CDP (Career Development Program) was fully implemented. This provides career plan training which includes thinking about future careers and ways of working, as well as discussing mid-term career goals with their supervisors. We are also providing a childcare service at the KOMATSU Way Global Institute located in Komatsu City, Ishikawa Prefecture, so that employees who have children can participate.

	In terms of external recognition, the Company was selected again this year for the second time in a row as a Nadeshiko Brand company by the Ministry of Economy, Trade and Industry and the Tokyo Stock Exchange as a listed company that excels in promoting career development for women. The commendation noted the number of women in managerial positions at the Company, including executive officers, and the Company's work-life balance initiative for actively promoting employee childcare and nursing care leaves regardless of gender. For more information concerning our efforts in diversity including women's empowerment, see the website below. http://www.komatsu.com/CompanyInfo/csr/2016/people/people02.html

IV. Matters Related to the Internal Control System

1. Basic Views on Internal Control System and the Progress of System Development

The Company implements internal control measures in accordance with the Basic Policy on Internal Control.

(1) Basic Policy on Internal Control

The Company defines its corporate value as the total sum of trust given to us by society and all stakeholders.

To increase this corporate value, the Company recognizes the importance of strengthening corporate governance. The Company strives to maintain transparency and soundness of management by appointing Outside Directors and Outside Audit & Supervisory Board Members, while limiting the members of the Board of Directors small so that discussions at the Board of Directors are more substantial. The Company also does its utmost to improve the operation of the Board of Directors, aiming at more effective governance by the Board, ample discussions and quick decision making.

(2) Systems for Retention and Management of Information Related to Directors' Execution of Duties

The Company shall adequately retain and manage important information related to Directors' execution of duties, including the record of Board meetings and other approved documents, as stipulated by laws and regulations, and the Company's internal rules.

(3) Rules and Other Systems for Risk Management

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

i) The Company shall establish Risk Management Rules to correctly recognize and manage risks. 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.

ii) 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 surface. The Risk Management Committee regularly reports its reviews and activities to the Board of Directors.

iii) The Company shall establish an emergency headquarters when serious risks surface, and work to minimize damage(s) and implement appropriate measures.

(4) Systems for Ensuring Efficient Execution of Duties by Directors

To ensure the efficient execution of duties by Directors, the Company shall implement the following:

i) The Board of Directors shall meet in principle at least once every month and more often as needed. It shall strive to maintain transparency and soundness of management through the participation of Outside Directors. It shall also establish the Regulations of the Board of Directors and the Company's standards for matters to be referred to a meeting of the Board of Directors, thereby clarifying the matters on which the Board of Directors should make decisions.

ii) Together with the introduction of the Executive Officer System, the Company shall define the separation of duties for Directors, Executive Officers and senior managers, and set up internal rules including the Regulations of Decision-Making Authority, to ensure appropriate and effective execution of duties by

Directors, Executive Officers and other senior managers.
iii) To promote efficient management of the Board of Directors, the Company shall establish a Strategy Review Committee consisting of Senior Executive Officers and senior managers. Based on the reviews of the Committee, Executive Officers and senior managers execute their duties within the authority delegated by the Board of Directors.

(5) Systems for Ensuring that the Execution of Duties by Directors and Employees Complies with Laws and Regulations, and the Company's Articles of Incorporation
The Board of Directors makes decisions on important management matters in accordance with laws and regulations and the Regulations of the Board of Directors. In accordance with the decisions made by the Board of Directors, each Director not only executes his or her own duties but also supervises employees for the execution of their duties, and reports the conditions thereof to the Board of Directors.
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 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.

(6) Systems for Ensuring the Proper Operation of Komatsu Comprising the Company and Its Subsidiaries
i) The Company shall establish the Affiliated Company Regulations and relevant rules to contribute to proper and efficient operation of Group management. It shall also position the Komatsu Code of Worldwide Business Conduct, as the code to be applied by all companies affiliated with Komatsu. Each department or division of the Company in charge of affiliated companies shall manage and support each relevant company, and each company in Komatsu shall stipulate various regulations for the proper promotion of duties.
ii) The Company shall assign and dispatch persons for Directors and Audit & Supervisory Board Members of major affiliated companies as needed, in order to strengthen corporate governance on a group-wide basis and monitor their management.
iii) Important committees of the Company, including the Compliance Committee, Risk Management Committee and Export Control Committee, shall take actions with the entire Group in view, and allow representatives of affiliated companies to take part in their meetings on occasion.
iv) The Company shall make particularly important affiliated companies regularly report to the Board of Directors of the Company on the status of business, including risks and compliance.
v) The Internal Auditing Department of the Company shall audit each division of the Company and implement or supervise auditing of major affiliated companies that belong to Komatsu. It shall also monitor and instruct each affiliated company regarding internal control systems built by them in accordance with Company requirements and the appropriate operation. The Internal Auditing Department shall also regularly report to the Board of Directors and the Audit & Supervisory Board about the building, operational status and results of internal control systems across the Komatsu Group.

(6)-1 Systems for Ensuring Items Related to the Implementation of Duties by Directors and Other Employees at Subsidiaries are Reported to the Company
Each division/department of the Company that has affiliated companies under its supervision shall make each affiliated company report on the management status, financial status, and other important matters of management in accordance with the Affiliated Company Regulations and relevant rules.

(6)-2 Rules and Other Systems for Risk Management at Subsidiaries
The Company comprehensively manages risk across the Komatsu Group applying the risk management system explained in (3) Rules and Other Systems for Risk Management to the Komatsu Group as a whole.

(6)-3 Systems for Ensuring Efficient Execution of Duties by Directors and Other Employees at Subsidiaries
In the case where a subsidiary executes a matter that has a significant impact on the consolidated business operations of the Company, it is necessary either that the Company provides approval beforehand or that the

Company receives notification of the matter beforehand in accordance with the Affiliated Company Regulations and relevant rules. In addition, to ensure the Company carries out the efficient operation of the entire Group based on a continual grasp of the status of the affiliated company's status of business execution, the Company receives reports on the affiliated company's standards for the agenda of board meetings, the frequency of board of directors meetings, the status of attendance, and agenda proposals.

(6)-4 Systems for Ensuring that the Execution of Duties by Directors and Employees at Subsidiaries Complies with Laws and Regulations, and the Company's Articles of Incorporation
The internal control systems and compliance systems described in (5) Systems for Ensuring that the Execution of Duties by Directors and Employees Complies with Laws and Regulations, and the Company's Articles of Incorporation are implemented across the Komatsu Group, ensuring that Directors and employees of each company in Komatsu carry out their duties in accordance with laws and regulations and the Company's Articles of Incorporation.

(7) Employees Assisting Audit & Supervisory Board Members for Execution of Their Duties, When They Ask for Such Employees
The Company shall set up the Office of Corporate Auditors' Staff, which shall assist Audit & Supervisory Board Members in their duties, and allocate employees who work as assistants to Audit & Supervisory Board Members either exclusively or concurrently in another position within the Company.

(8) Matters Regarding the Independence of the Assistants to Audit & Supervisory Board Members from Directors and the Effectiveness of Instructions Issued to the Assistants
i) Handling of personnel affairs (employment, appointment and personnel changes) of the employees who belong to the Office of Corporate Auditors' Staff shall be premised on approval of the Standing Audit & Supervisory Board Members.
ii) The employees who exclusively assist the Office of Corporate Auditors' Staff are independent of control and command of the Directors, and their performance shall be rated by the Standing Audit & Supervisory Board Members.
iii) The Company's Standing Audit & Supervisory Board Members shall hold regular meetings with employees of the Office of Corporate Auditors' Staff to confirm the execution of duties by the office.

(9) Systems for Directors and Employees Reporting to Audit & Supervisory Board Members; Systems Relating to Other Reports to Audit & Supervisory Board Members and Ensuring Effective Audits by Audit & Supervisory Board Members
i) In accordance with laws and regulations, Audit & Supervisory Board Members shall receive reports by Directors, Executive Officers and other senior managers concerning the conditions of execution of their respective duties.
ii) In the event that Directors find a serious violation of laws and regulations or other important facts regarding compliance at the Company or affiliated companies of Komatsu, they shall report to the Audit & Supervisory Board Members immediately.
iii) The Audit & Supervisory Board Members shall attend various committees and principal meetings concerning internal control as observers, and also read circulars per management approval sent around to obtain the sanction of executives, which are important decision-making documents of the Company, and essential prior settlement documents.
iv) Audit & Supervisory Board Members may appoint legal counsels and other advisors needed for the execution of their duties.

(9)-1 Systems to Ensure Reports from Directors, Audit & Supervisory Board Members and Employees of Subsidiaries are Passed, Directly or via a Person Receiving such Reports, to Audit & Supervisory Board Members of the Company
Audit & Supervisory Board Members shall attend as observers meetings of committees, including the Strategy Review Committee discussing important management matters of the Company and Group companies, Compliance Committee and Risk Management Committee, respectively discussing compliance matters and risk management matters, and Export Control Committee.
In accordance with the Affiliated Company Regulations and relevant rules, reports provided from affiliated companies regarding business operations, financial position and other important management matters are provided also to Audit & Supervisory Board Members.

The Company's Risk Management Rules and Internal Auditing Rules are applicable to affiliated companies and any important matter is reported to Audit & Supervisory Board Members.

(9)-2 Systems to Ensure Individuals who Provide Reports to Audit & Supervisory Board Members are not Given any Disadvantageous Treatment for the Provision Thereof
It is clearly stated in general rules on compliance regulated by the Company and each Group company that no disadvantageous treatment will arise from the act of reporting or informing, and the Company and each Group company shall operate in accordance with the aforesaid general rules.

(10) Advance Payments and Reimbursements for Expenses Incurred by Audit & Supervisory Board Members Executing Duties and Policy Related to Expenses or Debts Incurred by Executing Duties
The Audit & Supervisory Board, after discussion with the operating department, shall secure the necessary budget to implement audit plans approved by the Audit & Supervisory Board.
On receiving claims from Audit & Supervisory Board Members for expenses to be incurred related to the execution of their duties, the Company shall promptly pay expenses in all cases except where there is no clear connection with the execution of duties of the Audit & Supervisory Board Members.
Audit & Supervisory Board Members and employees assigned to the Office of Corporate Auditors' Staff shall be responsible for managing and implementing costs related to the execution of duties by Audit & Supervisory Board Members.

(11) Basic Policy Pertaining to the Elimination of Antisocial Forces
It shall be the basic policy of the Company to prohibit Komatsu from having any relation whatsoever with antisocial movements or groups that threaten the order and security of civil society, and the Company works on below.
i) The above policy shall be provided in Komatsu Code of Worldwide Business Conduct and diffused throughout the Company as well as each company in Komatsu.
ii) The Company's General Affairs Department of the Head Office shall oversee the policy, working with the police and other specialized external organizations, in accordance with the above policy, to take a firm and organized stand against unwarranted claims by antisocial movements or groups and to prevent any business relationship with those movements or groups.
iii) The Company will do its utmost to collect information and receive education training from the above external organizations and use above information communally both within the Company and among related Group divisions.

2. Basic Views on Eliminating Anti-Social Forces

The Company's basic views on eliminating anti-social forces are described in 1. Basic Views on Internal Control System and the Progress of System Development and (11) Basic Policy Pertaining to the Elimination of Anti-social Forces.

V. Other

1. Adoption of Anti-Takeover Measures

Adoption of Anti-Takeover Measures	Not Adopted

Supplementary Explanation
None

2. Other Matters Concerning to Corporate Governance System

[The internal system for ensuring the timely disclosure of information] (the reference material at the end of this Report: see the schematic diagram.)

The Company's internal system related to information disclosure is described in the schematic diagram below.

The facts of decisions made, facts of actual events, and financial information related to the Company's performance are first reported to the Corporate Communications Department of the Company. Under the supervision of an officer responsible for handling information disclosure, the general manager of the Department discloses the information in a proper manner based on the related laws and disclosure rules.

The Information Disclosure Committee not only controls information disclosure but also works to improve the level of information disclosure.

Based on the related laws, the Company is steadfastly strengthening its internal control system required for financial reports. In an effort to further strengthen corporate governance, the Company's directors, executive officers and senior employees concurrently serve as directors or Audit & Supervisory Board Members of major companies of the Komatsu Group worldwide.

1. Information Disclosure Committee

(1) Roles of the Information Disclosure Committee

1) Creation of guidelines related to information disclosure

2) Decision making on disclosure of important information

3) Evaluation and reviews of the contents of documents which are legally required for disclosure

(2) Members of the Information Disclosure Committee

Chairperson: Director supervising IR

Members: Senior executive officer supervising public relations, CSR, general affairs and compliance, general manager of the Business Coordination Department, the Legal Department, the Corporate Controlling Department, the Finance and Treasury Department, the Corporate Accounting Department and the General Affairs Department

Observer: Standing Audit & Supervisory Board Member

Secretariat: General manager of the Corporate Communications Department

(3) Schedule of holding the Information Disclosure Committee

1) Before disclosing financial reports, including quarterly reports

2) Before issuing important documents for disclosure, such as annual securities report

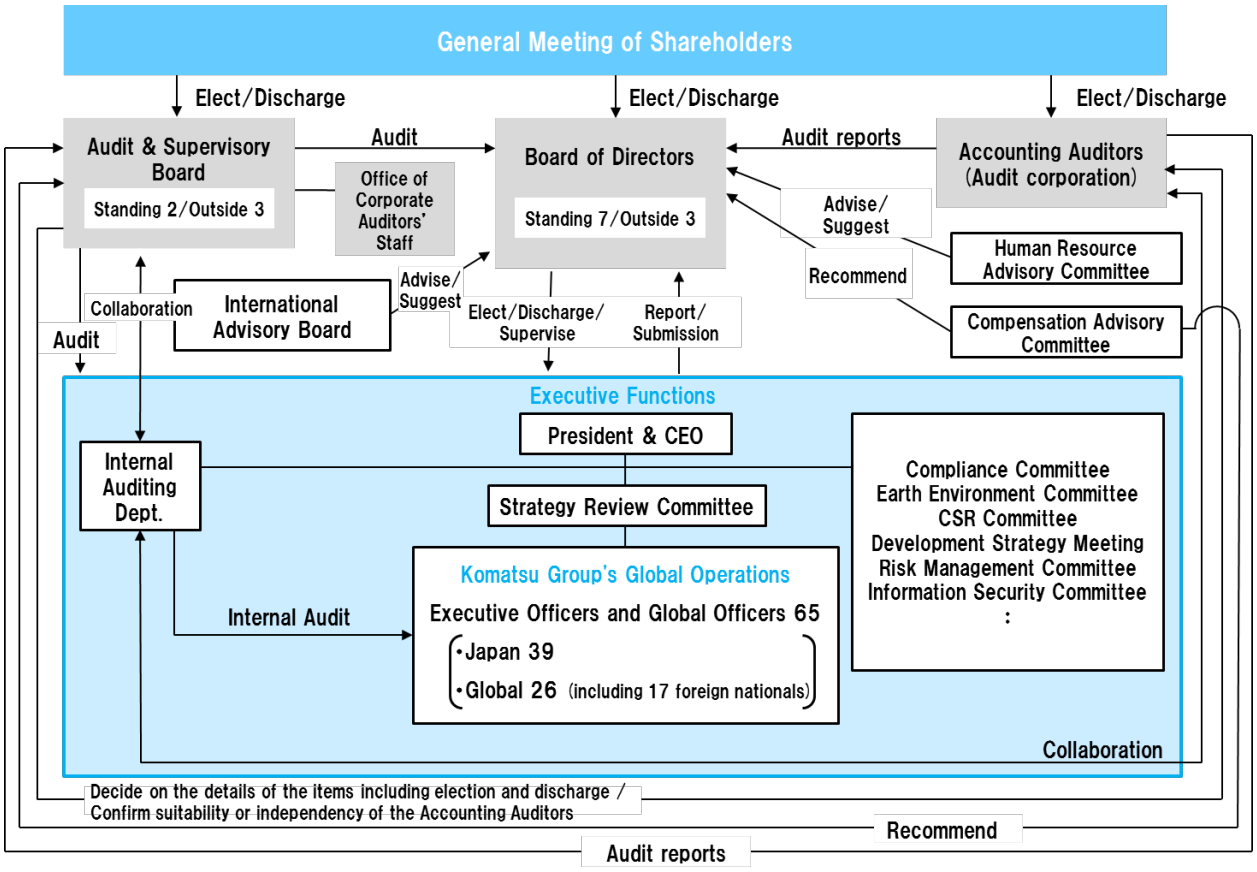
3) When there are important facts that should be disclosure concerning the facts of decisions made and facts of actual events

4) When there are matters to be disclosed regardless of legal requirement

2. Internal rules of information disclosure, etc.

The Company defines the Komatsu's Code of Worldwide Business Conduct as the Rule of the Business Community with which all employees of the Company and other Komatsu Group companies must comply, distribute it to all employees of the Komatsu Group, and discloses it on the Company's website. The Code stipulates that the Komatsu Group actively discloses information related to all aspects of management to shareholders, investors and other stakeholders, except when given information is applicable to confidentiality under the laws or contracts as well as confidential business information. The Company also defines the Ethical Rules for Senior Officers, clearly specifying the matters with which all executives and senior employees of the Komatsu Group must comply in order to ensure appropriate disclosure of information. Furthermore, the Company defines the internal rules related to information disclosure in order to ensure timely and properly disclose important information concerning the Komatsu Group.

< Corporate Governance of the Company > [Updated]



< Internal structure related to timely disclosure >

