

(Translation)

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Quarterly Report

From April 1, 2017 to June 30, 2017

(First Quarter of the 149th 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, 2017 with the Director-General of the Kanto Local Finance Bureau on August 10, 2017. The Quarterly Securities Report contains, among other information, Quarterly Consolidated Financial Statements for the three months ended June 30, 2017. 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, 2017. Attached is an English translation of Quarterly Consolidated Financial Statements for the three months ended June 30, 2017.
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, 2017 (from April 1 to June 30, 2017) were reviewed by KPMG AZSA LLC.

Quarterly Consolidated Financial Statements, etc.

Quarterly Consolidated Financial Statements

Consolidated Balance Sheets (Unaudited)

Komatsu Ltd. and Consolidated Subsidiaries as of June 30, 2017 and March 31, 2017

Assets	June 30, 2017		March 31, 2017	
	Millions of yen	Ratio (%)	Millions of yen	Ratio (%)
Current assets				
Cash and cash equivalents (Note 14)	¥ 150,650		¥ 119,901	
Time deposits (Note 14)	2,143		2,289	
Trade notes and accounts receivable, net (Notes 4 and 14)	658,124		619,265	
Inventories (Note 5)	687,053		533,897	
Deferred income taxes and other current assets (Notes 1, 13, 14 and 15)	119,975		144,169	
Total current assets	1,617,945	49.7	1,419,521	53.4
Long-term trade receivables, net (Notes 4 and 14)	335,973	10.3	313,946	11.8
Investments				
Investments in and advances to affiliated companies	30,237		30,330	
Investment securities (Notes 6, 14 and 15)	72,137		67,716	
Other	2,687		2,424	
Total investments	105,061	3.2	100,470	3.8
Property, plant and equipment				
– less accumulated depreciation and amortization of ¥823,937 million at June 30, 2017 and ¥816,321 million at March 31, 2017	760,439	23.4	679,027	25.6
Goodwill (Note 3)	174,346	5.4	40,072	1.5
Other intangible assets (Note 7)				
– less accumulated amortization	188,626	5.8	61,083	2.3
Deferred income taxes and other assets (Notes 1, 13, 14 and 15)	73,130	2.2	42,363	1.6
Total assets	¥ 3,255,520	100.0	¥ 2,656,482	100.0
Liabilities and Equity	June 30, 2017		March 31, 2017	
	Millions of yen	Ratio (%)	Millions of yen	Ratio (%)
Current liabilities				
Short-term debt (Note 14)	¥ 467,491		¥ 128,452	
Current maturities of long-term debt (Notes 14 and 15)	70,791		89,391	
Trade notes, bills and accounts payable (Note 14)	279,455		240,113	
Income taxes payable	16,033		25,136	
Deferred income taxes and other current liabilities (Notes 1, 13, 14 and 15)	279,946		217,090	
Total current liabilities	1,113,716	34.2	700,182	26.3
Long-term liabilities				
Long-term debt (Notes 14 and 15)	313,019		190,859	
Liability for pension and retirement benefits	86,667		65,247	
Deferred income taxes and other liabilities (Notes 1, 13, 14 and 15)	68,278		51,679	
Total long-term liabilities	467,964	14.4	307,785	11.6
Total liabilities	1,581,680	48.6	1,007,967	37.9
Commitments and contingent liabilities (Note 12)				
Equity				
Komatsu Ltd. shareholders' equity				
Common stock:				
Authorized 3,955,000,000 shares				
Issued 971,967,660 shares				
Outstanding 943,068,830 shares at June 30, 2017 and 942,983,225 shares at March 31, 2017	67,870		67,870	
Capital surplus	138,212		138,285	
Retained earnings:				
Appropriated for legal reserve	45,801		45,368	
Unappropriated	1,365,949		1,357,350	
Accumulated other comprehensive income (loss) (Notes 6, 9, 13 and 15)	32,591		18,682	
Treasury stock at cost, 28,898,830 shares at June 30, 2017 and 28,984,435 shares at March 31, 2017	(50,730)		(50,881)	
Total Komatsu Ltd. shareholders' equity	1,599,693	49.1	1,576,674	59.4
Noncontrolling interests	74,147	2.3	71,841	2.7
Total equity	1,673,840	51.4	1,648,515	62.1
Total liabilities and equity	¥ 3,255,520	100.0	¥ 2,656,482	100.0

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 June 30, 2017 and 2016.

Consolidated Statements of Income

	Three months ended June 30, 2017		Three months ended June 30, 2016	
	Millions of yen	Ratio (%)	Millions of yen	Ratio (%)
Net sales	¥ 561,211	100.0	¥ 389,252	100.0
Cost of sales (Notes 7, 8, 9 and 13)	385,048	68.6	279,517	71.8
Selling, general and administrative expenses (Notes 3, 7, 8, 9 and 10)	123,164	21.9	80,735	20.7
Other operating income (expenses), net	(592)	(0.1)	789	0.2
Operating income	52,407	9.3	29,789	7.7
Other income (expenses), net				
Interest and dividend income	1,364	0.2	1,025	0.3
Interest expense	(3,572)	(0.6)	(1,958)	(0.5)
Other, net (Notes 6, 9, 13 and 15)	(2,105)	(0.4)	(4,654)	(1.2)
Total	(4,313)	(0.8)	(5,587)	(1.4)
Income before income taxes and equity in earnings of affiliated companies	48,094	8.6	24,202	6.2
Income taxes (Note 9)				
Current	887		7,412	
Deferred	8,617		1,803	
Total	9,504	1.7	9,215	2.4
Income before equity in earnings of affiliated companies	38,590	6.9	14,987	3.9
Equity in earnings of affiliated companies	762	0.1	1,104	0.3
Net income	39,352	7.0	16,091	4.1
Less: Net income attributable to noncontrolling interests	2,957	0.5	503	0.1
Net income attributable to Komatsu Ltd.	¥ 36,395	6.5	¥ 15,588	4.0
	Yen			
Per share data (Note 11):				
Net income attributable to Komatsu Ltd.:				
Basic	38.59		16.54	
Diluted	38.54		16.52	
Cash dividends per share (Note 17)	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 June 30, 2017	Three months ended June 30, 2016
Net income	¥ 39,352	¥ 16,091
Other comprehensive income (loss), for the period, net of tax		
Foreign currency translation adjustments (Note 9)	11,014	(96,312)
Net unrealized holding gains (losses) on securities available for sale (Notes 6 and 9)	3,046	(3,526)
Pension liability adjustments (Note 9)	383	723
Net unrealized holding gains (losses) on derivative instruments (Notes 9 and 13)	69	1,203
Total	14,512	(97,912)
Comprehensive income (loss)	53,864	(81,821)
Less: Comprehensive income (loss) attributable to noncontrolling interests	3,560	(6,352)
Comprehensive income (loss) attributable to Komatsu Ltd.	¥ 50,304	¥ (75,469)

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, 2017

	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					
Balance at March 31, 2017	¥ 67,870	¥ 138,285	¥ 45,368	¥ 1,357,350	¥ 18,682	¥ (50,881)	¥ 1,576,674	¥ 71,841	¥ 1,648,515
Cash dividends (Note 17)				(27,363)			(27,363)	(1,254)	(28,617)
Transfer to retained earnings appropriated for legal reserve			433	(433)			—		—
Net income				36,395			36,395	2,957	39,352
Other comprehensive income (loss), for the period, net of tax (Note 9)					13,909		13,909	603	14,512
Issuance and exercise of stock acquisition rights (Note 10)		(108)					(108)		(108)
Purchase of treasury stock						(6)	(6)		(6)
Sales of treasury stock		35				157	192		192
Balance at June 30, 2017	¥ 67,870	¥ 138,212	¥ 45,801	¥ 1,365,949	¥ 32,591	¥ (50,730)	¥ 1,599,693	¥ 74,147	¥ 1,673,840

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					
Balance at March 31, 2016	¥ 67,870	¥ 138,243	¥ 44,018	¥ 1,300,030	¥ 18,667	¥ (51,414)	¥ 1,517,414	¥ 70,346	¥ 1,587,760
Cash dividends (Note 17)				(27,354)			(27,354)	(449)	(27,803)
Transfer to retained earnings appropriated for legal reserve			1,335	(1,335)			—		—
Net income				15,588			15,588	503	16,091
Other comprehensive income (loss), for the period, net of tax (Note 9)					(91,057)		(91,057)	(6,855)	(97,912)
Issuance and exercise of stock acquisition rights (Note 10)		(59)					(59)		(59)
Purchase of treasury stock						(3)	(3)		(3)
Sales of treasury stock		3				56	59		59
Balance at June 30, 2016	¥ 67,870	¥ 138,187	¥ 45,353	¥ 1,286,929	¥ (72,390)	¥ (51,361)	¥ 1,414,588	¥ 63,545	¥ 1,478,133

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, 2017 and 2016

	Millions of yen	
	Three months ended June 30, 2017	Three months ended June 30, 2016
Operating activities		
Net income	¥ 39,352	¥ 16,091
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	32,828	26,736
Deferred income taxes	8,617	1,803
Impairment loss and net loss (gain) from sale of investment securities	97	(125)
Net loss (gain) on sale of property	(14)	(385)
Loss on disposal of fixed assets	462	449
Pension and retirement benefits, net	(2,001)	332
Changes in assets and liabilities:		
Decrease (increase) in trade receivables	12,143	45,886
Decrease (increase) in inventories	(30,337)	(30,035)
Increase (decrease) in trade payables	2,684	(11,329)
Increase (decrease) in income taxes payable	(9,917)	(8,741)
Other, net	(12,263)	5,308
Net cash provided by (used in) operating activities	41,651	45,990
Investing activities		
Capital expenditures	(43,245)	(33,936)
Proceeds from sale of property	9,956	3,646
Proceeds from sale of available for sale investment securities	2	511
Purchases of available for sale investment securities	(22)	(1)
Proceeds from sale of subsidiaries and equity investees, net of cash disposed	—	5,485
Acquisition of subsidiaries and equity investees, net of cash acquired	(273,137)	—
Collection of loan receivables	3	3
Disbursement of loan receivables	(61)	—
Decrease (increase) in time deposits, net	160	(305)
Net cash provided by (used in) investing activities	(306,344)	(24,597)
Financing activities		
Proceeds from debt issued (Original maturities greater than three months)	27,421	35,694
Payment on debt (Original maturities greater than three months)	(5,574)	(42,382)
Short-term debt, net (Original maturities three months or less)	302,074	9,200
Repayments of capital lease obligations	(12)	(17)
Sale (purchase) of treasury stock, net	78	(2)
Dividends paid	(27,363)	(27,354)
Other, net	(937)	(329)
Net cash provided by (used in) financing activities	295,687	(25,190)
Effect of exchange rate change on cash and cash equivalents	(245)	3,479
Net increase (decrease) in cash and cash equivalents	30,749	(318)
Cash and cash equivalents, beginning of year	119,901	106,259
Cash and cash equivalents, end of period	¥ 150,650	¥ 105,941

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

Komatsu Ltd. and Consolidated Subsidiaries
Three months ended June 30, 2017 and 2016
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 20 “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

From the three months ended June 30, 2017, Komatsu (the Company and its consolidated subsidiaries) has adopted the Accounting Standards Update (“ASU”) 2015-17, “Income Taxes: Balance Sheet Classification of Deferred Taxes” and classified deferred tax assets and liabilities as noncurrent in the consolidated balance sheets. Prior periods were not retrospectively adjusted. Komatsu’s current deferred tax assets were ¥56,276 million and current deferred tax liabilities were ¥421 million as of March 31, 2017.

Excluding the above, there is no material change for summary of significant accounting policies stated in annual report for the fiscal year ended March 31, 2017.

2. Supplemental Cash Flow Information

Additional cash flow information and noncash investing and financing activities for the three months ended June 30, 2017 and 2016 are as follows:

	Millions of yen	
	Three months ended June 30, 2017	Three months ended June 30, 2016
Additional cash flow information:		
Interest paid	¥ 3,060	¥ 2,059
Income taxes paid	17,909	17,183
Noncash investing and financing activities:		
Capital lease obligations incurred	¥ 9	¥ 80

3. Business Combination

Joy Global Inc. (currently Komatsu Mining Corp.)

On April 5, 2017 (local time: Eastern Standard Time, UTC-5), the Company acquired Joy Global Inc. (Head office: Wisconsin, U.S.A., hereafter “Joy Global”, NYSE), which engages in the manufacture, sales and service of mining equipment in the United States. It was acquired through Komatsu America Corp., a wholly-owned subsidiary of the Company in the U.S., by purchasing all common shares of Joy Global. To pay the consideration of the acquisition of Joy Global and repay part of its debt, Komatsu America Corp. borrowed USD 3,300 million from financial institutions.

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 and generate synergies in sales and services 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.

The fair value measurement of the acquired assets and assumed liabilities under Financial Accounting Standards Board Accounting Standards CodificationTM (hereinafter “ASC”) 805, “Business Combinations” is not completed as of the issue date of the quarterly consolidated financial statements. Therefore, the amounts of acquired assets and assumed liabilities after the allocation of acquisition cost on the acquisition date stated in the following summary table are provisional amounts based on the information available as of the issue date of the quarterly consolidated financial statements.

	Millions of yen
Consideration	
Cash and cash equivalents	¥ 316,128
Fair value of total consideration transferred	<u>316,128</u>
Recognized amounts of identifiable assets and liabilities assumed	
Cash and cash equivalents	¥ 42,991
Trade notes and accounts receivable	59,012
Inventories	116,782
Other current assets	12,048
Property, plant and equipment	85,940
Intangible assets	129,929
Other non-current assets	17,198
Total assets acquired	<u>463,900</u>
Short-term debt	(33,355)
Accounts payable	(27,601)
Other current liabilities	(71,256)
Long-term debt	(81,568)
Liability for pension and retirement benefits	(23,531)
Deferred income taxes and other liabilities	(42,904)
Total liabilities assumed	<u>(280,215)</u>
Net assets acquired	<u>183,685</u>
Goodwill	<u>132,443</u>
	<u>¥ 316,128</u>

The consideration of ¥316,128 million included the payment of ¥3,720 million to terminate stock option plans as stock-based remuneration of Joy Global.

In intangible assets of ¥129, 929 million, intangible assets subject to amortization of ¥128, 489 million and main ones are as follows.

	Millions of yen	
	Gross carrying amount	Amortization period
Trademarks	¥ 56,271	15 years
Customer relationships	43,071	15 years
Technology assets	19,385	15 years
Backlog	7,532	14 months

The goodwill of ¥132,443 million was assigned to the Construction, Mining and Utility Equipment operating segment. The goodwill is not deductible for tax purpose.

Acquisition-related costs for the three months ended June 30, 2017 are ¥1,438 million (accumulated acquisition-related costs: ¥3,365 million) and included in selling, general and administrative expenses in the consolidated statement of income for the three months ended June 30, 2017.

The amounts of net sales and net loss of Joy Global included in the consolidated statements of income for the three months ended June 30, 2017 since the date of acquisition were ¥73, 980 million and ¥1,734 million, respectively.

The following pro forma calculation (unaudited) made on the assumption that this acquisition of shares had been made as of April 1, 2016 represents the total of consolidated performance of the Company and Joy Global. This is for an information purpose only, and neither indicates actual operating results assuming that the acquisition had been made on April 1, 2016 nor contributes to any forecast of results. Furthermore, amounts in the following table do not include temporary expenses accompanying the acquisition, such as fair values of inventories in cost of sales and amortization of intangible assets. As this acquisition of shares was made on April 5, 2017 (local time: Eastern Standard Time, UTC-5) and near to the beginning of the three months ended June 30, 2017, the pro forma calculation for the period is not disclosed.

	Millions of yen
	Three months ended June 30, 2016
Net Sales	¥ 454,760
Net income attributable to Komatsu Ltd.	14,427

On April 19, 2017 (local time: Eastern Standard Time, UTC-5), Joy Global changed its trade name to Komatsu Mining Corp.

4. Allowance for Doubtful Receivables

At June 30, 2017 and at March 31, 2017, allowances for doubtful receivables deducted from trade notes and accounts receivable, net and long-term trade receivables, net are ¥23,063 million and ¥22,326 million, respectively.

5. Inventories

At June 30, 2017 and at March 31, 2017, inventories comprised the following:

	Millions of yen	
	June 30, 2017	March 31, 2017
Finished products, including finished parts held for sale	¥ 498,474	¥ 383,630
Work in process	142,240	109,844
Materials and supplies	46,339	40,423
Total	¥ 687,053	¥ 533,897

6. Investment Securities

Investment securities at June 30, 2017 and at March 31, 2017, 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, 2017 and at March 31, 2017 are as follows:

	Millions of yen			
	Cost	Gross unrealized holding		Fair value
		Gains	Losses	
At June 30, 2017				
Investment securities:				
Marketable equity securities available for sale	¥ 13,035	¥ 50,450	¥ —	¥ 63,485
Other investment securities at cost	8,652			
	<u>¥ 21,687</u>			
At March 31, 2017				
Investment securities:				
Marketable equity securities available for sale	¥ 13,035	¥ 46,032	¥ —	¥ 59,067
Other investment securities at cost	8,649			
	<u>¥ 21,684</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, 2017 and 2016, amounted to ¥2 million and ¥511 million, respectively.

Impairment loss and net gain (loss) from sale of investment securities available for sale during the three months ended June 30, 2017 and 2016, amounted to losses of ¥97 million and gains of ¥125 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.

7. Other Intangible Assets

Intangible assets at June 30, 2017 and at March 31, 2017 are as follows:

	Millions of yen					
	June 30, 2017			March 31, 2017		
	Gross carrying amount	Accumulated amortization	Net carrying amount	Gross carrying amount	Accumulated amortization	Net carrying amount
Other intangible assets subject to amortization:						
Software	¥35,651	¥ (17,859)	¥ 17,792	¥31,132	¥ (15,221)	¥ 15,911
Leasehold	8,635	(1,550)	7,085	7,943	(1,339)	6,604
Other	177,922	(28,392)	149,530	49,152	(23,223)	25,929
Total	<u>222,208</u>	<u>(47,801)</u>	<u>174,407</u>	<u>88,227</u>	<u>(39,783)</u>	<u>48,444</u>
Other intangible assets not subject to amortization			14,219			12,639
Total other intangible assets			<u>¥188,626</u>			<u>¥61,083</u>

At June 30, 2017, net carrying amounts of other intangible assets subject to amortization mainly consist of trademarks of ¥55,948 million, customer relationships of ¥42,815 million, technology assets of ¥19,273 million and backlog of ¥6,028 million resulting from the acquisition of shares of Komatsu Mining Corp. for the fiscal year ending March 31, 2018, customer relationships of ¥948 million and technology assets of ¥3,871 million resulting from the acquisition of additional shares of Gigaphoton Inc. for the fiscal year ended March 31, 2012 and customer relationships of ¥6,533 million and technology assets of ¥2,083 million resulting from the acquisition of additional shares of Komatsu NTC Ltd. for the fiscal year ended March 31 2008.

The aggregate amortization expense of other intangible assets subject to amortization during the three months ended June 30, 2017 and 2016 were ¥5,988 million and ¥2,093 million, respectively.

8. Cost of Retirement Benefits

Net periodic cost of Komatsu's defined benefit plans for the three months ended June 30, 2017 and 2016, consisted of the following components:

	Millions of yen	
	Three months ended June 30, 2017	Three months ended June 30, 2016
Service cost	¥ 2,296	¥ 2,326
Interest cost on projected benefit obligations	1,831	463
Expected return on plan assets	(3,060)	(906)
Amortization of actuarial loss	464	638
Amortization of prior service cost	39	68
Net periodic cost	¥ 1,570	¥ 2,589

Net periodic cost of the postretirement benefit plans for the three months ended June 30, 2017 and 2016 included the following components:

	Millions of yen	
	Three months ended June 30, 2017	Three months ended June 30, 2016
Service cost	¥ 114	¥ 121
Interest cost on projected benefit obligations	130	144
Expected return on plan assets	(149)	(128)
Amortization of actuarial loss	22	60
Amortization of prior service cost	19	28
Net periodic cost	¥ 136	¥ 225

9. Other Comprehensive Income (Loss)

Changes in accumulated other comprehensive income (loss) for the three months ended June 30, 2017 and 2016 are as follows:

	Millions of yen				
	Three months ended June 30, 2017				
	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	¥ 11,014	¥ 30,114	¥ (23,149)	¥ 703	¥ 18,682
Other comprehensive income (loss) before reclassifications	11,014	3,046	26	704	14,790
Amounts reclassified from accumulated other comprehensive income (loss)	—	—	357	(635)	(278)
Net other comprehensive income (loss)	11,014	3,046	383	69	14,512
Less: other comprehensive income (loss) attributable to noncontrolling interests	586	—	5	12	603
Other comprehensive income (loss) attributable to Komatsu Ltd.	10,428	3,046	378	57	13,909
Balance, end of period	¥ 21,442	¥ 33,160	¥ (22,771)	¥ 760	¥ 32,591

All amounts are net of tax.

	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.

Reclassification out of accumulated other comprehensive income (loss) for the three months ended June 30, 2017 and 2016 are as follows:

	Millions of yen	
	Three months ended June 30, 2017	Affected line items in consolidated statements of income
Pension liability adjustments		
Amortization of actuarial loss and prior service cost	¥ (544)	*1
	(544)	Total before tax
	187	Income taxes
	(357)	Net of tax
Net unrealized holding gains (losses) on derivative instruments		
Forwards contracts	907	Other income (expenses), net: Other, net
	907	Total before tax
	(272)	Income taxes
	635	Net of tax
Total reclassification for the period	¥ 278	Net of tax

*1 These amounts are included in the computation of net periodic pension cost. (Note 8)

	Millions of yen	
	Three months ended June 30, 2016	Affected line items in consolidated statements of income
Net unrealized holding gains (losses) on securities available for sale		
Gain from sale	¥ 139	Other income (expenses), net: Other, net
	139	Total before tax
	(82)	Income taxes
	57	Net of tax
Pension liability adjustments		
Amortization of actuarial loss and prior service cost	(794)	*1
	(794)	Total before tax
	275	Income taxes
	(519)	Net of tax
Net unrealized holding gains (losses) on derivative instruments		
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. (Note 8)

Tax effects allocated to each component of other comprehensive income (loss) for the three months ended June 30, 2017 and 2016 are as follows:

	Millions of yen		
	Three months ended June 30, 2017		
	Before tax amount	Tax (expense) or benefit	Net of tax amount
Foreign currency translation adjustments			
Foreign currency translation adjustments arising during period	¥ 11,062	¥ (48)	¥ 11,014
Less: reclassification adjustment for gains included in net income	—	—	—
Net foreign currency translation adjustments	11,062	(48)	11,014
Net unrealized holding gains (losses) on securities available for sale			
Unrealized holding gains arising during period	4,434	(1,388)	3,046
Less: reclassification adjustment for gains included in net income	—	—	—
Net unrealized holding gains	4,434	(1,388)	3,046
Pension liability adjustments			
Pension liability adjustments arising during the period	36	(10)	26
Less: reclassification adjustment for losses included in net income	544	(187)	357
Net pension liability adjustments	580	(197)	383
Net unrealized holding gains (losses) on derivative instruments			
Unrealized holding gains arising during period	660	44	704
Less: reclassification adjustment for gains included in net income	(907)	272	(635)
Net unrealized holding losses	(247)	316	69
Other comprehensive income (loss)	¥ 15,829	¥ (1,317)	¥ 14,512

	Millions of yen		
	Three months ended June 30, 2016		
	Before tax amount	Tax (expense) or benefit	Net of tax amount
Foreign currency translation adjustments			
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)
Net unrealized holding gains (losses) on securities available for sale			
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)
Pension liability adjustments			
Pension liability adjustments arising during period	353	(149)	204
Less: reclassification adjustment for losses included in net income	794	(275)	519
Net pension liability adjustments	1,147	(424)	723
Net unrealized holding gains (losses) on derivative instruments			
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
Other comprehensive income (loss)	¥ (98,769)	¥ 857	¥ (97,912)

10. 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, 2017 and 2016, no compensation expense was recorded as no right was granted.

11. 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, 2017	Three months ended June 30, 2016
Net income attributable to Komatsu Ltd.	¥ 36,395	¥ 15,588

	Number of shares	
	Three months ended June 30, 2017	Three months ended June 30, 2016
Weighted average common shares outstanding, less treasury stock	943,023,928	942,686,613
Dilutive effect of:		
Stock options	1,216,393	1,151,819
Weighted average diluted common shares outstanding	944,240,321	943,838,432

	Yen	
	Three months ended June 30, 2017	Three months ended June 30, 2016
Net income attributable to Komatsu Ltd. per share:		
Basic	38.59	16.54
Diluted	38.54	16.52

12. Contingent Liabilities

At June 30, 2017 and at March 31, 2017, Komatsu was contingently liable for discounted and transferred receivables on a recourse basis with the financial institutions of ¥103 million and ¥59 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, 2017 and at March 31, 2017 were ¥14,106 million and ¥13,862 million, respectively. The fair value of the liabilities recognized for Komatsu's obligations as guarantors under those guarantees at June 30, 2017 were insignificant. Certain of those guarantees were secured by collateral and insurance issued to Komatsu.

Komatsu provides guarantees that subsidiaries of the Company perform the obligations of the terms and conditions of contracts by standby letters of credit issued by banks. Komatsu would have to pay the liabilities incurred to banks, if the subsidiaries don't perform the obligations of the terms and conditions of contracts. The maximum amount of undiscounted payments Komatsu would have had to make in the event of defaults of the contracts at June 30, 2017 was ¥12,329 million.

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.

13. Derivative Financial Instruments

Notional principal amounts of derivative financial instruments outstanding at June 30, 2017 and at March 31, 2017 are as follows.

	Millions of yen	
	June 30, 2017	March 31, 2017
Forwards contracts:		
Sale of foreign currencies	¥ 161,339	¥ 114,433
Purchase of foreign currencies	179,715	90,493
Interest rate swaps and cross-currency swap agreements	81,595	77,588

Fair value of derivative instruments at June 30, 2017 and at March 31, 2017 on the consolidated balance sheets are as follows:

	Millions of yen			
	June 30, 2017			
	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	¥ 1,485	Deferred income taxes and other current liabilities	¥ 1,108
	Deferred income taxes and other assets	1,363	Deferred income taxes and other liabilities	438
Interest rate swaps and cross-currency swap agreements	Deferred income taxes and other current assets	10	Deferred income taxes and other current liabilities	89
Total		¥ 2,858		¥ 1,635
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	¥ 1,551	Deferred income taxes and other current liabilities
	Deferred income taxes and other assets	16	Deferred income taxes and other liabilities	—
Interest rate swaps and cross-currency swap agreements	Deferred income taxes and other current assets	97	Deferred income taxes and other current liabilities	120
	Deferred income taxes and other assets	—	Deferred income taxes and other liabilities	—
Total		¥ 1,664		¥ 1,894
Total Derivative Instruments		¥ 4,522		¥ 3,529

Millions of yen

March 31, 2017

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	¥ 2,133	Deferred income taxes and other current liabilities	¥ 241
	Deferred income taxes and other assets	17	Deferred income taxes and other liabilities	411
Interest rate swaps and cross-currency swap agreements	Deferred income taxes and other current assets	8	Deferred income taxes and other current liabilities	129
Total		¥ 2,158		¥ 781
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	¥ 353	Deferred income taxes and other current liabilities	¥ 1,938
	Deferred income taxes and other assets	1	Deferred income taxes and other liabilities	—
Interest rate swaps and cross-currency swap agreements	Deferred income taxes and other current assets	67	Deferred income taxes and other current liabilities	956
	Deferred income taxes and other assets	—	Deferred income taxes and other liabilities	—
Total		¥ 421		¥ 2,894
Total Derivative Instruments		¥ 2,579		¥ 3,675

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, 2017 and 2016 are as follows:

Derivative instruments designated as cash flow hedging relationships

Millions of yen					
Three months ended June 30, 2017					
	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	¥ 620	Other income (expenses), net: Other, net	¥ 853	Other income (expenses), net: Other, net	¥ 54
Interest rate swaps and cross-currency swap agreements	40	—	—	—	—
Total	¥ 660		¥ 853		¥ 54

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)	—	—	—	—
Total	¥ 988		¥ (834)		¥ 59

* OCI stands for other comprehensive income (loss).

Derivative instruments not designated as hedging instruments relationships

Millions of yen		
Three months ended June 30, 2017		
	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	¥ (26)
Interest rate swaps and cross-currency swap agreements	Cost of sales	71
	Other income (expenses), net: Other, net	22
Total		¥ 67

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)
Total		¥ (639)

14. 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 15)

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 13 and 15)

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, 2017 and as of March 31, 2017, are summarized as follows:

	Millions of yen			
	June 30, 2017		March 31, 2017	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Cash and cash equivalents	¥ 150,650	¥ 150,650	¥ 119,901	¥ 119,901
Time deposits	2,143	2,143	2,289	2,289
Trade notes and accounts receivable, net	658,124	658,124	619,265	619,265
Long-term trade receivables, net	335,973	335,973	313,946	313,946
Investment securities, marketable equity securities	63,485	63,485	59,067	59,067
Short-term debt	467,491	467,491	128,452	128,452
Trade notes, bills and accounts payable	279,455	279,455	240,113	240,113
Long-term debt, including current portion	383,810	386,769	280,250	280,228
Derivatives:				
Forwards contracts				
Assets	4,415	4,415	2,504	2,504
Liabilities	3,320	3,320	2,590	2,590
Interest rate swaps and cross-currency swap agreements				
Assets	107	107	75	75
Liabilities	209	209	1,085	1,085

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.

15. 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, 2017 and at March 31, 2017 are as follows:

At June 30, 2017	Millions of yen			
	Level 1	Level 2	Level 3	Total
Assets				
Investment securities available for sale				
Manufacturing industry	¥ 32,920	¥ —	¥ —	¥ 32,920
Financial service industry	24,612	—	—	24,612
Other	5,953	—	—	5,953
Derivatives				
Forward contracts	—	4,415	—	4,415
Interest rate swaps and cross-currency swap agreements	—	107	—	107
Total	¥ 63,485	¥ 4,522	¥ —	¥ 68,007
Liabilities				
Derivatives				
Forward contracts	¥ —	¥ 3,320	¥ —	¥ 3,320
Interest rate swaps and cross-currency swap agreements	—	209	—	209
Other	—	7,496	221	7,717
Total	¥ —	¥ 11,025	¥ 221	¥ 11,246
At March 31, 2017	Millions of yen			
	Level 1	Level 2	Level 3	Total
Assets				
Investment securities available for sale				
Manufacturing industry	¥ 30,791	¥ —	¥ —	¥ 30,791
Financial service industry	23,251	—	—	23,251
Other	5,025	—	—	5,025
Derivatives				
Forward contracts	—	2,504	—	2,504
Interest rate swaps and cross-currency swap agreements	—	75	—	75
Total	¥ 59,067	¥ 2,579	¥ —	¥ 61,646
Liabilities				
Derivatives				
Forward contracts	¥ —	¥ 2,590	¥ —	¥ 2,590
Interest rate swaps and cross-currency swap agreements	—	1,085	—	1,085
Other	—	7,509	248	7,757
Total	¥ —	¥ 11,184	¥ 248	¥ 11,432

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 13 and 14)

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, 2017 and 2016:

	Millions of yen	
	Three months ended June 30, 2017	Three months ended June 30, 2016
Balance, beginning of year	¥ (248)	¥ (301)
Total gains or losses (realized / unrealized)	27	5
Included in earnings	26	(23)
Included in other comprehensive income (loss)	1	28
Balance, end of period	¥ (221)	¥ (296)

The amount of unrealized gains on classified in Level 3 liabilities recognized in earnings for the three months ended June 30, 2017 and 2016 related to liabilities still held at June 30, 2017 and 2016 were gains of ¥26 million and losses of ¥23 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 three months ended June 30, 2017 and 2016 assets and liabilities that were measured at fair value on a non-recurring basis were not material.

16. Committed Credit Lines

Certain consolidated subsidiaries have entered into contracts with certain financial institutions for committed credit lines. These total amounts of committed credit lines at June 30, 2017 and at March 31, 2017 were ¥389,852 million and ¥390,399 million, respectively. These total amounts of unused committed credit lines available for full and immediate borrowings at June 30, 2017 and at March 31, 2017 were ¥39,205 million and ¥386,966 million, respectively.

Note: The Company has changed total amounts of committed credit line and unused committed credit line available for full and immediate borrowings at March 31, 2017 to include those to raise funds for acquire of Joy Global Inc.

17. Dividends

Three months ended June 30, 2017

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 20, 2017	Common stock	27,362	Retained earnings	29	March 31, 2017	June 21, 2017

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

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.

18. 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 employed for the preparation of segment information are identical to those employed for the preparation of the quarterly consolidated financial statements of the Company.

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, 2017 and 2016 is as follows:

	Millions of yen	
	Three months ended June 30, 2017	Three months ended June 30, 2016
Net sales:		
Construction, Mining and Utility Equipment –		
External customers	¥ 510,998	¥ 343,433
Intersegment	4,065	1,733
Total	515,063	345,166
Retail Finance –		
External customers	11,984	11,305
Intersegment	5,568	558
Total	17,552	11,863
Industrial Machinery and Others –		
External customers	38,229	34,514
Intersegment	440	261
Total	38,669	34,775
Elimination	(10,073)	(2,552)
Consolidated	¥ 561,211	¥ 389,252
Segment profit:		
Construction, Mining and Utility Equipment	¥ 47,984	¥ 26,387
Retail Finance	3,325	1,885
Industrial Machinery and Others	2,372	1,708
Total segment profit	53,681	29,980
Corporate expenses and elimination	(682)	(980)
Consolidated	¥ 52,999	¥ 29,000

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, 2017 and 2016 is as follows:

	Millions of yen	
	Three months ended June 30, 2017	Three months ended June 30, 2016
Total segment profit	¥ 53,681	¥ 29,980
Corporate expenses and elimination	(682)	(980)
Consolidated	52,999	29,000
Other operating income (expenses), net	(592)	789
Operating income	52,407	29,789
Interest and dividend income	1,364	1,025
Interest expense	(3,572)	(1,958)
Other, net	(2,105)	(4,654)
Consolidated income before income taxes and equity in earnings of affiliated companies	¥ 48,094	¥ 24,202

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, 2017 and 2016 are as follows:

	Millions of yen	
	Three months ended June 30, 2017	Three months ended June 30, 2016
Japan	¥ 84,123	¥ 75,077
The Americas	207,787	136,870
Europe and CIS	74,119	54,804
China	41,955	26,897
Asia (excluding Japan and China) and Oceania	117,927	70,932
Middle East and Africa	35,300	24,672
Consolidated net sales	¥ 561,211	¥ 389,252

Net sales determined by geographic origin for the three months ended June 30, 2017 and 2016 are as follows:

	Millions of yen	
	Three months ended June 30, 2017	Three months ended June 30, 2016
Japan	¥ 133,751	¥ 110,275
The Americas	197,556	134,193
Europe and CIS	75,315	57,480
China	39,859	19,909
Others	114,730	67,395
Total	¥ 561,211	¥ 389,252

There were no sales to a single major external customer for the three months ended June 30, 2017 and 2016.

19. Material Subsequent Events

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

[Issuance of bonds]

The Company issued bonds in accordance with the resolution of the board of directors on June 15, 2017. The details of the bonds are summarized as follows:

- | | |
|---------------------------------|---|
| (1) Name of bonds | The 11th unsecured bonds |
| (2) Total amount of bonds issue | 50,000 million yen |
| (3) Date of bonds issue | July 21, 2017 |
| (4) Issue price | 100 yen per 100 yen of face value |
| (5) Interest rate | 0.050% per annual |
| (6) Payment due date and method | Redemption at maturity on July 21, 2020 |
| (7) Use of funds | The funds were used for increasing the capital of Komatsu America Corp., a wholly-owned subsidiary of the Company in the U.S., and all of amount of the funds were used for the repayment of the loans payable. |

20. 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, is presented as extraordinary income or loss. However, since there is no concept of extraordinary items in U.S. GAAP, extraordinary income or loss is not presented in the Company's quarterly consolidated financial statements.