

(Translation)

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# Quarterly Report

From April 1, 2016 to June 30, 2016

(First Quarter of the 148<sup>th</sup> Fiscal Year)

**KOMATSU LTD.**

# Quarterly Report

## **Certain References and Information:**

1. This is an English translation of the Quarterly Securities Report (“Shihanki Hokokusho”) filed via the Electronic Disclosure for Investors’ Network (“EDINET”) system as set forth in Article 27-30-2 of the Financial Instruments and Exchange Act of Japan. Komatsu Ltd. filed its Quarterly Securities Report for the three months ended June 30, 2016 with the Director-General of the Kanto Local Finance Bureau on August 10, 2016. The Quarterly Securities Report contains, among other information, Quarterly Consolidated Financial Statements for the three months ended June 30, 2016. Material information in the Quarterly Securities Report, other than the Quarterly Consolidated Financial Statements, has already been reported by Komatsu Ltd. in its press release dated July 28, 2016. Attached is an English translation of Quarterly Consolidated Financial Statements for the three months ended June 30, 2016.
2. In this report, Komatsu Ltd. is hereinafter referred to as the “Company” and together with its consolidated subsidiaries as “Komatsu.”

## **Cautionary Statement with respect to forward-looking statements:**

This report contains forward-looking statements that reflect managements’ views and assumptions in the light of information currently available with respect to certain future events, including expected financial position, operating results and business strategies. These statements can be identified by the use of terms such as “will,” “believes,” “should,” “projects,” “plans,” “expects” and similar terms and expressions that identify future events or expectations. Actual results may differ materially from those projected, and the events and results of such forward-looking assumptions cannot be assured. Any forward-looking statements speak only as of the date of this report, and the Company assumes no duty to update such statements.

Factors that may cause actual results to differ materially from those predicted by such forward-looking statements include, but are not limited to, unanticipated changes in demand for Komatsu’s principal products, owing to changes in the economic conditions in Komatsu’s principal markets; changes in exchange rates or the impact of increased competition; unanticipated costs or delays encountered in achieving Komatsu’s objectives with respect to globalized product sourcing and new information technology tools; uncertainties as to the results of Komatsu’s research and development efforts and its ability to access and protect certain intellectual property rights; the impact of regulatory changes and accounting principles and practices; and the introduction, success and timing of business initiatives and strategies.

## **Financial Information**

### **1. Basis of preparation of the quarterly consolidated financial statements**

The quarterly consolidated financial statements of the Company are prepared in accordance with the accounting principles generally accepted in the United States of America (hereinafter “U.S. GAAP”), pursuant to Article 4, Supplementary Provisions of the “Ordinance on Terminology, Forms and Preparation Methods of Quarterly Consolidated Financial Statements,” the Ordinance of the Cabinet Office No. 64 of 2007.

### **2. Audit certification**

Pursuant to Article 193-2, paragraph 1 of the Financial Instruments and Exchange Act of Japan, the quarterly consolidated financial statements for the three months ended June 30, 2016 (from April 1 to June 30, 2016) were reviewed by KPMG AZSA LLC.





Consolidated Statements of Comprehensive Income

	Millions of yen	
	Three months ended June 30, 2016	Three months ended June 30, 2015
<b>Net income</b>	¥ 16,091	¥ 33,751
<b>Other comprehensive income (loss), for the period, net of tax</b>		
Foreign currency translation adjustments (Note 7)	(96,312)	27,083
Net unrealized holding gains (losses) on securities available for sale (Notes 6 and 7)	(3,526)	(1,079)
Pension liability adjustments (Note 7)	723	241
Net unrealized holding gains (losses) on derivative instruments (Notes 7 and 11)	1,203	29
<b>Total</b>	<b>(97,912)</b>	<b>26,274</b>
<b>Comprehensive income (loss)</b>	<b>(81,821)</b>	<b>60,025</b>
<b>Less: Comprehensive income (loss) attributable to noncontrolling interests</b>	<b>(6,352)</b>	<b>2,519</b>
<b>Comprehensive income (loss) attributable to Komatsu Ltd.</b>	<b>¥ (75,469)</b>	<b>¥ 57,506</b>

The accompanying Notes are an integral part of these Quarterly Consolidated Financial Statements.

## Consolidated Statements of Equity (Unaudited)

### Komatsu Ltd. and Consolidated Subsidiaries

Three months ended June 30, 2016

	Millions of yen								
	Common stock	Capital surplus	Retained earnings		Accumulated other comprehensive income (loss)	Treasury stock	Total Komatsu Ltd. shareholders' equity	Non-controlling interests	Total equity
			Appropriated for legal reserve	Un-appropriated					
<b>Balance at March 31, 2016</b>	¥ 67,870	¥ 138,243	¥ 44,018	¥ 1,300,030	¥ 18,667	¥ (51,414)	¥ 1,517,414	¥ 70,346	¥ 1,587,760
Cash dividends (Note 15)				(27,354)			(27,354)	(449)	(27,803)
Transfer to retained earnings appropriated for legal reserve			1,335	(1,335)			—		—
Other changes							—		—
Net income				15,588			15,588	503	16,091
Other comprehensive income (loss), for the period, net of tax (Note 7)					(91,057)		(91,057)	(6,855)	(97,912)
Issuance and exercise of stock acquisition rights (Note 8)		(59)					(59)		(59)
Purchase of treasury stock						(3)	(3)		(3)
Sales of treasury stock		3				56	59		59
<b>Balance at June 30, 2016</b>	¥ 67,870	¥ 138,187	¥ 45,353	¥ 1,286,929	¥ (72,390)	¥ (51,361)	¥ 1,414,588	¥ 63,545	¥ 1,478,133

Three months ended June 30, 2015

	Millions of yen								
	Common stock	Capital surplus	Retained earnings		Accumulated other comprehensive income (loss)	Treasury stock	Total Komatsu Ltd. shareholders' equity	Non-controlling interests	Total equity
			Appropriated for legal reserve	Un-appropriated					
<b>Balance at March 31, 2015</b>	¥ 67,870	¥ 138,696	¥ 40,980	¥ 1,220,338	¥ 113,018	¥ (51,936)	¥ 1,528,966	¥ 69,534	¥ 1,598,500
Cash dividends (Note 15)				(27,345)			(27,345)	(594)	(27,939)
Transfer to retained earnings appropriated for legal reserve			2,982	(2,982)			—		—
Other changes							—		—
Net income				32,530			32,530	1,221	33,751
Other comprehensive income (loss), for the period, net of tax (Note 7)					24,976		24,976	1,298	26,274
Issuance and exercise of stock acquisition rights (Note 8)		(54)					(54)		(54)
Purchase of treasury stock						(7)	(7)		(7)
Sales of treasury stock		66				109	175		175
<b>Balance at June 30, 2015</b>	¥ 67,870	¥ 138,708	¥ 43,962	¥ 1,222,541	¥ 137,994	¥ (51,834)	¥ 1,559,241	¥ 71,459	¥ 1,630,700

The accompanying Notes are an integral part of these Quarterly Consolidated Financial Statements.

Consolidated Statements of Cash Flows (Unaudited)

Komatsu Ltd. and Consolidated Subsidiaries  
Three months ended June 30, 2016 and 2015

	Millions of yen	
	Three months ended June 30, 2016	Three months ended June 30, 2015
<b>Operating activities</b>		
Net income	¥ 16,091	¥ 33,751
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	26,736	27,727
Deferred income taxes	1,803	7,152
Impairment loss and net loss (gain) from sale of investment securities	(125)	(2,895)
Net loss (gain) on sale of property	(385)	(121)
Loss on disposal of fixed assets	449	575
Pension and retirement benefits, net	332	(377)
Changes in assets and liabilities:		
Decrease (increase) in trade receivables	45,886	28,478
Decrease (increase) in inventories	(30,035)	(1,966)
Increase (decrease) in trade payables	(11,329)	(17,728)
Increase (decrease) in income taxes payable	(8,741)	(19,895)
Other, net	5,308	6,397
Net cash provided by (used in) operating activities	<u>45,990</u>	<u>61,098</u>
<b>Investing activities</b>		
Capital expenditures	(33,936)	(45,781)
Proceeds from sale of property	3,646	4,064
Proceeds from sale of available for sale investment securities	511	4,174
Purchases of available for sale investment securities	(1)	(122)
Proceeds from sale of subsidiaries and equity investees, net of cash disposed	5,485	—
Acquisition of subsidiaries and equity investees, net of cash acquired	—	(887)
Collection of loan receivables	3	73
Decrease (increase) in time deposits, net	(305)	(301)
Net cash provided by (used in) investing activities	<u>(24,597)</u>	<u>(38,780)</u>
<b>Financing activities</b>		
Proceeds from debt issued (Original maturities greater than three months)	35,694	80,860
Payment on debt (Original maturities greater than three months)	(42,382)	(35,841)
Short-term debt, net (Original maturities three months or less)	9,200	(36,117)
Repayments of capital lease obligations	(17)	(186)
Sale (purchase) of treasury stock, net	(2)	67
Dividends paid	(27,354)	(27,345)
Other, net	(329)	(1,068)
Net cash provided by (used in) financing activities	<u>(25,190)</u>	<u>(19,630)</u>
<b>Effect of exchange rate change on cash and cash equivalents</b>	<u>3,479</u>	<u>(1,112)</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	<u>(318)</u>	<u>1,576</u>
<b>Cash and cash equivalents, beginning of year</b>	<u>106,259</u>	<u>105,905</u>
<b>Cash and cash equivalents, end of period</b>	<u>¥ 105,941</u>	<u>¥ 107,481</u>

The accompanying Notes are an integral part of these Quarterly Consolidated Financial Statements.

**Komatsu Ltd. and Consolidated Subsidiaries**  
**Three months ended June 30, 2016 and 2015**  
**Notes to Quarterly Consolidated Financial Statements (Unaudited)**

**1. Basis of Quarterly Financial Statement Presentation and Summary of Significant Accounting Policies**

**Basis of Quarterly Financial Statement Presentation**

The Company prepares and presents the accompanying quarterly consolidated financial statements in accordance with generally accepted accounting principles in the United States of America (hereinafter “U.S. GAAP”).

The accompanying quarterly consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and principally operates.

Some adjustments without booked on each subsidiaries’ and affiliates’ quarterly financial statements are added to the accompanying quarterly consolidated financial statements. These adjustments are mainly due to the gaps of accounting principle between Japan and the United States of America. See Note 18 “Terminology, Forms and Preparation Methods of Quarterly Consolidated Financial Statements”.

**Preparation of Financial Statements and Registration with the U.S. Securities and Exchange Commission**

The Company has been preparing its consolidated financial statements in accordance with U.S. GAAP since 1963, because the Company issued foreign currency convertible bonds at European market in 1964. The Company registered its convertible bonds issued in the United States in 1967 and its common shares issued for U.S. shareholders as well as Japanese shareholders in 1970 with the U.S. Securities and Exchange Commission (hereinafter “SEC”). Since then, the Company, as a non-U.S. issuer, had been having the reporting obligations, such as filing annual report with its consolidated financial statements in accordance with U.S. GAAP, under the Securities Exchange Act of 1934. The Company’s registration with SEC was terminated on June 30, 2014.

**Summary of Significant Accounting Policies**

Starting in the three months ended June 30, 2016, Komatsu (the Company and its consolidated subsidiaries) has adopted the Accounting Standards Update (“ASU”) 2015-16 “Business Combinations: Simplifying the Accounting for Measurement-Period Adjustments”. This update eliminates the requirement to retrospectively account for adjustments made to provisional amounts during the measurement period recognized in a business combination. This update also requires an acquirer in a business combination to recognize the adjustment to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The adoption of this update did not have any impact on Komatsu’s consolidated financial position and results of operations for the three months ended June 30, 2016.

Excluding the above, there is no material change for summary of significant accounting policies stated in annual report for the year ended March 31, 2016.

## 2. Supplemental Cash Flow Information

Additional cash flow information and noncash investing and financing activities for the three months ended June 30, 2016 and 2015 are as follows:

	Millions of yen	
	Three months ended June 30, 2016	Three months ended June 30, 2015
<b>Additional cash flow information:</b>		
Interest paid	¥ 2,059	¥ 2,986
Income taxes paid	17,183	31,458
<b>Noncash investing and financing activities:</b>		
Capital lease obligations incurred	¥ 80	¥ 2

## 3. Business Combination

### Road Machinery Co., S.A. de C.V.

On February 12, 2016, the Company acquired, through a Komatsu Group company, 60% of the equity interests in Road Machinery Co., S.A. de C.V. (hereinafter "Road Machinery"), Mitsui & Co., Ltd.'s subsidiary in Mexico which services Komatsu mining equipment. The total purchase price for the acquisition was ¥12,368 million.

Komatsu positions Mexico which is a mineral resource-rich country as an important growth market for its mining equipment business. Komatsu plans to strengthen its capabilities in winning new customers and product support, in the forms of overhauling and prompt supply of spare parts by taking the leadership role of managing Road Machinery.

The fair value measurement of the acquired assets and assumed liabilities under Financial Accounting Standards Board Accounting Standards Codification™ (hereinafter "ASC") 805, "Business Combinations" is not completed as of the issue date of the quarterly consolidated financial statements.

## 4. Allowance for Doubtful Receivables

At June 30, 2016 and at March 31, 2016, allowances for doubtful receivables deducted from trade notes and accounts receivable, net and long-term trade receivables, net are ¥15,303 million and ¥17,589 million, respectively.

## 5. Inventories

At June 30, 2016 and at March 31, 2016, inventories comprised the following:

	Millions of yen	
	June 30, 2016	March 31, 2016
Finished products, including finished parts held for sale	¥ 367,850	¥ 385,623
Work in process	114,570	106,233
Materials and supplies	41,872	47,755
Total	¥ 524,292	¥ 539,611

## 6. Investment Securities

Investment securities at June 30, 2016 and at March 31, 2016, primarily consisted of securities available for sale.

Unrealized holding gains and losses are included as a component of accumulated other comprehensive income (loss) until realized.

The cost, gross unrealized holding gains and losses, and fair value for such investment securities by major security types at June 30, 2016 and at March 31, 2016 are as follows:

	Millions of yen			
	Cost	Gross unrealized holding		Fair value
		Gains	Losses	
<b>At June 30, 2016</b>				
Investment securities:				
Marketable equity securities available for sale	¥ 13,050	¥ 25,419	¥ —	¥ 38,469
Other investment securities at cost	8,391			
	<u>¥ 21,441</u>			
<b>At March 31, 2016</b>				
Investment securities:				
Marketable equity securities available for sale	¥ 13,297	¥ 30,520	¥ —	¥ 43,817
Other investment securities at cost	7,773			
	<u>¥ 21,070</u>			

Other investment securities primarily include non-marketable equity securities.

Proceeds from the sale of investment securities available for sale during the three months ended June 30, 2016 and 2015, amounted to ¥511 million and ¥4,174 million, respectively.

Impairment loss and net gain (loss) from sale of investment securities available for sale during the three months ended June 30, 2016 and 2015, amounted to gains of ¥125 million and ¥2,895 million, respectively. Such gains were included in other income (expenses), net in the accompanying consolidated statements of income.

The cost of the investment securities sold was computed based on the average cost method.

## 7. Other Comprehensive Income (Loss)

Changes in accumulated other comprehensive income (loss) for the three months ended June 30, 2016 and 2015 are as follows:

	Millions of yen				
	Three months ended June 30, 2016				
	Foreign currency translation adjustments	Net unrealized holding gains(losses) on securities available for sale	Pension liability adjustments	Net unrealized holding gains (losses) on derivative instruments	Total
Balance, beginning of year	¥ 26,603	¥ 19,253	¥ (28,067)	¥ 878	¥ 18,667
Other comprehensive income (loss) before reclassifications	(96,312)	(3,469)	204	672	(98,905)
Amounts reclassified from accumulated other comprehensive income (loss)	—	(57)	519	531	993
Net other comprehensive income (loss)	(96,312)	(3,526)	723	1,203	(97,912)
Less: other comprehensive income (loss) attributable to noncontrolling interests	(6,826)	—	—	(29)	(6,855)
Other comprehensive income (loss) attributable to Komatsu Ltd.	(89,486)	(3,526)	723	1,232	(91,057)
Balance, end of period	¥ (62,883)	¥ 15,727	¥ (27,344)	¥ 2,110	¥ (72,390)

All amounts are net of tax.

	Millions of yen				
	Three months ended June 30, 2015				
	Foreign currency translation adjustments	Net unrealized holding gains(losses) on securities available for sale	Pension liability adjustments	Net unrealized holding gains (losses) on derivative instruments	Total
Balance, beginning of year	¥ 102,292	¥ 32,848	¥ (22,351)	¥ 229	¥ 113,018
Other comprehensive income (loss) before reclassifications	27,083	645	(157)	(917)	26,654
Amounts reclassified from accumulated other comprehensive income (loss)	—	(1,724)	398	946	(380)
Net other comprehensive income (loss)	27,083	(1,079)	241	29	26,274
Less: other comprehensive income (loss) attributable to noncontrolling interests	1,242	—	(15)	71	1,298
Other comprehensive income (loss) attributable to Komatsu Ltd.	25,841	(1,079)	256	(42)	24,976
Balance, end of period	¥ 128,133	¥ 31,769	¥ (22,095)	¥ 187	¥ 137,994

All amounts are net of tax.

Reclassification out of accumulated other comprehensive income (loss) for the three months ended June 30, 2016 and 2015 are as follows:

	Millions of yen	
	Three months ended June 30, 2016	Affected line items in consolidated statements of income
<b>Net unrealized holding gains (losses) on securities available for sale</b>		
Gain from sale	¥ 139	Other income (expenses), net: Other, net
	139	Total before tax
	(82)	Income taxes
	57	Net of tax
<b>Pension liability adjustments</b>		
Amortization of actuarial loss and prior service cost	(794)	*1
	(794)	Total before tax
	275	Income taxes
	(519)	Net of tax
<b>Net unrealized holding gains (losses) on derivative instruments</b>		
Forwards contracts	(775)	Other income (expenses), net: Other, net
	(775)	Total before tax
	244	Income taxes
	(531)	Net of tax
Total reclassification for the period	¥ (993)	Net of tax

\*1 These amounts are included in the computation of net periodic pension cost.

	Millions of yen	
	Three months ended June 30, 2015	Affected line items in consolidated statements of income
<b>Net unrealized holding gains (losses) on securities available for sale</b>		
Gain from sale	¥ 2,802	Other income (expenses), net: Other, net
	2,802	Total before tax
	(1,078)	Income taxes
	1,724	Net of tax
<b>Pension liability adjustments</b>		
Amortization of actuarial loss and prior service cost	(600)	*1
	(600)	Total before tax
	202	Income taxes
	(398)	Net of tax
<b>Net unrealized holding gains (losses) on derivative instruments</b>		
Forwards contracts	(1,415)	Other income (expenses), net: Other, net
	(1,415)	Total before tax
	469	Income taxes
	(946)	Net of tax
Total reclassification for the period	¥ 380	Net of tax

\*1 These amounts are included in the computation of net periodic pension cost.

Tax effects allocated to each component of other comprehensive income (loss) for the three months ended June 30, 2016 and 2015 are as follows:

	Millions of yen		
	Three months ended June 30, 2016		
	Before tax amount	Tax (expense) or benefit	Net of tax amount
<b>Foreign currency translation adjustments</b>			
Foreign currency translation adjustments arising during period	¥ (96,552)	¥ 240	¥ (96,312)
Less: reclassification adjustment for losses included in net income	—	—	—
Net foreign currency translation adjustments	(96,552)	240	(96,312)
<b>Net unrealized holding gains (losses) on securities available for sale</b>			
Unrealized holding losses arising during period	(4,988)	1,519	(3,469)
Less: reclassification adjustment for gains included in net income	(139)	82	(57)
Net unrealized holding losses	(5,127)	1,601	(3,526)
<b>Pension liability adjustments</b>			
Pension liability adjustments arising during the period	353	(149)	204
Less: reclassification adjustment for losses included in net income	794	(275)	519
Net pension liability adjustments	1,147	(424)	723
<b>Net unrealized holding gains (losses) on derivative instruments</b>			
Unrealized holding gains arising during period	988	(316)	672
Less: reclassification adjustment for losses included in net income	775	(244)	531
Net unrealized holding gains	1,763	(560)	1,203
<b>Other comprehensive income (loss)</b>	<b>¥ (98,769)</b>	<b>¥ 857</b>	<b>¥ (97,912)</b>

	Millions of yen		
	Three months ended June 30, 2015		
	Before tax amount	Tax (expense) or benefit	Net of tax amount
<b>Foreign currency translation adjustments</b>			
Foreign currency translation adjustments arising during period	¥ 27,118	¥ (35)	¥ 27,083
Less: reclassification adjustment for losses included in net income	—	—	—
Net foreign currency translation adjustments	27,118	(35)	27,083
<b>Net unrealized holding gains (losses) on securities available for sale</b>			
Unrealized holding gains arising during period	1,071	(426)	645
Less: reclassification adjustment for gains included in net income	(2,802)	1,078	(1,724)
Net unrealized holding losses	(1,731)	652	(1,079)
<b>Pension liability adjustments</b>			
Pension liability adjustments arising during period	(206)	49	(157)
Less: reclassification adjustment for losses included in net income	600	(202)	398
Net pension liability adjustments	394	(153)	241
<b>Net unrealized holding gains (losses) on derivative instruments</b>			
Unrealized holding losses arising during period	(1,205)	288	(917)
Less: reclassification adjustment for losses included in net income	1,415	(469)	946
Net unrealized holding gains	210	(181)	29
<b>Other comprehensive income (loss)</b>	<b>¥ 25,991</b>	<b>¥ 283</b>	<b>¥ 26,274</b>

## 8. Stock-Based Remuneration

The Company intends to transfer the Company's shares to directors and certain employees and certain representative directors of major subsidiaries under an agreement granting the right for them to request such transfers at a predetermined price.

The Company recognizes compensation expense using the fair value method. For the three months ended June 30, 2016 and 2015, no compensation expense was recorded as no right was granted.

## 9. Net Income Attributable to Komatsu Ltd. per Share

A reconciliation of the numerators and denominators of the basic and diluted net income attributable to Komatsu Ltd. per share computations is as follows:

	Millions of yen	
	Three months ended June 30, 2016	Three months ended June 30, 2015
Net income attributable to Komatsu Ltd.	¥ 15,588	¥ 32,530

  

	Number of shares	
	Three months ended June 30, 2016	Three months ended June 30, 2015
Weighted average common shares outstanding, less treasury stock	942,686,613	942,400,247
Dilutive effect of:		
Stock options	1,151,819	1,230,084
Weighted average diluted common shares outstanding	943,838,432	943,630,331

  

	Yen	
	Three months ended June 30, 2016	Three months ended June 30, 2015
Net income attributable to Komatsu Ltd. per share:		
Basic	16.54	34.52
Diluted	16.52	34.47

## 10. Contingent Liabilities

At June 30, 2016 and at March 31, 2016, Komatsu was contingently liable for discounted and transferred receivables on a recourse basis with the financial institutions of ¥59 million and ¥47 million, respectively.

Komatsu provides guarantees to third parties of loans of the employees, affiliated companies, customers and other companies. The guarantees of loans relating to the employees are mainly made for their housing loans. The guarantees of loans relating to the affiliated companies, customers and other companies are made to enhance the credit of those companies. For each guarantee provided, Komatsu would have to perform under a guarantee, if the borrower defaults on a payment within the contract terms. The contract terms are from 10 years to 30 years in the case of employees with housing loans, and from 1 year to 8 years in the case of loans relating to the affiliated companies, customers and other companies. The maximum amount of undiscounted payments Komatsu would have had to make in the event of default at June 30, 2016 and at March 31, 2016 were ¥17,095 million and ¥21,526 million, respectively. The fair value of the liabilities recognized for Komatsu's obligations as guarantors under those guarantees at June 30, 2016 were insignificant. Certain of those guarantees were secured by collateral and insurance issued to Komatsu.

Management of the Company believes that losses from those contingent liabilities, if any, would not have a material effect on the quarterly consolidated financial statements.

Komatsu is involved in certain legal actions and claims arising in the ordinary course of its business. It is the opinion of management and legal counsel that such litigation and claims will be resolved without material effect on Komatsu's financial position.

Komatsu has business activities with customers, dealers and associates around the world and its trade receivables from such parties and the guarantees for them are well diversified to minimize concentrations of credit risks. Management does not anticipate incurring losses on its trade receivables in excess of established allowances.

## 11. Derivative Financial Instruments

Notional principal amounts of derivative financial instruments outstanding at June 30, 2016 and at March 31, 2016 are as follows.

	Millions of yen	
	June 30, 2016	March 31, 2016
Forwards contracts:		
Sale of foreign currencies	¥ 66,258	¥ 77,214
Purchase of foreign currencies	77,925	79,291
Interest rate swaps and cross-currency swap agreements	79,531	89,310

Fair value of derivative instruments at June 30, 2016 and at March 31, 2016 on the consolidated balance sheets are as follows:

	Millions of yen			
	June 30, 2016			
	Derivative Assets		Derivative Liabilities	
Derivative instruments designated as hedging instruments	Location on the consolidated Balance Sheets	Estimated fair value	Location on the consolidated Balance Sheets	Estimated fair value
Forwards contracts	Deferred income taxes and other current assets	¥ 3,628	Deferred income taxes and other current liabilities	¥ 1,648
	Deferred income taxes and other assets	167	Deferred income taxes and other liabilities	1
Interest rate swaps and cross-currency swap agreements	Deferred income taxes and other current assets	—	Deferred income taxes and other current liabilities	385
<b>Total</b>		<b>¥ 3,795</b>		<b>¥ 2,034</b>
Undesignated derivative instruments	Derivative Assets		Derivative Liabilities	
	Location on the consolidated Balance Sheets	Estimated fair value	Location on the consolidated Balance Sheets	Estimated fair value
	Forwards contracts	Deferred income taxes and other current assets	¥ 662	Deferred income taxes and other current liabilities
Interest rate swaps and cross-currency swap agreements	Deferred income taxes and other current assets	184	Deferred income taxes and other current liabilities	732
	Deferred income taxes and other assets	333	Deferred income taxes and other liabilities	—
<b>Total</b>		<b>¥ 1,179</b>		<b>¥ 1,795</b>
<b>Total Derivative Instruments</b>		<b>¥ 4,974</b>		<b>¥ 3,829</b>

## Millions of yen

March 31, 2016

Derivative instruments designated as hedging instruments	Derivative Assets		Derivative Liabilities	
	Location on the consolidated Balance Sheets	Estimated fair value	Location on the consolidated Balance Sheets	Estimated fair value
Forwards contracts	Deferred income taxes and other current assets	¥ 1,879	Deferred income taxes and other current liabilities	¥ 2,960
	Deferred income taxes and other assets	121	Deferred income taxes and other liabilities	—
Interest rate swaps and cross-currency swap agreements	Deferred income taxes and other current assets	14	Deferred income taxes and other current liabilities	340
<b>Total</b>		<b>¥ 2,014</b>		<b>¥ 3,300</b>
Undesignated derivative instruments	Derivative Assets		Derivative Liabilities	
	Location on the consolidated Balance Sheets	Estimated fair value	Location on the consolidated Balance Sheets	Estimated fair value
Forwards contracts	Deferred income taxes and other current assets	¥ 771	Deferred income taxes and other current liabilities	¥ 2,015
Interest rate swaps and cross-currency swap agreements	Deferred income taxes and other current assets	322	Deferred income taxes and other current liabilities	258
	Deferred income taxes and other assets	136	Deferred income taxes and other liabilities	248
<b>Total</b>		<b>¥ 1,229</b>		<b>¥ 2,521</b>
<b>Total Derivative Instruments</b>		<b>¥ 3,243</b>		<b>¥ 5,821</b>

The effects of derivative instruments on the consolidated statements of income and the consolidated statements of comprehensive income for the three months ended June 30, 2016 and 2015 are as follows:

### Derivative instruments designated as cash flow hedging relationships

	Millions of yen				
	Three months ended June 30, 2016				
	Effective portion		Ineffective portion and amount excluded from effectiveness testing		
	Amount of gains (losses) recognized in OCI on derivatives	Location of gains (losses) reclassified from accumulated OCI into income	Amount of gains (losses) reclassified from accumulated OCI into income	Location of gains (losses) recognized in income on derivatives	Amount of gains (losses) recognized in income on derivatives
Forwards contracts	¥ 1,090	Other income (expenses), net: Other, net	¥ (834)	Other income (expenses), net: Other, net	¥ 59
Interest rate swaps and cross-currency swap agreements	(102)	—	—	—	—
<b>Total</b>	<b>¥ 988</b>		<b>¥ (834)</b>		<b>¥ 59</b>

	Millions of yen				
	Three months ended June 30, 2015				
	Effective portion		Ineffective portion and amount excluded from effectiveness testing		
	Amount of gains (losses) recognized in OCI on derivatives	Location of gains (losses) reclassified from accumulated OCI into income	Amount of gains (losses) reclassified from accumulated OCI into income	Location of gains (losses) recognized in income on derivatives	Amount of gains (losses) recognized in income on derivatives
Forwards contracts	¥ (1,461)	Other income (expenses), net: Other, net	¥ (1,415)	—	¥ —
Interest rate swaps and cross-currency swap agreements	256	—	—	—	—
<b>Total</b>	<b>¥ (1,205)</b>		<b>¥ (1,415)</b>		<b>¥ —</b>

\* OCI stands for other comprehensive income (loss).

## Derivative instruments not designated as hedging instruments relationships

Millions of yen		
Three months ended June 30, 2016		
	Location of gains (losses) recognized in income on derivatives	Amount of gains (losses) recognized in income on derivatives
Forwards contracts	Other income (expenses), net: Other, net	¥ (588)
Interest rate swaps and cross-currency swap agreements	Cost of sales	(45)
	Other income (expenses), net: Other, net	(6)
<b>Total</b>		<b>¥ (639)</b>

Millions of yen		
Three months ended June 30, 2015		
	Location of gains (losses) recognized in income on derivatives	Amount of gains (losses) recognized in income on derivatives
Forwards contracts	Other income (expenses), net: Other, net	¥ (725)
Interest rate swaps and cross-currency swap agreements	Cost of sales	114
	Other income (expenses), net: Other, net	82
<b>Total</b>		<b>¥ (529)</b>

## 12. Fair Values of Financial Instruments

### (1) Cash and cash equivalents, Time deposits, Trade notes and accounts receivable, Other current assets, Short-term debt, Trade notes, bills and accounts payable, and Other current liabilities

The carrying amount approximates fair value because of the short maturity of these instruments.

### (2) Investment securities, marketable equity securities

The fair values of investment securities available for sale for which it is practicable to estimate fair value are based on quoted market prices and are recognized on the accompanying consolidated balance sheets.

### (3) Long-term trade receivables

The fair values of long-term trade receivables are based on the present value of future cash flows through maturity, discounted using estimated current interest rates. The fair values computed on such a basis approximate the carrying amounts.

### (4) Long-term debt, including current portion (Note 13)

The fair values of each of the long-term debt are based on the quoted price in the most active market or the present value of future cash flows associated with each instrument discounted using the current borrowing rate for similar debt of comparable maturity and is classified in Level 2 in the fair value hierarchy.

### (5) Derivatives (Notes 11 and 13)

The fair values of derivative financial instruments, consisting principally of foreign exchange contracts and interest rate swap agreements, are estimated by obtaining quotes from brokers and are recognized on the accompanying consolidated balance sheets.

The carrying amounts and the estimated fair values of the financial instruments, including financial instruments not qualifying as hedge, as of June 30, 2016 and as of March 31, 2016, are summarized as follows:

	Millions of yen			
	June 30, 2016		March 31, 2016	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Cash and cash equivalents	¥ 105,941	¥ 105,941	¥ 106,259	¥ 106,259
Time deposits	2,314	2,314	2,212	2,212
Trade notes and accounts receivable, net	502,706	502,706	583,390	583,390
Long-term trade receivables, net	265,659	265,659	291,923	291,923
Investment securities, marketable equity securities	38,469	38,469	43,817	43,817
Short-term debt	156,473	156,473	144,552	144,552
Trade notes, bills and accounts payable	187,020	187,020	205,411	205,411
Long-term debt, including current portion	274,536	273,659	313,000	311,288
Derivatives:				
Forwards contracts				
Assets	4,457	4,457	2,771	2,771
Liabilities	2,712	2,712	4,975	4,975
Interest rate swaps and cross-currency swap agreements				
Assets	517	517	472	472
Liabilities	1,117	1,117	846	846

### Limitations

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could affect the estimates.

### 13. Fair value measurements

ASC 820, "Fair Value Measurements" defines that fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. The three levels of inputs used to measure fair value are as follows:

- Level 1** – Quoted prices in active markets for identical assets or liabilities
- Level 2** – Inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly or indirectly
- Level 3** – Unobservable inputs for the assets or liabilities

#### Assets and liabilities that are measured at fair value on a recurring basis

The fair value hierarchy levels of assets and liabilities that are measured at fair value on a recurring basis at June 30, 2016 and at March 31, 2016 are as follows:

At June 30, 2016	Millions of yen			
	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Investment securities available for sale				
Manufacturing industry	¥ 20,978	¥ —	¥ —	¥ 20,978
Financial service industry	14,009	—	—	14,009
Other	3,482	—	—	3,482
Derivatives				
Forward contracts	—	4,457	—	4,457
Interest rate swaps and cross-currency swap agreements	—	517	—	517
<b>Total</b>	<b>¥ 38,469</b>	<b>¥ 4,974</b>	<b>¥ —</b>	<b>¥ 43,443</b>
<b>Liabilities</b>				
Derivatives				
Forward contracts	¥ —	¥ 2,712	¥ —	¥ 2,712
Interest rate swaps and cross-currency swap agreements	—	1,117	—	1,117
Other	—	21,415	296	21,711
<b>Total</b>	<b>¥ —</b>	<b>¥ 25,244</b>	<b>¥ 296</b>	<b>¥ 25,540</b>
At March 31, 2016	Millions of yen			
	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Investment securities available for sale				
Manufacturing industry	¥ 22,858	¥ —	¥ —	¥ 22,858
Financial service industry	16,501	—	—	16,501
Other	4,458	—	—	4,458
Derivatives				
Forward contracts	—	2,771	—	2,771
Interest rate swaps and cross-currency swap agreements	—	472	—	472
<b>Total</b>	<b>¥ 43,817</b>	<b>¥ 3,243</b>	<b>¥ —</b>	<b>¥ 47,060</b>
<b>Liabilities</b>				
Derivatives				
Forward contracts	¥ —	¥ 4,975	¥ —	¥ 4,975
Interest rate swaps and cross-currency swap agreements	—	846	—	846
Other	—	23,448	301	23,749
<b>Total</b>	<b>¥ —</b>	<b>¥ 29,269</b>	<b>¥ 301</b>	<b>¥ 29,570</b>

### Investment securities available for sale

Marketable equity securities are classified in Level 1 in the fair value hierarchy. Marketable equity securities are measured using a market approach based on the quoted market prices in active markets.

### Derivatives (Notes 11 and 12)

Derivatives primarily represent foreign exchange contracts and interest rate swap agreements. The fair value of foreign exchange contracts is based on a valuation model that discounts cash flows resulting from the differential between contract rate and the market-based forward rate and is classified in Level 2 in the fair value hierarchy. The fair value of interest rate swap agreements is based on a valuation model that discounts cash flows based on the terms of the contract and the swap curves and is classified in Level 2 in the fair value hierarchy.

### Other

Other primarily represents loans which are measured at fair value under the Fair Value Option of ASC 825, "Financial Instruments". The fair value of loans is based on a valuation model based on market yield curve data and credit spread data and is classified in Level 2 in the fair value hierarchy. The credit spread data was obtained through use of credit default swaps for each counterparty.

The following table summarizes information about changes of Level 3 for the three months ended June 30, 2016 and 2015:

	Millions of yen	
	Three months ended June 30, 2016	Three months ended June 30, 2015
Balance, beginning of year	¥ (301)	¥ (369)
Total gains or losses (realized / unrealized)	5	(14)
Included in earnings	(23)	(6)
Included in other comprehensive income (loss)	28	(8)
Balance, end of period	¥ (296)	¥ (383)

The amount of unrealized gains on classified in Level 3 liabilities recognized in earnings for the three months ended June 30, 2016 and 2015 related to liabilities still held at June 30, 2016 and 2015 were losses of ¥23 million and ¥6 million, respectively. These losses were reported in other income (expenses), net in the consolidated statements of income.

### Assets and liabilities that are measured at fair value on a non-recurring basis

During three months ended June 30, 2016 and 2015 assets and liabilities that were measured at fair value on a non-recurring basis were not material.

### 14. Committed Credit Lines

Certain consolidated subsidiaries have entered into contract with certain financial institutions for committed credit lines. These total amounts of committed credit lines at June 30, 2016 and at March 31, 2016 were ¥18,034, million and ¥20,269 million, respectively. These total amounts of unused committed credit lines available for full and immediate borrowings at June 30, 2016 and at March 31, 2016 were ¥15,060 million and ¥15,094 million, respectively.

## 15. Dividends

Three months ended June 30, 2016

Payment amount of dividends

Resolution	Type of stock	Aggregate amount of dividends (Millions of yen)	Resource of dividends	Dividend per share (Yen)	Record date	Effective date
Ordinary general meeting of shareholders held on June 22, 2016	Common stock	27,353	Retained earnings	29	March 31, 2016	June 23, 2016

Note : The amount is rounded down to nearest million yen.

Three months ended June 30, 2015

Payment amount of dividends

Resolution	Type of stock	Aggregate amount of dividends (Millions of yen)	Resource of dividends	Dividend per share (Yen)	Record date	Effective date
Ordinary general meeting of shareholders held on June 24, 2015	Common stock	27,344	Retained earnings	29	March 31, 2015	June 25, 2015

Note : The amount is rounded down to nearest million yen.

## 16. Business Segment and Geographic Information

Komatsu has three operating segments: 1) Construction, Mining and Utility Equipment, 2) Retail Finance, and 3) Industrial Machinery and Others. Those operating segments which have separate financial information are available for allocating resources and assessing its performance by management.

The accounting policies used by the segments are the same as those used in the preparation of the quarterly consolidated financial statements. Komatsu has disclosed information of two operating segments of 1) Construction, Mining and Utility Equipment and 2) Industrial Machinery and Others for fiscal years up through the year ended March 31, 2016. Starting in the three months ended June 30, 2016, and after the reassessment of its management decision-making units, Komatsu is changing to three operating segments. Accordingly, the figures for the three months ended June 30, 2015, were reclassified and restated in agreement with the figures for the three months ended June 30, 2016.

Segment profit available for allocating resources and assessing its performance by management is determined by subtracting the cost of sales and selling, general and administrative expenses from net sales attributed to the operating segment. Segment profit excludes certain general corporate administration and finance expenses, such as costs of executive management, corporate development, corporate finance, human resources, internal audit, investor relations, legal and public relations. Segment profit also excludes certain charges which may otherwise relate to operating segments, including impairments of long-lived assets and goodwill.

### Operating segments:

Information about operating segments for the three months ended June 30, 2016 and 2015 is as follows:

	Millions of yen	
	Three months ended June 30, 2016	Three months ended June 30, 2015
<b>Net sales:</b>		
Construction, Mining and Utility Equipment –		
External customers	¥ 343,433	¥ 388,951
Intersegment	1,733	3,427
Total	345,166	392,378
Retail Finance –		
External customers	11,305	13,052
Intersegment	558	761
Total	11,863	13,813
Industrial Machinery and Others –		
External customers	34,514	44,100
Intersegment	261	632
Total	34,775	44,732
Elimination	(2,552)	(4,820)
Consolidated	¥ 389,252	¥ 446,103
<b>Segment profit:</b>		
Construction, Mining and Utility Equipment	¥ 26,387	¥ 42,435
Retail Finance	1,885	3,765
Industrial Machinery and Others	1,708	3,269
Total segment profit	29,980	49,469
Corporate expenses and elimination	(980)	132
Consolidated	¥ 29,000	¥ 49,601

Reconciliation of total segment profit to consolidated income before income taxes and equity in earnings of affiliated companies for the three months ended June 30, 2016 and 2015 is as follows:

	Millions of yen	
	Three months ended June 30, 2016	Three months ended June 30, 2015
Total segment profit	¥ 29,980	¥ 49,469
Corporate expenses and elimination	(980)	132
Consolidated	29,000	49,601
Other operating income (expenses), net	789	112
Operating income	29,789	49,713
Interest and dividend income	1,025	1,046
Interest expense	(1,958)	(2,497)
Other, net	(4,654)	2,675
Consolidated income before income taxes and equity in earnings of affiliated companies	¥ 24,202	¥ 50,937

Business categories and principal products and services included in each operating segment are as follows:

a) Construction, Mining and Utility Equipment operating segment:

Excavating equipment, loading equipment, grading and roadbed preparation equipment, hauling equipment, forestry equipment, tunneling machines, recycling equipment, industrial vehicles, other equipment, engines and components, casting products and logistics

b) Retail Finance:

Financing

c) Industrial Machinery and Others operating segment:

Metal forging and stamping presses, sheet-metal machines, machine tools, defense systems, temperature-control equipment and others

Transfers between segments are made at estimated arm's length prices.

**Geographic information:**

Net sales determined by customer location for the three months ended June 30, 2016 and 2015 are as follows:

	Millions of yen	
	Three months ended June 30, 2016	Three months ended June 30, 2015
Japan	¥ 75,077	¥ 85,724
The Americas	136,870	154,835
Europe and CIS	54,804	53,096
China	26,897	24,377
Asia (excluding Japan and China) and Oceania	70,932	86,795
Middle East and Africa	24,672	41,276
Consolidated net sales	¥ 389,252	¥ 446,103

Net sales determined by geographic origin for the three months ended June 30, 2016 and 2015 are as follows:

	Millions of yen	
	Three months ended June 30, 2016	Three months ended June 30, 2015
Japan	¥ 110,275	¥ 143,183
The Americas	134,193	144,996
Europe and CIS	57,480	54,013
China	19,909	22,258
Others	67,395	81,653
Total	¥ 389,252	¥ 446,103

There were no sales to a single major external customer for the three months ended June 30, 2016 and 2015.

## 17. Material Subsequent Events

Komatsu evaluated subsequent events through August 10, 2016, the issue date of its quarterly consolidated financial statements.

[Acquisition of the company]

The Company and its U.S. wholly owned subsidiary Komatsu America Corp. (hereinafter “KAC”) have resolved at their respective boards of directors held on July 21, 2016 (Japan time) the acquisition of all issued and outstanding shares of Joy Global Inc. (hereinafter “Joy Global”), a company headquartered in the United States and listed on the New York Stock Exchange that manufactures, sells and services mining equipment. On the same day, the Company and KAC entered into an agreement with Joy Global for such acquisition. Pursuant to the agreement, KAC will acquire Joy Global for approximately 2,891 million US dollars after obtaining approval of the shareholders meeting of Joy Global and completing filings and obtaining clearances under competition laws in relevant jurisdictions. The acquisition is expected to close in mid-2017, and will have no impact on Komatsu’s business results for the fiscal year ending March 31, 2017.

The purpose of the acquisition and outline of the acquired company are stated below.

### (1) Purpose of the Acquisition

Komatsu projects that demand for mining equipment will grow over the long term, driven by population growth and rapid urbanization around the world, and, in terms of mining techniques, economic rationale will call for use of larger equipment in surface mining as well as further development of underground mining. Therefore, Komatsu will strengthen the core mining equipment business of Komatsu through the acquisition of Joy Global by adding to our product portfolio super large surface mining equipment and underground mining equipment, etc., which complement existing products of Komatsu.

### (2) Outline of the Acquired Company

Name: Joy Global Inc.

Share Capital: US\$131 million (as of October 30, 2015)

Net Assets: US\$1,379 million (consolidated net assets as of April 29, 2016)

Total Assets: US\$3,508 million (consolidated total assets as of April 29, 2016)

Description of Business: Manufacturing, sales and service of surface and underground mining equipment

## **18. Terminology, Forms and Preparation Methods of Quarterly Consolidated Financial Statements**

The terminology, forms and preparation methods of the Company's quarterly consolidated financial statements are in accordance with U.S. GAAP.

The main differences between quarterly consolidated financial statements prepared in accordance with U.S. GAAP and those prepared in accordance with the Accounting Standards for Quarterly Consolidated Financial Statements and the Ordinance on Terminology, Forms and Preparation Methods of Quarterly Consolidated Financial Statements of Japan are as follows.

### **(1) Scope of consolidation**

For quarterly consolidated financial statements in Japan, the scope of consolidation is determined on an effective control and influence basis. For quarterly consolidated financial statement in accordance with U.S. GAAP, the scope of consolidation is determined on the shareholding basis on which the determination is based on voting rights and on a consolidation basis of variable interest entities.

### **(2) Accounting policies**

#### **a. Deferred income on installment sales**

Although deferral of income on installment sales is permitted in Japan, the Company recognizes income at the time of sales without deferring income on installment sales in its quarterly consolidated financial statements in accordance with U.S. GAAP.

#### **b. Share issuance cost**

Although in Japan, share issuance cost is permitted to be recognized in profit or loss when incurred, the Company treats such cost in a deduction item from capital surplus as expenses incidental to capital transactions in its quarterly consolidated financial statements in accordance with U.S. GAAP.

#### **c. Accounting for retirement benefits**

Although in Japan, net actuarial gains or losses are required to be amortized over certain periods that are shorter than the average remaining years of service, the Company has adopted the corridor approach in its quarterly consolidated financial statements in accordance with U.S. GAAP.

#### **d. Business combination and goodwill**

Goodwill is required to be amortized over certain periods in Japan, while U.S. GAAP requires companies to implement impairment test at least once annually without goodwill being amortized. For intangible fixed assets with indefinite useful lives, U.S. GAAP also requires companies to implement impairment test without such assets being amortized.

### **(3) Presentation methods and other matters**

#### **a. Presentation of legal retained earnings**

Although in Japan, legal retained earnings is recorded as retained earnings together with other surplus, the Company separately presents as appropriated legal reserve in its quarterly consolidated financial statements in accordance with U.S. GAAP.

#### **b. Extraordinary income and loss**

In Japan, gain or loss on certain sales of non-current, assets such as gain or loss from the sale of properties, are presented as extraordinary income or loss. However, since there is no concept of extraordinary items in U.S. GAAP, extraordinary income or loss are not presented in the Company's quarterly consolidated financial statements.