

(Translation)

This document has been translated from the Japanese original for the convenience of overseas stakeholders. In the event of any discrepancy between this document and the Japanese original, the original shall prevail.

Quarterly Report

From October 1, 2017 to December 31, 2017

(Third 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 December 31, 2017 with the Director-General of the Kanto Local Finance Bureau on February 13, 2018. The Quarterly Securities Report contains, among other information, Quarterly Consolidated Financial Statements for the three months and nine months ended December 31, 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 January 31, 2018. Attached is an English translation of Quarterly Consolidated Financial Statements for the three months and nine months ended December 31, 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 December 31, 2017 (from October 1 to December 31, 2017) and for the nine months ended December 31, 2017 (from April 1 to December 31, 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 December 31, 2017 and March 31, 2017

Assets	December 31, 2017		March 31, 2017	
	Millions of yen	Ratio (%)	Millions of yen	Ratio (%)
Current assets				
Cash and cash equivalents (Note 14)	¥ 165,304		¥ 119,901	
Time deposits (Note 14)	2,493		2,289	
Trade notes and accounts receivable, net (Notes 4 and 14)	765,589		619,265	
Inventories (Note 5)	757,480		533,897	
Deferred income taxes and other current assets (Notes 1, 13, 14 and 15)	122,316		144,169	
Total current assets	1,813,182	52.4	1,419,521	53.4
Long-term trade receivables, net (Notes 4 and 14)	373,437	10.8	313,946	11.8
Investments				
Investments in and advances to affiliated companies	31,930		30,330	
Investment securities (Notes 6, 14 and 15)	12,238		67,716	
Other	2,779		2,424	
Total investments	46,947	1.3	100,470	3.8
Property, plant and equipment				
– less accumulated depreciation and amortization of ¥855,041 million at December 31, 2017 and ¥816,321 million at March 31, 2017	767,837	22.2	679,027	25.6
Goodwill (Note 3)	175,863	5.1	40,072	1.5
Other intangible assets (Note 7)				
– less accumulated amortization	183,118	5.3	61,083	2.3
Deferred income taxes and other assets (Notes 1, 13, 14, 15 and 19)	99,604	2.9	42,363	1.6
Total assets	¥ 3,459,988	100.0	¥ 2,656,482	100.0
Liabilities and Equity	December 31, 2017		March 31, 2017	
	Millions of yen	Ratio (%)	Millions of yen	Ratio (%)
Current liabilities				
Short-term debt (Note 14)	¥ 307,933		¥ 128,452	
Current maturities of long-term debt (Notes 14 and 15)	48,971		89,391	
Trade notes, bills and accounts payable (Note 14)	303,319		240,113	
Income taxes payable (Note 19)	46,159		25,136	
Deferred income taxes and other current liabilities (Notes 1, 13, 14 and 15)	300,216		217,090	
Total current liabilities	1,006,598	29.1	700,182	26.3
Long-term liabilities				
Long-term debt (Notes 14 and 15)	527,821		190,859	
Liability for pension and retirement benefits	85,881		65,247	
Deferred income taxes and other liabilities (Notes 1, 13, 14, 15 and 19)	73,127		51,679	
Total long-term liabilities	686,829	19.8	307,785	11.6
Total liabilities	1,693,427	48.9	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 943,252,968 shares at December 31, 2017 and 942,983,225 shares at March 31, 2017	67,870		67,870	
Capital surplus	138,546		138,285	
Retained earnings:				
Appropriated for legal reserve	45,828		45,368	
Unappropriated	1,450,619		1,357,350	
Accumulated other comprehensive income (loss) (Notes 6, 9, 13 and 15)	32,608		18,682	
Treasury stock at cost,				
28,714,692 shares at December 31, 2017 and 28,984,435 shares at March 31, 2017	(50,507)		(50,881)	
Total Komatsu Ltd. shareholders' equity	1,684,964	48.7	1,576,674	59.4
Noncontrolling interests	81,597	2.4	71,841	2.7
Total equity	1,766,561	51.1	1,648,515	62.1
Total liabilities and equity	¥ 3,459,988	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
 Nine months ended December 31, 2017 and 2016.

Consolidated Statements of Income

	Nine months ended December 31, 2017		Nine months ended December 31, 2016	
	Millions of yen	Ratio (%)	Millions of yen	Ratio (%)
Net sales	¥ 1,805,801	100.0	¥ 1,226,707	100.0
Cost of sales (Notes 7, 8, 9 and 13)	1,283,075	71.1	875,614	71.4
Selling, general and administrative expenses (Notes 3, 7, 8, 9 and 10)	321,865	17.8	243,256	19.8
Other operating income (expenses), net (Note 3)	(12,672)	(0.7)	(812)	(0.1)
Operating income	188,189	10.4	107,025	8.7
Other income (expenses), net				
Interest and dividend income	4,059	0.2	2,602	0.2
Interest expense	(13,427)	(0.7)	(5,692)	(0.5)
Gain on sales of investment securities, net (Notes 6 and 9)	48,287	2.7	196	0.0
Other, net (Notes 6, 9, 13 and 15)	(11,768)	(0.7)	(868)	(0.1)
Total	27,151	1.5	(3,762)	(0.3)
Income before income taxes and equity in earnings of affiliated companies	215,340	11.9	103,263	8.4
Income taxes (Notes 9 and 19)				
Current	53,982		29,334	
Deferred	(23)		5,855	
Total	53,959	3.0	35,189	2.9
Income before equity in earnings of affiliated companies	161,381	8.9	68,074	5.5
Equity in earnings of affiliated companies	2,851	0.2	2,845	0.2
Net income	164,232	9.1	70,919	5.8
Less: Net income attributable to noncontrolling interests	9,168	0.5	2,584	0.2
Net income attributable to Komatsu Ltd.	¥ 155,064	8.6	¥ 68,335	5.6
	Yen			
Per share data (Note 11):				
Net income attributable to Komatsu Ltd.:				
Basic	164.41		72.48	
Diluted	164.19		72.39	
Cash dividends per share (Note 17)	65.00		58.00	

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

Consolidated Statements of Comprehensive Income

	Millions of yen	
	Nine months ended December 31, 2017	Nine months ended December 31, 2016
Net income	¥ 164,232	¥ 70,919
Other comprehensive income (loss), for the period, net of tax		
Foreign currency translation adjustments (Note 9)	41,971	11,773
Net unrealized holding gains (losses) on securities available for sale (Notes 6 and 9)	(28,554)	9,624
Pension liability adjustments (Notes 8 and 9)	1,648	1,700
Net unrealized holding gains (losses) on derivative instruments (Notes 9 and 13)	1,360	(1,955)
Total	16,425	21,142
Comprehensive income (loss)	180,657	92,061
Less: Comprehensive income (loss) attributable to noncontrolling interests	11,667	2,979
Comprehensive income (loss) attributable to Komatsu Ltd.	¥ 168,990	¥ 89,082

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

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

Komatsu Ltd. and Consolidated Subsidiaries
Three months ended December 31, 2017 and 2016.

Consolidated Statements of Income

	Three months ended December 31, 2017		Three months ended December 31, 2016	
	Millions of yen	Ratio (%)	Millions of yen	Ratio (%)
Net sales	¥ 646,843	100.0	¥ 430,595	100.0
Cost of sales (Notes 7, 8, 9 and 13)	450,431	69.6	306,066	71.1
Selling, general and administrative expenses (Notes 3, 7, 8, 9 and 10)	109,271	16.9	80,928	18.8
Other operating income (expenses), net (Note 3)	(11,575)	(1.8)	(702)	(0.2)
Operating income	75,566	11.7	42,899	10.0
Other income (expenses), net				
Interest and dividend income	1,107	0.2	999	0.2
Interest expense	(5,190)	(0.8)	(1,843)	(0.4)
Gain on sales of investment securities, net (Notes 6 and 9)	8,724	1.3	–	–
Other, net (Notes 6, 9, 13 and 15)	(8,984)	(1.4)	3,113	0.7
Total	(4,343)	(0.7)	2,269	0.5
Income before income taxes and equity in earnings of affiliated companies	71,223	11.0	45,168	10.5
Income taxes (Notes 9 and 19)				
Current	13,863		6,540	
Deferred	1,846		7,490	
Total	15,709	2.4	14,030	3.3
Income before equity in earnings of affiliated companies	55,514	8.6	31,138	7.2
Equity in earnings of affiliated companies	1,102	0.2	1,033	0.2
Net income	56,616	8.8	32,171	7.5
Less: Net income attributable to noncontrolling interests	3,307	0.5	1,354	0.3
Net income attributable to Komatsu Ltd.	¥ 53,309	8.2	¥ 30,817	7.2
	Yen			
Per share data (Note 11):				
Net income attributable to Komatsu Ltd.:				
Basic	56.52		32.69	
Diluted	56.44		32.64	
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	
	Three months ended December 31, 2017	Three months ended December 31, 2016
Net income	¥ 56,616	¥ 32,171
Other comprehensive income (loss), for the period, net of tax		
Foreign currency translation adjustments (Note 9)	11,301	121,995
Net unrealized holding gains (losses) on securities available for sale (Notes 6 and 9)	(4,951)	8,509
Pension liability adjustments (Notes 8 and 9)	800	520
Net unrealized holding gains (losses) on derivative instruments (Notes 9 and 13)	78	(2,250)
Total	7,228	128,774
Comprehensive income (loss)	63,844	160,945
Less: Comprehensive income (loss) attributable to noncontrolling interests	4,015	9,181
Comprehensive income (loss) attributable to Komatsu Ltd.	¥ 59,829	¥ 151,764

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

Consolidated Statements of Equity (Unaudited)

Komatsu Ltd. and Consolidated Subsidiaries

Nine months ended December 31, 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)				(61,335)			(61,335)	(3,191)	(64,526)
Transfer to retained earnings appropriated for legal reserve			460	(460)			—		—
Other changes								1,280	1,280
Net income				155,064			155,064	9,168	164,232
Other comprehensive income (loss), for the period, net of tax (Note 9)					13,926		13,926	2,499	16,425
Issuance and exercise of stock acquisition rights (Note 10)		206					206		206
Purchase of treasury stock						(40)	(40)		(40)
Sales of treasury stock		55				414	469		469
Balance at December 31, 2017	¥ 67,870	¥ 138,546	¥ 45,828	¥ 1,450,619	¥ 32,608	¥ (50,507)	¥ 1,684,964	¥ 81,597	¥ 1,766,561

Nine months ended December 31, 2016

	Millions of yen								
	Common stock	Capital surplus	Retained earnings		Accumulated other comprehensive income (loss)	Treasury stock	Total Komatsu Ltd. shareholders' equity	Non-controlling interests	Total equity
			Appropriated for legal reserve	Un-appropriated					
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)				(54,711)			(54,711)	(2,674)	(57,385)
Transfer to retained earnings appropriated for legal reserve			1,348	(1,348)			—		—
Other changes		(239)					(239)	(124)	(363)
Net income				68,335			68,335	2,584	70,919
Other comprehensive income (loss), for the period, net of tax (Note 9)					20,747		20,747	395	21,142
Issuance and exercise of stock acquisition rights (Note 10)		171					171		171
Purchase of treasury stock						(29)	(29)		(29)
Sales of treasury stock		30				278	308		308
Balance at December 31, 2016	¥ 67,870	¥ 138,205	¥ 45,366	¥ 1,312,306	¥ 39,414	¥ (51,165)	¥ 1,551,996	¥ 70,527	¥ 1,622,523

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

Consolidated Statements of Cash Flows (Unaudited)

Komatsu Ltd. and Consolidated Subsidiaries
 Nine months ended December 31, 2017 and 2016

	Millions of yen	
	Nine months ended December 31, 2017	Nine months ended December 31, 2016
Operating activities		
Net income	¥ 164,232	¥ 70,919
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	98,857	77,367
Deferred income taxes	(23)	5,855
Impairment loss and net loss (gain) from sale of investment securities	(48,146)	(173)
Net loss (gain) on sale of property	(376)	(592)
Loss on disposal of fixed assets	1,858	1,504
Pension and retirement benefits, net	(2,779)	2,131
Changes in assets and liabilities:		
Decrease (increase) in trade receivables	(115,732)	8,434
Decrease (increase) in inventories	(86,229)	(39,237)
Increase (decrease) in trade payables	22,259	7,319
Increase (decrease) in income taxes payable	20,013	(19,495)
Other, net	27,690	32,559
Net cash provided by (used in) operating activities	<u>81,624</u>	<u>146,591</u>
Investing activities		
Capital expenditures	(122,996)	(107,997)
Proceeds from sale of property	16,256	13,926
Proceeds from sale of available for sale investment securities	60,823	602
Purchases of available for sale investment securities	(589)	(107)
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	(273,534)	(5,905)
Collection of loan receivables	136	9
Disbursement of loan receivables	(775)	(64)
Decrease (increase) in time deposits, net	(100)	(62)
Net cash provided by (used in) investing activities	<u>(320,209)</u>	<u>(94,113)</u>
Financing activities		
Proceeds from debt issued (Original maturities greater than three months)	423,248	109,443
Payment on debt (Original maturities greater than three months)	(175,336)	(112,344)
Short-term debt, net (Original maturities three months or less)	101,830	38,299
Repayments of capital lease obligations	(36)	(42)
Sale (purchase) of treasury stock, net	62	35
Dividends paid	(61,335)	(54,711)
Other, net	(6,711)	(2,326)
Net cash provided by (used in) financing activities	<u>281,722</u>	<u>(21,646)</u>
Effect of exchange rate change on cash and cash equivalents	<u>2,266</u>	<u>(3,023)</u>
Net increase (decrease) in cash and cash equivalents	45,403	27,809
Cash and cash equivalents, beginning of year	119,901	106,259
Cash and cash equivalents, end of period	<u>¥ 165,304</u>	<u>¥ 134,068</u>

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

Komatsu Ltd. and Consolidated Subsidiaries
Three months and nine months ended December 31, 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 21 “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.

From the three months ended December 31, 2017, Komatsu has adopted the Staff Accounting Bulletin (“SAB”) 118, “Income Tax Accounting Implications of the Tax Cuts and Jobs Act (the “Act”)”. During a measurement period, SAB 118 allows for recording provisional amounts based on a reasonable estimate for an income tax accounting effect of the Act enacted on December 22, 2017. Komatsu recorded provisional amounts based on the information available as of the issue date of the quarterly consolidated financial statements for an income tax accounting effect of the Act.

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 nine months ended December 31, 2017 and 2016 are as follows:

	Millions of yen			
	Nine months ended December 31, 2017		Nine months ended December 31, 2016	
Additional cash flow information:				
Interest paid	¥	11,822	¥	5,944
Income taxes paid		40,121		37,468
Noncash investing and financing activities:				
Capital lease obligations incurred	¥	537	¥	544

3. Business Combination

(1) 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 second quarterly report of the 149th fiscal year.

Following is a summary of the acquired assets and assumed liabilities after the allocation of acquisition cost on the acquisition date.

	<u>Millions of yen</u>
Consideration	
Cash and cash equivalents	¥ 316,128
Fair value of total consideration transferred	<u>316,128</u>
Recognized amounts of identifiable acquired assets and assumed liabilities	
Cash and cash equivalents	¥ 42,991
Trade notes and accounts receivable	59,012
Inventories	116,752
Other current assets	12,076
Property, plant and equipment	85,376
Intangible assets	129,951
Other non-current assets	17,198
Total acquired assets	<u>463,356</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	(42,782)
Total assumed liabilities	<u>(280,093)</u>
Net acquired assets	<u>183,263</u>
Goodwill	<u>132,865</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 ¥129,951 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 nine months ended December 31, 2017 are ¥1,447 million (accumulated acquisition-related costs: ¥3,374 million) and included in selling, general and administrative expenses in the consolidated statement of income for the nine months ended December 31, 2017.

The amounts of net sales and net loss of Joy Global included in the consolidated statements of income for the nine months ended December 31, 2017 since the date of acquisition were ¥236,319 million and ¥7,152 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 nine months ended December 31, 2017, the pro forma calculation for the period is not disclosed.

	Millions of yen
	Nine months ended December 31, 2016
Net Sales	¥ 1,422,516
Net income attributable to Komatsu Ltd.	67,991

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

(2) Transfer of vacation homes management business

The Company entered into an agreement on December 14, 2017, with Himawari Co., Ltd. (hereinafter “Himawari”) to transfer the vacation homes management business (road maintenance, plumbing, hot-springs water supply and other businesses) of the Company’s wholly-owned subsidiary Komatsu General Services Ltd. (hereinafter “KGS”) to Himawari, which operates resort related businesses. The transfer, which will be conducted by a series of transactions including the transfer of all common shares of KGS, is scheduled to take place on March 1, 2018.

KGS has operated the vacation homes management business for many years, servicing vacation homes in and around Izu Peninsula and Asama. However, as Himawari has a proven record in the resort apartment and vacation homes management business, the Company decided to transfer the business to Himawari for the further development of vacation homes.

The total amounts of expenses to be incurred as a result of the transfer of the vacation homes management business have been estimated at ¥11,323 million. The Company recorded a reserve for the liabilities related to these expenses for the three months ended December 31, 2017 and it recorded related losses in other operating income (expenses), net in the quarterly consolidated statements of income.

4. Allowance for Doubtful Receivables

At December 31, 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 ¥23,760 million and ¥22,326 million, respectively.

5. Inventories

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

	Millions of yen	
	December 31, 2017	March 31, 2017
Finished products, including finished parts held for sale	¥ 523,480	¥ 383,630
Work in process	175,906	109,844
Materials and supplies	58,094	40,423
Total	¥ 757,480	¥ 533,897

6. Investment Securities

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

	Millions of yen			
	Cost	Gross unrealized holding		Fair value
		Gains	Losses	
At December 31, 2017				
Investment securities:				
Marketable equity securities available for sale	¥ 807	¥ 2,458	¥ —	¥ 3,265
Other investment securities at cost	8,973			
	¥ 9,780			
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			
	¥ 21,684			

Other investment securities primarily include non-marketable equity securities.

Proceeds from the sale of investment securities available for sale during the nine months ended December 31, 2017 and 2016, amounted to ¥60,823 million and ¥602 million, respectively.

Impairment loss and net gain (loss) from sale of investment securities available for sale during the nine months ended December 31, 2017 and 2016, amounted to gains of ¥48,146 million and ¥173 million, respectively. Impairment loss and net gain (loss) from sale of investment securities available for sale during the three months ended December 31, 2017 and 2016 amounted to gains of ¥8,722 million and losses of ¥4 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 December 31, 2017 and at March 31, 2017 are as follows:

	Millions of yen					
	December 31, 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	¥38,478	¥ (19,356)	¥ 19,122	¥31,132	¥ (15,221)	¥ 15,911
Leasehold	9,045	(1,729)	7,316	7,943	(1,339)	6,604
Trademarks	58,493	(3,335)	55,158	1,077	(437)	640
Customer relationships	70,452	(14,080)	56,372	25,749	(10,273)	15,476
Technology assets	34,538	(8,032)	26,506	14,684	(6,341)	8,343
Backlog	9,005	(6,205)	2,800	1,165	(1,165)	—
Other	7,252	(5,772)	1,480	6,477	(5,007)	1,470
Total	227,263	(58,509)	168,754	88,227	(39,783)	48,444
Other intangible assets not subject to amortization			14,364			12,639
Total other intangible assets			¥183,118			¥61,083

The aggregate amortization expense of other intangible assets subject to amortization during the nine months ended December 31, 2017 and 2016 were ¥17,852 million and ¥6,184 million, respectively. The aggregate amortization expense of other intangible assets subject to amortization during the three months ended December 31, 2017 and 2016 were ¥6,021 million and ¥2,050 million, respectively.

8. Cost of Retirement Benefits

Net periodic cost of Komatsu's defined benefit plans for the nine months ended December 31, 2017 and 2016, consisted of the following components:

	Millions of yen	
	Nine months ended December 31, 2017	Nine months ended December 31, 2016
Service cost	¥ 6,772	¥ 6,912
Interest cost on projected benefit obligations	5,471	1,321
Expected return on plan assets	(9,188)	(2,556)
Amortization of actuarial loss	1,366	1,769
Amortization of prior service cost	114	203
Net periodic cost	¥ 4,535	¥ 7,649

Net periodic cost of the postretirement benefit plans for the nine months ended December 31, 2017 and 2016 included the following components:

	Millions of yen	
	Nine months ended December 31, 2017	Nine months ended December 31, 2016
Service cost	¥ 344	¥ 351
Interest cost on projected benefit obligations	392	420
Expected return on plan assets	(448)	(372)
Amortization of actuarial loss	66	176
Amortization of prior service cost	58	81
Net periodic cost	¥ 412	¥ 656

Net periodic cost of Komatsu's defined benefit plans for the three months ended December 31, 2017 and 2016, consisted of the following components:

	Millions of yen	
	Three months ended December 31, 2017	Three months ended December 31, 2016
Service cost	¥ 2,239	¥ 2,327
Interest cost on projected benefit obligations	1,839	432
Expected return on plan assets	(3,071)	(841)
Amortization of actuarial loss	443	584
Amortization of prior service cost	36	70
Net periodic cost	¥ 1,486	¥ 2,572

Net periodic cost of the postretirement benefit plans for the three months ended December 31, 2017 and 2016 included the following components:

	Millions of yen	
	Three months ended December 31, 2017	Three months ended December 31, 2016
Service cost	¥ 116	¥ 117
Interest cost on projected benefit obligations	132	141
Expected return on plan assets	(151)	(124)
Amortization of actuarial loss	22	59
Amortization of prior service cost	20	27
Net periodic cost	¥ 139	¥ 220

9. Other Comprehensive Income (Loss)

Changes in accumulated other comprehensive income (loss) for the nine months ended December 31, 2017 and 2016 are as follows:

	Millions of yen				
	Nine months ended December 31, 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	41,971	3,446	210	3,050	48,677
Amounts reclassified from accumulated other comprehensive income (loss)	—	(32,000)	1,438	(1,690)	(32,252)
Net other comprehensive income (loss)	41,971	(28,554)	1,648	1,360	16,425
Less: other comprehensive income (loss) attributable to noncontrolling interests	2,426	—	42	31	2,499
Other comprehensive income (loss) attributable to Komatsu Ltd.	39,545	(28,554)	1,606	1,329	13,926
Balance, end of period	¥ 50,559	¥ 1,560	¥ (21,543)	¥ 2,032	¥ 32,608

All amounts are net of tax.

	Millions of yen				
	Nine months ended December 31, 2016				
	Foreign currency translation adjustments	Net unrealized holding gains(losses) on securities available for sale	Pension liability adjustments	Net unrealized holding gains (losses) on derivative instruments	Total
Balance, beginning of year	¥ 26,603	¥ 19,253	¥ (28,067)	¥ 878	¥ 18,667
Other comprehensive income (loss) before reclassifications	11,773	9,727	207	(1,310)	20,397
Amounts reclassified from accumulated other comprehensive income (loss)	—	(103)	1,493	(645)	745
Net other comprehensive income (loss)	11,773	9,624	1,700	(1,955)	21,142
Less: other comprehensive income (loss) attributable to noncontrolling interests	347	—	1	47	395
Other comprehensive income (loss) attributable to Komatsu Ltd.	11,426	9,624	1,699	(2,002)	20,747
Balance, end of period	¥ 38,029	¥ 28,877	¥ (26,368)	¥ (1,124)	¥ 39,414

All amounts are net of tax.

Changes in accumulated other comprehensive income (loss) for the three months ended December 31, 2017 and 2016 are as follows:

	Millions of yen				
	Three months ended December 31, 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	¥ 39,946	¥ 6,511	¥ (22,327)	¥ 1,958	¥ 26,088
Other comprehensive income (loss) before reclassifications	11,301	690	78	367	12,436
Amounts reclassified from accumulated other comprehensive income (loss)	—	(5,641)	722	(289)	(5,208)
Net other comprehensive income (loss)	11,301	(4,951)	800	78	7,228
Less: other comprehensive income (loss) attributable to noncontrolling interests	688	—	16	4	708
Other comprehensive income (loss) attributable to Komatsu Ltd.	10,613	(4,951)	784	74	6,520
Balance, end of period	¥ 50,559	¥ 1,560	¥ (21,543)	¥ 2,032	¥ 32,608

All amounts are net of tax.

	Millions of yen				
	Three months ended December 31, 2016				
	Foreign currency translation adjustments	Net unrealized holding gains(losses) on securities available for sale	Pension liability adjustments	Net unrealized holding gains (losses) on derivative instruments	Total
Balance, beginning of period	¥ (76,211)	¥ 20,368	¥ (26,883)	¥ 1,193	¥ (81,533)
Other comprehensive income (loss) before reclassifications	121,995	8,509	23	(2,321)	128,206
Amounts reclassified from accumulated other comprehensive income (loss)	—	—	497	71	568
Net other comprehensive income (loss)	121,995	8,509	520	(2,250)	128,774
Less: other comprehensive income (loss) attributable to noncontrolling interests	7,755	—	5	67	7,827
Other comprehensive income (loss) attributable to Komatsu Ltd.	114,240	8,509	515	(2,317)	120,947
Balance, end of period	¥ 38,029	¥ 28,877	¥ (26,368)	¥ (1,124)	¥ 39,414

All amounts are net of tax.

Reclassification out of accumulated other comprehensive income (loss) for the nine months ended December 31, 2017 and 2016 are as follows:

	Millions of yen		Affected line items in consolidated statements of income
	Nine months ended December 31, 2017		
Net unrealized holding gains (losses) on securities available for sale			
Gain from sale	¥	48,446	Other income (expenses), net: Gain on sales of investment securities, net
		48,446	Total before tax
		(16,446)	Income taxes
		32,000	Net of tax
Pension liability adjustments			
Amortization of actuarial loss and prior service cost		(1,604)	*1
		(1,604)	Total before tax
		166	Income taxes
		(1,438)	Net of tax
Net unrealized holding gains (losses) on derivative instruments			
Forwards contracts		2,378	Other income (expenses), net: Other, net
		2,378	Total before tax
		(688)	Income taxes
		1,690	Net of tax
Total reclassification for the period	¥	32,252	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
	Nine months ended December 31, 2016		
Net unrealized holding gains (losses) on securities available for sale			
Gain from sale	¥	207	Other income (expenses), net: Gain on sales of investment securities, net
		207	Total before tax
		(104)	Income taxes
		103	Net of tax
Pension liability adjustments			
Amortization of actuarial loss and prior service cost		(2,229)	*1
		(2,229)	Total before tax
		736	Income taxes
		(1,493)	Net of tax
Net unrealized holding gains (losses) on derivative instruments			
Forwards contracts		943	Other income (expenses), net: Other, net
		943	Total before tax
		(298)	Income taxes
		645	Net of tax
Total reclassification for the period	¥	(745)	Net of tax

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

Reclassification out of accumulated other comprehensive income (loss) for the three months ended December 31, 2017 and 2016 are as follows:

	Millions of yen	
	Three months ended December 31, 2017	Affected line items in consolidated statements of income
Net unrealized holding gains (losses) on securities available for sale		
Gain from sale	¥ 8,731	Other income (expenses), net: Gain on sales of investment securities, net
	8,731	Total before tax
	(3,090)	Income taxes
	5,641	Net of tax
Pension liability adjustments		
Amortization of actuarial loss and prior service cost	(521)	*1
	(521)	Total before tax
	(201)	Income taxes
	(722)	Net of tax
Net unrealized holding gains (losses) on derivative instruments		
Forwards contracts	371	Other income (expenses), net: Other, net
	371	Total before tax
	(82)	Income taxes
	289	Net of tax
Total reclassification for the period	¥ 5,208	Net of tax

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

	Millions of yen	
	Three months ended December 31, 2016	Affected line items in consolidated statements of income
Pension liability adjustments		
Amortization of actuarial loss and prior service cost	¥ (740)	*1
	(740)	Total before tax
	243	Income taxes
	(497)	Net of tax
Net unrealized holding gains (losses) on derivative instruments		
Forwards contracts	(103)	Other income (expenses), net: Other, net
	(103)	Total before tax
	32	Income taxes
	(71)	Net of tax
Total reclassification for the period	¥ (568)	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 nine months ended December 31, 2017 and 2016 are as follows:

	Millions of yen		
	Nine months ended December 31, 2017		
	Before tax amount	Tax (expense) or benefit	Net of tax amount
Foreign currency translation adjustments			
Foreign currency translation adjustments arising during period	¥ 42,090	¥ (119)	¥ 41,971
Less: reclassification adjustment for gains included in net income	—	—	—
Net foreign currency translation adjustments	42,090	(119)	41,971
Net unrealized holding gains (losses) on securities available for sale			
Unrealized holding gains arising during period	5,094	(1,648)	3,446
Less: reclassification adjustment for gains included in net income	(48,446)	16,446	(32,000)
Net unrealized holding losses	(43,352)	14,798	(28,554)
Pension liability adjustments			
Pension liability adjustments arising during period	292	(82)	210
Less: reclassification adjustment for losses included in net income	1,604	(166)	1,438
Net pension liability adjustments	1,896	(248)	1,648
Net unrealized holding gains (losses) on derivative instruments			
Unrealized holding gains arising during period	3,840	(790)	3,050
Less: reclassification adjustment for gains included in net income	(2,378)	688	(1,690)
Net unrealized holding gains	1,462	(102)	1,360
Other comprehensive income (loss)	¥ 2,096	¥ 14,329	¥ 16,425

	Millions of yen		
	Nine months ended December 31, 2016		
	Before tax amount	Tax (expense) or benefit	Net of tax amount
Foreign currency translation adjustments			
Foreign currency translation adjustments arising during period	¥ 11,727	¥ 46	¥ 11,773
Less: reclassification adjustment for gains included in net income	—	—	—
Net foreign currency translation adjustments	11,727	46	11,773
Net unrealized holding gains (losses) on securities available for sale			
Unrealized holding gains arising during period	14,197	(4,470)	9,727
Less: reclassification adjustment for gains included in net income	(207)	104	(103)
Net unrealized holding gains	13,990	(4,366)	9,624
Pension liability adjustments			
Pension liability adjustments arising during period	354	(147)	207
Less: reclassification adjustment for losses included in net income	2,229	(736)	1,493
Net pension liability adjustments	2,583	(883)	1,700
Net unrealized holding gains (losses) on derivative instruments			
Unrealized holding losses arising during period	(1,889)	579	(1,310)
Less: reclassification adjustment for gains included in net income	(943)	298	(645)
Net unrealized holding losses	(2,832)	877	(1,955)
Other comprehensive income (loss)	¥ 25,468	¥ (4,326)	¥ 21,142

Tax effects allocated to each component of other comprehensive income (loss) for the three months ended December 31, 2017 and 2016 are as follows:

	Millions of yen		
	Three months ended December 31, 2017		
	Before tax amount	Tax (expense) or benefit	Net of tax amount
Foreign currency translation adjustments			
Foreign currency translation adjustments arising during period	¥ 11,326	¥ (25)	¥ 11,301
Less: reclassification adjustment for gains included in net income	—	—	—
Net foreign currency translation adjustments	11,326	(25)	11,301
Net unrealized holding gains (losses) on securities available for sale			
Unrealized holding gains arising during period	1,037	(347)	690
Less: reclassification adjustment for gains included in net income	(8,731)	3,090	(5,641)
Net unrealized holding losses	(7,694)	2,743	(4,951)
Pension liability adjustments			
Pension liability adjustments arising during period	109	(31)	78
Less: reclassification adjustment for losses included in net income	521	201	722
Net pension liability adjustments	630	170	800
Net unrealized holding gains (losses) on derivative instruments			
Unrealized holding gains arising during period	416	(49)	367
Less: reclassification adjustment for gains included in net income	(371)	82	(289)
Net unrealized holding gains	45	33	78
Other comprehensive income (loss)	¥ 4,307	¥ 2,921	¥ 7,228

	Millions of yen		
	Three months ended December 31, 2016		
	Before tax amount	Tax (expense) or benefit	Net of tax amount
Foreign currency translation adjustments			
Foreign currency translation adjustments arising during period	¥ 122,263	¥ (268)	¥ 121,995
Less: reclassification adjustment for gains included in net income	—	—	—
Net foreign currency translation adjustments	122,263	(268)	121,995
Net unrealized holding gains (losses) on securities available for sale			
Unrealized holding gains arising during period	12,374	(3,865)	8,509
Less: reclassification adjustment for gains included in net income	—	—	—
Net unrealized holding gains	12,374	(3,865)	8,509
Pension liability adjustments			
Pension liability adjustments arising during period	29	(6)	23
Less: reclassification adjustment for losses included in net income	740	(243)	497
Net pension liability adjustments	769	(249)	520
Net unrealized holding gains (losses) on derivative instruments			
Unrealized holding losses arising during period	(3,388)	1,067	(2,321)
Less: reclassification adjustment for losses included in net income	103	(32)	71
Net unrealized holding losses	(3,285)	1,035	(2,250)
Other comprehensive income (loss)	¥ 132,121	¥ (3,347)	¥ 128,774

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 nine months ended December 31, 2017 and 2016 were ¥519 million and ¥430 million, respectively, and were recorded in selling, general and administrative expenses. Compensation expenses during the three months ended December 31, 2017 and 2016 were ¥311 million and ¥258 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	
	Nine months ended December 31, 2017	Nine months ended December 31, 2016
Net income attributable to Komatsu Ltd.	¥ 155,064	¥ 68,335
	Number of shares	
	Nine months ended December 31, 2017	Nine months ended December 31, 2016
Weighted average common shares outstanding, less treasury stock	943,135,301	942,756,875
Dilutive effect of:		
Stock options	1,268,035	1,249,572
Weighted average diluted common shares outstanding	944,403,336	944,006,447
	Yen	
	Nine months ended December 31, 2017	Nine months ended December 31, 2016
Net income attributable to Komatsu Ltd. per share:		
Basic	164.41	72.48
Diluted	164.19	72.39

	Millions of yen	
	Three months ended December 31, 2017	Three months ended December 31, 2016
Net income attributable to Komatsu Ltd.	¥ 53,309	¥ 30,817
	Number of shares	
	Three months ended December 31, 2017	Three months ended December 31, 2016
Weighted average common shares outstanding, less treasury stock	943,240,560	942,816,775
Dilutive effect of:		
Stock options	1,297,181	1,326,464
Weighted average diluted common shares outstanding	944,537,741	944,143,239
	Yen	
	Three months ended December 31, 2017	Three months ended December 31, 2016
Net income attributable to Komatsu Ltd. per share:		
Basic	56.52	32.69
Diluted	56.44	32.64

12. Contingent Liabilities

At December 31, 2017 and at March 31, 2017, Komatsu was contingently liable for discounted and transferred receivables on a recourse basis with the financial institutions of ¥58 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 December 31, 2017 and at March 31, 2017 were ¥15,089 million and ¥13,862 million, respectively. The fair value of the liabilities recognized for Komatsu's obligations as guarantors under those guarantees at December 31, 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 December 31, 2017 was ¥11,381 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 mainly 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 December 31, 2017 and at March 31, 2017 are as follows:

	Millions of yen	
	December 31, 2017	March 31, 2017
Forwards contracts:		
Sale of foreign currencies	¥ 205,979	¥ 114,433
Purchase of foreign currencies	143,824	90,493
Interest rate swaps and cross-currency swap agreements	92,207	77,588

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

	Millions of yen			
	December 31, 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	¥ 278	Deferred income taxes and other current liabilities	¥ 512
	Deferred income taxes and other assets	3,769	Deferred income taxes and other liabilities	418
Interest rate swaps and cross-currency swap agreements	Deferred income taxes and other current assets	34	Deferred income taxes and other current liabilities	45
Total		¥ 4,081		¥ 975
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	¥ 1,412	Deferred income taxes and other current liabilities	¥ 5,280
	Deferred income taxes and other assets	28	Deferred income taxes and other liabilities	—
Interest rate swaps and cross-currency swap agreements	Deferred income taxes and other current assets	10	Deferred income taxes and other current liabilities	253
	Deferred income taxes and other assets	—	Deferred income taxes and other liabilities	—
Total		¥ 1,450		¥ 5,533
Total Derivative Instruments		¥ 5,531		¥ 6,508

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 nine months ended December 31, 2017 and 2016 are as follows:

Derivative instruments designated as cash flow hedging relationships

	Millions of yen				
	Nine months ended December 31, 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	¥ 3,730	Other income (expenses), net: Other, net	¥ 2,543	Other income (expenses), net: Other, net	¥ (165)
Interest rate swaps and cross-currency swap agreements	110	—	—	—	—
Total	¥ 3,840		¥ 2,543		¥ (165)

	Millions of yen				
	Nine months ended December 31, 2016				
	Effective portion			Ineffective portion and amount excluded from effectiveness testing	
	Amount of gains (losses) recognized in OCI on derivatives	Location of gains (losses) reclassified from accumulated OCI into income	Amount of gains (losses) reclassified from accumulated OCI into income	Location of gains (losses) recognized in income on derivatives	Amount of gains (losses) recognized in income on derivatives
Forwards contracts	¥ (2,061)	Other income (expenses), net: Other, net	¥ 884	Other income (expenses), net: Other, net	¥ 59
Interest rate swaps and cross-currency swap agreements	172	—	—	—	—
Total	¥ (1,889)		¥ 884		¥ 59

* OCI stands for other comprehensive income (loss).

Derivative instruments not designated as hedging instruments relationships

Millions of yen		
Nine months ended December 31, 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	¥ (3,538)
Interest rate swaps and cross-currency swap agreements	Cost of sales	(80)
	Other income (expenses), net: Other, net	38
Total		¥ (3,580)

Millions of yen		
Nine months ended December 31, 2016		
	Location of gains (losses) recognized in income on derivatives	Amount of gains (losses) recognized in income on derivatives
Forwards contracts	Other income (expenses), net: Other, net	¥ (2,530)
Interest rate swaps and cross-currency swap agreements	Cost of sales	(86)
	Other income (expenses), net: Other, net	72
Total		¥ (2,544)

The effects of derivative instruments on the consolidated statements of income and the consolidated statements of comprehensive income for the three months ended December 31, 2017 and 2016 are as follows:

Derivative instruments designated as cash flow hedging relationships

	Millions of yen				
	Three months ended December 31, 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	¥ 401	Other income (expenses), net: Other, net	¥ 646	Other income (expenses), net: Other, net	¥ (275)
Interest rate swaps and cross-currency swap agreements	15	—	—	—	—
Total	¥ 416		¥ 646		¥ (275)

	Millions of yen				
	Three months ended December 31, 2016				
	Effective portion			Ineffective portion and amount excluded from effectiveness testing	
	Amount of gains (losses) recognized in OCI on derivatives	Location of gains (losses) reclassified from accumulated OCI into income	Amount of gains (losses) reclassified from accumulated OCI into income	Location of gains (losses) recognized in income on derivatives	Amount of gains (losses) recognized in income on derivatives
Forwards contracts	¥ (3,628)	Other income (expenses), net: Other, net	¥ (103)	—	¥ —
Interest rate swaps and cross-currency swap agreements	240	—	—	—	—
Total	¥ (3,388)		¥ (103)		¥ —

* OCI stands for other comprehensive income (loss).

Derivative instruments not designated as hedging instruments relationships

Millions of yen		
Three months ended December 31, 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	¥ (1,350)
Interest rate swaps and cross-currency swap agreements	Cost of sales	(30)
	Other income (expenses), net: Other, net	25
Total		¥ (1,355)

Millions of yen		
Three months ended December 31, 2016		
	Location of gains (losses) recognized in income on derivatives	Amount of gains (losses) recognized in income on derivatives
Forwards contracts	Other income (expenses), net: Other, net	¥ (1,388)
Interest rate swaps and cross-currency swap agreements	Cost of sales	(26)
	Other income (expenses), net: Other, net	70
Total		¥ (1,344)

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

	Millions of yen			
	December 31, 2017		March 31, 2017	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Cash and cash equivalents	¥ 165,304	¥ 165,304	¥ 119,901	¥ 119,901
Time deposits	2,493	2,493	2,289	2,289
Trade notes and accounts receivable, net	765,589	765,589	619,265	619,265
Long-term trade receivables, net	373,437	373,437	313,946	313,946
Investment securities, marketable equity securities	3,265	3,265	59,067	59,067
Short-term debt	307,933	307,933	128,452	128,452
Trade notes, bills and accounts payable	303,319	303,319	240,113	240,113
Long-term debt, including current portion	576,792	575,733	280,250	280,228
Derivatives:				
Forwards contracts				
Assets	5,487	5,487	2,504	2,504
Liabilities	6,210	6,210	2,590	2,590
Interest rate swaps and cross-currency swap agreements				
Assets	44	44	75	75
Liabilities	298	298	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 December 31, 2017 and at March 31, 2017 are as follows:

At December 31, 2017	Millions of yen			
	Level 1	Level 2	Level 3	Total
Assets				
Investment securities available for sale				
Manufacturing industry	¥ 1,173	¥ —	¥ —	¥ 1,173
Financial service industry	—	—	—	—
Other	2,092	—	—	2,092
Derivatives				
Forward contracts	—	5,487	—	5,487
Interest rate swaps and cross-currency swap agreements	—	44	—	44
Total	¥ 3,265	¥ 5,531	¥ —	¥ 8,796
Liabilities				
Derivatives				
Forward contracts	¥ —	¥ 6,210	¥ —	¥ 6,210
Interest rate swaps and cross-currency swap agreements	—	298	—	298
Other	—	—	16	16
Total	¥ —	¥ 6,508	¥ 16	¥ 6,524
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 nine months ended December 31, 2017 and 2016:

	Millions of yen	
	Nine months ended December 31, 2017	Nine months ended December 31, 2016
Balance, beginning of year	¥ (248)	¥ (301)
Total gains or losses (realized / unrealized)	232	25
Included in earnings	234	30
Included in other comprehensive income (loss)	(2)	(5)
Balance, end of period	¥ (16)	¥ (276)

The amount of unrealized gains on classified in Level 3 liabilities recognized in earnings for the nine months ended December 31, 2017 and 2016 related to liabilities still held at December 31, 2017 and 2016 were gains of ¥234 million and ¥30 million, respectively. These gains were reported in other income (expenses), net in the consolidated statements of income.

The following table summarizes information about changes of Level 3 for the three months ended December 31, 2017 and 2016:

	Millions of yen	
	Three months ended December 31, 2017	Three months ended December 31, 2016
Balance, beginning of period	¥ (299)	¥ (274)
Total gains or losses (realized / unrealized)	283	(2)
Included in earnings	283	36
Included in other comprehensive income (loss)	—	(38)
Balance, end of period	¥ (16)	¥ (276)

The amount of unrealized gains on classified in Level 3 liabilities recognized in earnings for the three months ended December 31, 2017 and 2016 related to liabilities still held at December 31, 2017 and 2016 were gains of ¥283 million and ¥36 million, respectively. These 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 nine months ended December 31, 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 December 31, 2017 and at March 31, 2017 were ¥20,720 million and ¥390,399 million, respectively. These total amounts of unused committed credit lines available for full and immediate borrowings at December 31, 2017 and at March 31, 2017 were ¥18,869 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

Nine months ended December 31, 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
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.

Nine months ended December 31, 2016

Payment amount of dividends

Resolution	Type of stock	Aggregate amount of dividends (Millions of yen)	Resource of dividends	Dividend per share (Yen)	Record date	Effective date
Ordinary general meeting of shareholders held on June 22, 2016	Common stock	27,353	Retained earnings	29	March 31, 2016	June 23, 2016
Board of Directors held on October 28, 2016	Common stock	27,357	Retained earnings	29	September 30, 2016	December 1, 2016

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

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 nine months ended December 31, 2017 and 2016 is as follows:

	Millions of yen	
	Nine months ended December 31, 2017	Nine months ended December 31, 2016
Net sales:		
Construction, Mining and Utility Equipment –		
External customers	¥ 1,648,621	¥ 1,071,901
Intersegment	10,314	5,820
Total	1,658,935	1,077,721
Retail Finance –		
External customers	36,780	34,318
Intersegment	9,212	1,806
Total	45,992	36,124
Industrial Machinery and Others –		
External customers	120,400	120,488
Intersegment	1,091	761
Total	121,491	121,249
Elimination	(20,617)	(8,387)
Consolidated	¥ 1,805,801	¥ 1,226,707
Segment profit:		
Construction, Mining and Utility Equipment	¥ 183,952	¥ 96,546
Retail Finance	8,952	6,767
Industrial Machinery and Others	9,139	6,449
Total segment profit	202,043	109,762
Corporate expenses and elimination	(1,182)	(1,925)
Consolidated	¥ 200,861	¥ 107,837

Information about operating segments for the three months ended December 31, 2017 and 2016 is as follows:

	Millions of yen	
	Three months ended December 31, 2017	Three months ended December 31, 2016
Net sales:		
Construction, Mining and Utility Equipment –		
External customers	¥ 591,797	¥ 376,613
Intersegment	2,719	2,465
Total	594,516	379,078
Retail Finance –		
External customers	13,099	12,027
Intersegment	1,651	627
Total	14,750	12,654
Industrial Machinery and Others –		
External customers	41,947	41,955
Intersegment	359	267
Total	42,306	42,222
Elimination	(4,729)	(3,359)
Consolidated	¥ 646,843	¥ 430,595
Segment profit:		
Construction, Mining and Utility Equipment	¥ 80,196	¥ 38,928
Retail Finance	3,043	2,551
Industrial Machinery and Others	4,302	2,391
Total segment profit	87,541	43,870
Corporate expenses and elimination	(400)	(269)
Consolidated	¥ 87,141	¥ 43,601

Reconciliation of total segment profit to consolidated income before income taxes and equity in earnings of affiliated companies for the nine months ended December 31, 2017 and 2016 is as follows:

	Millions of yen	
	Nine months ended December 31, 2017	Nine months ended December 31, 2016
Total segment profit	¥ 202,043	¥ 109,762
Corporate expenses and elimination	(1,182)	(1,925)
Consolidated	200,861	107,837
Other operating income (expenses), net	(12,672)	(812)
Operating income	188,189	107,025
Interest and dividend income	4,059	2,602
Interest expense	(13,427)	(5,692)
Gain on sales of investment securities, net	48,287	196
Other, net	(11,768)	(868)
Consolidated income before income taxes and equity in earnings of affiliated companies	¥ 215,340	¥ 103,263

Reconciliation of total segment profit to consolidated income before income taxes and equity in earnings of affiliated companies for the three months ended December 31, 2017 and 2016 is as follows:

	Millions of yen	
	Three months ended December 31, 2017	Three months ended December 31, 2016
Total segment profit	¥ 87,541	¥ 43,870
Corporate expenses and elimination	(400)	(269)
Consolidated	87,141	43,601
Other operating income (expenses), net	(11,575)	(702)
Operating income	75,566	42,899
Interest and dividend income	1,107	999
Interest expense	(5,190)	(1,843)
Gain on sales of investment securities, net	8,724	—
Other, net	(8,984)	3,113
Consolidated income before income taxes and equity in earnings of affiliated companies	¥ 71,223	¥ 45,168

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

a) Construction, Mining and Utility Equipment operating segment:

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

b) Retail Finance:

Financing

c) Industrial Machinery and Others operating segment:

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

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

Geographic information:

Net sales determined by customer location for the nine months ended December 31, 2017 and 2016 are as follows:

	Millions of yen	
	Nine months ended December 31, 2017	Nine months ended December 31, 2016
Japan	¥ 284,255	¥ 273,720
The Americas	683,169	421,341
Europe and CIS	214,146	151,456
China	132,864	78,496
Asia (excluding Japan and China) and Oceania	374,099	231,349
Middle East and Africa	117,268	70,345
Consolidated net sales	¥ 1,805,801	¥ 1,226,707

Net sales determined by customer location for the three months ended December 31, 2017 and 2016 are as follows:

	Millions of yen	
	Three months ended December 31, 2017	Three months ended December 31, 2016
Japan	¥ 94,467	¥ 100,670
The Americas	251,039	144,757
Europe and CIS	69,577	49,990
China	53,626	27,091
Asia (excluding Japan and China) and Oceania	137,465	84,563
Middle East and Africa	40,669	23,524
Consolidated net sales	¥ 646,843	¥ 430,595

Net sales determined by geographic origin for the nine months ended December 31, 2017 and 2016 are as follows:

	Millions of yen	
	Nine months ended December 31, 2017	Nine months ended December 31, 2016
Japan	¥ 435,174	¥ 386,065
The Americas	619,524	409,105
Europe and CIS	224,709	157,589
China	122,641	61,994
Others	403,753	211,954
Total	¥ 1,805,801	¥ 1,226,707

Net sales determined by geographic origin for the three months ended December 31, 2017 and 2016 are as follows:

	Millions of yen	
	Three months ended December 31, 2017	Three months ended December 31, 2016
Japan	¥ 150,069	¥ 139,855
The Americas	204,717	141,017
Europe and CIS	73,191	50,033
China	47,355	23,709
Others	171,511	75,981
Total	¥ 646,843	¥ 430,595

There were no sales to a single major external customer for the nine months and three months ended December 31, 2017 and 2016.

19. Income Taxes

The Tax Cuts and Jobs Act (the “Act”) was enacted on December 22, 2017 in the United States of America. The measurement of income tax accounting effects of the Act under ASC 740, “Income Taxes” is not completed as of the issue date of the quarterly consolidated financial statements. Therefore, Komatsu adopted SAB 118 and recorded provisional amounts based on the information available as of the issue date of the quarterly consolidated financial statements for income tax accounting effects of the Act. The amounts of income tax accounting effects of each item for the nine and three months ended December 31, 2017 are as follows:

	Millions of yen	
	Location on the Consolidated Statements of Income	Income tax accounting effects for the nine and three months ended December 31, 2017
Remeasurement of deferred tax assets and liabilities due to income tax rate change	Income taxes Deferred	¥ (12,065)
Repatriation tax on previously untaxed earnings and profits of foreign companies	Income taxes Current	9,641
	Deferred	(2,930)
Increase of valuation allowance for foreign tax credit carry forwards	Income taxes Deferred	5,520
Reversal of deferred tax liabilities for undistributed earnings of subsidiaries	Income taxes Deferred	(1,425)
Total	Income taxes Current	9,641
	Deferred	(10,900)
	Total	¥ (1,259)

* The amounts are provisional, except for “Reversal of deferred tax liabilities for undistributed earnings of subsidiaries”.

Komatsu does not expect material changes to the above amounts initially recorded. However, Komatsu will continue to measure income tax accounting effects of the Act and record adjustments, as needed, based on changes to the information.

20. Material Subsequent Events

Not applicable.

Komatsu evaluated subsequent events through February 13, 2018, the issue date of its quarterly consolidated financial statements.

21. 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.