



**Masahiro Sakane**  
President and CEO

A handwritten signature in black ink, reading "M. Sakane". The signature is fluid and cursive, written in a professional style.

### On enhancing the total degree of trust received from all stakeholders

Since 2001, Komatsu has been implementing reforms to its business structure, and this has culminated in its achieving in FY2005 its highest level of both sales and profits in company history. While the enhancement and maintenance of profitability and financial fundamentals is of critical importance, financial performance alone does not ensure that a company will be regarded as a "responsible company."

I believe that corporate value is the total degree of trust received from society and all corporate stakeholders, and I convey this message to the employees of Komatsu at every opportunity. Continuing with these reforms to its business structure, under the second-stage Reform of Business Structure launched in FY2006, Komatsu has established the objective of further promoting managerial policies that recognize total market value as one of the corporate indicators reflecting the degree of the trust it enjoys. Total market value reflects more than just economic indicators such as corporate profitability and financial fundamentals, growth potential, or returns to shareholders and investors such as through the likelihood of yielding dividends. Instead, it incorporates a wide variety of assessments by corporate stakeholders regarding the degree to which the company has achieved solid results in such areas as human resources development, R&D, corporate strategy, corporate ethics, environmental efforts, managerial transparency, and information disclosure, among others. Therefore, Komatsu maintains that promoting managerial policy that takes into account total market value necessarily implies a certain degree of attention to not only the obvious area of ensuring compliance but also enhanced corporate social responsibility (CSR) and appropriate information disclosure.

The second-stage Reform of Business Structure includes a reform of the Komatsu Group's value chain by focusing on IT (information technology). Through this process Komatsu will be reinforcing its employees' approach of continuously looking to revise and improve things, which we call their "strength of job capabilities," while enabling the development of human resources at a global level through hands-on interaction.

### Environmental conservation efforts

Among Komatsu's environmental efforts in FY2005, the one of greatest significance was the company's successful compliance with Tier III emissions regulations for diesel engines. Komatsu has developed leading-edge Tier III-compliant engine technology, called "ecot3," and mounted it on the PC200, a medium-sized hydraulic excavator that is one of the company's flagship products, achieving substantial reductions in both fuel consumption and generated noise. This model went on the market in Japan, the U.S., and Europe at the beginning of 2006. Products such as the PC200 that offer features that are head and shoulders above the competition are called DANTOTSU (Unique and Unrivaled) products, and Komatsu launches them in the market strategically. Products are identified as DANTOTSU products only if they have been evaluated as having overwhelmingly superior features in all three of the following critical areas: (1) environment-friendly technology, such as having low levels of emissions, fuel consumption, or generated noise, (2) safety, and (3) IT technology. By bringing together the product's development, manufacturing, sales, and after-sales service, Komatsu aims to strengthen what we call the "Spirit of Manufacturers." Komatsu's large AC servo press, a kind of industrial machinery, has also seen substantial improvements in both energy conservation and noise reduction, exemplifying our DANTOTSU products.

In order to keep pace with forecasted increases in demand for construction and mining equipment as well as large-sized presses, Komatsu has begun constructing new plants in the immediate vicinity of the port of Hitachinaka in Ibaraki Prefecture as well as the port of Kanazawa in Ishikawa Prefecture (the Ibaraki and Kanazawa Plants, respectively). By shipping products from plants located in the immediate vicinity of these ports by sea, it is possible to reduce dramatically the amount of CO<sub>2</sub> emitted during the process of physical distribution.

As Komatsu continues the environmental conservation activities that it has been implementing for years at its domestic manufacturing facilities, it is also strengthening the activities it undertakes to lower its environmental impact through the cooperative efforts of its overseas subsidiaries, sales and rental stores and suppliers.

### Emphasis on compliance

The Komatsu Group has historically emphasized proper compliance with regulatory and other requirements. The Group has been increasing efforts in this area, recognizing that mistakes and irregularities might indeed occur at the individual or corporate level. Komatsu's position is that, should mistakes or irregularities occur, the company will not cover up or gloss over the issue, but rather will take the perspective that even such bad news serves a necessary function. Through proper disclosure, the company will use the incident as a means for strengthening the overall quality of Komatsu over the long term, which will lead to the enhancement of corporate value. Komatsu will always strive to attain the level of a company which society trusts through transparency and disclosure of information regarding its impacts on the environment.

### The KOMATSU Way

As part of the second-stage Reform of Business Structure which I introduced above, one of the key themes chosen was the defining and incorporating of Komatsu's strengths into written policy as the "KOMATSU Way" and then sharing this at the global level. The KOMATSU Way will not be limited to manufacturing. Komatsu intends to set forth a KOMATSU Way which Komatsu should uphold as a company no matter the era nor the people involved, incorporating such issues as how it strengthens corporate governance and how it regards corporate value. Komatsu will then work to ensure that each Group company is firmly grounded in this philosophy and fulfills its independent responsibility to implement that philosophy.