

(Translation)

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# Quarterly Report

From October 1, 2016 to December 31, 2016

(Third 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 December 31, 2016 with the Director-General of the Kanto Local Finance Bureau on February 10, 2017. The Quarterly Securities Report contains, among other information, Quarterly Consolidated Financial Statements for the three months and nine months ended December 31, 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 January 31, 2017. Attached is an English translation of Quarterly Consolidated Financial Statements for the three months and nine months ended December 31, 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 December 31, 2016 (from October 1 to December 31, 2016) and for the nine months ended December 31, 2016 (from April 1 to December 31, 2016) were reviewed by KPMG AZSA LLC.

# Quarterly Consolidated Financial Statements, etc.

## Quarterly Consolidated Financial Statements

### Consolidated Balance Sheets (Unaudited)

Komatsu Ltd. and Consolidated Subsidiaries December 31, 2016 and March 31, 2016

Assets	December 31, 2016		March 31, 2016	
	Millions of yen	Ratio (%)	Millions of yen	Ratio (%)
<b>Current assets</b>				
Cash and cash equivalents (Note 13)	¥ 134,068		¥ 106,259	
Time deposits (Note 13)	2,298		2,212	
Trade notes and accounts receivable, net (Notes 5 and 13)	576,893		583,390	
Inventories (Note 6)	592,139		539,611	
Assets held for sale	—		13,388	
Deferred income taxes and other current assets (Notes 12, 13 and 14)	140,112		141,593	
<b>Total current assets</b>	<b>1,445,510</b>	<b>54.0</b>	<b>1,386,453</b>	<b>53.0</b>
<b>Long-term trade receivables, net (Notes 5 and 13)</b>	<b>304,064</b>	<b>11.3</b>	<b>291,923</b>	<b>11.2</b>
<b>Investments</b>				
Investments in and advances to affiliated companies	30,418		28,123	
Investment securities (Notes 7, 13 and 14)	66,163		51,590	
Other	2,498		2,640	
<b>Total investments</b>	<b>99,079</b>	<b>3.7</b>	<b>82,353</b>	<b>3.2</b>
<b>Property, plant and equipment</b>				
– less accumulated depreciation and amortization of ¥818,581 million at December 31, 2016 and ¥802,390 million at March 31, 2016	686,343	25.6	697,742	26.7
<b>Goodwill (Note 4)</b>	<b>40,107</b>	<b>1.5</b>	<b>40,005</b>	<b>1.5</b>
<b>Other intangible assets</b>				
– less accumulated amortization	60,423	2.3	63,056	2.4
<b>Deferred income taxes and other assets (Notes 12, 13 and 14)</b>	<b>42,113</b>	<b>1.6</b>	<b>53,122</b>	<b>2.0</b>
	<b>¥ 2,677,639</b>	<b>100.0</b>	<b>¥ 2,614,654</b>	<b>100.0</b>
Liabilities and Equity	December 31, 2016		March 31, 2016	
	Millions of yen	Ratio (%)	Millions of yen	Ratio (%)
<b>Current liabilities</b>				
Short-term debt (Note 13)	¥ 201,576		¥ 144,552	
Current maturities of long-term debt (Notes 13 and 14)	103,469		100,364	
Trade notes, bills and accounts payable (Note 13)	213,282		205,411	
Income taxes payable	9,541		29,310	
Liabilities held for sale	—		7,057	
Deferred income taxes and other current liabilities (Notes 12, 13 and 14)	213,358		214,200	
<b>Total current liabilities</b>	<b>741,226</b>	<b>27.7</b>	<b>700,894</b>	<b>26.8</b>
<b>Long-term liabilities</b>				
Long-term debt (Notes 13 and 14)	196,464		212,636	
Liability for pension and retirement benefits	66,655		67,972	
Deferred income taxes and other liabilities (Notes 12, 13 and 14)	50,771		45,392	
<b>Total long-term liabilities</b>	<b>313,890</b>	<b>11.7</b>	<b>326,000</b>	<b>12.5</b>
<b>Total liabilities</b>	<b>1,055,116</b>	<b>39.4</b>	<b>1,026,894</b>	<b>39.3</b>
<b>Commitments and contingent liabilities (Note 11)</b>				
<b>Equity</b>				
<b>Komatsu Ltd. shareholders' equity</b>				
Common stock:				
Authorized 3,955,000,000 shares				
Issued 971,967,660 shares				
Outstanding 942,821,457 shares at December 31, 2016 and 942,675,356 shares at March 31, 2016	67,870		67,870	
Capital surplus	138,205		138,243	
Retained earnings:				
Appropriated for legal reserve	45,366		44,018	
Unappropriated	1,312,306		1,300,030	
Accumulated other comprehensive income (loss) (Notes 7, 8, 12 and 14)	39,414		18,667	
Treasury stock at cost,				
29,146,203 shares at December 31, 2016 and 29,292,304 shares at March 31, 2016	(51,165)		(51,414)	
<b>Total Komatsu Ltd. shareholders' equity</b>	<b>1,551,996</b>	<b>58.0</b>	<b>1,517,414</b>	<b>58.0</b>
<b>Noncontrolling interests</b>	<b>70,527</b>	<b>2.6</b>	<b>70,346</b>	<b>2.7</b>
<b>Total equity</b>	<b>1,622,523</b>	<b>60.6</b>	<b>1,587,760</b>	<b>60.7</b>
	<b>¥ 2,677,639</b>	<b>100.0</b>	<b>¥ 2,614,654</b>	<b>100.0</b>

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

Consolidated Statements of Income and Consolidated Statements of Comprehensive Income (Unaudited)

Komatsu Ltd. and Consolidated Subsidiaries  
 Nine months ended December 31, 2016 and 2015.

Consolidated Statements of Income

	Nine months ended December 31, 2016		Nine months ended December 31, 2015	
	Millions of yen	Ratio (%)	Millions of yen	Ratio (%)
Net sales	¥ 1,226,707	100.0	¥ 1,370,517	100.0
Cost of sales (Notes 8 and 12)	875,614	71.4	970,106	70.8
Selling, general and administrative expenses (Notes 4, 8 and 9)	243,256	19.8	253,433	18.5
Other operating income (expenses), net	(812)	(0.1)	7,688	0.6
<b>Operating income</b>	<b>107,025</b>	<b>8.7</b>	<b>154,666</b>	<b>11.3</b>
<b>Other income (expenses), net</b>				
Interest and dividend income	2,602	0.2	2,826	0.2
Interest expense	(5,692)	(0.5)	(6,853)	(0.5)
Other, net (Notes 7, 8, 12 and 14)	(672)	(0.1)	2,526	0.2
Total	(3,762)	(0.3)	(1,501)	(0.1)
<b>Income before income taxes and equity in earnings of affiliated companies</b>	<b>103,263</b>	<b>8.4</b>	<b>153,165</b>	<b>11.2</b>
<b>Income taxes</b> (Note 8)				
Current	29,334		42,141	
Deferred	5,855		4,843	
Total	35,189	2.9	46,984	3.4
<b>Income before equity in earnings of affiliated companies</b>	<b>68,074</b>	<b>5.5</b>	<b>106,181</b>	<b>7.7</b>
<b>Equity in earnings of affiliated companies</b>	<b>2,845</b>	<b>0.2</b>	<b>1,904</b>	<b>0.1</b>
<b>Net income</b>	<b>70,919</b>	<b>5.8</b>	<b>108,085</b>	<b>7.9</b>
<b>Less: Net income attributable to noncontrolling interests</b>	<b>2,584</b>	<b>0.2</b>	<b>4,343</b>	<b>0.3</b>
<b>Net income attributable to Komatsu Ltd.</b>	<b>¥ 68,335</b>	<b>5.6</b>	<b>¥ 103,742</b>	<b>7.6</b>

Yen

**Per share data** (Note 10):

**Net income attributable to Komatsu Ltd.:**

Basic	72.48	110.07
Diluted	72.39	109.92
<b>Cash dividends per share</b> (Note 16)	<b>58.00</b>	<b>58.00</b>

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

Consolidated Statements of Comprehensive Income

	Millions of yen	
	Nine months ended December 31, 2016	Nine months ended December 31, 2015
<b>Net income</b>	¥ 70,919	¥ 108,085
<b>Other comprehensive income (loss), for the period, net of tax</b>		
Foreign currency translation adjustments (Note 8)	11,773	(24,592)
Net unrealized holding gains (losses) on securities available for sale (Notes 7 and 8)	9,624	(10,177)
Pension liability adjustments (Note 8)	1,700	1,344
Net unrealized holding gains (losses) on derivative instruments (Notes 8 and 12)	(1,955)	468
<b>Total</b>	<b>21,142</b>	<b>(32,957)</b>
<b>Comprehensive income (loss)</b>	<b>92,061</b>	<b>75,128</b>
<b>Less: Comprehensive income (loss) attributable to noncontrolling interests</b>	<b>2,979</b>	<b>1,954</b>
<b>Comprehensive income (loss) attributable to Komatsu Ltd.</b>	<b>¥ 89,082</b>	<b>¥ 73,174</b>

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

Consolidated Statements of Income and Consolidated Statements of Comprehensive Income (Unaudited)

Komatsu Ltd. and Consolidated Subsidiaries  
Three months ended December 31, 2016 and 2015.

Consolidated Statements of Income

	Three months ended December 31, 2016		Three months ended December 31, 2015	
	Millions of yen	Ratio (%)	Millions of yen	Ratio (%)
Net sales	¥ 430,595	100.0	¥ 478,020	100.0
Cost of sales (Notes 8 and 12)	306,066	71.1	344,685	72.1
Selling, general and administrative expenses (Notes 4, 8 and 9)	80,928	18.8	84,760	17.7
Other operating income (expenses), net	(702)	(0.2)	7,070	1.5
<b>Operating income</b>	<b>42,899</b>	<b>10.0</b>	<b>55,645</b>	<b>11.6</b>
<b>Other income (expenses), net</b>				
Interest and dividend income	999	0.2	940	0.2
Interest expense	(1,843)	(0.4)	(1,980)	(0.4)
Other, net (Notes 7, 8, 12 and 14)	3,113	0.7	681	0.1
Total	2,269	0.5	(359)	(0.1)
<b>Income before income taxes and equity in earnings of affiliated companies</b>	<b>45,168</b>	<b>10.5</b>	<b>55,286</b>	<b>11.6</b>
<b>Income taxes</b> (Note 8)				
Current	6,540		10,118	
Deferred	7,490		5,572	
Total	14,030	3.3	15,690	3.3
<b>Income before equity in earnings of affiliated companies</b>	<b>31,138</b>	<b>7.2</b>	<b>39,596</b>	<b>8.3</b>
<b>Equity in earnings of affiliated companies</b>	<b>1,033</b>	<b>0.2</b>	<b>707</b>	<b>0.1</b>
<b>Net income</b>	<b>32,171</b>	<b>7.5</b>	<b>40,303</b>	<b>8.4</b>
<b>Less: Net income attributable to noncontrolling interests</b>	<b>1,354</b>	<b>0.3</b>	<b>1,657</b>	<b>0.3</b>
<b>Net income attributable to Komatsu Ltd.</b>	<b>¥ 30,817</b>	<b>7.2</b>	<b>¥ 38,646</b>	<b>8.1</b>
<b>Yen</b>				
<b>Per share data</b> (Note 10):				
<b>Net income attributable to Komatsu Ltd.:</b>				
Basic	32.69		41.00	
Diluted	32.64		40.94	
<b>Cash dividends per share</b> (Note 16)	29.00		29.00	

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

Consolidated Statements of Comprehensive Income

	Millions of yen	
	Three months ended December 31, 2016	Three months ended December 31, 2015
<b>Net income</b>	¥ 32,171	¥ 40,303
<b>Other comprehensive income (loss), for the period, net of tax</b>		
Foreign currency translation adjustments (Note 8)	121,995	(6,079)
Net unrealized holding gains (losses) on securities available for sale (Notes 7 and 8)	8,509	(1,200)
Pension liability adjustments (Note 8)	520	402
Net unrealized holding gains (losses) on derivative instruments (Notes 8 and 12)	(2,250)	133
<b>Total</b>	<b>128,774</b>	<b>(6,744)</b>
<b>Comprehensive income (loss)</b>	<b>160,945</b>	<b>33,559</b>
<b>Less: Comprehensive income (loss) attributable to noncontrolling interests</b>	<b>9,181</b>	<b>2,024</b>
<b>Comprehensive income (loss) attributable to Komatsu Ltd.</b>	<b>¥ 151,764</b>	<b>¥ 31,535</b>

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



## Consolidated Statements of Equity (Unaudited)

### Komatsu Ltd. and Consolidated Subsidiaries

Nine months ended December 31, 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 16)				(54,711)			(54,711)	(2,674)	(57,385)
Transfer to retained earnings appropriated for legal reserve			1,348	(1,348)			—		—
Other changes		(239)					(239)	(124)	(363)
Net income				68,335			68,335	2,584	70,919
Other comprehensive income (loss), for the period, net of tax (Note 8)					20,747		20,747	395	21,142
Issuance and exercise of stock acquisition rights (Note 9)		171					171		171
Purchase of treasury stock						(29)	(29)		(29)
Sales of treasury stock		30				278	308		308
<b>Balance at December 31, 2016</b>	¥ 67,870	¥ 138,205	¥ 45,366	¥ 1,312,306	¥ 39,414	¥ (51,165)	¥ 1,551,996	¥ 70,527	¥ 1,622,523

Nine months ended December 31, 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 16)				(54,696)			(54,696)	(3,429)	(58,125)
Transfer to retained earnings appropriated for legal reserve			3,038	(3,038)			—		—
Other changes		(512)			393		(119)	(354)	(473)
Net income				103,742			103,742	4,343	108,085
Other comprehensive income (loss), for the period, net of tax (Note 8)					(30,568)		(30,568)	(2,389)	(32,957)
Issuance and exercise of stock acquisition rights (Note 9)		116					116		116
Purchase of treasury stock						(32)	(32)		(32)
Sales of treasury stock		63				437	500		500
<b>Balance at December 31, 2015</b>	¥ 67,870	¥ 138,363	¥ 44,018	¥ 1,266,346	¥ 82,843	¥ (51,531)	¥ 1,547,909	¥ 67,705	¥ 1,615,614

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

Consolidated Statements of Cash Flows (Unaudited)

Komatsu Ltd. and Consolidated Subsidiaries  
 Nine months ended December 31, 2016 and 2015

	Millions of yen	
	Nine months ended December 31, 2016	Nine months ended December 31, 2015
<b>Operating activities</b>		
Net income	¥ 70,919	¥ 108,085
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	77,367	82,571
Deferred income taxes	5,855	4,843
Impairment loss and net loss (gain) from sale of investment securities	(173)	(3,700)
Net loss (gain) on sale of property	(592)	(8,885)
Loss on disposal of fixed assets	1,504	1,663
Pension and retirement benefits, net	2,131	934
Changes in assets and liabilities:		
Decrease (increase) in trade receivables	8,434	16,449
Decrease (increase) in inventories	(39,237)	26,225
Increase (decrease) in trade payables	7,319	(30,511)
Increase (decrease) in income taxes payable	(19,495)	(20,308)
Other, net	32,559	32,964
Net cash provided by (used in) operating activities	<u>146,591</u>	<u>210,330</u>
<b>Investing activities</b>		
Capital expenditures	(107,997)	(123,281)
Proceeds from sale of property	13,926	24,405
Proceeds from sale of available for sale investment securities	602	5,125
Purchases of available for sale investment securities	(107)	(370)
Proceeds from sale of subsidiaries and equity investees, net of cash disposed	5,485	—
Acquisition of subsidiaries and equity investees, net of cash acquired	(5,905)	(796)
Collection of loan receivables	9	207
Disbursement of loan receivables	(64)	—
Decrease (increase) in time deposits, net	(62)	(1,549)
Net cash provided by (used in) investing activities	<u>(94,113)</u>	<u>(96,259)</u>
<b>Financing activities</b>		
Proceeds from debt issued (Original maturities greater than three months)	109,443	106,828
Payment on debt (Original maturities greater than three months)	(112,344)	(173,366)
Short-term debt, net (Original maturities three months or less)	38,299	12,398
Repayments of capital lease obligations	(42)	(533)
Sale (purchase) of treasury stock, net	35	67
Dividends paid	(54,711)	(54,696)
Other, net	(2,326)	(3,724)
Net cash provided by (used in) financing activities	<u>(21,646)</u>	<u>(113,026)</u>
<b>Effect of exchange rate change on cash and cash equivalents</b>	<u>(3,023)</u>	<u>(2,148)</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	27,809	(1,103)
<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>¥ 134,068</u>	<u>¥ 104,802</u>

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

**Komatsu Ltd. and Consolidated Subsidiaries**  
**Three months and nine months ended December 31, 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 19 “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.

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. Additional Information

### Acquisition of Joy Global Inc.

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 merger agreement for the acquisition was approved at the extraordinary shareholders meeting of Joy Global which was held on October 19, 2016 (local time).

The expected completion date is not yet fixed because it may change depending on the timing of the receipt of necessary regulatory clearances under competition laws in relevant countries. The completion of the acquisition may occur within Komatsu’s fiscal year ending March 31, 2017 depending on the progress of the remaining regulatory clearance procedures. If the acquisition is complete during Komatsu’s fiscal year ending March 31, 2017, there may be an impact on the consolidated results and performance of Komatsu for the fiscal year ending March 31, 2017, but details of any such impact remain unknown at the present.

If the acquisition is not complete during Komatsu’s fiscal year ending March 31, 2017, it will have no material 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

## 3. Supplemental Cash Flow Information

Additional cash flow information and noncash investing and financing activities for the nine months ended December 31, 2016 and 2015 are as follows:

	Millions of yen	
	Nine months ended December 31, 2016	Nine months ended December 31, 2015
<b>Additional cash flow information:</b>		
Interest paid	¥ 5,944	¥ 7,424
Income taxes paid	37,468	57,688
<b>Noncash investing and financing activities:</b>		
Capital lease obligations incurred	¥ 544	¥ 216

#### 4. Business Combination

##### Komatsu Maquinarias Mexico, 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. Road Machinery changed its company name to Komatsu Maquinarias Mexico, S.A. de C.V. in October 2016.

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" was completed in the end of September 2016. There were not any adjustments made to provisional amounts during the measurement period recognized in this business combination.

Following is a summary of the assets acquired and liabilities adjusted to reflect purchase price allocation assumed as of the date of acquisition.

	Millions of yen
Consideration	
Cash and cash equivalents	¥ 12,368
Fair value of total consideration transferred	12,368
Acquisition-related cost (included in selling, general and administrative expenses)	¥ 178
Recognized amounts of identifiable assets and liabilities assumed	
Current assets	¥ 14,716
Property, plant and equipment	2,473
Intangible assets	6,078
Total assets acquired	23,267
Current liabilities	(5,632)
Long-term liabilities	(4,393)
Total liabilities assumed	(10,025)
Net assets acquired	13,242
Noncontrolling interests	(4,484)
Goodwill	3,610
	¥ 12,368

The goodwill of ¥3,610 million was assigned to the Construction, Mining and Utility Equipment operating segment. The goodwill is not deductible for tax purpose.

#### 5. Allowance for Doubtful Receivables

At December 31, 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 ¥17,762 million and ¥17,589 million, respectively.

#### 6. Inventories

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

	Millions of yen	
	December 31, 2016	March 31, 2016
Finished products, including finished parts held for sale	¥ 424,975	¥ 385,623
Work in process	121,927	106,233
Materials and supplies	45,237	47,755
Total	¥ 592,139	¥ 539,611

## 7. Investment Securities

Investment securities at December 31, 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 December 31, 2016 and at March 31, 2016 are as follows:

	Millions of yen			
	Cost	Gross unrealized holding		Fair value
		Gains	Losses	
<b>At December 31, 2016</b>				
Investment securities:				
Marketable equity securities available for sale	¥ 13,033	¥ 44,349	¥ —	¥ 57,382
Other investment securities at cost	8,781			
	<u>¥ 21,814</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 nine months ended December 31, 2016 and 2015, amounted to ¥602 million and ¥5,125 million, respectively.

Impairment loss and net gain (loss) from sale of investment securities available for sale during the nine months ended December 31, 2016 and 2015, amounted to gains of ¥173 million and ¥3,700 million, respectively. Impairment loss and net gain (loss) from sale of investment securities available for sale during the three months ended December 31, 2016 and 2015, amounted to losses of ¥4 million and ¥23 million, respectively. Such gains and losses 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.

## 8. Other Comprehensive Income (Loss)

Changes in accumulated other comprehensive income (loss) for the nine months ended December 31, 2016 and 2015 are as follows:

	Millions of yen				
	Nine months ended December 31, 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	11,773	9,727	207	(1,310)	20,397
Amounts reclassified from accumulated other comprehensive income (loss)	—	(103)	1,493	(645)	745
Net other comprehensive income (loss)	11,773	9,624	1,700	(1,955)	21,142
Less: other comprehensive income (loss) attributable to noncontrolling interests	347	—	1	47	395
Other comprehensive income (loss) attributable to Komatsu Ltd.	11,426	9,624	1,699	(2,002)	20,747
Equity transactions with noncontrolling interests	—	—	—	—	—
Balance, end of period	¥ 38,029	¥ 28,877	¥ (26,368)	¥ (1,124)	¥ 39,414

All amounts are net of tax.

	Millions of yen				
	Nine months ended December 31, 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	(24,592)	(8,453)	188	(903)	(33,760)
Amounts reclassified from accumulated other comprehensive income (loss)	—	(1,724)	1,156	1,371	803
Net other comprehensive income (loss)	(24,592)	(10,177)	1,344	468	(32,957)
Less: other comprehensive income (loss) attributable to noncontrolling interests	(2,574)	—	57	128	(2,389)
Other comprehensive income (loss) attributable to Komatsu Ltd.	(22,018)	(10,177)	1,287	340	(30,568)
Equity transactions with noncontrolling interests	393	—	—	—	393
Balance, end of period	¥ 80,667	¥ 22,671	¥ (21,064)	¥ 569	¥ 82,843

All amounts are net of tax.

Changes in accumulated other comprehensive income (loss) for the three months ended December 31, 2016 and 2015 are as follows:

Millions of yen					
Three months ended December 31, 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 period	¥ (76,211)	¥ 20,368	¥ (26,883)	¥ 1,193	¥ (81,533)
Other comprehensive income (loss) before reclassifications	121,995	8,509	23	(2,321)	128,206
Amounts reclassified from accumulated other comprehensive income (loss)	—	—	497	71	568
Net other comprehensive income (loss)	121,995	8,509	520	(2,250)	128,774
Less: other comprehensive income (loss) attributable to noncontrolling interests	7,755	—	5	67	7,827
Other comprehensive income (loss) attributable to Komatsu Ltd.	114,240	8,509	515	(2,317)	120,947
Equity transactions with noncontrolling interests	—	—	—	—	—
Balance, end of period	¥ 38,029	¥ 28,877	¥ (26,368)	¥ (1,124)	¥ 39,414

All amounts are net of tax.

Millions of yen					
Three months ended December 31, 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 period	¥ 87,055	¥ 23,871	¥ (21,458)	¥ 486	¥ 89,954
Other comprehensive income (loss) before reclassifications	(6,079)	(1,200)	28	(57)	(7,308)
Amounts reclassified from accumulated other comprehensive income (loss)	—	—	374	190	564
Net other comprehensive income (loss)	(6,079)	(1,200)	402	133	(6,744)
Less: other comprehensive income (loss) attributable to noncontrolling interests	309	—	8	50	367
Other comprehensive income (loss) attributable to Komatsu Ltd.	(6,388)	(1,200)	394	83	(7,111)
Equity transactions with noncontrolling interests	—	—	—	—	—
Balance, end of period	¥ 80,667	¥ 22,671	¥ (21,064)	¥ 569	¥ 82,843

All amounts are net of tax.



Reclassification out of accumulated other comprehensive income (loss) for the nine months ended December 31, 2016 and 2015 are as follows:

	Millions of yen	
	Nine months ended December 31, 2016	Affected line items in consolidated statements of income
<b>Net unrealized holding gains (losses) on securities available for sale</b>		
Gain from sale	¥ 207	Other income (expenses), net: Other, net
	207	Total before tax
	(104)	Income taxes
	103	Net of tax
<b>Pension liability adjustments</b>		
Amortization of actuarial loss and prior service cost	(2,229)	*1
	(2,229)	Total before tax
	736	Income taxes
	(1,493)	Net of tax
<b>Net unrealized holding gains (losses) on derivative instruments</b>		
Forwards contracts	943	Other income (expenses), net: Other, net
	943	Total before tax
	(298)	Income taxes
	645	Net of tax
Total reclassification for the period	¥ (745)	Net of tax

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

	Millions of yen	
	Nine months ended December 31, 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	(1,763)	*1
	(1,763)	Total before tax
	607	Income taxes
	(1,156)	Net of tax
<b>Net unrealized holding gains (losses) on derivative instruments</b>		
Forwards contracts	(2,056)	Other income (expenses), net: Other, net
	(2,056)	Total before tax
	685	Income taxes
	(1,371)	Net of tax
Total reclassification for the period	¥ (803)	Net of tax

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

Reclassification out of accumulated other comprehensive income (loss) for the three months ended December 31, 2016 and 2015 are as follows:

	Millions of yen	
	Three months ended December 31, 2016	Affected line items in consolidated statements of income
<b>Pension liability adjustments</b>		
Amortization of actuarial loss and prior service cost	¥ (740)	*1
	(740)	Total before tax
	243	Income taxes
	(497)	Net of tax
<b>Net unrealized holding gains (losses) on derivative instruments</b>		
Forwards contracts	(103)	Other income (expenses), net: Other, net
	(103)	Total before tax
	32	Income taxes
	(71)	Net of tax
<b>Total reclassification for the period</b>	<b>¥ (568)</b>	<b>Net of tax</b>

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

	Millions of yen	
	Three months ended December 31, 2015	Affected line items in consolidated statements of income
<b>Pension liability adjustments</b>		
Amortization of actuarial loss and prior service cost	¥ (582)	*1
	(582)	Total before tax
	208	Income taxes
	(374)	Net of tax
<b>Net unrealized holding gains (losses) on derivative instruments</b>		
Forwards contracts	(286)	Other income (expenses), net: Other, net
	(286)	Total before tax
	96	Income taxes
	(190)	Net of tax
<b>Total reclassification for the period</b>	<b>¥ (564)</b>	<b>Net of tax</b>

\*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 nine months ended December 31, 2016 and 2015 are as follows:

	Millions of yen		
	Nine months ended December 31, 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	¥ 11,727	¥ 46	¥ 11,773
Less: reclassification adjustment for gains included in net income	—	—	—
Net foreign currency translation adjustments	11,727	46	11,773
<b>Net unrealized holding gains (losses) on securities available for sale</b>			
Unrealized holding gains arising during period	14,197	(4,470)	9,727
Less: reclassification adjustment for gains included in net income	(207)	104	(103)
Net unrealized holding gains	13,990	(4,366)	9,624
<b>Pension liability adjustments</b>			
Pension liability adjustments arising during period	354	(147)	207
Less: reclassification adjustment for losses included in net income	2,229	(736)	1,493
Net pension liability adjustments	2,583	(883)	1,700
<b>Net unrealized holding gains (losses) on derivative instruments</b>			
Unrealized holding losses arising during period	(1,889)	579	(1,310)
Less: reclassification adjustment for gains included in net income	(943)	298	(645)
Net unrealized holding losses	(2,832)	877	(1,955)
<b>Other comprehensive income (loss)</b>	<b>¥ 25,468</b>	<b>¥ (4,326)</b>	<b>¥ 21,142</b>

	Millions of yen		
	Nine months ended December 31, 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	¥ (24,679)	¥ 87	¥ (24,592)
Less: reclassification adjustment for losses included in net income	—	—	—
Net foreign currency translation adjustments	(24,679)	87	(24,592)
<b>Net unrealized holding gains (losses) on securities available for sale</b>			
Unrealized holding losses arising during period	(12,460)	4,007	(8,453)
Less: reclassification adjustment for gains included in net income	(2,802)	1,078	(1,724)
Net unrealized holding losses	(15,262)	5,085	(10,177)
<b>Pension liability adjustments</b>			
Pension liability adjustments arising during period	275	(87)	188
Less: reclassification adjustment for losses included in net income	1,763	(607)	1,156
Net pension liability adjustments	2,038	(694)	1,344
<b>Net unrealized holding gains (losses) on derivative instruments</b>			
Unrealized holding losses arising during period	(1,232)	329	(903)
Less: reclassification adjustment for losses included in net income	2,056	(685)	1,371
Net unrealized holding gains	824	(356)	468
<b>Other comprehensive income (loss)</b>	<b>¥ (37,079)</b>	<b>¥ 4,122</b>	<b>¥ (32,957)</b>

Tax effects allocated to each component of other comprehensive income (loss) for the three months ended December 31, 2016 and 2015 are as follows:

	Millions of yen		
	Three months ended December 31, 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	¥ 122,263	¥ (268)	¥ 121,995
Less: reclassification adjustment for gains included in net income	—	—	—
Net foreign currency translation adjustments	122,263	(268)	121,995
<b>Net unrealized holding gains (losses) on securities available for sale</b>			
Unrealized holding gains arising during period	12,374	(3,865)	8,509
Less: reclassification adjustment for gains included in net income	—	—	—
Net unrealized holding gains	12,374	(3,865)	8,509
<b>Pension liability adjustments</b>			
Pension liability adjustments arising during period	29	(6)	23
Less: reclassification adjustment for losses included in net income	740	(243)	497
Net pension liability adjustments	769	(249)	520
<b>Net unrealized holding gains (losses) on derivative instruments</b>			
Unrealized holding losses arising during period	(3,388)	1,067	(2,321)
Less: reclassification adjustment for losses included in net income	103	(32)	71
Net unrealized holding losses	(3,285)	1,035	(2,250)
<b>Other comprehensive income (loss)</b>	<b>¥ 132,121</b>	<b>¥ (3,347)</b>	<b>¥ 128,774</b>

	Millions of yen		
	Three months ended December 31, 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	¥ (6,140)	¥ 61	¥ (6,079)
Less: reclassification adjustment for losses included in net income	—	—	—
Net foreign currency translation adjustments	(6,140)	61	(6,079)
<b>Net unrealized holding gains (losses) on securities available for sale</b>			
Unrealized holding losses arising during period	(1,786)	586	(1,200)
Less: reclassification adjustment for gains included in net income	—	—	—
Net unrealized holding losses	(1,786)	586	(1,200)
<b>Pension liability adjustments</b>			
Pension liability adjustments arising during period	27	1	28
Less: reclassification adjustment for losses included in net income	582	(208)	374
Net pension liability adjustments	609	(207)	402
<b>Net unrealized holding gains (losses) on derivative instruments</b>			
Unrealized holding losses arising during period	(154)	97	(57)
Less: reclassification adjustment for losses included in net income	286	(96)	190
Net unrealized holding gains	132	1	133
<b>Other comprehensive income (loss)</b>	<b>¥ (7,185)</b>	<b>¥ 441</b>	<b>¥ (6,744)</b>

## 9. Stock-Based Remuneration

The Company has two types of stock option plans as stock-based remuneration.

### **The stock option plans resolved by the meeting of the Board of Directors held in and before June 2010.**

The right to purchase the Company's shares is granted at a predetermined price to directors and certain employees and certain directors of major subsidiaries. The purchase price is the amount calculated by taking the average of the closing prices applicable to ordinary transactions of shares of the Company on the Tokyo Stock Exchange on all days for a month immediately preceding the month in which the date of grant of the right falls and multiplying by 1.05, provided that the exercise price shall not be less than the closing price of the shares of the Company on the Tokyo Stock Exchange on the date of the grant.

### **The stock option plans resolved by the meeting of the Board of Directors held in and after July 2010.**

The right to purchase the Company's shares is granted at an exercise price of ¥1 per share to directors and certain employees and certain representative directors of major subsidiaries.

Based on the resolutions of the Ordinary General Meeting of Shareholders on June 23, 2010 and the Board of Directors on July 10, 2015, the Company issued 499 rights of its Stock Acquisition Rights to directors. Based on the resolutions of the Ordinary General Meeting of Shareholders on June 24, 2015 and the Board of Directors on July 10, 2015, the Company also issued 1,930 rights of its Stock Acquisition Rights to certain employees and certain representative directors of major subsidiaries during the year ended March 31, 2016. The options vest 100% on each of the grant dates and are exercisable from August 3, 2018.

In addition, based on the resolutions of the Ordinary General Meeting of Shareholders on June 23, 2010 and the Board of Directors on July 14, 2016, the Company issued 505 rights of its Stock Acquisition Rights to directors. Based on the resolutions of the Ordinary General Meeting of Shareholders on June 22, 2016 and the Board of Directors on July 14, 2016, the Company also issued 1,996 rights of its Stock Acquisition Rights to certain employees and certain representative directors of major subsidiaries during the year ending March 31, 2017. The options vest 100% on each of the grant dates and are exercisable from August 1, 2019.

The number of shares subject to one Stock Acquisition Right is 100 shares.

The Company recognizes compensation expense using the fair value method. Compensation expenses during the nine months ended December 31, 2016 and 2015 were ¥430 million and ¥483 million, respectively, and were recorded in selling, general and administrative expenses. Compensation expenses during the three months ended December 31, 2016 and 2015 were ¥258 million and ¥290 million, respectively, and were recorded in selling, general and administrative expenses.

The Company transfers treasury stock without issuance of new stock when the Stock Acquisition Rights are exercised.

## 10. 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	
	Nine months ended December 31, 2016	Nine months ended December 31, 2015
Net income attributable to Komatsu Ltd.	¥ 68,335	¥ 103,742
	Number of shares	
	Nine months ended December 31, 2016	Nine months ended December 31, 2015
Weighted average common shares outstanding, less treasury stock	942,756,875	942,501,532
Dilutive effect of:		
Stock options	1,249,572	1,255,128
Weighted average diluted common shares outstanding	944,006,447	943,756,660
	Yen	
	Nine months ended December 31, 2016	Nine months ended December 31, 2015
Net income attributable to Komatsu Ltd. per share:		
Basic	72.48	110.07
Diluted	72.39	109.92

	Millions of yen	
	Three months ended December 31, 2016	Three months ended December 31, 2015
Net income attributable to Komatsu Ltd.	¥ 30,817	¥ 38,646
	Number of shares	
	Three months ended December 31, 2016	Three months ended December 31, 2015
Weighted average common shares outstanding, less treasury stock	942,816,775	942,603,535
Dilutive effect of:		
Stock options	1,326,464	1,249,395
Weighted average diluted common shares outstanding	944,143,239	943,852,930
	Yen	
	Three months ended December 31, 2016	Three months ended December 31, 2015
Net income attributable to Komatsu Ltd. per share:		
Basic	32.69	41.00
Diluted	32.64	40.94

## 11. Contingent Liabilities

At December 31, 2016 and at March 31, 2016, Komatsu was contingently liable for discounted and transferred receivables on a recourse basis with the financial institutions of ¥53 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 December 31, 2016 and at March 31, 2016 were ¥16,240 million and ¥21,526 million, respectively. The fair value of the liabilities recognized for Komatsu's obligations as guarantors under those guarantees at December 31, 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.

## 12. Derivative Financial Instruments

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

	Millions of yen	
	December 31, 2016	March 31, 2016
Forwards contracts:		
Sale of foreign currencies	¥ 105,075	¥ 77,214
Purchase of foreign currencies	89,166	79,291
Interest rate swaps and cross-currency swap agreements	78,269	89,310

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

	Millions of yen			
	December 31, 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	¥ 1,080	Deferred income taxes and other current liabilities	¥ 2,835
	Deferred income taxes and other assets	64	Deferred income taxes and other liabilities	602
Interest rate swaps and cross-currency swap agreements	Deferred income taxes and other current assets	16	Deferred income taxes and other current liabilities	152
<b>Total</b>		<b>¥ 1,160</b>		<b>¥ 3,589</b>
Undesignated derivative 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	¥ 194	Deferred income taxes and other current liabilities	¥ 2,947
	Deferred income taxes and other assets	—	Deferred income taxes and other liabilities	2
Interest rate swaps and cross-currency swap agreements	Deferred income taxes and other current assets	111	Deferred income taxes and other current liabilities	837
	Deferred income taxes and other assets	—	Deferred income taxes and other liabilities	—
<b>Total</b>		<b>¥ 305</b>		<b>¥ 3,786</b>
<b>Total Derivative Instruments</b>		<b>¥ 1,465</b>		<b>¥ 7,375</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 nine months ended December 31, 2016 and 2015 are as follows:

### Derivative instruments designated as cash flow hedging relationships

	Millions of yen				
	Nine months ended December 31, 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	¥ (2,061)	Other income (expenses), net: Other, net	¥ 884	Other income (expenses), net: Other, net	¥ 59
Interest rate swaps and cross-currency swap agreements	172	—	—	—	—
<b>Total</b>	<b>¥ (1,889)</b>		<b>¥ 884</b>		<b>¥ 59</b>

	Millions of yen				
	Nine months ended December 31, 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	¥ (1,691)	Other income (expenses), net: Other, net	¥ (2,056)	Other income (expenses), net: Other, net	¥ (180)
Interest rate swaps and cross-currency swap agreements	459	—	—	—	—
<b>Total</b>	<b>¥ (1,232)</b>		<b>¥ (2,056)</b>		<b>¥ (180)</b>

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

## Derivative instruments not designated as hedging instruments relationships

Millions of yen		
Nine months ended December 31, 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	¥ (2,530)
Interest rate swaps and cross-currency swap agreements	Cost of sales	(86)
	Other income (expenses), net: Other, net	72
<b>Total</b>		<b>¥ (2,544)</b>

Millions of yen		
Nine months ended December 31, 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	¥ (202)
Interest rate swaps and cross-currency swap agreements	Cost of sales	45
	Other income (expenses), net: Other, net	112
<b>Total</b>		<b>¥ (45)</b>

The effects of derivative instruments on the consolidated statements of income and the consolidated statements of comprehensive income for the three months ended December 31, 2016 and 2015 are as follows:

### Derivative instruments designated as cash flow hedging relationships

	Millions of yen				
	Three months ended December 31, 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	¥ (3,628)	Other income (expenses), net: Other, net	¥ (103)	—	¥ —
Interest rate swaps and cross-currency swap agreements	240	—	—	—	—
<b>Total</b>	<b>¥ (3,388)</b>		<b>¥ (103)</b>		<b>¥ —</b>

	Millions of yen				
	Three months ended December 31, 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	¥ (331)	Other income (expenses), net: Other, net	¥ (286)	Other income (expenses), net: Other, net	¥ (180)
Interest rate swaps and cross-currency swap agreements	177	—	—	—	—
<b>Total</b>	<b>¥ (154)</b>		<b>¥ (286)</b>		<b>¥ (180)</b>

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

## Derivative instruments not designated as hedging instruments relationships

Millions of yen		
Three months ended December 31, 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	¥ (1,388)
Interest rate swaps and cross-currency swap agreements	Cost of sales	(26)
	Other income (expenses), net: Other, net	70
<b>Total</b>		<b>¥ (1,344)</b>

Millions of yen		
Three months ended December 31, 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	¥ (269)
Interest rate swaps and cross-currency swap agreements	Cost of sales	(32)
	Other income (expenses), net: Other, net	39
<b>Total</b>		<b>¥ (262)</b>

### 13. 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 14)

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 12 and 14)

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 December 31, 2016 and as of March 31, 2016, are summarized as follows:

	Millions of yen			
	December 31, 2016		March 31, 2016	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Cash and cash equivalents	¥ 134,068	¥ 134,068	¥ 106,259	¥ 106,259
Time deposits	2,298	2,298	2,212	2,212
Trade notes and accounts receivable, net	576,893	576,893	583,390	583,390
Long-term trade receivables, net	304,064	304,064	291,923	291,923
Investment securities, marketable equity securities	57,382	57,382	43,817	43,817
Short-term debt	201,576	201,576	144,552	144,552
Trade notes, bills and accounts payable	213,282	213,282	205,411	205,411
Long-term debt, including current portion	299,933	299,894	313,000	311,288
Derivatives:				
Forwards contracts				
Assets	1,338	1,338	2,771	2,771
Liabilities	6,386	6,386	4,975	4,975
Interest rate swaps and cross-currency swap agreements				
Assets	127	127	472	472
Liabilities	989	989	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.

#### 14. 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 December 31, 2016 and at March 31, 2016 are as follows:

At December 31, 2016	Millions of yen			
	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Investment securities available for sale				
Manufacturing industry	¥ 28,861	¥ —	¥ —	¥ 28,861
Financial service industry	23,253	—	—	23,253
Other	5,268	—	—	5,268
Derivatives				
Forward contracts	—	1,338	—	1,338
Interest rate swaps and cross-currency swap agreements	—	127	—	127
<b>Total</b>	<b>¥ 57,382</b>	<b>¥ 1,465</b>	<b>¥ —</b>	<b>¥ 58,847</b>
<b>Liabilities</b>				
Derivatives				
Forward contracts	¥ —	¥ 6,386	¥ —	¥ 6,386
Interest rate swaps and cross-currency swap agreements	—	989	—	989
Other	—	16,649	276	16,925
<b>Total</b>	<b>¥ —</b>	<b>¥ 24,024</b>	<b>¥ 276</b>	<b>¥ 24,300</b>
<b>At March 31, 2016</b>				
	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 12 and 13)

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 nine months ended December 31, 2016 and 2015:

	Millions of yen	
	Nine months ended December 31, 2016	Nine months ended December 31, 2015
Balance, beginning of year	¥ (301)	¥ (369)
Total gains or losses (realized / unrealized)	25	74
Included in earnings	30	77
Included in other comprehensive income (loss)	(5)	(3)
Balance, end of period	¥ (276)	¥ (295)

The amount of unrealized gains on classified in Level 3 liabilities recognized in earnings for the nine months ended December 31, 2016 and 2015 related to liabilities still held at December 31, 2016 and 2015 were gains of ¥30 million and ¥77 million, respectively. These gains were reported in other income (expenses), net in the consolidated statements of income.

The following table summarizes information about changes of Level 3 for the three months ended December 31, 2016 and 2015:

	Millions of yen	
	Three months ended December 31, 2016	Three months ended December 31, 2015
Balance, beginning of period	¥ (274)	¥ (286)
Total gains or losses (realized / unrealized)	(2)	(9)
Included in earnings	36	(8)
Included in other comprehensive income (loss)	(38)	(1)
Balance, end of period	¥ (276)	¥ (295)

The amount of unrealized gains on classified in Level 3 liabilities recognized in earnings for the three months ended December 31, 2016 and 2015 related to liabilities still held at December 31, 2016 and 2015 were gains of ¥36 million and losses of ¥8 million, respectively. These gains or 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 nine months ended December 31, 2016 and 2015 assets and liabilities that were measured at fair value on a non-recurring basis were not material.



## 15. 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 December 31, 2016 and at March 31, 2016 were ¥19,825 million and ¥20,269 million, respectively. These total amounts of unused committed credit lines available for full and immediate borrowings at December 31, 2016 and at March 31, 2016 were ¥16,450 million and ¥15,094 million, respectively.

## 16. Dividends

Nine months ended December 31, 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
Board of Directors held on October 28, 2016	Common Stock	27,357	Retained earnings	29	September 30, 2016	December 1, 2016

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

Nine months ended December 31, 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
Board of Directors held on October 28, 2015	Common stock	27,350	Retained earnings	29	September 30, 2015	December 1, 2015

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

## 17. 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 has changed to three operating segments. Accordingly, the figures for the nine and three months ended December 31, 2015, were reclassified and restated in agreement with the figures for the nine and three months ended December 31, 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 nine months ended December 31, 2016 and 2015 is as follows:

	Millions of yen	
	Nine months ended December 31, 2016	Nine months ended December 31, 2015
<b>Net sales:</b>		
Construction, Mining and Utility Equipment –		
External customers	¥ 1,071,901	¥ 1,179,124
Intersegment	5,820	11,247
Total	1,077,721	1,190,371
Retail Finance –		
External customers	34,318	38,510
Intersegment	1,806	2,253
Total	36,124	40,763
Industrial Machinery and Others –		
External customers	120,488	152,883
Intersegment	761	1,573
Total	121,249	154,456
Elimination	(8,387)	(15,073)
Consolidated	¥ 1,226,707	¥ 1,370,517
<b>Segment profit:</b>		
Construction, Mining and Utility Equipment	¥ 96,546	¥ 124,670
Retail Finance	6,767	10,772
Industrial Machinery and Others	6,449	11,993
Total segment profit	109,762	147,435
Corporate expenses and elimination	(1,925)	(457)
Consolidated	¥ 107,837	¥ 146,978

Information about operating segments for the three months ended December 31, 2016 and 2015 is as follows:

	Millions of yen	
	Three months ended December 31, 2016	Three months ended December 31, 2015
<b>Net sales:</b>		
Construction, Mining and Utility Equipment –		
External customers	¥ 376,613	¥ 412,123
Intersegment	2,465	5,351
Total	379,078	417,474
Retail Finance –		
External customers	12,027	12,661
Intersegment	627	789
Total	12,654	13,450
Industrial Machinery and Others –		
External customers	41,955	53,236
Intersegment	267	436
Total	42,222	53,672
Elimination	(3,359)	(6,576)
Consolidated	¥ 430,595	¥ 478,020
<b>Segment profit:</b>		
Construction, Mining and Utility Equipment	¥ 38,928	¥ 41,441
Retail Finance	2,551	3,233
Industrial Machinery and Others	2,391	4,460
Total segment profit	43,870	49,134
Corporate expenses and elimination	(269)	(559)
Consolidated	¥ 43,601	¥ 48,575

Reconciliation of total segment profit to consolidated income before income taxes and equity in earnings of affiliated companies for the nine months ended December 31, 2016 and 2015 is as follows:

	Millions of yen	
	Nine months ended December 31, 2016	Nine months ended December 31, 2015
Total segment profit	¥ 109,762	¥ 147,435
Corporate expenses and elimination	(1,925)	(457)
Consolidated	107,837	146,978
Other operating income (expenses), net	(812)	7,688
Operating income	107,025	154,666
Interest and dividend income	2,602	2,826
Interest expense	(5,692)	(6,853)
Other, net	(672)	2,526
Consolidated income before income taxes and equity in earnings of affiliated companies	¥ 103,263	¥ 153,165

Reconciliation of total segment profit to consolidated income before income taxes and equity in earnings of affiliated companies for the three months ended December 31, 2016 and 2015 is as follows:

	Millions of yen	
	Three months ended December 31, 2016	Three months ended December 31, 2015
Total segment profit	¥ 43,870	¥ 49,134
Corporate expenses and elimination	(269)	(559)
Consolidated	43,601	48,575
Other operating income (expenses), net	(702)	7,070
Operating income	42,899	55,645
Interest and dividend income	999	940
Interest expense	(1,843)	(1,980)
Other, net	3,113	681
Consolidated income before income taxes and equity in earnings of affiliated companies	¥ 45,168	¥ 55,286

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 nine months ended December 31, 2016 and 2015 are as follows:

	Millions of yen	
	Nine months ended December 31, 2016	Nine months ended December 31, 2015
Japan	¥ 273,720	¥ 297,330
The Americas	421,341	486,266
Europe and CIS	151,456	149,540
China	78,496	72,125
Asia (excluding Japan and China) and Oceania	231,349	257,318
Middle East and Africa	70,345	107,938
Consolidated net sales	¥ 1,226,707	¥ 1,370,517

Net sales determined by customer location for the three months ended December 31, 2016 and 2015 are as follows:

	Millions of yen	
	Three months ended December 31, 2016	Three months ended December 31, 2015
Japan	¥ 100,670	¥ 110,687
The Americas	144,757	179,329
Europe and CIS	49,990	48,226
China	27,091	23,310
Asia (excluding Japan and China) and Oceania	84,563	84,238
Middle East and Africa	23,524	32,230
Consolidated net sales	¥ 430,595	¥ 478,020

Net sales determined by geographic origin for the nine months ended December 31, 2016 and 2015 are as follows:

	Millions of yen	
	Nine months ended December 31, 2016	Nine months ended December 31, 2015
Japan	¥ 386,065	¥ 457,471
The Americas	409,105	458,752
Europe and CIS	157,589	158,452
China	61,994	60,575
Others	211,954	235,267
Total	¥ 1,226,707	¥ 1,370,517

Net sales determined by geographic origin for the three months ended December 31, 2016 and 2015 are as follows:

	Millions of yen	
	Three months ended December 31, 2016	Three months ended December 31, 2015
Japan	¥ 139,855	¥ 153,197
The Americas	141,017	172,903
Europe and CIS	50,033	54,282
China	23,709	20,646
Others	75,981	76,992
Total	¥ 430,595	¥ 478,020

There were no sales to a single major external customer for the nine months and three months ended December 31, 2016 and 2015.

## 18. Material Subsequent Events

Not applicable.

Komatsu evaluated subsequent events through February 10, 2017, the issue date of its quarterly consolidated financial statements.

## 19. 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.