Corporate Governance Report

Last Update: Aug 1, 2019

Komatsu Ltd.
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Securities Code: 6301
https://home.komatsu/en/

In the following, the Company expresses Komatsu Ltd. on a non-consolidated basis, while the Komatsu Group, on a consolidated basis.

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]

[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. Concerning the appropriation of retained earnings, election of directors and auditors, director remuneration, changes in the articles of incorporation, organizational changes, issuance of new shares, anti-takeover measures and other important matters, the Company has also formulated its Basic Policy for the exercise of voting rights which stipulate the matters to be carefully assessed.

[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 2-6: Execution of Functions of a Corporate Pension Plan as the Asset Owner]
To ensure the steady payment of postretirement benefits to beneficiaries into the future, the Company manages its pension fund for the goal of securing the necessary comprehensive earnings within the scope of acceptable risks for a long period of time. Accordingly, the Company has developed a basic portfolio, consisting of an appropriate combination of stocks, bonds, and other financial instruments, after considering a long-term expected rate of return.

The Company has created the Pension and Postretirement Benefit Committee, consisting of the CFO, a representative of its labor union, an executive officer who supervises human resources, and other senior officers. Based on the Basic Policy related to Pension Fund Management, which was defined according to Japan's Ministry of Health, Labor and Welfare's guidelines, the Committee periodically and comprehensively evaluates and monitors whether or not the pension fund is being appropriately managed (e.g., to decide the need for reassessing the basic portfolio by evaluating the amount of gap between the expected rate of return and actual earnings), and whether there is any conflict of interest between the Company and the beneficiaries.

To take full advantage of the monitoring function concerning the institutions of payments for corporate pension, the Company not only works with fund management consultant(s), but also works to allocate qualified personnel with the necessary experience and professional capabilities and to develop such personnel in a planned manner.

[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.
https://home.komatsu/en/company/basics-management/

The relationship between management and CSR of the Company is explained on the Company's website below.
https://home.komatsu/en/csr/outline/correlation.html

< Business strategies and Business plans >
In April 2019, the Komatsu Group aiming for growth toward its 100th Anniversary (2021) and beyond, has started a new three-year mid-term management plan (FY2019-FY2021) entitled "DANTOTSU Value – *FORWARD* Together for Sustainable Growth."

For this new mid-term management plan, we uphold three new strategies of 1) value creation by means of innovation, 2) growth strategies based on business reforms, and 3) structural reforms for growth. By making priority investment in growth areas based on the three pillars of growth strategies, we will strive for sustainable growth through a positive circle of improving earnings and solving ESG issues without being affected by changes in market demand. To promote the three pillars of growth strategies, we need to advance and enhance the level of DANTOTSU products, DANTOTSU service, and DANTOTSU solutions, for which we have continued to make efforts, at a faster speed, and realize safe, highly productive, smart and clean workplace of the future with customers by creating DANTOTSU value (ESG solutions through the creation of customer value and improvement of earnings). In this manner, we will help solve ESG issues through our core business by offering high-quality, high-performance products, service and solutions ensuring safety and reduction of environmental impact in response to climate change. We will strive for sustainable growth through linking every workplace and generate value through DANTOTSU with our global teams, customers, distributors, partners and communities.
The Komatsu Group will strive for sustainable growth through linking every workplace and generate value through DANTOTSU with our global teams, customers, distributors, partners and communities.
https://home.komatsu/en/company/pdf/2019_midmgtplan_e.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 (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.

(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 Principle 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.
https://home.komatsu/en/ir/profile/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 eight (8) 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 (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.

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
As in the case of the previous year, the Company assessed the effectiveness of the Board of Directors in compliance with the corporate governance code.

In its meeting, the Board of Directors discussed the assessment methods for effectiveness in the current fiscal year based on the assessment methods applied in the previous year and the results thereof as well as Japan’s corporate governance code which was revised in 2018. The Company conducted a survey after considering in what ways the Board of Directors should be effective. Applicable to all Directors and Audit & Supervisory Board Members, the survey concerned (1) the composition of the Board of Directors, (2) the contents of agendas, (3) straightforward and meaningful discussions, (4) the provision of information and presentation of agendas by executives, (5) the structure in which important matters are reported, proposed and followed up, (6) the succession plans for CEO, and (7) other matters. The Company received replies from all of those surveyed. Based on the survey findings, Outside Directors and Auditors further engaged in discussions, and they reported the results thereof to the Board of Directors, analyzed and assessed the effectiveness of the Board of Directors, and discussed the matters for improvement.

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 inside director, the holding of the Board meeting at Komatsu Mining Corp. (acquired in 2017) as part of Board of Directors’ visit and discussions and reviews held four times by the Board when the Company was developing the new mid-term management plan.

With respect to the conducting of Board meetings, there were a few suggestions for improvement. The Company will make those improvements and work to make the Board of Directors further effective in the future.

[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 or 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]

Name / Company Name	Number of Shares Held	Shareholding Ratio (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	62,825,400	6.65
Japan Trustee Services Bank, Ltd. (Trust Account)	52,363,600	5.54
JP Morgan Chase Bank 380055 (Standing proxy: Mizuho Bank, Ltd., Settlement & Clearing Services Division)	36,906,553	3.90
STATE STREET BANK AND TRUST COMPANY 505223 (standing proxy: Mizuho Bank, Ltd., Settlement & Clearing Services Division)	36,633,868	3.87
Taiyo Life Insurance Company	34,000,716	3.60
Nippon Life Insurance Company (standing proxy: The Master Trust Bank of Japan, Ltd.)	26,626,423	2.81
SSBTC CLIENT OMNIBUS ACCOUNT (standing proxy: The Hongkong and Shanghai Banking Corporation Limited Tokyo branch)	18,484,975	1.95
Japan Trustee Services Bank, Ltd. (Trust Account 7)	18,419,100	1.95
THE BANK OF NEW YORK MELLON AS DEPOSITARY BANK FOR DEPOSITARY RECEIPT HOLDERS (standing proxy: Sumitomo Mitsui Banking Corporation)	18,018,591	1.90
Sumitomo Mitsui Banking Corporation	17,835,711	1.88

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

Supplementary Explanation

1) Conditions as of March 31, 2019 are described above.
2) The figures of "Shareholding ratio (%)" in the table are rounded down to the second decimal place.
3) 27,864,969 shares of treasury stock held by the Company are excluded from the list.
4) All shares held by The Master Trust Bank of Japan, Ltd. (Trust Account), Japan Trustee Services Bank, Ltd. (Trust Account) and Japan Trustee Services Bank, Ltd. (Trust Account 7) are held through trusts.
5) The Change Report No.1 pertaining to Report of Possession of Large Volume relating to the Company's shares was filed in the joint names of BlackRock Japan Co., Ltd. and nine joint holders at the date of February 21, 2017 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 is not able to confirm the actual state of shareholdings as of March 31, 2019.
6) The Change Report No.2 pertaining to Report of Possession of Large Volume relating to the Company's shares was filed in the joint names of Sumitomo Mitsui Trust Bank, Limited and two joint holders at the date of December 20, 2018 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 is not able to confirm the actual state of shareholdings as of March 31, 2019.
7) The Change Report No.1 pertaining to Report of Possession of Large Volume relating to the Company's shares was filed in the joint names of Nomura Securities Co., Ltd. and two joint holders at the date of February 7, 2019 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 is not able to confirm the actual state of shareholdings as of March 31, 2019.

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 Incorporation	1 year
Chairperson of the Board	Company Chairperson
Number of Directors	8
Number of Outside Directors	3
Number of Independent Directors	3

Outside Directors' Relationship with the Company (1)

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)

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 President, and Representative Director and President of Sumitomo Mitsui Banking Corporation (including the former The Sumitomo Bank, Ltd.) from January 2001 to April 2011.	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. 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 eight (8) 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 128.0 billion, which was 13.8% 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 medium- 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 shareholders. For this reason, the Company considers him as an Independent 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 appointed him as an Outside Director. Mr. Kigawa retired as Director of Yamato Holdings Co., Ltd. in June 2019, and he currently has no involvement with the execution of business at the said company. 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 sum of the consolidated cost of sales and selling, general and administrative expenses of the Company and its consolidated subsidiaries for the most recent fiscal

			year. In addition, the amount of the payment is less than 0.1% of the consolidated operating revenue of Yamato Holdings Co., Ltd. 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

	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	Outside Directors	Outside Experts

Supplementary Explanation

<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.
[Members of the Human Resource Advisory Committee] Chairperson: Masayuki Oku. Members: Mitoji Yabunaka, Makoto Kigawa, Kunio Noji and Tetsuji Ohashi. (As of March 31, 2019)

<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 (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.
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.
[Members of the Compensation Advisory Committee] Chairperson: Tsuguoki Fujinuma. Members: Hirohide Yamaguchi, Eiko Shinotsuka, Masayuki Oku and Kunio Noji. (As of March 31, 2019)

[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 the Company'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.
The Audit & Supervisory Board exchanges information with the accounting firm as needed, and confirms the independence of the accounting firm concerning its service to 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
Hirohide Yamaguchi	From another company													
Eiko Shinotsuka	Academic													
Kotaro Ohno	Lawyer													

* 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)

Name	Designation as Independent Audit & Supervisory Board Member	Supplementary Explanation of the Relationship	Reasons of Appointment
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 an 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.
Kotaro Ohno	○	-	Having served as Prosecutor-General of the Supreme Public Prosecutors Office, Mr. Kotaro Ohno 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. Although Mr. Ohno has no experience in participating in the management of other companies directly, the Company judged that he would be able to execute the duties of Outside Audit & Supervisory Board Member adequately because of the reason above.

			Mr. Kotaro Ohno is unlikely to have a conflict of interest with general shareholders and is considered as an Independent Audit & Supervisory Board Member.

[Independent Directors/Audit & Supervisory Board Members]

Number of Independent Directors/Audit & Supervisory Board Members	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. https://home.komatsu/en/ir/profile/corporate-governance/independence-criterion.html Outside Directors Masayuki Oku, Mitoji Yabunaka and Makoto Kigawa and Outside Audit & Supervisory Board Members Hirohide Yamaguchi, Eiko Shinotsuka and Kotaro Ohno 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

Supplementary Explanation
To the Directors, excluding the Outside Directors, the Company shall pay two-thirds (2/3) of the total amount of performance-based remuneration linked to the Company's consolidated performance for a single year in the form of cash as Directors' bonuses. Concerning the remaining one-third (1/3) of the aforementioned total amount as well as the performance-based remuneration which will reflect the degree of achievement of the targets raised in the mid-term management plan, the Company shall offer stock acquisition rights in order to foster 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	

Supplementary Explanation
None

[Director Remuneration]

Disclosure of Individual Directors' Remuneration	Selected Directors

Supplementary Explanation

Remunerations related to amounts of remunerations for Directors and Audit & Supervisory Board Members [150th term (April 1, 2018 - March 31, 2019)]

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 408 mil	JPY 310 mil	JPY 718 mil	JPY 300 mil	JPY 1,018 mil
(Outside Director included above)	3	JPY 51 mil	–	JPY 51 mil	–	JPY 51 mil
Audit & Supervisory Board Member	5	JPY 139 mil	–	JPY 139 mil	–	JPY 139 mil
(Outside Audit & Supervisory Board Member included above)	3	JPY 52 mil	–	JPY 52 mil	–	JPY 52 mil
Total	15	JPY 547 mil	JPY 310 mil	JPY 857 mil	JPY 300 mil	JPY 1,157 mil
(Outside Director and Outside Audit & Supervisory Board Member included above)	6	JPY 103 mil	–	JPY 103 mil	–	JPY 103 mil

Notes:
1. As of the end of the fiscal year, there are eight (8) 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 two (2) Directors who retired as of the close of the 149th Ordinary General Meeting of Shareholders in June 2018.
2. It was resolved at the 149th Ordinary General Meeting of Shareholders, held in June 2018, that the maximum amount of remuneration to be paid to Directors per year, which is the total of basic remuneration and bonus in cash, shall not exceed JPY 1.5 billion (of which, payment to the Outside Directors shall not exceed JPY 100 million per year) and that the maximum amount of remuneration to be paid to Audit & Supervisory Board Members shall not exceed JPY 0.2 billion. Furthermore, in the same Ordinary General Meeting of Shareholders, the limit for remuneration, etc. related to the restricted stock granted to internal Directors as stock-based remuneration was decided as an amount that shall not exceed JPY 360 million annually for Stock-Based Remuneration A linked to the Company's consolidated performance for a single year and as an amount that shall not exceed JPY 180 million annually for Stock-Based Remuneration B linked to the performance of the Mid-Term Business Plan. Note that each of the aforementioned remuneration amounts resolved by the shareholders does not include the employee salary portion of remuneration to Directors concurrently serving as employees.
3. Stock-based remuneration represents the amounts of expense allocated as remuneration for Directors which are not monetary in accounting for the fiscal year ended March 31, 2019. Specifically, the total amount of remuneration expenses for stock-based remuneration in the fiscal year ended March 31, 2019 stated above comprises (1) the amount of expense recorded as remuneration for the fiscal year ended March 31, 2019 paid by newly issuing shares as restricted stock compensation with the pay-in date of September 3, 2018, following the resolution passed at the Board of Directors meeting held on July 12, 2018 (Japan time), and (2) the amount of expense, recorded as the estimate of the payment in the form of restricted stock compensation of Stock-Based Remuneration A, for which payment level was determined by the operating results of the fiscal year ended March 31, 2019.
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 150th term (April 1, 2018 – March 31, 2019)]
Tetsuji Ohashi, Director: JPY295 million (including bonus and stock acquisition rights)
Kunio Noji, Director: JPY230 million (including bonus and stock acquisition rights)
Hiroyuki Ogawa, Director: JPY160 million (including bonus and stock acquisition rights)
Mikio Fujitsuka, Director: JPY153 million (including bonus and stock acquisition rights)
Kuniko Urano, Director: JPY109 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. More specifically, the amount was resolved at the Board meeting held on July 12, 2018 (Japan Time), and it represents the sum of the amount of expense allocated as remuneration for the fiscal year, resulting from the issuance of new shares in the form of Stock Acquisition Rights to be granted as stock-based remuneration with the payment date of September 3, 2018, and the amount of expense to be paid in the form of restricted stocks to be granted as stock-based remuneration "A" after the payment standard is decided based on fiscal 2018 business performance.
2. The portions of salaries as employees for Directors concurrently serving as employees are not paid.
3. Amounts of less than one (1) million yen 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, 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 Director") 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 terminated as of June 2007.

[System of Remuneration for Internal Director]

Basic remuneration (Fixed Remuneration)	Performance-Based Remuneration for a Single Year (Monthly Remuneration x 0 ~ 24 months)		Performance-Based Remuneration Linked to Performance of Mid-Term Management Plan (Monthly Remuneration x 0 ~ 3 months)
Monthly Remuneration x 12 months	Bonus in Cash (2/3, in principle) [up to the equivalent of 12 months' remuneration]	Stock-Based Remuneration A (1/3, in principle) Restricted Stock	Stock-Based Remuneration "B" Restricted Stocks

a) Performance-based remuneration for a single year
The total amount paid for performance-based remuneration shall be calculated each year by evaluating the single-fiscal-year consolidated performance against the basic indicators, comprising consolidated ROE*1, consolidated ROA*2 and the consolidated operating income ratio, using the respective percentages indicated in the table below as benchmarks, and making adjustments for growth (growth rate of consolidated sales).
The Compensation Advisory Committee decided on the remuneration standard for FY2018 based on the results of 14.7% for consolidated ROE, 10.8% for consolidated ROA, 14.6% for consolidated operating income ratio, and 9.0% for rate of sales growth.
Such valuation indicators may be changed in the future by a resolution of the Board of Directors.

[Indicators with respect to single-fiscal-year consolidated performance-based remuneration]

	Indicator	Ratio
Basic Indicators	Consolidated ROE*1	50%
	Consolidated ROA*2	25%
	Consolidated operating income ratio	25%
Adjustment Indicators	Adjustment according to growth rate of consolidated sales	

*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]

With regards to the single-fiscal-year consolidated performance-based remuneration levels, the upper limit shall be twice the basic remuneration
(12 × monthly remuneration) of the Director, and the lower limit shall be zero (0) payment (remuneration in this case will comprise only the basic remuneration).
The equivalent of two-thirds (2/3) of the total paid amount of performance-based remuneration linked to the Company's consolidated performance for a single year shall be paid in the form of bonus in cash and the amount remaining after deducting the bonus in cash shall be paid by granting restricted stock as stock-based remuneration in order to further promote the same perspective on corporate value with the shareholders (Stock-Based Remuneration A); provided, however, that for the bonus in cash, the upper limit shall be the equivalent of a 12 month portion of the monthly remuneration, and for any amount exceeding 12 months, the Company shall pay the Stock-Based Remuneration A in substitution for the bonus in cash. Note that as a general rule, concerning the Stock-Based Remuneration A, the restriction of transfer of the shares will be lifted after three years from delivery.

b) 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 (Stock-Based Remuneration B). In deciding Stock-Based Remuneration B, after the expiry of the period of the mid-term management plan, the number of shares on which to lift transfer restrictions (within range of 0-100%) will be decided based on the achievement of

the management targets of the Mid-Term Management Plan presented in the following table and as a general rule, the restriction of transfer on the shares will be lifted after three years from delivery.
If a new mid-term management plan is prepared in the future, the management targets, valuation bases and valuation indicators as shown in the table below may be changed by a resolution of the Board of Directors.

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

Management Targets	Valuation Bases and Valuation Indicators
Growth (Aim at a growth rate above the industry's average)	Comparison of growth rate of consolidated sales with those of major competitors*1
Profitability (Aim at the industry's top-level operating income ratio)	Comparison of consolidated operating income ratio with those of major competitors*1
Efficiency (Aim at 10%-level ROE)	Achievement of a consolidated ROE of 10% or More
Financial Position (Aim at the industry's top-level financial position)	Comparison of net debt-to-equity ratio*2 with those of major competitors*1
Management focused on ESG (Environment, Social, and Corporate Governance)	Achievement rate of targets in respect of mid-term ESG activities

*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 – Time deposits) / Shareholders' equity of the Company

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

As 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.

[Conditions of Retired Representative Directors, etc.]

Names and other information concerning Councilors and Advisers who were former Representative Directors, etc.

Name	Positions	Business	Working form and terms(Full-time, Part-time, Remuneration, etc.)	Date of retirement from executive positions	The terms of office
Kunio Noji	Councilor and Senior Adviser*1	Public-interest activities outside of the company	Working form:Full time work Remuneration: exist	March 31, 2013	exist
Masahiro Sakane	*2	No consignment	Remuneration: None	June 22, 2007	—
Tetsuya katada	*2	No consignment	Remuneration: None	June 29, 1995	—
Masao Tanaka	*2	No consignment	Remuneration: None	June 29, 1989	—

Number **of Retired Representative Directors, etc.**	4

[Other matters**]**

[Remarks]
*1 Mr. Noji's activities outside of the company follow.
- Chairperson, Committee on the System of Evaluating Incorporated Administrative Agencies, Ministry of Internal Affairs and Communications
- Member, Cabinet Office University Support Forum PEAKS Member
* PEAKS：Leaders' Forum on Promoting the Evolution of Academia for Knowledge Society
- President, The Flower Association of Japan
*2 Mr.Sakane, Mr. Katada and Mr. Tanaka are given the titles only, and no consignments are offered.

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

(1) Overview of Current Corporate Governance System (the reference material at the end of this Report: see the schematic diagram.)
The Company positions the Board of Directors as the core of corporate governance. To enhance the effectiveness of the Board, the Company has worked to improve the Board organizationally and operationally so that it can discuss important management matters more thoroughly and make prompt decisions. To this end, 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 the Company, 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.

In FY2018, the Board of Directors met fifteen (15) times, made decisions on important management matters based on the Board agenda criteria, and reported business execution. While the business execution reports cover virtually 100% of businesses on a consolidated basis, that of very small operations are also reported, centering on their safety, compliance and risk matters, in Board meetings. To ensure thorough discussions by the Board of Directors, the Company secures ample time for thorough discussions and has adopted the process in which the Board of Directors meet twice to separately discuss and resolve important agenda.

In monthly Board meetings, the President and CEO directly reports latest conditions and topics of important matters, including safety, compliance and risk management, CFO also reports conditions of sales, income, orders received and borrowings. In FY2018, all eight (8) Directors attended all Board meetings, recording 100% attendance ratio.

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. In FY2018, all five (5) Audit & Supervisory Board Members attended all Board of Directors' meetings, recording 100% attendance ratio.

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 five (5) consecutive years in auditing)
Masafumi Tanabu (engaged for four (4) year in auditing)
Shin Suzuki (engaged for seven (7) consecutive years in auditing)

[Audit Corporation]
KPMG AZSA LLC

[Assistants involved in auditing work]
Twenty-four (24) other certified public accountants
Twenty-nine (29) 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

	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 27, 2019 and (June 18): 22 days in advance May 28, 2018 and (June 19): 22 days in advance May 29, 2017 and (June 20): 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 2019: May 23 or two (2) business days in advance of sending the notices).

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 mainly the United States and Europe 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: https://home.komatsu/jp/ir/ URL in English: https://home.komatsu/en/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

	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 the 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 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 is currently engaged in co-operative undertakings with labor unions in order to formulate specific quantifiable targets to reduce the total number of working hours for its employees. The Company establishes commendable goals of less than 2,100 working hours per year, along with the provision of an average of at least 18 days of paid leave per year for each employee. In addition, based on compliance with the Article 36 Agreement or agreement on overtime, the Company is working to realize an efficient way of working. As of FY2018, the Company has started an "interval system" that enforces a minimum of 10 hours of rest following long periods of work in order to promote a "safe and healthy" manner of working. (2) Improvement of supporting programs: The Company is establishing systems such as child-care leave and shorter working hours is one of the factors which ensure a sustainable workplace environment. In 2007, the Company was certified by the Japan Ministry of Health, Labour and Welfare to display the "Kurumin" symbol as a company that supports the development of the next generation. The Company subsequently launched the "Panel on Fostering Future Generations" as well as the "Research Group on Solutions against Low Birthrate and Longevity" in our company and have continued to work on expansion measures for the child-care support systems. In addition to the improvement in the paid leave systems such as extending periods of child-care leave (to a maximum of three years) in 2011 and granting child-care leave for employees in case whose spouse is transferred to another place, the Company review its personnel evaluation systems by offering options such as temporary part-time work for those who raise children and goal setting methods corresponding to each employee's working condition. These options are designed to motivate employees who are working part-time due to child-care. The Company is also focusing on ways to support employees who are working while providing nursing care. In FY2013 we introduced an allowance that can be received during family-care leave as a measure of financial support, and in FY2014 the Company introduced an option of home teleworking for employees who are engaged in nursing care for children and/or other family members. The Company continues to support our employees to achieve a healthy work-life balance. For FY2018, the number of paid holidays taken by employees was nineteen point five (19.5) days on average and the number of employees who used the childcare leave was one hundred thirty-seven (137) (including twenty-three (23) men). The reinstatement rate from childcare leave was 98.6%, and seven (7) 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. https://komatsu.disclosure.site/en/themes/89 The Company is vigorously pushing ahead with various measures for making concerted efforts to employ and train more women, and providing a working environment in which female employees can continue developing their careers after maternity leave. Because the Company considers the low number of female managers in comparison to male managers to be an issue in need of further improvement, not only does it support the combining of work with life events such as childbirth, child raising and caregiving, but it also actively appoints women to positions with more responsibility and authority, such as by promoting them to managerial roles.

	While the Company has set a target of bringing the ratio of female managers to 10% by April 2021, the respective Komatsu Group companies in Japan and overseas have also set quantitative targets particularly in terms of ratios of female employees in their workforces and ratios of female managers, and furthermore they have been taking action accordingly through various initiatives geared to achieving those benchmarks. In March 2019, the Company held a "Diversity & Inclusion Development Seminar," for female managers of the Company and of its overseas subsidiaries, which was attended by 15 individuals from 12 countries. As a result, participants themselves gain a deeper understanding of such issues as the history of the Company, The KOMATSU Way, and the management strategy, with the aim of enabling them to become leaders who will drive the activities to promote diversity at each company. Because measures to promote the active involvement of women, and of employees who have limitations in terms of time and physical ability, lead to the creation of systems and work environments that are easy for everybody to work in, and that allow individuals to maximize the expression of their abilities, the Komatsu Group will continue to promote such initiatives going forward.

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.

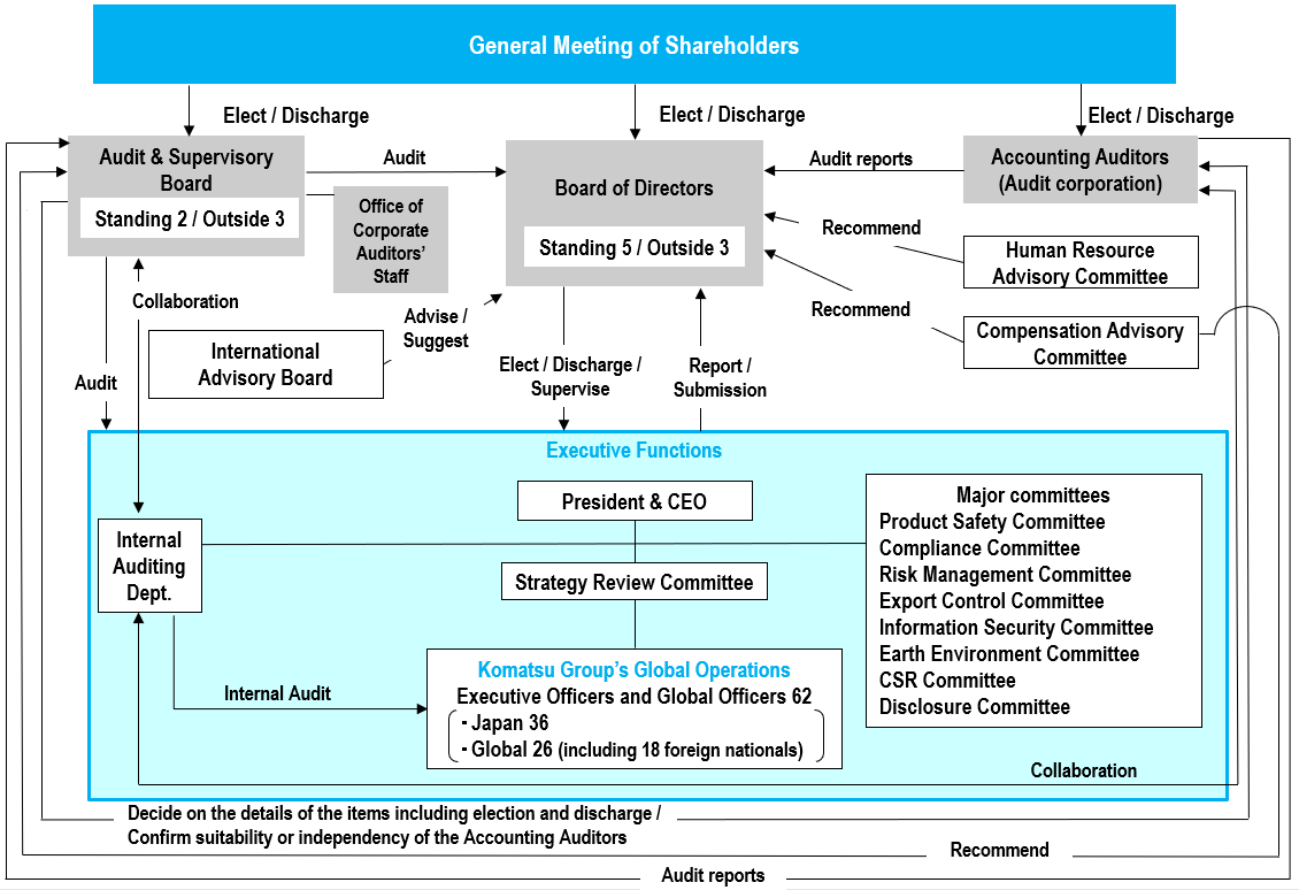
The Information Disclosure Committee not only controls information disclosure but also works to improve the level of information disclosure.

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: CFO
Members: Director and senior executive officer supervising public relations and CSR, Executive officer supervising Legal, General Affairs & 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, GM of the IR group of Business Coordination 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. 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 >



< Internal structure related to timely disclosure >

