

(Translation)

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Quarterly Report

From April 1, 2018 to June 30, 2018

(First Quarter of the 150th Fiscal Year)

KOMATSU LTD.

Quarterly Report

Certain References and Information:

1. This is an English translation of the Quarterly Securities Report (“Shihanki Hokokusho”) filed via the Electronic Disclosure for Investors’ Network (“EDINET”) system as set forth in Article 27-30-2 of the Financial Instruments and Exchange Act of Japan. Komatsu Ltd. filed its Quarterly Securities Report for the three months ended June 30, 2018 with the Director-General of the Kanto Local Finance Bureau on August 9, 2018. The Quarterly Securities Report contains, among other information, Quarterly Consolidated Financial Statements for the three months ended June 30, 2018. Material information in the Quarterly Securities Report, other than the Quarterly Consolidated Financial Statements, has already been reported by Komatsu Ltd. in its press release dated July 27, 2018. Attached is an English translation of Quarterly Consolidated Financial Statements for the three months ended June 30, 2018.
2. In this report, Komatsu Ltd. is hereinafter referred to as the “Company” and together with its consolidated subsidiaries as “Komatsu.”

Cautionary Statement with respect to forward-looking statements:

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

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

Financial Information

1. Basis of preparation of the quarterly consolidated financial statements

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

2. Audit certification

Pursuant to Article 193-2, paragraph 1 of the Financial Instruments and Exchange Act of Japan, the quarterly consolidated financial statements for the three months ended June 30, 2018 (from April 1 to June 30, 2018) were reviewed by KPMG AZSA LLC.

Quarterly Consolidated Financial Statements, etc.

Quarterly Consolidated Financial Statements

Consolidated Balance Sheets (Unaudited)

Komatsu Ltd. and Consolidated Subsidiaries as of June 30, 2018 and March 31, 2018

| Assets | June 30, 2018 | | March 31, 2018 | |
|------------------------------------------------------------------------------------------------------------------------------|--------------------|--------------|--------------------|--------------|
| | Millions of yen | Ratio (%) | Millions of yen | Ratio (%) |
| Current assets | | | | |
| Cash and cash equivalents (Note 14) | ¥ 145,701 | | ¥ 144,397 | |
| Time deposits (Note 14) | 2,088 | | 2,460 | |
| Trade notes and accounts receivable, net (Notes 3, 9 and 14) | 784,518 | | 792,714 | |
| Inventories (Note 4) | 797,163 | | 730,288 | |
| Other current assets (Notes 13, 14 and 15) | 130,791 | | 127,732 | |
| Total current assets | 1,860,261 | 53.4 | 1,797,591 | 53.3 |
| Long-term trade receivables, net (Notes 3, 9 and 14) | 384,522 | 11.1 | 362,367 | 10.8 |
| Investments | | | | |
| Investments in and advances to affiliated companies | 33,546 | | 32,879 | |
| Investment securities (Notes 1, 5, 14 and 15) | 7,682 | | 9,213 | |
| Other | 2,710 | | 2,655 | |
| Total investments | 43,938 | 1.3 | 44,747 | 1.3 |
| Property, plant and equipment | | | | |
| – less accumulated depreciation and amortization of ¥862,082 million at June 30, 2018 and ¥850,395 million at March 31, 2018 | 753,498 | 21.6 | 740,528 | 22.0 |
| Goodwill | 167,113 | 4.8 | 155,881 | 4.6 |
| Other intangible assets (Note 6) | | | | |
| – less accumulated amortization | 178,000 | 5.1 | 173,215 | 5.1 |
| Deferred income taxes and other assets (Notes 1, 13, 14, 15 and 19) | 93,599 | 2.7 | 98,209 | 2.9 |
| Total assets | ¥ 3,480,931 | 100.0 | ¥ 3,372,538 | 100.0 |
| | | | | |
| Liabilities and Equity | June 30, 2018 | | March 31, 2018 | |
| | Millions of yen | Ratio (%) | Millions of yen | Ratio (%) |
| Current liabilities | | | | |
| Short-term debt (Note 14) | ¥ 372,206 | | ¥ 259,093 | |
| Current maturities of long-term debt (Note 14) | 81,902 | | 70,806 | |
| Trade notes, bills and accounts payable (Note 14) | 273,399 | | 303,556 | |
| Income taxes payable (Note 19) | 26,802 | | 66,541 | |
| Other current liabilities (Notes 9, 13, 14 and 15) | 305,498 | | 289,665 | |
| Total current liabilities | 1,059,807 | 30.4 | 989,661 | 29.3 |
| Long-term liabilities | | | | |
| Long-term debt (Note 14) | 480,284 | | 480,698 | |
| Liability for pension and retirement benefits | 85,999 | | 86,374 | |
| Deferred income taxes and other liabilities (Notes 1, 9, 13, 14, 15 and 19) | 77,370 | | 72,215 | |
| Total long-term liabilities | 643,653 | 18.5 | 639,287 | 19.0 |
| Total liabilities | 1,703,460 | 48.9 | 1,628,948 | 48.3 |
| 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 943,387,708 shares at June 30, 2018 and 943,305,489 shares at March 31, 2018 | 67,870 | | 67,870 | |
| Capital surplus | 138,301 | | 138,450 | |
| Retained earnings: | | | | |
| Appropriated for legal reserve | 45,889 | | 45,828 | |
| Unappropriated (Note 1) | 1,508,879 | | 1,491,965 | |
| Accumulated other comprehensive income (loss) (Notes 1, 5, 8, 13 and 15) | (13,900) | | (29,150) | |
| Treasury stock at cost, | | | | |
| 28,579,952 shares at June 30, 2018 and 28,662,171 shares at March 31, 2018 | (50,281) | | (50,423) | |
| Total Komatsu Ltd. shareholders' equity | 1,696,758 | 48.7 | 1,664,540 | 49.4 |
| Noncontrolling interests | 80,713 | 2.4 | 79,050 | 2.3 |
| Total equity | 1,777,471 | 51.1 | 1,743,590 | 51.7 |
| Total liabilities and equity | ¥ 3,480,931 | 100.0 | ¥ 3,372,538 | 100.0 |

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

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

Komatsu Ltd. and Consolidated Subsidiaries
Three months ended June 30, 2018 and 2017.

Consolidated Statements of Income

| | Three months ended June 30, 2018 | | Three months ended June 30, 2017 | |
|----------------------------------------------------------------------------------|-------------------------------------|-------------|-------------------------------------|------------|
| | Millions of yen | Ratio (%) | Millions of yen | Ratio (%) |
| Net sales (Notes 1 and 9) | ¥ 646,060 | 100.0 | ¥ 561,211 | 100.0 |
| Cost of sales (Notes 1, 6, 7 and 13) | 441,249 | 68.3 | 402,168 | 71.7 |
| Selling, general and administrative expenses (Notes 1, 6, 7 and 10) | 108,901 | 16.9 | 106,748 | 19.0 |
| Other operating income (expenses), net | 138 | 0.0 | (592) | (0.1) |
| Operating income | 96,048 | 14.9 | 51,703 | 9.2 |
| Other income (expenses), net | | | | |
| Interest and dividend income | 1,973 | 0.3 | 1,364 | 0.2 |
| Interest expense | (5,423) | (0.8) | (3,572) | (0.6) |
| Other, net (Notes 1, 5, 7, 8, 13 and 15) | 342 | 0.1 | (1,401) | (0.2) |
| Total | (3,108) | (0.5) | (3,609) | (0.6) |
| Income before income taxes and equity in earnings of affiliated companies | 92,940 | 14.4 | 48,094 | 8.6 |
| Income taxes (Notes 1, 8 and 19) | | | | |
| Current | 22,749 | | 887 | |
| Deferred | 5,274 | | 8,617 | |
| Total | 28,023 | 4.3 | 9,504 | 1.7 |
| Income before equity in earnings of affiliated companies | 64,917 | 10.0 | 38,590 | 6.9 |
| Equity in earnings of affiliated companies | 1,098 | 0.2 | 762 | 0.1 |
| Net income | 66,015 | 10.2 | 39,352 | 7.0 |
| Less: Net income attributable to noncontrolling interests | 3,045 | 0.5 | 2,957 | 0.5 |
| Net income attributable to Komatsu Ltd. | ¥ 62,970 | 9.7 | ¥ 36,395 | 6.5 |
| Yen | | | | |
| Per share data (Note 11): | | | | |
| Net income attributable to Komatsu Ltd.: | | | | |
| Basic | 66.75 | | 38.59 | |
| Diluted | 66.67 | | 38.54 | |
| Cash dividends per share (Note 17) | 48.00 | | 29.00 | |

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

Consolidated Statements of Comprehensive Income

| | Millions of yen | |
|-------------------------------------------------------------------------------------------|-------------------------------------|-------------------------------------|
| | Three months ended June 30, 2018 | Three months ended June 30, 2017 |
| Net income | ¥ 66,015 | ¥ 39,352 |
| Other comprehensive income (loss), for the period, net of tax | | |
| Foreign currency translation adjustments (Note 8) | 17,996 | 11,014 |
| Net unrealized holding gains (losses) on securities available for sale (Notes 1, 5 and 8) | — | 3,046 |
| Pension liability adjustments (Notes 7 and 8) | 226 | 383 |
| Net unrealized holding gains (losses) on derivative instruments (Notes 8 and 13) | (1,693) | 69 |
| Total | 16,529 | 14,512 |
| Comprehensive income (loss) | 82,544 | 53,864 |
| Less: Comprehensive income (loss) attributable to noncontrolling interests | 3,643 | 3,560 |
| Comprehensive income (loss) attributable to Komatsu Ltd. | ¥ 78,901 | ¥ 50,304 |

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

Consolidated Statements of Equity (Unaudited)

Komatsu Ltd. and Consolidated Subsidiaries

Three months ended June 30, 2018

| Millions of yen | | | | | | | | | |
|------------------------------------------------------------------------------------------------|-----------------|------------------|--------------------------------|--------------------|-----------------------------------------------|-------------------|-----------------------------------------|---------------------------|--------------------|
| | | | Retained earnings | | Accumulated other comprehensive income (loss) | Treasury stock | Total Komatsu Ltd. shareholders' equity | Non-controlling interests | Total equity |
| | Common stock | Capital surplus | Appropriated for legal reserve | Un-appropriated | | | | | |
| Balance at March 31, 2018 | ¥ 67,870 | ¥ 138,450 | ¥ 45,828 | ¥ 1,491,965 | ¥ (29,150) | ¥ (50,423) | ¥ 1,664,540 | ¥ 79,050 | ¥ 1,743,590 |
| Cumulative effects of Accounting Standards Update—adoption of ASU 2014-09, net of tax (Note 1) | | | | (515) | | | (515) | (12) | (527) |
| Cumulative effects of Accounting Standards Update—adoption of ASU 2016-01, net of tax (Note 1) | | | | 681 | (681) | | — | | — |
| Cumulative effects of Accounting Standards Update—adoption of ASU 2016-16, net of tax (Note 1) | | | | (860) | | | (860) | | (860) |
| Cash dividends (Note 17) | | | | (45,301) | | | (45,301) | (1,968) | (47,269) |
| Transfer to retained earnings appropriated for legal reserve | | | 61 | (61) | | | — | | — |
| Net income | | | | 62,970 | | | 62,970 | 3,045 | 66,015 |
| Other comprehensive income (loss), for the period, net of tax (Note 8) | | | | | 15,931 | | 15,931 | 598 | 16,529 |
| Issuance and exercise of stock acquisition rights (Note 10) | | (161) | | | | | (161) | | (161) |
| Purchase of treasury stock | | | | | | (8) | (8) | | (8) |
| Sales of treasury stock | | 12 | | | | 150 | 162 | | 162 |
| Balance at June 30, 2018 | ¥ 67,870 | ¥ 138,301 | ¥ 45,889 | ¥ 1,508,879 | ¥ (13,900) | ¥ (50,281) | ¥ 1,696,758 | ¥ 80,713 | ¥ 1,777,471 |

Three months ended June 30, 2017

| Millions of yen | | | | | | | | | |
|------------------------------------------------------------------------|-----------------|------------------|--------------------------------|--------------------|-----------------------------------------------|-------------------|-----------------------------------------|---------------------------|--------------------|
| | | | Retained earnings | | Accumulated other comprehensive income (loss) | Treasury stock | Total Komatsu Ltd. shareholders' equity | Non-controlling interests | Total equity |
| | Common stock | Capital surplus | Appropriated for legal reserve | Un-appropriated | | | | | |
| Balance at March 31, 2017 | ¥ 67,870 | ¥ 138,285 | ¥ 45,368 | ¥ 1,357,350 | ¥ 18,682 | ¥ (50,881) | ¥ 1,576,674 | ¥ 71,841 | ¥ 1,648,515 |
| Cash dividends (Note 17) | | | | (27,363) | | | (27,363) | (1,254) | (28,617) |
| Transfer to retained earnings appropriated for legal reserve | | | 433 | (433) | | | — | | — |
| Net income | | | | 36,395 | | | 36,395 | 2,957 | 39,352 |
| Other comprehensive income (loss), for the period, net of tax (Note 8) | | | | | 13,909 | | 13,909 | 603 | 14,512 |
| Issuance and exercise of stock acquisition rights (Note 10) | | (108) | | | | | (108) | | (108) |
| Purchase of treasury stock | | | | | | (6) | (6) | | (6) |
| Sales of treasury stock | | 35 | | | | 157 | 192 | | 192 |
| Balance at June 30, 2017 | ¥ 67,870 | ¥ 138,212 | ¥ 45,801 | ¥ 1,365,949 | ¥ 32,591 | ¥ (50,730) | ¥ 1,599,693 | ¥ 74,147 | ¥ 1,673,840 |

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

Consolidated Statements of Cash Flows (Unaudited)

Komatsu Ltd. and Consolidated Subsidiaries
Three months ended June 30, 2018 and 2017

| | Millions of yen | |
|---------------------------------------------------------------------------------------------|-------------------------------------|-------------------------------------|
| | Three months ended June 30, 2018 | Three months ended June 30, 2017 |
| Operating activities | | |
| Net income | ¥ 66,015 | ¥ 39,352 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 32,920 | 32,828 |
| Deferred income taxes | 5,274 | 8,617 |
| Impairment loss and net loss (gain) from sale of investment securities | 267 | 97 |
| Net loss (gain) on sale of property | (22) | (14) |
| Loss on disposal of fixed assets | 396 | 462 |
| Pension and retirement benefits, net | (693) | (2,001) |
| Changes in assets and liabilities: | | |
| Decrease (increase) in trade receivables | 10,881 | 12,143 |
| Decrease (increase) in inventories | (51,685) | (30,337) |
| Increase (decrease) in trade payables | (32,010) | 2,684 |
| Increase (decrease) in income taxes payable | (39,541) | (9,917) |
| Other, net | 8,123 | (12,263) |
| Net cash provided by (used in) operating activities | (75) | 41,651 |
| Investing activities | | |
| Capital expenditures | (42,045) | (43,245) |
| Proceeds from sale of property | 2,988 | 9,956 |
| Proceeds from sale of available for sale investment securities | 1,664 | 2 |
| Purchases of available for sale investment securities | (136) | (22) |
| Acquisition of subsidiaries and equity investees, net of cash acquired | (5,380) | (273,137) |
| Collection of loan receivables | 230 | 3 |
| Disbursement of loan receivables | (420) | (61) |
| Decrease (increase) in time deposits, net | 367 | 160 |
| Net cash provided by (used in) investing activities | (42,732) | (306,344) |
| Financing activities | | |
| Proceeds from debt issued (Original maturities greater than three months) | 46,625 | 27,421 |
| Payment on debt (Original maturities greater than three months) | (29,013) | (5,574) |
| Short-term debt, net (Original maturities three months or less) | 81,637 | 302,074 |
| Repayments of capital lease obligations | (19) | (12) |
| Sale (purchase) of treasury stock, net | (6) | 78 |
| Dividends paid | (45,301) | (27,363) |
| Other, net | (2,556) | (937) |
| Net cash provided by (used in) financing activities | 51,367 | 295,687 |
| Effect of exchange rate change on cash and cash equivalents | (7,256) | (245) |
| Net increase (decrease) in cash and cash equivalents | 1,304 | 30,749 |
| Cash and cash equivalents, beginning of year | 144,397 | 119,901 |
| Cash and cash equivalents, end of period | ¥ 145,701 | ¥ 150,650 |

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

Komatsu Ltd. and Consolidated Subsidiaries
Three months ended June 30, 2018 and 2017
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, 2018, Komatsu (the Company and its consolidated subsidiaries) has adopted the Accounting Standards Update (hereinafter “ASU”) 2014-09 “Revenue from Contracts with Customers”. This update requires that an entity should recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Komatsu has adopted the update to all contracts at the date of initial application under the modified retrospective approach, and primarily in particular transactions, combined two or more contracts provided for a single purpose and recognized revenue for each distinct good or service. Accordingly, a reduction of ¥515 million was made as an adjustment of cumulative effect from retained earnings as of April 1, 2018. In comparison with the case where the previous accounting standard had been applied, there is no significant impact on Komatsu’s financial position and results of operations. Details are as described in “Note 9”.

From the three months ended June 30, 2018, Komatsu has adopted ASU 2016-01 “Recognition and Measurement of Financial Assets and Financial Liabilities”. This update changes the impact on net income from fair value changes of equity investments held by an entity and also changes recognition of fair value changes of financial liability held by an entity with the fair value option. In principle, this update requires that equity investments, excluding investments in consolidated subsidiaries and affiliated companies accounted for by the equity method, be measured at fair value with changes in the fair value recognized in net income. This update has been adopted under the modified retrospective approach through a cumulative effect adjustment to retained earnings at the beginning of the initial application period. Consequently, Komatsu added ¥681 million of unrealized gains, net of tax, on available-for-sale securities, which was recognized as accumulated other comprehensive income, as an adjustment of cumulative effect to retained earnings as of April 1, 2018.

From the three months ended June 30, 2018, Komatsu has adopted ASU 2016-16 “Intra-Entity Transfers of Assets Other Than Inventory”. This update requires both the seller and the buyer in an intra-entity transfer of assets other than inventory to immediately recognize tax consequences of that transaction as current and deferred taxes. This update has been adopted under the modified retrospective approach through a cumulative effect adjustment to retained earnings at the beginning of the initial application period. Consequently, Komatsu reduced ¥860 million as an adjustment of cumulative effect from retained earnings as of April 1, 2018.

From the three months ended June 30, 2018, Komatsu has adopted ASU 2017-07 “Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost”. This update requires an entity to divide net periodic pension cost and net periodic postretirement benefit cost into the service cost component and other components, and present the former in the same line item as other personnel expenses while presenting the latter in non-operating income or expenses. Of net periodic pension cost and net periodic postretirement benefit cost, only the service cost component is allowed to be capitalized into inventory and others. The presentation change is applied retrospectively, whereas the capitalization change is applied prospectively. Due to the application of the provision requiring the division into the service cost component and other components, Komatsu reclassified ¥3 million and ¥701 million from cost of sales and selling, general and administrative expenses, respectively, to other, net under other income (expenses), net for the three months ended June 30, 2017. As a result, operating income for the three months ended June 30, 2017 decreased by

¥704 million compared with that before the reclassification. The application of the provision that limits cost eligible for capitalization to the service cost component has no significant impact on Komatsu's financial position and results of operations.

Excluding the above, there is no material change for summary of significant accounting policies stated in annual report for the fiscal year ended March 31, 2018.

2. Supplemental Cash Flow Information

Additional cash flow information and noncash investing and financing activities for the three months ended June 30, 2018 and 2017 are as follows:

| | Millions of yen | |
|----------------------------------------------------|-------------------------------------|-------------------------------------|
| | Three months ended June 30, 2018 | Three months ended June 30, 2017 |
| Additional cash flow information: | | |
| Interest paid | ¥ 5,348 | ¥ 3,060 |
| Income taxes paid | 58,551 | 17,909 |
| Noncash investing and financing activities: | | |
| Capital lease obligations incurred | ¥ 69 | ¥ 9 |

3. Allowance for Doubtful Receivables

At June 30, 2018 and at March 31, 2018, allowances for doubtful receivables deducted from trade notes and accounts receivable, net and long-term trade receivables, net are ¥20,964 million and ¥23,657 million, respectively.

4. Inventories

At June 30, 2018 and at March 31, 2018, inventories comprised the following:

| | Millions of yen | |
|-----------------------------------------------------------|-----------------|----------------|
| | June 30, 2018 | March 31, 2018 |
| Finished products, including finished parts held for sale | ¥ 560,900 | ¥ 512,511 |
| Work in process | 174,230 | 159,190 |
| Materials and supplies | 62,033 | 58,587 |
| Total | ¥ 797,163 | ¥ 730,288 |

5. Investment Securities

Investment securities at March 31, 2018 primarily consisted of securities available for sale, and 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 March 31, 2018 are as follows:

| | Millions of yen | | | |
|-------------------------------------------------|-----------------|--------------------------|--------|------------|
| | Cost | Gross unrealized holding | | Fair value |
| | | Gains | Losses | |
| At March 31, 2018 | | | | |
| Investment securities: | | | | |
| Marketable equity securities available for sale | ¥ 357 | ¥ 1,171 | ¥ — | ¥ 1,528 |
| Other investment securities at cost | 7,685 | | | |
| | <u>¥ 8,042</u> | | | |

Other investment securities primarily include non-marketable equity securities which are computed based on the cost method.

The realized gain and losses and gross unrealized holding gains and losses for such equity securities which are recorded in other income (expenses), net in the accompanying consolidated statements of income for the three months ended June 30, 2018 are as follows:

| | Millions of yen |
|---------------------------------------------------------------------------------------------------------------|-------------------------------------|
| | Three months ended June 30, 2018 |
| Net gains and losses recognized during the period on equity securities. | ¥ (267) |
| Less: net gains and losses recognized during the period on equity securities sold during the period. | 1 |
| Unrealized gains and losses recognized during the period on equity securities still held as of June 30, 2018. | ¥ (268) |

From the three months ended June 30, 2018, Komatsu has measured equity securities without readily determinable fair values by the method where changes in observable prices in orderly transactions for identical or similar investments issued by the same issuer are added to or subtracted from the carrying amount after the write-down due to impairment. As of June 30, 2018, Komatsu did not record any impairment or other adjustments, and the carrying amount of these investments was ¥7,017 million.

6. Other Intangible Assets

Intangible assets at June 30, 2018 and at March 31, 2018 are as follows:

| | Millions of yen | | | | | |
|-----------------------------------------------------|-----------------------|--------------------------|---------------------|-----------------------|--------------------------|---------------------|
| | June 30, 2018 | | | March 31, 2018 | | |
| | Gross carrying amount | Accumulated amortization | Net carrying amount | Gross carrying amount | Accumulated amortization | Net carrying amount |
| Other intangible assets subject to amortization: | | | | | | |
| Software | ¥40,399 | ¥ (20,055) | ¥ 20,344 | ¥38,195 | ¥ (18,573) | ¥ 19,622 |
| Leasehold | 8,384 | (1,711) | 6,673 | 8,803 | (1,746) | 7,057 |
| Trademarks | 58,280 | (5,284) | 52,996 | 54,145 | (4,047) | 50,098 |
| Customer relationships | 76,617 | (17,344) | 59,273 | 73,281 | (15,006) | 58,275 |
| Technology assets | 34,400 | (9,124) | 25,276 | 32,952 | (8,598) | 24,354 |
| Backlog | 7,608 | (7,532) | 76 | 7,317 | (6,242) | 1,075 |
| Other | 10,340 | (6,491) | 3,849 | 9,190 | (5,909) | 3,281 |
| Total | 236,028 | (67,541) | 168,487 | 223,883 | (60,121) | 163,762 |
| Other intangible assets not subject to amortization | | | 9,513 | | | 9,453 |
| Total other intangible assets | | | ¥178,000 | | | ¥ 173,215 |

The aggregate amortization expense of other intangible assets subject to amortization during the three months ended June 30, 2018 and 2017 were ¥5,659 million and ¥5,988 million, respectively.

7. Cost of Retirement Benefits

Net periodic cost of Komatsu's defined benefit plans for the three months ended June 30, 2018 and 2017, consisted of the following components:

| | Millions of yen | |
|------------------------------------------------|-------------------------------------|-------------------------------------|
| | Three months ended June 30, 2018 | Three months ended June 30, 2017 |
| Service cost | ¥ 2,257 | ¥ 2,296 |
| Interest cost on projected benefit obligations | 1,845 | 1,831 |
| Expected return on plan assets | (3,013) | (3,060) |
| Amortization of actuarial loss | 324 | 464 |
| Amortization of prior service cost | 33 | 39 |
| Net periodic cost | ¥ 1,446 | ¥ 1,570 |

Net periodic cost of the postretirement benefit plans for the three months ended June 30, 2018 and 2017 included the following components:

| | Millions of yen | |
|------------------------------------------------|-------------------------------------|-------------------------------------|
| | Three months ended June 30, 2018 | Three months ended June 30, 2017 |
| Service cost | ¥ 125 | ¥ 114 |
| Interest cost on projected benefit obligations | 135 | 130 |
| Expected return on plan assets | (148) | (149) |
| Amortization of actuarial loss | 27 | 22 |
| Amortization of prior service cost | 1 | 19 |
| Net periodic cost | ¥ 140 | ¥ 136 |

Net periodic cost components other than the service cost of Komatsu's defined benefit plans and the postretirement benefit plans are recorded in other income (expenses), net in the accompanying consolidated statements of income.

8. Other Comprehensive Income (Loss)

Changes in accumulated other comprehensive income (loss) for the three months ended June 30, 2018 and 2017 are as follows:

| | Millions of yen | | | | |
|---------------------------------------------------------------------------------------------|---------------------------------------------------|-----------------------------------------------------------------------------------|-------------------------------------|-----------------------------------------------------------------------------|------------|
| | Three months ended June 30, 2018 | | | | |
| | 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 | ¥ (10,166) | ¥ 681 | ¥ (22,745) | ¥ 3,080 | ¥ (29,150) |
| Cumulative effects of Accounting Standards Update—adoption of ASU 2016-01, net of tax *1 | — | (681) | — | — | (681) |
| Other comprehensive income (loss) before reclassifications | 17,996 | — | (22) | (2,680) | 15,294 |
| Amounts reclassified from accumulated other comprehensive income (loss) | — | — | 248 | 987 | 1,235 |
| Net other comprehensive income (loss) | 17,996 | — | 226 | (1,693) | 16,529 |
| Less: other comprehensive income (loss) attributable to noncontrolling interests | 607 | — | (7) | (2) | 598 |
| Other comprehensive income (loss) attributable to Komatsu Ltd. | 17,389 | — | 233 | (1,691) | 15,931 |
| Balance, end of period | ¥ 7,223 | ¥ — | ¥ (22,512) | ¥ 1,389 | ¥ (13,900) |

All amounts are net of tax.

*1 This records the effects of Accounting Standards Update—adoption ASU 2016-01 “Recognition and Measurement of Financial Assets and Financial Liabilities”. The detail of the effects is stated in Note 1.

| | Millions of yen | | | | |
|-------------------------------------------------------------------------------------|---------------------------------------------------|-----------------------------------------------------------------------------------|-------------------------------------|-----------------------------------------------------------------------------|----------|
| | Three months ended June 30, 2017 | | | | |
| | Foreign currency translation adjustments | Net unrealized holding gains(losses) on securities available for sale | Pension liability adjustments | Net unrealized holding gains (losses) on derivative instruments | Total |
| Balance, beginning of year | ¥ 11,014 | ¥ 30,114 | ¥ (23,149) | ¥ 703 | ¥ 18,682 |
| Other comprehensive income (loss) before reclassifications | 11,014 | 3,046 | 26 | 704 | 14,790 |
| Amounts reclassified from accumulated other comprehensive income (loss) | — | — | 357 | (635) | (278) |
| Net other comprehensive income (loss) | 11,014 | 3,046 | 383 | 69 | 14,512 |
| Less: other comprehensive income (loss) attributable to noncontrolling interests | 586 | — | 5 | 12 | 603 |
| Other comprehensive income (loss) attributable to Komatsu Ltd. | 10,428 | 3,046 | 378 | 57 | 13,909 |
| Balance, end of period | ¥ 21,442 | ¥ 33,160 | ¥ (22,771) | ¥ 760 | ¥ 32,591 |

All amounts are net of tax.

Reclassification out of accumulated other comprehensive income (loss) for the three months ended June 30, 2018 and 2017 are as follows:

| | Millions of yen | |
|------------------------------------------------------------------------|-------------------------------------|-------------------------------------------------------------|
| | Three months ended June 30, 2018 | Affected line items in consolidated statements of income |
| Pension liability adjustments | | |
| Amortization of actuarial loss and prior service cost | ¥ (385) | *2 |
| | (385) | Total before tax |
| | 137 | Income taxes |
| | (248) | Net of tax |
| Net unrealized holding gains (losses) on derivative instruments | | |
| Forwards contracts | (1,843) | Other income (expenses), net: Other, net |
| | (1,843) | Total before tax |
| | 856 | Income taxes |
| | (987) | Net of tax |
| Total reclassification for the period | ¥ (1,235) | Net of tax |

*2 These amounts are included in the computation of net periodic pension cost. (Note 7)

| | Millions of yen | |
|------------------------------------------------------------------------|-------------------------------------|-------------------------------------------------------------|
| | Three months ended June 30, 2017 | Affected line items in consolidated statements of income |
| Pension liability adjustments | | |
| Amortization of actuarial loss and prior service cost | ¥ (544) | *3 |
| | (544) | Total before tax |
| | 187 | Income taxes |
| | (357) | Net of tax |
| Net unrealized holding gains (losses) on derivative instruments | | |
| Forwards contracts | 907 | Other income (expenses), net: Other, net |
| | 907 | Total before tax |
| | (272) | Income taxes |
| | 635 | Net of tax |
| Total reclassification for the period | ¥ 278 | Net of tax |

*3 These amounts are included in the computation of net periodic pension cost. (Note 7)

Tax effects allocated to each component of other comprehensive income (loss) for the three months ended June 30, 2018 and 2017 are as follows:

| | Millions of yen | | |
|-------------------------------------------------------------------------------|----------------------------------|--------------------------|-------------------|
| | Three months ended June 30, 2018 | | |
| | Before tax amount | Tax (expense) or benefit | Net of tax amount |
| Foreign currency translation adjustments | | | |
| Foreign currency translation adjustments arising during period | ¥ 18,049 | ¥ (53) | ¥ 17,996 |
| Less: reclassification adjustment for gains included in net income | — | — | — |
| Net foreign currency translation adjustments | 18,049 | (53) | 17,996 |
| Net unrealized holding gains (losses) on securities available for sale | | | |
| Unrealized holding gains (losses) arising during period | — | — | — |
| Less: reclassification adjustment for gains (losses) included in net income | — | — | — |
| Net unrealized holding gains (losses) | — | — | — |
| Pension liability adjustments | | | |
| Pension liability adjustments arising during the period | (29) | 7 | (22) |
| Less: reclassification adjustment for losses included in net income | 385 | (137) | 248 |
| Net pension liability adjustments | 356 | (130) | 226 |
| Net unrealized holding gains (losses) on derivative instruments | | | |
| Unrealized holding losses arising during period | (4,131) | 1,451 | (2,680) |
| Less: reclassification adjustment for losses included in net income | 1,843 | (856) | 987 |
| Net unrealized holding losses | (2,288) | 595 | (1,693) |
| Other comprehensive income (loss) | ¥ 16,117 | ¥ 412 | ¥ 16,529 |

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

9. Revenue

Komatsu engages in the business activities of sales and services of products and retail financing for customers in Japan and overseas, under three business segments: the “Construction, Mining and Utility Equipment” operating segment, the “Retail Finance” operating segment and the “Industrial Machinery and Others” operating segment. In these business activities, goods or services identified in contracts with customers are provided. Komatsu recognizes revenue when or as control over these goods or services is transferred to the customer at the amount of the transaction price that reflects the consideration to which it expects to be entitled. When two or more goods or services are provided to the same customer, Komatsu identifies distinct goods or services in a single contract or combined contracts and allocates the transaction price based on relative stand-alone selling prices.

For equipment, parts, attachment and others, revenue is recognized when the customer attains acceptance. Conditions for acceptance, such as shipping, receipt by customers, completion of installation and completion of performance test, depend on contracts or arrangements with customers and the like.

For periodic check, maintenance, repair and other services, revenue is recognized when provision of the service is completed. Conditions for completion of provided services, including receipt of completion report, depend on contracts or arrangements with customers and the like. Shipping and handling activities occurring after control over an equipment has transferred to a customer are not identified as services.

Certain transaction prices include variable consideration such as future discounts and sales returns. Variable consideration is an estimate of the expected value or the most likely amount, to the extent that it is probable that a significant reversal in cumulative revenue recognized up to that point will not occur when the uncertainty associated with the variable consideration is subsequently resolved. When the period between when control over goods or services is transferred to the customer and when the customer pays for the goods or services is expected to be one year or less at the inception of the contract, Komatsu does not make any adjustment for the effect of time value of consideration.

With regard to diverse transactions with combination of equipment, periodic check, maintenance and others, distinct goods or services are identified in a single contract or combined contracts. Transaction price is allocated to goods or services according to the proportion of stand-alone selling price that is determined based on observable market price such as contract amount, and estimated cost including historical experience.

Revenue from providing retail financing is recognized using the interest method. Revenue from operating lease is recognized on a straight-line basis over the lease period.

Taxes collected from customers and paid to governmental-authorities including consumption taxes are excluded from revenue.

(1) Disaggregation of revenue

Net sales determined by customer location for the three months ended June 30, 2018 are as follows:

| | Millions of yen | | | |
|-------------------------------------------------|-----------------------------------------------|-----------------|------------------------------------|------------------|
| | Three months ended June 30, 2018 | | | |
| | Construction, Mining and Utility Equipment | Retail Finance | Industrial Machinery and Others | Total |
| Japan | ¥ 63,904 | ¥ 447 | ¥ 17,463 | ¥ 81,814 |
| The Americas | 217,298 | 9,793 | 6,429 | 233,520 |
| Europe and CIS | 85,227 | 618 | 3,344 | 89,189 |
| China | 50,527 | 791 | 4,530 | 55,848 |
| Asia (excluding Japan and China) and Oceania | 137,009 | 1,309 | 9,182 | 147,500 |
| Middle East and Africa | 38,158 | 13 | 18 | 38,189 |
| Total | ¥ 592,123 | ¥ 12,971 | ¥ 40,966 | ¥ 646,060 |

(2) Contract balances

Contract balances arising from contracts with customers at June 30, 2018 and at April 1, 2018 are as follows:

| | Millions of yen | |
|-------------------------|-----------------|---------------|
| | June 30, 2018 | April 1, 2018 |
| Receivables *1 | ¥ 994,999 | ¥ 991,124 |
| Contract assets *2 | 6,187 | 5,604 |
| Contract liabilities *3 | 83,632 | 70,180 |

*1 Receivables are included in trade notes and accounts receivable, net and long-term trade receivables, net in the accompanying consolidated balance sheets. These amounts are before deducting allowance for doubtful trade receivables.

*2 Contract assets are included in trade notes and accounts receivable, net in the accompanying consolidated balance sheets. These amounts are before deducting allowance for doubtful trade receivables.

*3 Contract liabilities are included in other current liabilities and deferred income taxes and other liabilities in the accompanying consolidated balance sheets.

Revenue recognized for the three months ended June 30, 2018, that was included in the contract liability balance as of April 1, 2018 was ¥31,806 million.

In addition, the amount of revenue recognized during the three months ended June 30, 2018, from performance obligations satisfied or partially satisfied in previous periods was immaterial.

(3) Transaction price allocated to the remaining performance obligations

As of June 30, 2018, the aggregate amount of the transaction price allocated to the remaining performance obligations that have original expected durations greater than one year was ¥175,341 million.

The amounts of revenue expected to be recognized are as follows:

| Year ending March 31 | Millions of yen |
|----------------------|-----------------|
| 2019 | ¥ 59,674 |
| 2020 | 62,322 |
| 2021 | 22,615 |
| Thereafter | 30,730 |
| Total | ¥ 175,341 |

10. Stock-Based Remuneration

The Company had a stock option plan which transfers the Company's shares to directors and certain employees and certain representative directors of major subsidiaries under an agreement granting the right for them to request such transfers at a predetermined price until the fiscal year ended March 31, 2018. For the three months ended June 30, 2017, no compensation expense was recorded as no right was granted.

From the fiscal year ending March 31, 2019, the company introduced a new compensation plan, i.e., the restricted stock compensation system for the purpose of providing directors (other than outside directors) and employees of the Company and directors and employees of major subsidiaries with medium- to long-term incentives and advancing the sharing of value between the directors and shareholders of the company. Compensation expenses during the three months ended June 30, 2018 were recorded in selling, general and administrative expenses, and were not material to Komatsu's financial position and results of operations. The Company recognizes compensation expense using the fair value method.

11. Net Income Attributable to Komatsu Ltd. per Share

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

| | Millions of yen | |
|-----------------------------------------------------------------|-------------------------------------|-------------------------------------|
| | Three months ended June 30, 2018 | Three months ended June 30, 2017 |
| Net income attributable to Komatsu Ltd. | ¥ 62,970 | ¥ 36,395 |
| | | |
| | Number of shares | |
| | Three months ended June 30, 2018 | Three months ended June 30, 2017 |
| Weighted average common shares outstanding, less treasury stock | 943,335,472 | 943,023,928 |
| Dilutive effect of: | | |
| Stock options | 1,195,576 | 1,216,393 |
| Weighted average diluted common shares outstanding | 944,531,048 | 944,240,321 |
| | | |
| | Yen | |
| | Three months ended June 30, 2018 | Three months ended June 30, 2017 |
| Net income attributable to Komatsu Ltd. per share: | | |
| Basic | 66.75 | 38.59 |
| Diluted | 66.67 | 38.54 |

12. Contingent Liabilities

At June 30, 2018 and at March 31, 2018, Komatsu was contingently liable for discounted and transferred receivables on a recourse basis with the financial institutions of ¥78 million and ¥97 million, respectively.

Komatsu provides guarantees to third parties of loans of the employees, affiliated companies, customers and other companies. The guarantees of loans relating to the employees are mainly made for their housing loans. The guarantees of loans relating to the affiliated companies, customers and other companies are made to enhance the credit of those companies. For each guarantee provided, Komatsu would have to perform under a guarantee if the borrower defaults on a payment within the contract terms. The contract terms are from 10 years to 30 years in the case of employees with housing loans, and from 1 year to 8 years in the case of loans relating to the affiliated companies, customers and other companies. The maximum amount of undiscounted payments Komatsu would have had to make in the event of default at June 30, 2018 and at March 31, 2018 were ¥17,460 million and ¥15,034 million, respectively. The fair value of the liabilities recognized for Komatsu's obligations as guarantors under those guarantees at June 30, 2018 were insignificant. Certain of those guarantees were secured by collateral and insurance issued to Komatsu.

Komatsu provides guarantees that subsidiaries of the Company perform the obligations of the terms and conditions of contracts by standby letters of credit issued by banks. Komatsu would have to pay the liabilities incurred to banks if the subsidiaries don't perform the obligations of the terms and conditions of contracts. The maximum amount of undiscounted payments Komatsu would have had to make in the event of defaults of the contracts at June 30, 2018 and at March 31, 2018 were ¥14,597 million and ¥13,694 million, respectively.

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 June 30, 2018 and at March 31, 2018 are as follows:

| | Millions of yen | |
|--------------------------------------------------------|-----------------|----------------|
| | June 30, 2018 | March 31, 2018 |
| Forwards contracts: | | |
| Sale of foreign currencies | ¥ 202,517 | ¥ 188,433 |
| Purchase of foreign currencies | 169,194 | 152,208 |
| Interest rate swaps and cross-currency swap agreements | 97,273 | 93,736 |

Fair value of derivative instruments at June 30, 2018 and at March 31, 2018 on the consolidated balance sheets are as follows:

| | Millions of yen | | | |
|-----------------------------------------------------------------|---------------------------------------------|----------------------|---------------------------------------------|----------------------|
| | June 30, 2018 | | | |
| | 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 | Other current assets | ¥ 1,116 | Other current liabilities | ¥ 2,056 |
| | Deferred income taxes and other assets | 3,315 | Deferred income taxes and other liabilities | 399 |
| Interest rate swaps and cross-currency swap agreements | Other current assets | 15 | Other current liabilities | 3 |
| | Deferred income taxes and other assets | 11 | Deferred income taxes and other liabilities | 72 |
| Total | | ¥ 4,457 | | ¥ 2,530 |
| | | | | |
| | 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 | Other current assets | ¥ 3,524 | Other current liabilities | ¥ 2,481 |
| | Deferred income taxes and other assets | 36 | Deferred income taxes and other assets | 18 |
| Interest rate swaps and cross-currency swap agreements | Other current assets | 36 | Other current liabilities | 102 |
| | Deferred income taxes and other assets | 94 | Deferred income taxes and other liabilities | — |
| Total | | ¥ 3,690 | | ¥ 2,601 |
| Total Derivative Instruments | | ¥ 8,147 | | ¥ 5,131 |

Millions of yen

March 31, 2018

| | 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 | Other current assets | ¥ 3,375 | Other current liabilities | ¥ 752 |
| | Deferred income taxes and other assets | 3,618 | Deferred income taxes and other liabilities | 147 |
| Interest rate swaps and cross-currency swap agreements | Other current assets | 24 | Other current liabilities | 68 |
| | Deferred income taxes and other assets | — | Deferred income taxes and other liabilities | — |
| Total | | ¥ 7,017 | | ¥ 967 |
| | | | | |
| | 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 | Other current assets | ¥ 1,300 | Other current liabilities | ¥ 2,883 |
| | Deferred income taxes and other assets | 64 | Deferred income taxes and other liabilities | 32 |
| Interest rate swaps and cross-currency swap agreements | Other current assets | 12 | Other current liabilities | 278 |
| | Deferred income taxes and other assets | — | Deferred income taxes and other liabilities | 8 |
| Total | | ¥ 1,376 | | ¥ 3,201 |
| Total Derivative Instruments | | ¥ 8,393 | | ¥ 4,168 |

The effects of derivative instruments on the consolidated statements of income and the consolidated statements of comprehensive income for the three months ended June 30, 2018 and 2017 are as follows:

Derivative instruments designated as cash flow hedging relationships

| Millions of yen | | | | | |
|--------------------------------------------------------|-----------------------------------------------------------|--------------------------------------------------------------------------|------------------------------------------------------------------------|--------------------------------------------------------------------|--------------------------------------------------------------|
| Three months ended June 30, 2018 | | | | | |
| | 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 | ¥ (4,128) | Other income (expenses), net: Other, net | ¥ (2,246) | Other income (expenses), net: Other, net | ¥ 403 |
| Interest rate swaps and cross-currency swap agreements | (3) | — | — | — | — |
| Total | ¥ (4,131) | | ¥ (2,246) | | ¥ 403 |

| Millions of yen | | | | | |
|--------------------------------------------------------|-----------------------------------------------------------|--------------------------------------------------------------------------|------------------------------------------------------------------------|--------------------------------------------------------------------|--------------------------------------------------------------|
| Three months ended June 30, 2017 | | | | | |
| | Effective portion | | | Ineffective portion and amount excluded from effectiveness testing | |
| | Amount of gains (losses) recognized in OCI on derivatives | Location of gains (losses) reclassified from accumulated OCI into income | Amount of gains (losses) reclassified from accumulated OCI into income | Location of gains (losses) recognized in income on derivatives | Amount of gains (losses) recognized in income on derivatives |
| Forwards contracts | ¥ 620 | Other income (expenses), net: Other, net | ¥ 853 | Other income (expenses), net: Other, net | ¥ 54 |
| Interest rate swaps and cross-currency swap agreements | 40 | — | — | — | — |
| Total | ¥ 660 | | ¥ 853 | | ¥ 54 |

* OCI stands for other comprehensive income (loss).

Derivative instruments not designated as hedging instruments relationships

| Millions of yen | | |
|----------------------------------|-------------------------------------------------------------------|-----------------------------------------------------------------|
| Three months ended June 30, 2018 | | |
| | 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 | ¥ 1,078 |
| Interest rate swaps and | Cost of sales | (28) |
| cross-currency swap agreements | Other income (expenses), net: Other, net | 24 |
| Total | | ¥ 1,074 |

| Millions of yen | | |
|----------------------------------|-------------------------------------------------------------------|-----------------------------------------------------------------|
| Three months ended June 30, 2017 | | |
| | Location of gains (losses) recognized in income on derivatives | Amount of gains (losses) recognized in income on derivatives |
| Forwards contracts | Other income (expenses), net: Other, net | ¥ (26) |
| Interest rate swaps and | Cost of sales | 71 |
| cross-currency swap agreements | Other income (expenses), net: Other, net | 22 |
| Total | | ¥ 67 |

14. Fair Values of Financial Instruments

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

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

(2) Investment securities, marketable equity securities (Note 15)

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 the current interest rates for similar receivables of comparable maturity and is classified in Level 2 in the fair value hierarchy.

(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 market borrowing rate for similar debt of comparable maturity and is classified in Level 2 in the fair value hierarchy.

(5) Derivatives (Notes 13 and 15)

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

The carrying amounts and the estimated fair values of the financial instruments, including financial instruments not qualifying as hedge, as of June 30, 2018 and as of March 31, 2018, are summarized as follows:

| | Millions of yen | | | |
|--------------------------------------------------------|-----------------|----------------------|-----------------|----------------------|
| | June 30, 2018 | | March 31, 2018 | |
| | Carrying amount | Estimated fair value | Carrying amount | Estimated fair value |
| Cash and cash equivalents | ¥ 145,701 | ¥ 145,701 | ¥ 144,397 | ¥ 144,397 |
| Time deposits | 2,088 | 2,088 | 2,460 | 2,460 |
| Trade notes and accounts receivable, net | 784,518 | 784,518 | 792,714 | 792,714 |
| Long-term trade receivables, net | 384,522 | 384,522 | 362,367 | 362,367 |
| Investment securities, marketable equity securities | 665 | 665 | 1,528 | 1,528 |
| Short-term debt | 372,206 | 372,206 | 259,093 | 259,093 |
| Trade notes, bills and accounts payable | 273,399 | 273,399 | 303,556 | 303,556 |
| Long-term debt, including current portion | 562,186 | 560,379 | 551,504 | 551,188 |
| Derivatives: | | | | |
| Forwards contracts | | | | |
| Assets | 7,991 | 7,991 | 8,357 | 8,357 |
| Liabilities | 4,954 | 4,954 | 3,814 | 3,814 |
| Interest rate swaps and cross-currency swap agreements | | | | |
| Assets | 156 | 156 | 36 | 36 |
| Liabilities | 177 | 177 | 354 | 354 |

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

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

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

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

The fair value hierarchy levels of assets and liabilities that are measured at fair value on a recurring basis at June 30, 2018 and at March 31, 2018 are as follows:

| | | Millions of yen | | | |
|--------------------------------------------------------|---|-----------------|---------|---------|---------|
| <u>At June 30, 2018</u> | | Level 1 | Level 2 | Level 3 | Total |
| Assets | | | | | |
| Investment securities available for sale | | | | | |
| Manufacturing industry | ¥ | 665 | ¥ | — | ¥ 665 |
| Other | | — | — | — | — |
| Derivatives | | | | | |
| Forward contracts | | — | 7,991 | — | 7,991 |
| Interest rate swaps and cross-currency swap agreements | | — | 156 | — | 156 |
| Total | ¥ | 665 | ¥ 8,147 | ¥ — | ¥ 8,812 |
| Liabilities | | | | | |
| Derivatives | | | | | |
| Forward contracts | ¥ | — | ¥ 4,954 | ¥ — | ¥ 4,954 |
| Interest rate swaps and cross-currency swap agreements | | — | 177 | — | 177 |
| Other | | — | — | 212 | 212 |
| Total | ¥ | — | ¥ 5,131 | ¥ 212 | ¥ 5,343 |
| | | Millions of yen | | | |
| <u>At March 31, 2018</u> | | Level 1 | Level 2 | Level 3 | Total |
| Assets | | | | | |
| Investment securities available for sale | | | | | |
| Manufacturing industry | ¥ | 970 | ¥ | — | ¥ 970 |
| Other | | 558 | — | — | 558 |
| Derivatives | | | | | |
| Forward contracts | | — | 8,357 | — | 8,357 |
| Interest rate swaps and cross-currency swap agreements | | — | 36 | — | 36 |
| Total | ¥ | 1,528 | ¥ 8,393 | ¥ — | ¥ 9,921 |
| Liabilities | | | | | |
| Derivatives | | | | | |
| Forward contracts | ¥ | — | ¥ 3,814 | ¥ — | ¥ 3,814 |
| Interest rate swaps and cross-currency swap agreements | | — | 354 | — | 354 |
| Other | | — | — | 242 | 242 |
| Total | ¥ | — | ¥ 4,168 | ¥ 242 | ¥ 4,410 |

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.

The following table summarizes information about changes of Level 3 for the three months ended June 30, 2018 and 2017:

| | Millions of yen | |
|-----------------------------------------------|-------------------------------------|-------------------------------------|
| | Three months ended June 30, 2018 | Three months ended June 30, 2017 |
| Balance, beginning of year | ¥ (242) | ¥ (248) |
| Total gains or losses (realized / unrealized) | 30 | 27 |
| Included in earnings | 39 | 26 |
| Included in other comprehensive income (loss) | (9) | 1 |
| Balance, end of period | ¥ (212) | ¥ (221) |

The amount of unrealized gains on classified in Level 3 liabilities recognized in earnings for the three months ended June 30, 2018 and 2017 related to liabilities still held at June 30, 2018 and 2017 were gains of ¥39 million and ¥26 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 three months ended June 30, 2018 and 2017 assets and liabilities that were measured at fair value on a non-recurring basis were not material.

16. Committed Credit Lines

Certain consolidated subsidiaries have entered into contracts with certain financial institutions for committed credit lines. These total amounts of committed credit lines at June 30, 2018 and at March 31, 2018 were ¥141,185 million and ¥30,251 million, respectively. These total amounts of unused committed credit lines available for full and immediate borrowings at June 30, 2018 and at March 31, 2018 were ¥130,534 million and ¥22,484 million, respectively.

17. Dividends

Three months ended June 30, 2018

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 19, 2018 | Common stock | 45,301 | Retained earnings | 48 | March 31, 2018 | June 20, 2018 |

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

Three months ended June 30, 2017

Payment amount of dividends

| Resolution | Type of stock | Aggregate amount of dividends (Millions of yen) | Resource of dividends | Dividend per share (Yen) | Record date | Effective date |
|----------------------------------------------------------------|---------------|----------------------------------------------------|-----------------------|-----------------------------|----------------|----------------|
| Ordinary general meeting of shareholders held on June 20, 2017 | Common stock | 27,362 | Retained earnings | 29 | March 31, 2017 | June 21, 2017 |

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

18. Business Segment and Geographic Information

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

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

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

Operating segments:

Information about operating segments for the three months ended June 30, 2018 and 2017 is as follows:

| | Millions of yen | |
|----------------------------------------------|-------------------------------------|-------------------------------------|
| | Three months ended June 30, 2018 | Three months ended June 30, 2017 |
| Net sales: | | |
| Construction, Mining and Utility Equipment – | | |
| External customers | ¥ 592,123 | ¥ 510,998 |
| Intersegment | 2,088 | 4,065 |
| Total | 594,211 | 515,063 |
| Retail Finance – | | |
| External customers | 12,971 | 11,984 |
| Intersegment | 1,288 | 5,568 |
| Total | 14,259 | 17,552 |
| Industrial Machinery and Others – | | |
| External customers | 40,966 | 38,229 |
| Intersegment | 279 | 440 |
| Total | 41,245 | 38,669 |
| Elimination | (3,655) | (10,073) |
| Consolidated | ¥ 646,060 | ¥ 561,211 |
| Segment profit: | | |
| Construction, Mining and Utility Equipment | ¥ 88,318 | ¥ 47,263 |
| Retail Finance | 5,492 | 3,325 |
| Industrial Machinery and Others | 3,044 | 2,389 |
| Total segment profit | 96,854 | 52,977 |
| Corporate expenses and elimination | (944) | (682) |
| Consolidated | ¥ 95,910 | ¥ 52,295 |

Reconciliation of total segment profit to consolidated income before income taxes and equity in earnings of affiliated companies for the three months ended June 30, 2018 and 2017 is as follows:

| | Millions of yen | |
|----------------------------------------------------------------------------------------|-------------------------------------|-------------------------------------|
| | Three months ended June 30, 2018 | Three months ended June 30, 2017 |
| Total segment profit | ¥ 96,854 | ¥ 52,977 |
| Corporate expenses and elimination | (944) | (682) |
| Consolidated | 95,910 | 52,295 |
| Other operating income (expenses), net | 138 | (592) |
| Operating income | 96,048 | 51,703 |
| Interest and dividend income | 1,973 | 1,364 |
| Interest expense | (5,423) | (3,572) |
| Other, net | 342 | (1,401) |
| Consolidated income before income taxes and equity in earnings of affiliated companies | ¥ 92,940 | ¥ 48,094 |

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, underground mining equipment, recycling equipment, industrial vehicles, other equipment, engines and components, casting products and logistics

b) Retail Finance:

Financing

c) Industrial Machinery and Others operating segment:

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

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

Geographic information:

Net sales determined by customer location for the three months ended June 30, 2018 and 2017 are as follows:

| | Millions of yen | |
|----------------------------------------------|-------------------------------------|-------------------------------------|
| | Three months ended June 30, 2018 | Three months ended June 30, 2017 |
| Japan | ¥ 81,814 | ¥ 84,123 |
| The Americas | 233,520 | 207,787 |
| Europe and CIS | 89,189 | 74,119 |
| China | 55,848 | 41,955 |
| Asia (excluding Japan and China) and Oceania | 147,500 | 117,927 |
| Middle East and Africa | 38,189 | 35,300 |
| Consolidated net sales | ¥ 646,060 | ¥ 561,211 |

Net sales determined by geographic origin for the three months ended June 30, 2018 and 2017 are as follows:

| | Millions of yen | |
|----------------|-------------------------------------|-------------------------------------|
| | Three months ended June 30, 2018 | Three months ended June 30, 2017 |
| Japan | ¥ 140,204 | ¥ 133,751 |
| The Americas | 213,596 | 197,556 |
| Europe and CIS | 90,914 | 75,315 |
| China | 51,834 | 39,859 |
| Others | 149,512 | 114,730 |
| Total | ¥ 646,060 | ¥ 561,211 |

There were no sales to a single major external customer for the three months ended June 30, 2018 and 2017.

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 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. Komatsu remeasured income tax accounting effects of the Act during the three months ended June 30, 2018, and the change in income tax accounting effects is not material to Komatsu’s financial position and results of operations.

Komatsu does not expect material changes to the income tax accounting effects of the Act. 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 August 9, 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 (hereinafter "J. GAAP") are as follows.

(1) Scope of consolidation

For quarterly consolidated financial statements in accordance with J. GAAP, 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 accordance with J. GAAP, 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 accordance with J. GAAP, 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 accordance with J. GAAP, 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 accordance with J. GAAP, 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 accordance with J. GAAP, 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 accordance with J. GAAP, 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.