

(Translation)

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Quarterly Report

From July 1, 2017 to September 30, 2017

(Second 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 September 30, 2017 with the Director-General of the Kanto Local Finance Bureau on November 9, 2017. The Quarterly Securities Report contains, among other information, Quarterly Consolidated Financial Statements for the three months and six months ended September 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 October 27, 2017. Attached is an English translation of Quarterly Consolidated Financial Statements for the three months and six months ended September 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 September 30, 2017 (from July 1 to September 30, 2017) and for the six months ended September 30, 2017 (from April 1 to September 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 September 30, 2017 and March 31, 2017

Assets	September 30, 2017		March 31, 2017	
	Millions of yen	Ratio (%)	Millions of yen	Ratio (%)
Current assets				
Cash and cash equivalents (Note 14)	¥ 161,422		¥ 119,901	
Time deposits (Note 14)	2,538		2,289	
Trade notes and accounts receivable, net (Notes 4 and 14)	716,980		619,265	
Inventories (Note 5)	712,570		533,897	
Deferred income taxes and other current assets (Notes 1, 13, 14 and 15)	116,455		144,169	
Total current assets	1,709,965	51.3	1,419,521	53.4
Long-term trade receivables, net (Notes 4 and 14)	342,338	10.3	313,946	11.8
Investments				
Investments in and advances to affiliated companies	31,082		30,330	
Investment securities (Notes 6, 14 and 15)	25,182		67,716	
Other	2,822		2,424	
Total investments	59,086	1.8	100,470	3.8
Property, plant and equipment				
– less accumulated depreciation and amortization of ¥843,171 million at September 30, 2017 and ¥816,321 million at March 31, 2017	763,665	22.9	679,027	25.6
Goodwill (Note 3)	175,969	5.3	40,072	1.5
Other intangible assets (Note 7)				
– less accumulated amortization	186,122	5.6	61,083	2.3
Deferred income taxes and other assets (Notes 1, 13, 14 and 15)	93,081	2.8	42,363	1.6
Total assets	¥ 3,330,226	100.0	¥ 2,656,482	100.0
	September 30, 2017		March 31, 2017	
	Millions of yen	Ratio (%)	Millions of yen	Ratio (%)
Liabilities and Equity				
Current liabilities				
Short-term debt (Note 14)	¥ 227,594		¥ 128,452	
Current maturities of long-term debt (Notes 14 and 15)	75,835		89,391	
Trade notes, bills and accounts payable (Note 14)	287,012		240,113	
Income taxes payable	41,752		25,136	
Deferred income taxes and other current liabilities (Notes 1, 13, 14 and 15)	288,470		217,090	
Total current liabilities	920,663	27.7	700,182	26.3
Long-term liabilities				
Long-term debt (Notes 14 and 15)	513,892		190,859	
Liability for pension and retirement benefits	87,261		65,247	
Deferred income taxes and other liabilities (Notes 1, 13, 14 and 15)	72,997		51,679	
Total long-term liabilities	674,150	20.2	307,785	11.6
Total liabilities	1,594,813	47.9	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 943,221,483 shares at September 30, 2017 and 942,983,225 shares at March 31, 2017	67,870		67,870	
Capital surplus	138,300		138,285	
Retained earnings:				
Appropriated for legal reserve	45,804		45,368	
Unappropriated	1,431,306		1,357,350	
Accumulated other comprehensive income (loss) (Notes 6, 9, 13 and 15)	26,088		18,682	
Treasury stock at cost,				
28,746,177 shares at September 30, 2017 and 28,984,435 shares at March 31, 2017	(50,555)		(50,881)	
Total Komatsu Ltd. shareholders' equity	1,658,813	49.8	1,576,674	59.4
Noncontrolling interests	76,600	2.3	71,841	2.7
Total equity	1,735,413	52.1	1,648,515	62.1
Total liabilities and equity	¥ 3,330,226	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
Six months ended September 30, 2017 and 2016.
Consolidated Statements of Income

	Six months ended September 30, 2017		Six months ended September 30, 2016	
	Millions of yen	Ratio (%)	Millions of yen	Ratio (%)
Net sales	¥ 1,158,958	100.0	¥ 796,112	100.0
Cost of sales (Notes 7, 8, 9 and 13)	832,644	71.8	569,548	71.5
Selling, general and administrative expenses (Notes 3, 7, 8, 9 and 10)	212,594	18.3	162,328	20.4
Other operating income (expenses), net	(1,097)	(0.1)	(110)	(0.0)
Operating income	112,623	9.7	64,126	8.1
Other income (expenses), net				
Interest and dividend income	2,952	0.3	1,603	0.2
Interest expense	(8,237)	(0.7)	(3,849)	(0.5)
Gain on sales of investment securities (Notes 6 and 9)	39,563	3.4	196	0.0
Other, net (Notes 6, 9, 13 and 15)	(2,784)	(0.2)	(3,981)	(0.5)
Total	31,494	2.7	(6,031)	(0.8)
Income before income taxes and equity in earnings of affiliated companies	144,117	12.4	58,095	7.3
Income taxes (Note 9)				
Current	40,119		22,794	
Deferred	(1,869)		(1,635)	
Total	38,250	3.3	21,159	2.7
Income before equity in earnings of affiliated companies	105,867	9.1	36,936	4.6
Equity in earnings of affiliated companies	1,749	0.2	1,812	0.2
Net income	107,616	9.3	38,748	4.9
Less: Net income attributable to noncontrolling interests	5,861	0.5	1,230	0.2
Net income attributable to Komatsu Ltd.	¥ 101,755	8.8	¥ 37,518	4.7

Yen

Per share data (Note 11):

Net income attributable to Komatsu Ltd.:

Basic	107.90	39.80
Diluted	107.75	39.75
Cash dividends per share (Note 17)	36.00	29.00

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

Consolidated Statements of Comprehensive Income

	Millions of yen	
	Six months ended September 30, 2017	Six months ended September 30, 2016
Net income	¥ 107,616	¥ 38,748
Other comprehensive income (loss), for the period, net of tax		
Foreign currency translation adjustments (Note 9)	30,670	(110,222)
Net unrealized holding gains (losses) on securities available for sale (Notes 6 and 9)	(23,603)	1,115
Pension liability adjustments (Note 9)	848	1,180
Net unrealized holding gains (losses) on derivative instruments (Notes 9 and 13)	1,282	295
Total	9,197	(107,632)
Comprehensive income (loss)	116,813	(68,884)
Less: Comprehensive income (loss) attributable to noncontrolling interests	7,652	(6,202)
Comprehensive income (loss) attributable to Komatsu Ltd.	¥ 109,161	¥ (62,682)

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 September 30, 2017 and 2016.

Consolidated Statements of Income

	Three months ended September 30, 2017		Three months ended September 30, 2016	
	Millions of yen	Ratio (%)	Millions of yen	Ratio (%)
Net sales	¥ 597,747	100.0	¥ 406,860	100.0
Cost of sales (Notes 7, 8, 9 and 13)	430,479	72.0	290,031	71.3
Selling, general and administrative expenses (Notes 3, 7, 8, 9 and 10)	106,547	17.8	81,593	20.1
Other operating income (expenses), net	(505)	(0.1)	(899)	(0.2)
Operating income	60,216	10.1	34,337	8.4
Other income (expenses), net				
Interest and dividend income	1,588	0.3	578	0.1
Interest expense	(4,665)	(0.8)	(1,891)	(0.5)
Gain on sales of investment securities (Notes 6 and 9)	39,563	6.6	68	0.0
Other, net (Notes 6, 9, 13 and 15)	(679)	(0.1)	801	0.2
Total	35,807	6.0	(444)	(0.1)
Income before income taxes and equity in earnings of affiliated companies	96,023	16.1	33,893	8.3
Income taxes (Note 9)				
Current	39,232		15,382	
Deferred	(10,486)		(3,438)	
Total	28,746	4.8	11,944	2.9
Income before equity in earnings of affiliated companies	67,277	11.3	21,949	5.4
Equity in earnings of affiliated companies	987	0.2	708	0.2
Net income	68,264	11.4	22,657	5.6
Less: Net income attributable to noncontrolling interests	2,904	0.5	727	0.2
Net income attributable to Komatsu Ltd.	¥ 65,360	10.9	¥ 21,930	5.4
	Yen			
Per share data (Note 11):				
Net income attributable to Komatsu Ltd.:				
Basic	69.30		23.26	
Diluted	69.21		23.23	
Cash dividends per share	—		—	

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

Consolidated Statements of Comprehensive Income

	Millions of yen	
	Three months ended September 30, 2017	Three months ended September 30, 2016
Net income	¥ 68,264	¥ 22,657
Other comprehensive income (loss), for the period, net of tax		
Foreign currency translation adjustments (Note 9)	19,656	(13,910)
Net unrealized holding gains (losses) on securities available for sale (Notes 6 and 9)	(26,649)	4,641
Pension liability adjustments (Note 9)	465	457
Net unrealized holding gains (losses) on derivative instruments (Notes 9 and 13)	1,213	(908)
Total	(5,315)	(9,720)
Comprehensive income (loss)	62,949	12,937
Less: Comprehensive income (loss) attributable to noncontrolling interests	4,092	150
Comprehensive income (loss) attributable to Komatsu Ltd.	¥ 58,857	¥ 12,787

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

Consolidated Statements of Equity (Unaudited)

Komatsu Ltd. and Consolidated Subsidiaries

Six months ended September 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)	(2,893)	(30,256)
Transfer to retained earnings appropriated for legal reserve			436	(436)			—		—
Other changes							—		—
Net income				101,755			101,755	5,861	107,616
Other comprehensive income (loss), for the period, net of tax (Note 9)					7,406		7,406	1,791	9,197
Issuance and exercise of stock acquisition rights (Note 10)		(34)					(34)		(34)
Purchase of treasury stock						(22)	(22)		(22)
Sales of treasury stock		49				348	397		397
Balance at September 30, 2017	¥ 67,870	¥ 138,300	¥ 45,804	¥ 1,431,306	¥ 26,088	¥ (50,555)	¥ 1,658,813	¥ 76,600	¥ 1,735,413

Six months ended September 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)	(2,674)	(30,028)
Transfer to retained earnings appropriated for legal reserve			1,345	(1,345)			—		—
Other changes		(239)					(239)	(124)	(363)
Net income				37,518			37,518	1,230	38,748
Other comprehensive income (loss), for the period, net of tax (Note 9)					(100,200)		(100,200)	(7,432)	(107,632)
Issuance and exercise of stock acquisition rights (Note 10)		(74)					(74)		(74)
Purchase of treasury stock						(14)	(14)		(14)
Sales of treasury stock		20				249	269		269
Balance at September 30, 2016	¥ 67,870	¥ 137,950	¥ 45,363	¥ 1,308,849	¥ (81,533)	¥ (51,179)	¥ 1,427,320	¥ 61,346	¥ 1,488,666

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

Consolidated Statements of Cash Flows (Unaudited)

Komatsu Ltd. and Consolidated Subsidiaries
Six months ended September 30, 2017 and 2016

	Millions of yen	
	Six months ended September 30, 2017	Six months ended September 30, 2016
Operating activities		
Net income	¥ 107,616	¥ 38,748
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	65,465	51,810
Deferred income taxes	(1,869)	(1,635)
Impairment loss and net loss (gain) from sale of investment securities	(39,424)	(177)
Net loss (gain) on sale of property	(172)	(483)
Loss on disposal of fixed assets	1,245	1,020
Pension and retirement benefits, net	(1,194)	2,367
Changes in assets and liabilities:		
Decrease (increase) in trade receivables	(42,216)	31,537
Decrease (increase) in inventories	(47,481)	(35,017)
Increase (decrease) in trade payables	8,280	(7,523)
Increase (decrease) in income taxes payable	15,676	(7,851)
Other, net	15,265	23,292
Net cash provided by (used in) operating activities	<u>81,191</u>	<u>96,088</u>
Investing activities		
Capital expenditures	(79,895)	(67,638)
Proceeds from sale of property	12,523	10,625
Proceeds from sale of available for sale investment securities	46,184	600
Purchases of available for sale investment securities	(235)	(106)
Proceeds from sale of subsidiaries and equity investees, net of cash disposed	570	5,485
Acquisition of subsidiaries and equity investees, net of cash acquired	(273,137)	—
Collection of loan receivables	47	7
Disbursement of loan receivables	(776)	—
Decrease (increase) in time deposits, net	(181)	89
Net cash provided by (used in) investing activities	<u>(294,900)</u>	<u>(50,938)</u>
Financing activities		
Proceeds from debt issued (Original maturities greater than three months)	273,706	46,618
Payment on debt (Original maturities greater than three months)	(44,592)	(75,044)
Short-term debt, net (Original maturities three months or less)	55,608	(9,379)
Repayments of capital lease obligations	(23)	(29)
Sale (purchase) of treasury stock, net	76	18
Dividends paid	(27,363)	(27,354)
Other, net	(2,927)	(3,510)
Net cash provided by (used in) financing activities	<u>254,485</u>	<u>(68,680)</u>
Effect of exchange rate change on cash and cash equivalents	<u>745</u>	<u>4,419</u>
Net increase (decrease) in cash and cash equivalents	41,521	(19,111)
Cash and cash equivalents, beginning of year	119,901	106,259
Cash and cash equivalents, end of period	<u>¥ 161,422</u>	<u>¥ 87,148</u>

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

Komatsu Ltd. and Consolidated Subsidiaries
Three months and six months ended September 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 six months ended September 30, 2017 and 2016 are as follows:

	Millions of yen	
	Six months ended September 30, 2017	Six months ended September 30, 2016
Additional cash flow information:		
Interest paid	¥ 5,995	¥ 3,903
Income taxes paid	39,350	28,069
Noncash investing and financing activities:		
Capital lease obligations incurred	¥ 300	¥ 442

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” was completed as of the issue date of the quarterly consolidated financial statements.

Following is a summary of the acquired assets and assumed liabilities after the allocation of acquisition cost on the acquisition date. Based on the completion of the allocation of acquisition cost for the three months ended September 30, 2017, the amounts of part of acquired assets and assumed liabilities and goodwill were adjusted. Although these adjustments were reflected to the quarterly consolidated financial statements for the period, the amount of adjustment was not material to consolidated statements of income for the period.

	Millions of yen	
	As of the issue date of the second quarterly report of the 149 th fiscal year (Determined amount)	As of the issue date of the first quarterly report of the 149 th fiscal year (Provisional amount)
Consideration		
Cash and cash equivalents	¥ 316,128	¥ 316,128
Fair value of total consideration transferred	316,128	316,128
Recognized amounts of identifiable acquired assets and assumed liabilities		
Cash and cash equivalents	¥ 42,991	¥ 42,991
Trade notes and accounts receivable	59,012	59,012
Inventories	116,752	116,782
Other current assets	12,076	12,048
Property, plant and equipment	85,376	85,940
Intangible assets	129,951	129,929
Other non-current assets	17,198	17,198
Total acquired assets	463,356	463,900
Short-term debt	(33,355)	(33,355)
Accounts payable	(27,601)	(27,601)
Other current liabilities	(71,256)	(71,256)
Long-term debt	(81,568)	(81,568)
Liability for pension and retirement benefits	(23,531)	(23,531)
Deferred income taxes and other liabilities	(42,782)	(42,904)
Total assumed liabilities	(280,093)	(280,215)
Net acquired assets	183,263	183,685
Goodwill	132,865	132,443
	¥ 316,128	¥ 316,128

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 ¥129,951 million, intangible assets subject to amortization of ¥128,511 million and main ones are as follows.

	Millions of yen	
	Gross carrying amount	Amortization period
Trademarks	¥ 56,271	15 years
Customer relationships	43,093	15 years
Technology assets	19,385	15 years
Backlog	7,532	14 months

The goodwill of ¥132,865 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 six months ended September 30, 2017 are ¥1,441 million (accumulated acquisition-related costs: ¥3,368 million) and included in selling, general and administrative expenses in the consolidated statement of income for the six months ended September 30, 2017.

The amounts of net sales and net loss of Joy Global included in the consolidated statements of income for the six months ended September 30, 2017 since the date of acquisition were ¥150,923 million and ¥6,107 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 six months ended September 30, 2017, the pro forma calculation for the period is not disclosed.

	Millions of yen
	Six months ended September 30, 2016
Net Sales	¥ 924,091
Net income attributable to Komatsu Ltd.	38,002

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 September 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 ¥23,850 million and ¥22,326 million, respectively.

5. Inventories

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

	Millions of yen	
	September 30, 2017	March 31, 2017
Finished products, including finished parts held for sale	¥ 498,931	¥ 383,630
Work in process	160,367	109,844
Materials and supplies	53,272	40,423
Total	¥ 712,570	¥ 533,897

6. Investment Securities

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

	Millions of yen			
	Cost	Gross unrealized holding		Fair value
		Gains	Losses	
At September 30, 2017				
Investment securities:				
Marketable equity securities available for sale	¥ 5,957	¥ 10,297	¥ —	¥ 16,254
Other investment securities at cost	8,928			
	<u>¥ 14,885</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 six months ended September 30, 2017 and 2016, amounted to ¥46,184 million and ¥600 million, respectively.

Impairment loss and net gain (loss) from sale of investment securities available for sale during the six months ended September 30, 2017 and 2016, amounted to gains of ¥39,424 million and ¥177 million, respectively. Impairment loss and net gain (loss) from sale of investment securities available for sale during the three months ended September 30, 2017 and 2016, amounted to gains of ¥39,521 million and ¥52 million, respectively. Such gains were included in other income (expenses), net in the accompanying consolidated statements of income.

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

7. Other Intangible Assets

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

	Millions of yen					
	September 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	¥36,225	¥ (17,850)	¥ 18,375	¥31,132	¥ (15,221)	¥ 15,911
Leasehold	8,872	(1,646)	7,226	7,943	(1,339)	6,604
Trademarks	58,352	(2,365)	55,987	1,077	(437)	640
Customer relationships	69,901	(12,776)	57,125	25,749	(10,273)	15,476
Technology assets	34,480	(7,448)	27,032	14,684	(6,341)	8,343
Backlog	8,938	(4,497)	4,441	1,165	(1,165)	—
Other	7,701	(6,138)	1,563	6,477	(5,007)	1,470
Total	<u>224,469</u>	<u>(52,720)</u>	<u>171,749</u>	<u>88,227</u>	<u>(39,783)</u>	<u>48,444</u>
Other intangible assets not subject to amortization			14,373			12,639
Total other intangible assets			<u>¥186,122</u>			<u>¥61,083</u>

The aggregate amortization expense of other intangible assets subject to amortization during the six months ended September 30, 2017 and 2016 were ¥11,831 million and ¥4,134 million, respectively. The aggregate amortization expense of other intangible assets subject to amortization during the three months ended September 30, 2017 and 2016 were ¥5,843 million and ¥2,041 million, respectively.

8. Cost of Retirement Benefits

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

	Millions of yen	
	Six months ended September 30, 2017	Six months ended September 30, 2016
Service cost	¥ 4,533	¥ 4,585
Interest cost on projected benefit obligations	3,632	889
Expected return on plan assets	(6,117)	(1,715)
Amortization of actuarial loss	923	1,185
Amortization of prior service cost	78	133
Net periodic cost	¥ 3,049	¥ 5,077

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

	Millions of yen	
	Six months ended September 30, 2017	Six months ended September 30, 2016
Service cost	¥ 228	¥ 234
Interest cost on projected benefit obligations	260	279
Expected return on plan assets	(297)	(248)
Amortization of actuarial loss	44	117
Amortization of prior service cost	38	54
Net periodic cost	¥ 273	¥ 436

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

	Millions of yen	
	Three months ended September 30, 2017	Three months ended September 30, 2016
Service cost	¥ 2,237	¥ 2,259
Interest cost on projected benefit obligations	1,801	426
Expected return on plan assets	(3,057)	(809)
Amortization of actuarial loss	459	547
Amortization of prior service cost	39	65
Net periodic cost	¥ 1,479	¥ 2,488

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

	Millions of yen	
	Three months ended September 30, 2017	Three months ended September 30, 2016
Service cost	¥ 114	¥ 113
Interest cost on projected benefit obligations	130	135
Expected return on plan assets	(148)	(120)
Amortization of actuarial loss	22	57
Amortization of prior service cost	19	26
Net periodic cost	¥ 137	¥ 211

9. Other Comprehensive Income (Loss)

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

	Millions of yen				
	Six months ended September 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	30,670	2,756	132	2,683	36,241
Amounts reclassified from accumulated other comprehensive income (loss)	—	(26,359)	716	(1,401)	(27,044)
Net other comprehensive income (loss)	30,670	(23,603)	848	1,282	9,197
Less: other comprehensive income (loss) attributable to noncontrolling interests	1,738	—	26	27	1,791
Other comprehensive income (loss) attributable to Komatsu Ltd.	28,932	(23,603)	822	1,255	7,406
Balance, end of period	¥ 39,946	¥ 6,511	¥ (22,327)	¥ 1,958	¥ 26,088

All amounts are net of tax.

	Millions of yen				
	Six months ended September 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	(110,222)	1,218	184	1,011	(107,809)
Amounts reclassified from accumulated other comprehensive income (loss)	—	(103)	996	(716)	177
Net other comprehensive income (loss)	(110,222)	1,115	1,180	295	(107,632)
Less: other comprehensive income (loss) attributable to noncontrolling interests	(7,408)	—	(4)	(20)	(7,432)
Other comprehensive income (loss) attributable to Komatsu Ltd.	(102,814)	1,115	1,184	315	(100,200)
Balance, end of period	¥ (76,211)	¥ 20,368	¥ (26,883)	¥ 1,193	¥ (81,533)

All amounts are net of tax.

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

	Millions of yen				
	Three months ended September 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 period	¥ 21,442	¥ 33,160	¥ (22,771)	¥ 760	¥ 32,591
Other comprehensive income (loss) before reclassifications	19,656	(290)	106	1,979	21,451
Amounts reclassified from accumulated other comprehensive income (loss)	—	(26,359)	359	(766)	(26,766)
Net other comprehensive income (loss)	19,656	(26,649)	465	1,213	(5,315)
Less: other comprehensive income (loss) attributable to noncontrolling interests	1,152	—	21	15	1,188
Other comprehensive income (loss) attributable to Komatsu Ltd.	18,504	(26,649)	444	1,198	(6,503)
Balance, end of period	¥ 39,946	¥ 6,511	¥ (22,327)	¥ 1,958	¥ 26,088

All amounts are net of tax.

	Millions of yen				
	Three months ended September 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 period	¥ (62,883)	¥ 15,727	¥ (27,344)	¥ 2,110	¥ (72,390)
Other comprehensive income (loss) before reclassifications	(13,910)	4,687	(20)	339	(8,904)
Amounts reclassified from accumulated other comprehensive income (loss)	—	(46)	477	(1,247)	(816)
Net other comprehensive income (loss)	(13,910)	4,641	457	(908)	(9,720)
Less: other comprehensive income (loss) attributable to noncontrolling interests	(582)	—	(4)	9	(577)
Other comprehensive income (loss) attributable to Komatsu Ltd.	(13,328)	4,641	461	(917)	(9,143)
Balance, end of period	¥ (76,211)	¥ 20,368	¥ (26,883)	¥ 1,193	¥ (81,533)

All amounts are net of tax.

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

	Millions of yen	
	Six months ended September 30, 2017	Affected line items in consolidated statements of income
Net unrealized holding gains (losses) on securities available for sale		
Gain from sale	¥ 39,715	Other income (expenses), net: Gain on sales of investment securities
	39,715	Total before tax
	(13,356)	Income taxes
	26,359	Net of tax
Pension liability adjustments		
Amortization of actuarial loss and prior service cost	(1,083)	*1
	(1,083)	Total before tax
	367	Income taxes
	(716)	Net of tax
Net unrealized holding gains (losses) on derivative instruments		
Forwards contracts	2,007	Other income (expenses), net: Other, net
	2,007	Total before tax
	(606)	Income taxes
	1,401	Net of tax
Total reclassification for the period	¥ 27,044	Net of tax

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

	Millions of yen	
	Six months ended September 30, 2016	Affected line items in consolidated statements of income
Net unrealized holding gains (losses) on securities available for sale		
Gain from sale	¥ 207	Other income (expenses), net: Gain on sales of investment securities
	207	Total before tax
	(104)	Income taxes
	103	Net of tax
Pension liability adjustments		
Amortization of actuarial loss and prior service cost	(1,489)	*1
	(1,489)	Total before tax
	493	Income taxes
	(996)	Net of tax
Net unrealized holding gains (losses) on derivative instruments		
Forwards contracts	1,046	Other income (expenses), net: Other, net
	1,046	Total before tax
	(330)	Income taxes
	716	Net of tax
Total reclassification for the period	¥ (177)	Net of tax

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

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

	Millions of yen		Affected line items in consolidated statements of income
	Three months ended September 30, 2017		
Net unrealized holding gains (losses) on securities available for sale			
Gain from sale	¥	39,715	Other income (expenses), net: Gain on sales of investment securities
		39,715	Total before tax
		(13,356)	Income taxes
		26,359	Net of tax
Pension liability adjustments			
Amortization of actuarial loss and prior service cost		(539)	*1
		(539)	Total before tax
		180	Income taxes
		(359)	Net of tax
Net unrealized holding gains (losses) on derivative instruments			
Forwards contracts		1,100	Other income (expenses), net: Other, net
		1,100	Total before tax
		(334)	Income taxes
		766	Net of tax
Total reclassification for the period	¥	26,766	Net of tax

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

	Millions of yen		Affected line items in consolidated statements of income
	Three months ended September 30, 2016		
Net unrealized holding gains (losses) on securities available for sale			
Gain from sale	¥	68	Other income (expenses), net: Gain on sales of investment securities
		68	Total before tax
		(22)	Income taxes
		46	Net of tax
Pension liability adjustments			
Amortization of actuarial loss and prior service cost		(695)	*1
		(695)	Total before tax
		218	Income taxes
		(477)	Net of tax
Net unrealized holding gains (losses) on derivative instruments			
Forwards contracts		1,821	Other income (expenses), net: Other, net
		1,821	Total before tax
		(574)	Income taxes
		1,247	Net of tax
Total reclassification for the period	¥	816	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 six months ended September 30, 2017 and 2016 are as follows:

	Millions of yen		
	Six months ended September 30, 2017		
	Before tax amount	Tax (expense) or benefit	Net of tax amount
Foreign currency translation adjustments			
Foreign currency translation adjustments arising during period	¥ 30,764	¥ (94)	¥ 30,670
Less: reclassification adjustment for gains included in net income	—	—	—
Net foreign currency translation adjustments	30,764	(94)	30,670
Net unrealized holding gains (losses) on securities available for sale			
Unrealized holding gains arising during period	4,057	(1,301)	2,756
Less: reclassification adjustment for gains included in net income	(39,715)	13,356	(26,359)
Net unrealized holding losses	(35,658)	12,055	(23,603)
Pension liability adjustments			
Pension liability adjustments arising during period	183	(51)	132
Less: reclassification adjustment for losses included in net income	1,083	(367)	716
Net pension liability adjustments	1,266	(418)	848
Net unrealized holding gains (losses) on derivative instruments			
Unrealized holding gains arising during period	3,424	(741)	2,683
Less: reclassification adjustment for gains included in net income	(2,007)	606	(1,401)
Net unrealized holding gains	1,417	(135)	1,282
Other comprehensive income (loss)	¥ (2,211)	¥ 11,408	¥ 9,197

	Millions of yen		
	Six months ended September 30, 2016		
	Before tax amount	Tax (expense) or benefit	Net of tax amount
Foreign currency translation adjustments			
Foreign currency translation adjustments arising during period	¥ (110,536)	¥ 314	¥ (110,222)
Less: reclassification adjustment for losses included in net income	—	—	—
Net foreign currency translation adjustments	(110,536)	314	(110,222)
Net unrealized holding gains (losses) on securities available for sale			
Unrealized holding gains arising during period	1,823	(605)	1,218
Less: reclassification adjustment for gains included in net income	(207)	104	(103)
Net unrealized holding gains	1,616	(501)	1,115
Pension liability adjustments			
Pension liability adjustments arising during period	325	(141)	184
Less: reclassification adjustment for losses included in net income	1,489	(493)	996
Net pension liability adjustments	1,814	(634)	1,180
Net unrealized holding gains (losses) on derivative instruments			
Unrealized holding gains arising during period	1,499	(488)	1,011
Less: reclassification adjustment for gains included in net income	(1,046)	330	(716)
Net unrealized holding gains	453	(158)	295
Other comprehensive income (loss)	¥ (106,653)	¥ (979)	¥ (107,632)

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

	Millions of yen		
	Three months ended September 30, 2017		
	Before tax amount	Tax (expense) or benefit	Net of tax amount
Foreign currency translation adjustments			
Foreign currency translation adjustments arising during period	¥ 19,702	¥ (46)	¥ 19,656
Less: reclassification adjustment for gains included in net income	—	—	—
Net foreign currency translation adjustments	19,702	(46)	19,656
Net unrealized holding gains (losses) on securities available for sale			
Unrealized holding losses arising during period	(377)	87	(290)
Less: reclassification adjustment for gains included in net income	(39,715)	13,356	(26,359)
Net unrealized holding losses	(40,092)	13,443	(26,649)
Pension liability adjustments			
Pension liability adjustments arising during period	147	(41)	106
Less: reclassification adjustment for losses included in net income	539	(180)	359
Net pension liability adjustments	686	(221)	465
Net unrealized holding gains (losses) on derivative instruments			
Unrealized holding gains arising during period	2,764	(785)	1,979
Less: reclassification adjustment for gains included in net income	(1,100)	334	(766)
Net unrealized holding gains	1,664	(451)	1,213
Other comprehensive income (loss)	¥ (18,040)	¥ 12,725	¥ (5,315)

	Millions of yen		
	Three months ended September 30, 2016		
	Before tax amount	Tax (expense) or benefit	Net of tax amount
Foreign currency translation adjustments			
Foreign currency translation adjustments arising during period	¥ (13,984)	¥ 74	¥ (13,910)
Less: reclassification adjustment for losses included in net income	—	—	—
Net foreign currency translation adjustments	(13,984)	74	(13,910)
Net unrealized holding gains (losses) on securities available for sale			
Unrealized holding gains arising during period	6,811	(2,124)	4,687
Less: reclassification adjustment for gains included in net income	(68)	22	(46)
Net unrealized holding gains	6,743	(2,102)	4,641
Pension liability adjustments			
Pension liability adjustments arising during period	(28)	8	(20)
Less: reclassification adjustment for losses included in net income	695	(218)	477
Net pension liability adjustments	667	(210)	457
Net unrealized holding gains (losses) on derivative instruments			
Unrealized holding gains arising during period	511	(172)	339
Less: reclassification adjustment for gains included in net income	(1,821)	574	(1,247)
Net unrealized holding losses	(1,310)	402	(908)
Other comprehensive income (loss)	¥ (7,884)	¥ (1,836)	¥ (9,720)

10. 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 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 fiscal year ended March 31, 2017. The options vest 100% on each of the grant dates and are exercisable from August 1, 2019.

In addition, based on the resolutions of the Ordinary General Meeting of Shareholders on June 23, 2010 and the Board of Directors on July 13, 2017, the Company issued 281 rights of its Stock Acquisition Rights to directors. Based on the resolutions of the Ordinary General Meeting of Shareholders on June 20, 2017 and the Board of Directors on July 13, 2017, the Company also issued 1,716 rights of its Stock Acquisition Rights to certain employees and certain representative directors of major subsidiaries during the fiscal year ending March 31, 2018. The options vest 100% on each of the grant dates and are exercisable from August 1, 2020.

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 six months ended September 30, 2017 and 2016 were ¥208 million and ¥172 million, respectively, and were recorded in selling, general and administrative expenses. Compensation expenses during the three months ended September 30, 2017 and 2016 were ¥208 million and ¥172 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.

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	
	Six months ended September 30, 2017	Six months ended September 30, 2016
Net income attributable to Komatsu Ltd.	¥ 101,755	¥ 37,518
	Number of shares	
	Six months ended September 30, 2017	Six months ended September 30, 2016
Weighted average common shares outstanding, less treasury stock	943,089,765	942,726,748
Dilutive effect of:		
Stock options	1,253,377	1,208,681
Weighted average diluted common shares outstanding	944,343,142	943,935,429
	Yen	
	Six months ended September 30, 2017	Six months ended September 30, 2016
Net income attributable to Komatsu Ltd. per share:		
Basic	107.90	39.80
Diluted	107.75	39.75

	Millions of yen	
	Three months ended September 30, 2017	Three months ended September 30, 2016
Net income attributable to Komatsu Ltd.	¥ 65,360	¥ 21,930
	Number of shares	
	Three months ended September 30, 2017	Three months ended September 30, 2016
Weighted average common shares outstanding, less treasury stock	943,140,858	942,766,958
Dilutive effect of:		
Stock options	1,289,956	1,263,404
Weighted average diluted common shares outstanding	944,430,814	944,030,362
	Yen	
	Three months ended September 30, 2017	Three months ended September 30, 2016
Net income attributable to Komatsu Ltd. per share:		
Basic	69.30	23.26
Diluted	69.21	23.23

12. Contingent Liabilities

At September 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 ¥59 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 7 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 September 30, 2017 and at March 31, 2017 were ¥14,586 million and ¥13,862 million, respectively. The fair value of the liabilities recognized for Komatsu's obligations as guarantors under those guarantees at September 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 September 30, 2017 was ¥14,501 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 September 30, 2017 and at March 31, 2017 are as follows:

	Millions of yen	
	September 30, 2017	March 31, 2017
Forwards contracts:		
Sale of foreign currencies	¥ 185,125	¥ 114,433
Purchase of foreign currencies	137,332	90,493
Interest rate swaps and cross-currency swap agreements	85,737	77,588

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

	Millions of yen			
	September 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	¥ 790	Deferred income taxes and other current liabilities	¥ 1,127
	Deferred income taxes and other assets	2,837	Deferred income taxes and other liabilities	462
Interest rate swaps and cross-currency swap agreements	Deferred income taxes and other current assets	26	Deferred income taxes and other current liabilities	52
Total		¥ 3,653		¥ 1,641
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	¥ 1,006	Deferred income taxes and other current liabilities	¥ 1,987
	Deferred income taxes and other assets	24	Deferred income taxes and other liabilities	—
Interest rate swaps and cross-currency swap agreements	Deferred income taxes and other current assets	16	Deferred income taxes and other current liabilities	270
	Deferred income taxes and other assets	—	Deferred income taxes and other liabilities	—
Total		¥ 1,046		¥ 2,257
Total Derivative Instruments		¥ 4,699		¥ 3,898

Millions of yen

March 31, 2017

	Derivative Assets		Derivative Liabilities	
	Location on the consolidated Balance Sheets	Estimated fair value	Location on the consolidated Balance Sheets	Estimated fair value
Derivative instruments designated as hedging instruments				
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
	Derivative Assets		Derivative Liabilities	
	Location on the consolidated Balance Sheets	Estimated fair value	Location on the consolidated Balance Sheets	Estimated fair value
Undesignated derivative instruments				
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 six months ended September 30, 2017 and 2016 are as follows:

Derivative instruments designated as cash flow hedging relationships

Millions of yen					
Six months ended September 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	¥ 3,329	Other income (expenses), net: Other, net	¥ 1,897	Other income (expenses), net: Other, net	¥ 110
Interest rate swaps and cross-currency swap agreements	95	—	—	—	—
Total	¥ 3,424		¥ 1,897		¥ 110

Millions of yen					
Six months ended September 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	¥ 1,567	Other income (expenses), net: Other, net	¥ 987	Other income (expenses), net: Other, net	¥ 59
Interest rate swaps and cross-currency swap agreements	(68)	—	—	—	—
Total	¥ 1,499		¥ 987		¥ 59

* OCI stands for other comprehensive income (loss).

Derivative instruments not designated as hedging instruments relationships

Millions of yen		
Six months ended September 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	¥ (2,188)
Interest rate swaps and cross-currency swap agreements	Cost of sales	(50)
	Other income (expenses), net: Other, net	13
Total		¥ (2,225)

Millions of yen		
Six months ended September 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	¥ (1,142)
Interest rate swaps and cross-currency swap agreements	Cost of sales	(60)
	Other income (expenses), net: Other, net	2
Total		¥ (1,200)

The effects of derivative instruments on the consolidated statements of income and the consolidated statements of comprehensive income for the three months ended September 30, 2017 and 2016 are as follows:

Derivative instruments designated as cash flow hedging relationships

Millions of yen					
Three months ended September 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	¥ 2,709	Other income (expenses), net: Other, net	¥ 1,044	Other income (expenses), net: Other, net	¥ 56
Interest rate swaps and cross-currency swap agreements	55	—	—	—	—
Total	¥ 2,764		¥ 1,044		¥ 56

Millions of yen					
Three months ended September 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	¥ 477	Other income (expenses), net: Other, net	¥ 1,821	—	¥ —
Interest rate swaps and cross-currency swap agreements	34	—	—	—	—
Total	¥ 511		¥ 1,821		¥ —

* OCI stands for other comprehensive income (loss).

Derivative instruments not designated as hedging instruments relationships

Millions of yen		
Three months ended September 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	¥ (2,162)
Interest rate swaps and cross-currency swap agreements	Cost of sales	(121)
	Other income (expenses), net: Other, net	(9)
Total		¥ (2,292)

Millions of yen		
Three months ended September 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	¥ (554)
Interest rate swaps and cross-currency swap agreements	Cost of sales	(15)
	Other income (expenses), net: Other, net	8
Total		¥ (561)

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 September 30, 2017 and as of March 31, 2017, are summarized as follows:

	Millions of yen			
	September 30, 2017		March 31, 2017	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Cash and cash equivalents	¥ 161,422	¥ 161,422	¥ 119,901	¥ 119,901
Time deposits	2,538	2,538	2,289	2,289
Trade notes and accounts receivable, net	716,980	716,980	619,265	619,265
Long-term trade receivables, net	342,338	342,338	313,946	313,946
Investment securities, marketable equity securities	16,254	16,254	59,067	59,067
Short-term debt	227,594	227,594	128,452	128,452
Trade notes, bills and accounts payable	287,012	287,012	240,113	240,113
Long-term debt, including current portion	589,727	585,187	280,250	280,228
Derivatives:				
Forwards contracts				
Assets	4,657	4,657	2,504	2,504
Liabilities	3,576	3,576	2,590	2,590
Interest rate swaps and cross-currency swap agreements				
Assets	42	42	75	75
Liabilities	322	322	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 September 30, 2017 and at March 31, 2017 are as follows:

At September 30, 2017	Millions of yen			
	Level 1	Level 2	Level 3	Total
Assets				
Investment securities available for sale				
Manufacturing industry	¥ 526	¥ —	¥ —	¥ 526
Financial service industry	9,787	—	—	9,787
Other	5,941	—	—	5,941
Derivatives				
Forward contracts	—	4,657	—	4,657
Interest rate swaps and cross-currency swap agreements	—	42	—	42
Total	¥ 16,254	¥ 4,699	¥ —	¥ 20,953
Liabilities				
Derivatives				
Forward contracts	¥ —	¥ 3,576	¥ —	¥ 3,576
Interest rate swaps and cross-currency swap agreements	—	322	—	322
Other	—	7,553	299	7,852
Total	¥ —	¥ 11,451	¥ 299	¥ 11,750
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 six months ended September 30, 2017 and 2016:

	Millions of yen	
	Six months ended September 30, 2017	Six months ended September 30, 2016
Balance, beginning of year	¥ (248)	¥ (301)
Total gains or losses (realized / unrealized)	(51)	27
Included in earnings	(49)	(6)
Included in other comprehensive income (loss)	(2)	33
Balance, end of period	¥ (299)	¥ (274)

The amount of unrealized gains on classified in Level 3 liabilities recognized in earnings for the six months ended September 30, 2017 and 2016 related to liabilities still held at September 30, 2017 and 2016 were losses of ¥49 million and ¥6 million, respectively. These losses 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 September 30, 2017 and 2016:

	Millions of yen	
	Three months ended September 30, 2017	Three months ended September 30, 2016
Balance, beginning of period	¥ (221)	¥ (296)
Total gains or losses (realized / unrealized)	(78)	22
Included in earnings	(75)	17
Included in other comprehensive income (loss)	(3)	5
Balance, end of period	¥ (299)	¥ (274)

The amount of unrealized gains on classified in Level 3 liabilities recognized in earnings for the three months ended September 30, 2017 and 2016 related to liabilities still held at September 30, 2017 and 2016 were losses of ¥75 million and gains of ¥17 million, respectively. These losses or gains 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 six months ended September 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 September 30, 2017 and at March 31, 2017 were ¥167,340 million and ¥390,399 million, respectively. These total amounts of unused committed credit lines available for full and immediate borrowings at September 30, 2017 and at March 31, 2017 were ¥14,598 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

Six months ended September 30, 2017

(1) 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.

(2) Dividends to be paid for the six months ended September 30, 2017, of which effective date is after September 30, 2017

Resolution	Type of stock	Aggregate amount of dividends (Millions of yen)	Resource of dividends	Dividend per share (Yen)	Record date	Effective date
Board of Directors held on October 27, 2017	Common stock	33,972	Retained earnings	36	September 30, 2017	November 30, 2017

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

Six months ended September 30, 2016

(1) 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.

(2) Dividends to be paid for the six months ended September 30, 2016, of which effective date is after September 30, 2016

Resolution	Type of stock	Aggregate amount of dividends (Millions of yen)	Resource of dividends	Dividend per share (Yen)	Record date	Effective date
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.

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 six months ended September 30, 2017 and 2016 is as follows:

	Millions of yen	
	Six months ended September 30, 2017	Six months ended September 30, 2016
Net sales:		
Construction, Mining and Utility Equipment –		
External customers	¥ 1,056,824	¥ 695,288
Intersegment	7,595	3,355
Total	1,064,419	698,643
Retail Finance –		
External customers	23,681	22,291
Intersegment	7,561	1,179
Total	31,242	23,470
Industrial Machinery and Others –		
External customers	78,453	78,533
Intersegment	732	494
Total	79,185	79,027
Elimination	(15,888)	(5,028)
Consolidated	¥ 1,158,958	¥ 796,112
Segment profit:		
Construction, Mining and Utility Equipment	¥ 103,756	¥ 57,618
Retail Finance	5,909	4,216
Industrial Machinery and Others	4,837	4,058
Total segment profit	114,502	65,892
Corporate expenses and elimination	(782)	(1,656)
Consolidated	¥ 113,720	¥ 64,236

Information about operating segments for the three months ended September 30, 2017 and 2016 is as follows:

	Millions of yen	
	Three months ended September 30, 2017	Three months ended September 30, 2016
Net sales:		
Construction, Mining and Utility Equipment –		
External customers	¥ 545,826	¥ 351,855
Intersegment	3,530	1,622
Total	549,356	353,477
Retail Finance –		
External customers	11,697	10,986
Intersegment	1,993	621
Total	13,690	11,607
Industrial Machinery and Others –		
External customers	40,224	44,019
Intersegment	292	233
Total	40,516	44,252
Elimination	(5,815)	(2,476)
Consolidated	¥ 597,747	¥ 406,860
Segment profit:		
Construction, Mining and Utility Equipment	¥ 55,772	¥ 31,231
Retail Finance	2,584	2,331
Industrial Machinery and Others	2,465	2,350
Total segment profit	60,821	35,912
Corporate expenses and elimination	(100)	(676)
Consolidated	¥ 60,721	¥ 35,236

Reconciliation of total segment profit to consolidated income before income taxes and equity in earnings of affiliated companies for the six months ended September 30, 2017 and 2016 is as follows:

	Millions of yen	
	Six months ended September 30, 2017	Six months ended September 30, 2016
Total segment profit	¥ 114,502	¥ 65,892
Corporate expenses and elimination	(782)	(1,656)
Consolidated	113,720	64,236
Other operating income (expenses), net	(1,097)	(110)
Operating income	112,623	64,126
Interest and dividend income	2,952	1,603
Interest expense	(8,237)	(3,849)
Gain on sales of investment securities	39,563	196
Other, net	(2,784)	(3,981)
Consolidated income before income taxes and equity in earnings of affiliated companies	¥ 144,117	¥ 58,095

Reconciliation of total segment profit to consolidated income before income taxes and equity in earnings of affiliated companies for the three months ended September 30, 2017 and 2016 is as follows:

	Millions of yen	
	Three months ended September 30, 2017	Three months ended September 30, 2016
Total segment profit	¥ 60,821	¥ 35,912
Corporate expenses and elimination	(100)	(676)
Consolidated	60,721	35,236
Other operating income (expenses), net	(505)	(899)
Operating income	60,216	34,337
Interest and dividend income	1,588	578
Interest expense	(4,665)	(1,891)
Gain on sales of investment securities	39,563	68
Other, net	(679)	801
Consolidated income before income taxes and equity in earnings of affiliated companies	¥ 96,023	¥ 33,893

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 six months ended September 30, 2017 and 2016 are as follows:

	Millions of yen	
	Six months ended September 30, 2017	Six months ended September 30, 2016
Japan	¥ 189,788	¥ 173,050
The Americas	432,130	276,584
Europe and CIS	144,569	101,466
China	79,238	51,405
Asia (excluding Japan and China) and Oceania	236,634	146,786
Middle East and Africa	76,599	46,821
Consolidated net sales	¥ 1,158,958	¥ 796,112

Net sales determined by customer location for the three months ended September 30, 2017 and 2016 are as follows:

	Millions of yen	
	Three months ended September 30, 2017	Three months ended September 30, 2016
Japan	¥ 105,665	¥ 97,973
The Americas	224,343	139,714
Europe and CIS	70,450	46,662
China	37,283	24,508
Asia (excluding Japan and China) and Oceania	118,707	75,854
Middle East and Africa	41,299	22,149
Consolidated net sales	¥ 597,747	¥ 406,860

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

	Millions of yen	
	Six months ended September 30, 2017	Six months ended September 30, 2016
Japan	¥ 285,105	¥ 246,210
The Americas	414,807	268,088
Europe and CIS	151,518	107,556
China	75,286	38,285
Others	232,242	135,973
Total	¥ 1,158,958	¥ 796,112

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

	Millions of yen	
	Three months ended September 30, 2017	Three months ended September 30, 2016
Japan	¥ 151,354	¥ 135,935
The Americas	217,251	133,895
Europe and CIS	76,203	50,076
China	35,427	18,376
Others	117,512	68,578
Total	¥ 597,747	¥ 406,860

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

19. Material Subsequent Events

Not applicable.

Komatsu evaluated subsequent events through November 9, 2017, the issue date of its quarterly consolidated financial statements.

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.