

(Translation)

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Quarterly Report

From July 1, 2018 to September 30, 2018

(Second 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 September 30, 2018 with the Director-General of the Kanto Local Finance Bureau on November 9, 2018. The Quarterly Securities Report contains, among other information, Quarterly Consolidated Financial Statements for the three months and six months ended September 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 October 29, 2018. Attached is an English translation of Quarterly Consolidated Financial Statements for the three months and six months ended September 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 September 30, 2018 (from July 1 to September 30, 2018) and for the six months ended September 30, 2018 (from April 1 to September 30, 2018) were reviewed by KPMG AZSA LLC

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

Komatsu Ltd. and Consolidated Subsidiaries
Six months ended September 30, 2018 and 2017.

Consolidated Statements of Income

	Six months ended September 30, 2018		Six months ended September 30, 2017	
	Millions of yen	Ratio (%)	Millions of yen	Ratio (%)
Net sales (Notes 1 and 9)	¥ 1,318,041	100.0	¥ 1,158,958	100.0
Cost of sales (Notes 1, 6, 7 and 13)	900,519	68.3	832,712	71.9
Selling, general and administrative expenses (Notes 1, 6, 7 and 10)	218,389	16.6	213,965	18.5
Other operating income (expenses), net	1,174	0.1	(1,097)	(0.1)
Operating income	200,307	15.2	111,184	9.6
Other income (expenses), net				
Interest and dividend income	3,683	0.3	2,952	0.3
Interest expense	(11,410)	(0.9)	(8,237)	(0.7)
Gain on sales of investment securities, net (Notes 1 and 8)	—	—	39,563	3.4
Other, net (Notes 1, 5, 7, 8, 13 and 15)	(71)	(0.0)	(1,345)	(0.1)
Total	(7,798)	(0.6)	32,933	2.8
Income before income taxes and equity in earnings of affiliated companies	192,509	14.6	144,117	12.4
Income taxes (Notes 1, 8 and 19)				
Current	55,724		40,119	
Deferred	1,815		(1,869)	
Total	57,539	4.4	38,250	3.3
Income before equity in earnings of affiliated companies	134,970	10.2	105,867	9.1
Equity in earnings of affiliated companies	2,262	0.2	1,749	0.2
Net income	137,232	10.4	107,616	9.3
Less: Net income attributable to noncontrolling interests	11,847	0.9	5,861	0.5
Net income attributable to Komatsu Ltd.	¥ 125,385	9.5	¥ 101,755	8.8
	Yen			
Per share data (Note 11):				
Net income attributable to Komatsu Ltd.:				
Basic	132.90		107.90	
Diluted	132.74		107.75	

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

Consolidated Statements of Comprehensive Income

	Millions of yen	
	Six months ended September 30, 2018	Six months ended September 30, 2017
Net income	¥ 137,232	¥ 107,616
Other comprehensive income (loss), for the period, net of tax		
Foreign currency translation adjustments (Note 8)	41,705	30,670
Net unrealized holding gains (losses) on securities available for sale (Notes 1, 5 and 8)	—	(23,603)
Pension liability adjustments (Notes 7 and 8)	590	848
Net unrealized holding gains (losses) on derivative instruments (Notes 8 and 13)	(2,690)	1,282
Total	39,605	9,197
Comprehensive income (loss)	176,837	116,813
Less: Comprehensive income (loss) attributable to noncontrolling interests	13,701	7,652
Comprehensive income (loss) attributable to Komatsu Ltd.	¥ 163,136	¥ 109,161

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

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

Komatsu Ltd. and Consolidated Subsidiaries

Three months ended September 30, 2018 and 2017.

Consolidated Statements of Income

	Three months ended September 30, 2018		Three months ended September 30, 2017	
	Millions of yen	Ratio (%)	Millions of yen	Ratio (%)
Net sales (Notes 1 and 9)	¥ 671,981	100.0	¥ 597,747	100.0
Cost of sales (Notes 1, 6, 7 and 13)	459,270	68.3	430,544	72.0
Selling, general and administrative expenses (Notes 1, 6, 7 and 10)	109,488	16.3	107,217	17.9
Other operating income (expenses), net	1,036	0.2	(505)	(0.1)
Operating income	104,259	15.5	59,481	10.0
Other income (expenses), net				
Interest and dividend income	1,710	0.3	1,588	0.3
Interest expense	(5,987)	(0.9)	(4,665)	(0.8)
Gain on sales of investment securities, net (Notes 1 and 8)	—	—	39,563	6.6
Other, net (Notes 1, 5, 7, 8, 13 and 15)	(413)	(0.1)	56	0.0
Total	(4,690)	(0.7)	36,542	6.1
Income before income taxes and equity in earnings of affiliated companies	99,569	14.8	96,023	16.1
Income taxes (Notes 1, 8 and 19)				
Current	32,975		39,232	
Deferred	(3,459)		(10,486)	
Total	29,516	4.4	28,746	4.8
Income before equity in earnings of affiliated companies	70,053	10.4	67,277	11.3
Equity in earnings of affiliated companies	1,164	0.2	987	0.2
Net income	71,217	10.6	68,264	11.4
Less: Net income attributable to noncontrolling interests	8,802	1.3	2,904	0.5
Net income attributable to Komatsu Ltd.	¥ 62,415	9.3	¥ 65,360	10.9
	Yen			
Per share data (Note 11):				
Net income attributable to Komatsu Ltd.:				
Basic	66.15		69.30	
Diluted	66.07		69.21	

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

Consolidated Statements of Comprehensive Income

	Millions of yen	
	Three months ended September 30, 2018	Three months ended September 30, 2017
Net income	¥ 71,217	¥ 68,264
Other comprehensive income (loss), for the period, net of tax		
Foreign currency translation adjustments (Note 8)	23,709	19,656
Net unrealized holding gains (losses) on securities available for sale (Notes 1, 5 and 8)	—	(26,649)
Pension liability adjustments (Notes 7 and 8)	364	465
Net unrealized holding gains (losses) on derivative instruments (Notes 8 and 13)	(997)	1,213
Total	23,076	(5,315)
Comprehensive income (loss)	94,293	62,949
Less: Comprehensive income (loss) attributable to noncontrolling interests	10,058	4,092
Comprehensive income (loss) attributable to Komatsu Ltd.	¥ 84,235	¥ 58,857

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

Consolidated Statements of Equity (Unaudited)

Komatsu Ltd. and Consolidated Subsidiaries

Six months ended September 30, 2018

	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, 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)	(4,558)	(49,859)
Transfer to retained earnings appropriated for legal reserve			77	(77)			—		—
Other changes		(1,476)			(2,046)		(3,522)	(3,233)	(6,755)
Net income				125,385			125,385	11,847	137,232
Other comprehensive income (loss), for the period, net of tax (Note 8)					37,751		37,751	1,854	39,605
Issuance and exercise of stock acquisition rights (Note 10)		(323)					(323)		(323)
Purchase of treasury stock						(25)	(25)		(25)
Sales of treasury stock		27				297	324		324
Restricted stock compensation (Note 10)	441	438					879		879
Balance at September 30, 2018	¥ 68,311	¥ 137,116	¥ 45,905	¥ 1,571,278	¥ 5,874	¥ (50,151)	¥ 1,778,333	¥ 84,948	¥ 1,863,281

Six months ended September 30, 2017

	Millions of yen								
	Common stock	Capital surplus	Retained earnings		Accumulated other comprehensive income (loss)	Treasury stock	Total Komatsu Ltd. shareholders' equity	Non-controlling interests	Total equity
			Appropriated for legal reserve	Un-appropriated					
Balance at March 31, 2017	¥ 67,870	¥ 138,285	¥ 45,368	¥ 1,357,350	¥ 18,682	¥ (50,881)	¥ 1,576,674	¥ 71,841	¥ 1,648,515
Cash dividends (Note 17)				(27,363)			(27,363)	(2,893)	(30,256)
Transfer to retained earnings appropriated for legal reserve			436	(436)			—		—
Other changes							—		—
Net income				101,755			101,755	5,861	107,616
Other comprehensive income (loss), for the period, net of tax (Note 8)					7,406		7,406	1,791	9,197
Issuance and exercise of stock acquisition rights (Note 10)		(34)					(34)		(34)
Purchase of treasury stock						(22)	(22)		(22)
Sales of treasury stock		49				348	397		397
Balance at September 30, 2017	¥ 67,870	¥ 138,300	¥ 45,804	¥ 1,431,306	¥ 26,088	¥ (50,555)	¥ 1,658,813	¥ 76,600	¥ 1,735,413

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

Consolidated Statements of Cash Flows (Unaudited)

Komatsu Ltd. and Consolidated Subsidiaries
Six months ended September 30, 2018 and 2017

	Millions of yen	
	Six months ended September 30, 2018	Six months ended September 30, 2017
Operating activities		
Net income	¥ 137,232	¥ 107,616
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	65,338	65,465
Deferred income taxes	1,815	(1,869)
Impairment loss and net loss (gain) from sale of investment securities	443	(39,424)
Net loss (gain) on sale of property	(426)	(172)
Loss on disposal of fixed assets	976	1,245
Pension and retirement benefits, net	(672)	(1,194)
Changes in assets and liabilities:		
Decrease (increase) in trade receivables	(12,844)	(42,216)
Decrease (increase) in inventories	(85,014)	(47,481)
Increase (decrease) in trade payables	(32,093)	8,280
Increase (decrease) in income taxes payable	(24,423)	15,676
Other, net	22,558	15,265
Net cash provided by (used in) operating activities	<u>72,890</u>	<u>81,191</u>
Investing activities		
Capital expenditures	(86,350)	(79,895)
Proceeds from sale of property	7,673	12,523
Proceeds from sale of available for sale investment securities	1,708	46,184
Purchases of available for sale investment securities	(171)	(235)
Proceeds from sale of subsidiaries and equity investees, net of cash disposed	42	570
Acquisition of subsidiaries and equity investees, net of cash acquired	(9,228)	(273,137)
Collection of loan receivables	496	47
Disbursement of loan receivables	(985)	(776)
Decrease (increase) in time deposits, net	137	(181)
Net cash provided by (used in) investing activities	<u>(86,678)</u>	<u>(294,900)</u>
Financing activities		
Proceeds from debt issued (Original maturities greater than three months)	169,632	273,706
Payment on debt (Original maturities greater than three months)	(80,228)	(44,592)
Short-term debt, net (Original maturities three months or less)	(23,816)	55,608
Repayments of capital lease obligations	(31)	(23)
Sale (purchase) of treasury stock, net	(11)	76
Dividends paid	(45,301)	(27,363)
Other, net	(12,881)	(2,927)
Net cash provided by (used in) financing activities	<u>7,364</u>	<u>254,485</u>
Effect of exchange rate change on cash and cash equivalents	<u>(11,629)</u>	<u>745</u>
Net increase (decrease) in cash and cash equivalents	<u>(18,053)</u>	<u>41,521</u>
Cash and cash equivalents, beginning of year	<u>144,397</u>	<u>119,901</u>
Cash and cash equivalents, end of period	<u>¥ 126,344</u>	<u>¥ 161,422</u>

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

Komatsu Ltd. and Consolidated Subsidiaries
Three months and six months ended September 30, 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 ¥68 million and ¥1,371 million from cost of sales and selling, general and administrative expenses, respectively, to other, net under other income (expenses), net for the six months ended September 30, 2017. As a result, operating income for the six months ended September 30, 2017 decreased by ¥1,439 million compared with that before the reclassification. Komatsu reclassified ¥65 million and ¥670 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 September 30, 2017. As a result, operating income for the three months ended September 30, 2017 decreased by ¥735 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 six months ended September 30, 2018 and 2017 are as follows:

	Millions of yen	
	Six months ended September 30, 2018	Six months ended September 30, 2017
Additional cash flow information:		
Interest paid	¥ 11,349	¥ 5,995
Income taxes paid	76,276	39,350
Noncash investing and financing activities:		
Capital lease obligations incurred	¥ 178	¥ 300

3. Allowance for Doubtful Receivables

At September 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 ¥20,890 million and ¥23,657 million, respectively.

4. Inventories

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

	Millions of yen	
	September 30, 2018	March 31, 2018
Finished products, including finished parts held for sale	¥ 584,815	¥ 512,511
Work in process	190,147	159,190
Materials and supplies	70,204	58,587
Total	¥ 845,166	¥ 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 six months ended September 30, 2018 are as follows:

	Millions of yen
	Six months ended September 30, 2018
Net gains and losses recognized during the period on equity securities.	¥ (443)
Less: net gains and losses recognized during the period on equity securities sold during the period.	(46)
Unrealized gains and losses recognized during the period on equity securities still held as of September 30, 2018.	<u>¥ (397)</u>

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 September 30, 2018 are as follows:

	Millions of yen
	Three months ended September 30, 2018
Net gains and losses recognized during the period on equity securities.	¥ (176)
Less: net gains and losses recognized during the period on equity securities sold during the period.	(47)
Unrealized gains and losses recognized during the period on equity securities still held as of September 30, 2018.	<u>¥ (129)</u>

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 September 30, 2018, Komatsu did not record any impairment or other adjustments, and the carrying amount of these investments was ¥7,109 million.

6. Other Intangible Assets

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

	Millions of yen					
	September 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	¥40,205	¥ (19,348)	¥ 20,857	¥38,195	¥ (18,573)	¥ 19,622
Leasehold	8,345	(1,754)	6,591	8,803	(1,746)	7,057
Trademarks	60,505	(6,452)	54,053	54,145	(4,047)	50,098
Customer relationships	78,795	(19,128)	59,667	73,281	(15,006)	58,275
Technology assets	35,034	(9,625)	25,409	32,952	(8,598)	24,354
Backlog	—	—	—	7,317	(6,242)	1,075
Other	10,841	(6,715)	4,126	9,190	(5,909)	3,281
Total	233,725	(63,022)	170,703	223,883	(60,121)	163,762
Other intangible assets not subject to amortization			9,677			9,453
Total other intangible assets			¥180,380			¥173,215

The aggregate amortization expense of other intangible assets subject to amortization during the six months ended September 30, 2018 and 2017 were ¥10,407 million and ¥11,831 million, respectively. The aggregate amortization expense of other intangible assets subject to amortization during the three months ended September 30, 2018 and 2017 were ¥4,748 million and ¥5,843 million, respectively.

7. Cost of Retirement Benefits

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

	Millions of yen	
	Six months ended September 30, 2018	Six months ended September 30, 2017
Service cost	¥ 4,505	¥ 4,533
Interest cost on projected benefit obligations	3,690	3,632
Expected return on plan assets	(6,044)	(6,117)
Amortization of actuarial loss	645	923
Amortization of prior service cost	68	78
Net periodic cost	¥ 2,864	¥ 3,049

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

	Millions of yen	
	Six months ended September 30, 2018	Six months ended September 30, 2017
Service cost	¥ 267	¥ 228
Interest cost on projected benefit obligations	289	260
Expected return on plan assets	(300)	(297)
Amortization of actuarial loss	57	44
Amortization of prior service cost	3	38
Net periodic cost	¥ 316	¥ 273

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

	Millions of yen	
	Three months ended September 30, 2018	Three months ended September 30, 2017
Service cost	¥ 2,248	¥ 2,237
Interest cost on projected benefit obligations	1,845	1,801
Expected return on plan assets	(3,031)	(3,057)
Amortization of actuarial loss	321	459
Amortization of prior service cost	35	39
Net periodic cost	¥ 1,418	¥ 1,479

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

	Millions of yen	
	Three months ended September 30, 2018	Three months ended September 30, 2017
Service cost	¥ 142	¥ 114
Interest cost on projected benefit obligations	154	130
Expected return on plan assets	(152)	(148)
Amortization of actuarial loss	30	22
Amortization of prior service cost	2	19
Net periodic cost	¥ 176	¥ 137

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 six months ended September 30, 2018 and 2017 are as follows:

	Millions of yen				
	Six months ended September 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	41,705	—	71	(5,116)	36,660
Amounts reclassified from accumulated other comprehensive income (loss)	—	—	519	2,426	2,945
Net other comprehensive income (loss)	41,705	—	590	(2,690)	39,605
Less: other comprehensive income (loss) attributable to noncontrolling interests	1,853	—	7	(6)	1,854
Other comprehensive income (loss) attributable to Komatsu Ltd.	39,852	—	583	(2,684)	37,751
Equity transactions with noncontrolling interests	(2,074)	—	28	—	(2,046)
Balance, end of period	¥ 27,612	¥ —	¥ (22,134)	¥ 396	¥ 5,874

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				
	Six months ended September 30, 2017				
	Foreign currency translation adjustments	Net unrealized holding gains(losses) on securities available for sale	Pension liability adjustments	Net unrealized holding gains (losses) on derivative instruments	Total
Balance, beginning of year	¥ 11,014	¥ 30,114	¥ (23,149)	¥ 703	¥ 18,682
Other comprehensive income (loss) before reclassifications	30,670	2,756	132	2,683	36,241
Amounts reclassified from accumulated other comprehensive income (loss)	—	(26,359)	716	(1,401)	(27,044)
Net other comprehensive income (loss)	30,670	(23,603)	848	1,282	9,197
Less: other comprehensive income (loss) attributable to noncontrolling interests	1,738	—	26	27	1,791
Other comprehensive income (loss) attributable to Komatsu Ltd.	28,932	(23,603)	822	1,255	7,406
Balance, end of period	¥ 39,946	¥ 6,511	¥ (22,327)	¥ 1,958	¥ 26,088

All amounts are net of tax.

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

Millions of yen					
Three months ended September 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 period	¥ 7,223	¥ —	¥ (22,512)	¥ 1,389	¥ (13,900)
Other comprehensive income (loss) before reclassifications	23,709	—	93	(2,436)	21,366
Amounts reclassified from accumulated other comprehensive income (loss)	—	—	271	1,439	1,710
Net other comprehensive income (loss)	23,709	—	364	(997)	23,076
Less: other comprehensive income (loss) attributable to noncontrolling interests	1,246	—	14	(4)	1,256
Other comprehensive income (loss) attributable to Komatsu Ltd.	22,463	—	350	(993)	21,820
Equity transactions with noncontrolling interests	(2,074)	—	28	—	(2,046)
Balance, end of period	¥ 27,612	¥ —	¥ (22,134)	¥ 396	¥ 5,874

All amounts are net of tax.

Millions of yen					
Three months ended September 30, 2017					
	Foreign currency translation adjustments	Net unrealized holding gains(losses) on securities available for sale	Pension liability adjustments	Net unrealized holding gains (losses) on derivative instruments	Total
Balance, beginning of period	¥ 21,442	¥ 33,160	¥ (22,771)	¥ 760	¥ 32,591
Other comprehensive income (loss) before reclassifications	19,656	(290)	106	1,979	21,451
Amounts reclassified from accumulated other comprehensive income (loss)	—	(26,359)	359	(766)	(26,766)
Net other comprehensive income (loss)	19,656	(26,649)	465	1,213	(5,315)
Less: other comprehensive income (loss) attributable to noncontrolling interests	1,152	—	21	15	1,188
Other comprehensive income (loss) attributable to Komatsu Ltd.	18,504	(26,649)	444	1,198	(6,503)
Balance, end of period	¥ 39,946	¥ 6,511	¥ (22,327)	¥ 1,958	¥ 26,088

All amounts are net of tax.

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

	Millions of yen	
	Six months ended September 30, 2018	Affected line items in consolidated statements of income
Pension liability adjustments		
Amortization of actuarial loss and prior service cost	¥ (773)	*2
	(773)	Total before tax
	254	Income taxes
	(519)	Net of tax
Net unrealized holding gains (losses) on derivative instruments		
Forwards contracts	(3,348)	Other income (expenses), net: Other, net
	(3,348)	Total before tax
	922	Income taxes
	(2,426)	Net of tax
Total reclassification for the period	¥ (2,945)	Net of tax

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

	Millions of yen	
	Six months ended September 30, 2017	Affected line items in consolidated statements of income
Net unrealized holding gains (losses) on securities available for sale		
Gain from sale	¥ 39,715	Other income (expenses), net: Gain on sales of investment securities
	39,715	Total before tax
	(13,356)	Income taxes
	26,359	Net of tax
Pension liability adjustments		
Amortization of actuarial loss and prior service cost	(1,083)	*3
	(1,083)	Total before tax
	367	Income taxes
	(716)	Net of tax
Net unrealized holding gains (losses) on derivative instruments		
Forwards contracts	2,007	Other income (expenses), net: Other, net
	2,007	Total before tax
	(606)	Income taxes
	1,401	Net of tax
Total reclassification for the period	¥ 27,044	Net of tax

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

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

	Millions of yen	
	Three months ended September 30, 2018	Affected line items in consolidated statements of income
Pension liability adjustments		
Amortization of actuarial loss and prior service cost	¥ (388)	*4
	(388)	Total before tax
	117	Income taxes
	(271)	Net of tax
Net unrealized holding gains (losses) on derivative instruments		
Forwards contracts	(1,505)	Other income (expenses), net: Other, net
	(1,505)	Total before tax
	66	Income taxes
	(1,439)	Net of tax
Total reclassification for the period	¥ (1,710)	Net of tax

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

	Millions of yen	
	Three months ended September 30, 2017	Affected line items in consolidated statements of income
Net unrealized holding gains (losses) on securities available for sale		
Gain from sale	¥ 39,715	Other income (expenses), net: Gain on sales of investment securities
	39,715	Total before tax
	(13,356)	Income taxes
	26,359	Net of tax
Pension liability adjustments		
Amortization of actuarial loss and prior service cost	(539)	*5
	(539)	Total before tax
	180	Income taxes
	(359)	Net of tax
Net unrealized holding gains (losses) on derivative instruments		
Forwards contracts	1,100	Other income (expenses), net: Other, net
	1,100	Total before tax
	(334)	Income taxes
	766	Net of tax
Total reclassification for the period	¥ 26,766	Net of tax

*5 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 six months ended September 30, 2018 and 2017 are as follows:

Millions of yen					
Six months ended September 30, 2018					
	Before tax amount		Tax (expense) or benefit		Net of tax amount
Foreign currency translation adjustments					
Foreign currency translation adjustments arising during period	¥ 41,811		¥ (106)		¥ 41,705
Less: reclassification adjustment for gains included in net income	—		—		—
Net foreign currency translation adjustments	41,811		(106)		41,705
Pension liability adjustments					
Pension liability adjustments arising during period	79		(8)		71
Less: reclassification adjustment for losses included in net income	773		(254)		519
Net pension liability adjustments	852		(262)		590
Net unrealized holding gains (losses) on derivative instruments					
Unrealized holding losses arising during period	(7,151)		2,035		(5,116)
Less: reclassification adjustment for losses included in net income	3,348		(922)		2,426
Net unrealized holding losses	(3,803)		1,113		(2,690)
Other comprehensive income (loss)	¥ 38,860		¥ 745		¥ 39,605

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

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

	Millions of yen		
	Three months ended September 30, 2018		
	Before tax amount	Tax (expense) or benefit	Net of tax amount
Foreign currency translation adjustments			
Foreign currency translation adjustments arising during period	¥ 23,762	¥ (53)	¥ 23,709
Less: reclassification adjustment for gains included in net income	—	—	—
Net foreign currency translation adjustments	23,762	(53)	23,709
Pension liability adjustments			
Pension liability adjustments arising during period	108	(15)	93
Less: reclassification adjustment for losses included in net income	388	(117)	271
Net pension liability adjustments	496	(132)	364
Net unrealized holding gains (losses) on derivative instruments			
Unrealized holding losses arising during period	(3,020)	584	(2,436)
Less: reclassification adjustment for losses included in net income	1,505	(66)	1,439
Net unrealized holding losses	(1,515)	518	(997)
Other comprehensive income (loss)	¥ 22,743	¥ 333	¥ 23,076

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

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 six months ended September 30, 2018 are as follows:

	Millions of yen			
	Six months ended September 30, 2018			
	Construction, Mining and Utility Equipment	Retail Finance	Industrial Machinery and Others	Total
Japan	¥ 137,488	¥ 913	¥ 40,508	¥ 178,909
The Americas	443,297	20,066	18,659	482,022
Europe and CIS	165,824	1,334	7,151	174,309
China	81,440	1,601	10,465	93,506
Asia (excluding Japan and China) and Oceania	287,603	2,665	19,416	309,684
Middle East and Africa	79,534	46	31	79,611
Total	¥ 1,195,186	¥ 26,625	¥ 96,230	¥ 1,318,041

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

	Millions of yen			
	Three months ended September 30, 2018			
	Construction, Mining and Utility Equipment	Retail Finance	Industrial Machinery and Others	Total
Japan	¥ 73,584	¥ 466	¥ 23,045	¥ 97,095
The Americas	225,999	10,273	12,230	248,502
Europe and CIS	80,597	716	3,807	85,120
China	30,913	810	5,935	37,658
Asia (excluding Japan and China) and Oceania	150,594	1,356	10,234	162,184
Middle East and Africa	41,376	33	13	41,422
Total	¥ 603,063	¥ 13,654	¥ 55,264	¥ 671,981

(2) Contract balances

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

	Millions of yen	
	September 30, 2018	April 1, 2018
Receivables *1	¥ 1,035,685	¥ 991,124
Contract assets *2	4,891	5,604
Contract liabilities *3	84,102	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 six months ended September 30, 2018, that was included in the contract liability balance as of April 1, 2018 was ¥38,959 million. Revenue recognized for the three months ended September 30, 2018, that was included in the contract liability balance as of April 1, 2018 was ¥7,153 million.

The amount of revenue recognized during the six months and three months ended September 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 September 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 ¥137,751 million.

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

Year ending March 31	Millions of yen
2019	¥ 30,274
2020	62,842
2021	18,029
Thereafter	26,606
Total	¥ 137,751

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

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 six months ended September 30, 2018 and the three months ended September 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

The Company has the restricted stock compensation system (hereinafter, the “System”) for directors (other than outside directors) and employees of the Company and directors and employees of major subsidiaries. Among the new shares issued under the System, those transfer restrictions which have not been cancelled are distinguished as participating securities from common shares. Each common share and restricted stock has the same rights to net income attributable to Komatsu Ltd.

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

	Millions of yen	
	Six months ended September 30, 2018	Six months ended September 30, 2017
Net income attributable to Komatsu Ltd.	¥ 125,385	¥ 101,755
Net income attributable to participating securities (restricted stocks)	6	—
Net income attributable to common shareholders	¥ 125,379	¥ 101,755

	Number of shares	
	Six months ended September 30, 2018	Six months ended September 30, 2017
Weighted average number of common shares outstanding, less treasury stock	943,425,146	943,089,765
Weighted average number of participating securities (restricted stocks)	43,576	—
Weighted average number of common shares	943,381,570	943,089,765

	Yen	
	Six months ended September 30, 2018	Six months ended September 30, 2017
Basic net income attributable to Komatsu Ltd. per share	132.90	107.90

	Millions of yen	
	Three months ended September 30, 2018	Three months ended September 30, 2017
Net income attributable to Komatsu Ltd.	¥ 62,415	¥ 65,360
Net income attributable to participating securities (restricted stocks)	6	—
Net income attributable to common shareholders	¥ 62,409	¥ 65,360

	Number of shares	
	Three months ended September 30, 2018	Three months ended September 30, 2017
Weighted average number of common shares outstanding, less treasury stock	943,514,170	943,140,858
Weighted average number of participating securities (restricted stocks)	86,678	—
Weighted average number of common shares	943,427,492	943,140,858

	Yen	
	Three months ended September 30, 2018	Three months ended September 30, 2017
Basic net income attributable to Komatsu Ltd. per share	66.15	69.30

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

	Millions of yen	
	Six months ended September 30, 2018	Six months ended September 30, 2017
Net income attributable to Komatsu Ltd.	¥ 125,385	¥ 101,755
Net income attributable to participating securities (restricted stocks)	6	—
Net income attributable to common shareholders	¥ 125,379	¥ 101,755

	Number of shares	
	Six months ended September 30, 2018	Six months ended September 30, 2017
Weighted average number of common shares outstanding, less treasury stock	943,425,146	943,089,765
Dilutive effect of:		
Stock options	1,147,656	1,253,377
Weighted average number of participating securities (restricted stocks)	43,576	—
Weighted average number of diluted common shares	944,529,226	944,343,142

	Yen	
	Six months ended September 30, 2018	Six months ended September 30, 2017
Diluted net income attributable to Komatsu Ltd. per share	132.74	107.75

	Millions of yen	
	Three months ended September 30, 2018	Three months ended September 30, 2017
Net income attributable to Komatsu Ltd.	¥ 62,415	¥ 65,360
Net income attributable to participating securities (restricted stocks)	6	—
Net income attributable to common shareholders	¥ 62,409	¥ 65,360

	Number of shares	
	Three months ended September 30, 2018	Three months ended September 30, 2017
Weighted average number of common shares outstanding, less treasury stock	943,514,170	943,140,858
Dilutive effect of:		
Stock options	1,100,246	1,289,956
Weighted average number of participating securities (restricted stocks)	86,678	—
Weighted average number of diluted common shares	944,527,738	944,430,814

	Yen	
	Three months ended September 30, 2018	Three months ended September 30, 2017
Diluted net income attributable to Komatsu Ltd. per share	66.07	69.21

12. Contingent Liabilities

At September 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 ¥88 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 September 30, 2018 and at March 31, 2018 were ¥16,282 million and ¥15,034 million, respectively. The fair value of the liabilities recognized for Komatsu's obligations as guarantors under those guarantees at September 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 September 30, 2018 and at March 31, 2018 were ¥18,032 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 September 30, 2018 and at March 31, 2018 are as follows:

	Millions of yen	
	September 30, 2018	March 31, 2018
Forwards contracts:		
Sale of foreign currencies	¥ 210,897	¥ 188,433
Purchase of foreign currencies	142,858	152,208
Interest rate swaps and cross-currency swap agreements	106,198	93,736

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

	Millions of yen			
	September 30, 2018			
	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	Other current assets	¥ 576	Other current liabilities	¥ 2,750
	Deferred income taxes and other assets	1	Deferred income taxes and other liabilities	507
Interest rate swaps and cross-currency swap agreements	Other current assets	2	Other current liabilities	2
	Deferred income taxes and other assets	21	Deferred income taxes and other liabilities	85
Total		¥ 600		¥ 3,344
Undesignated derivative instruments	Location on the consolidated Balance Sheets	Estimated fair value	Location on the consolidated Balance Sheets	Estimated fair value
Forwards contracts	Other current assets	¥ 2,647	Other current liabilities	¥ 2,406
	Deferred income taxes and other assets	30	Deferred income taxes and other assets	15
Interest rate swaps and cross-currency swap agreements	Other current assets	53	Other current liabilities	58
	Deferred income taxes and other assets	174	Deferred income taxes and other liabilities	8
Total		¥ 2,904		¥ 2,487
Total Derivative Instruments		¥ 3,504		¥ 5,831

Millions of yen

March 31, 2018

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	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

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	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 six months ended September 30, 2018 and 2017 are as follows:

Derivative instruments designated as cash flow hedging relationships

	Millions of yen				
	Six months ended September 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	¥ (7,133)	Other income (expenses), net: Other, net	¥ (4,814)	Other income (expenses), net: Other, net	¥ 1,466
Interest rate swaps and cross-currency swap agreements	(18)	—	—	—	—
Total	¥ (7,151)		¥ (4,814)		¥ 1,466

	Millions of yen				
	Six months ended September 30, 2017				
	Effective portion			Ineffective portion and amount excluded from effectiveness testing	
	Amount of gains (losses) recognized in OCI on derivatives	Location of gains (losses) reclassified from accumulated OCI into income	Amount of gains (losses) reclassified from accumulated OCI into income	Location of gains (losses) recognized in income on derivatives	Amount of gains (losses) recognized in income on derivatives
Forwards contracts	¥ 3,329	Other income (expenses), net: Other, net	¥ 1,897	Other income (expenses), net: Other, net	¥ 110
Interest rate swaps and cross-currency swap agreements	95	—	—	—	—
Total	¥ 3,424		¥ 1,897		¥ 110

* OCI stands for other comprehensive income (loss).

Derivative instruments not designated as hedging instruments relationships

Millions of yen		
Six months ended September 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	¥ 1,233
Interest rate swaps and cross-currency swap agreements	Cost of sales	(58)
	Other income (expenses), net: Other, net	(14)
Total		¥ 1,161

Millions of yen		
Six months ended September 30, 2017		
	Location of gains (losses) recognized in income on derivatives	Amount of gains (losses) recognized in income on derivatives
Forwards contracts	Other income (expenses), net: Other, net	¥ (2,188)
Interest rate swaps and cross-currency swap agreements	Cost of sales	(50)
	Other income (expenses), net: Other, net	13
Total		¥ (2,225)

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

Derivative instruments designated as cash flow hedging relationships

Millions of yen					
Three months ended September 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	¥ (3,005)	Other income (expenses), net: Other, net	¥ (2,568)	Other income (expenses), net: Other, net	¥ 1,063
Interest rate swaps and cross-currency swap agreements	(15)	—	—	—	—
Total	¥ (3,020)		¥ (2,568)		¥ 1,063

Millions of yen					
Three months ended September 30, 2017					
	Effective portion			Ineffective portion and amount excluded from effectiveness testing	
	Amount of gains (losses) recognized in OCI on derivatives	Location of gains (losses) reclassified from accumulated OCI into income	Amount of gains (losses) reclassified from accumulated OCI into income	Location of gains (losses) recognized in income on derivatives	Amount of gains (losses) recognized in income on derivatives
Forwards contracts	¥ 2,709	Other income (expenses), net: Other, net	¥ 1,044	Other income (expenses), net: Other, net	¥ 56
Interest rate swaps and cross-currency swap agreements	55	—	—	—	—
Total	¥ 2,764		¥ 1,044		¥ 56

* OCI stands for other comprehensive income (loss).

Derivative instruments not designated as hedging instruments relationships

Millions of yen			
Three months ended September 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	¥	155
Interest rate swaps and cross-currency swap agreements	Cost of sales		(30)
	Other income (expenses), net: Other, net		(38)
Total		¥	87

Millions of yen			
Three months ended September 30, 2017			
	Location of gains (losses) recognized in income on derivatives		Amount of gains (losses) recognized in income on derivatives
Forwards contracts	Other income (expenses), net: Other, net	¥	(2,162)
Interest rate swaps and cross-currency swap agreements	Cost of sales		(121)
	Other income (expenses), net: Other, net		(9)
Total		¥	(2,292)

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 September 30, 2018 and as of March 31, 2018, are summarized as follows:

	Millions of yen			
	September 30, 2018		March 31, 2018	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Cash and cash equivalents	¥ 126,344	¥ 126,344	¥ 144,397	¥ 144,397
Time deposits	2,425	2,425	2,460	2,460
Trade notes and accounts receivable, net	817,327	817,327	792,714	792,714
Long-term trade receivables, net	396,248	396,248	362,367	362,367
Investment securities, marketable equity securities	564	564	1,528	1,528
Short-term debt	353,775	353,775	259,093	259,093
Trade notes, bills and accounts payable	275,299	275,299	303,556	303,556
Long-term debt, including current portion	563,576	560,291	551,504	551,188
Derivatives:				
Forwards contracts				
Assets	3,254	3,254	8,357	8,357
Liabilities	5,678	5,678	3,814	3,814
Interest rate swaps and cross-currency swap agreements				
Assets	250	250	36	36
Liabilities	153	153	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 September 30, 2018 and at March 31, 2018 are as follows:

At September 30, 2018	Millions of yen			
	Level 1	Level 2	Level 3	Total
Assets				
Investment securities available for sale				
Manufacturing industry	¥ 564	¥ —	¥ —	¥ 564
Other	—	—	—	—
Derivatives				
Forward contracts	—	3,254	—	3,254
Interest rate swaps and cross-currency swap agreements	—	250	—	250
Total	¥ 564	¥ 3,504	¥ —	¥ 4,068
Liabilities				
Derivatives				
Forward contracts	¥ —	¥ 5,678	¥ —	¥ 5,678
Interest rate swaps and cross-currency swap agreements	—	153	—	153
Other	—	—	206	206
Total	¥ —	¥ 5,831	¥ 206	¥ 6,037
At March 31, 2018				
	Millions of yen			
	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 six months ended September 30, 2018 and 2017:

	Millions of yen	
	Six months ended September 30, 2018	Six months ended September 30, 2017
Balance, beginning of year	¥ (242)	¥ (248)
Total gains or losses (realized / unrealized)	36	(51)
Included in earnings	51	(49)
Included in other comprehensive income (loss)	(15)	(2)
Balance, end of period	¥ (206)	¥ (299)

The amount of unrealized gains on classified in Level 3 liabilities recognized in earnings for the six months ended September 30, 2018 and 2017 related to liabilities still held at September 30, 2018 and 2017 were gains of ¥51 million and losses of ¥49 million, respectively. These gains and losses were reported in other income (expenses), net in the consolidated statements of income.

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

	Millions of yen	
	Three months ended September 30, 2018	Three months ended September 30, 2017
Balance, beginning of period	¥ (212)	¥ (221)
Total gains or losses (realized / unrealized)	6	(78)
Included in earnings	12	(75)
Included in other comprehensive income (loss)	(6)	(3)
Balance, end of period	¥ (206)	¥ (299)

The amount of unrealized gains on classified in Level 3 liabilities recognized in earnings for the three months ended September 30, 2018 and 2017 related to liabilities still held at September 30, 2018 and 2017 were gains of ¥12 million and losses of ¥75 million, respectively. These gains or losses were reported in other income (expenses), net in the consolidated statements of income.

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

During six months ended September 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 September 30, 2018 and at March 31, 2018 were ¥144,353 million and ¥30,251 million, respectively. These total amounts of unused committed credit lines available for full and immediate borrowings at September 30, 2018 and at March 31, 2018 were ¥133,661 million and ¥22,484 million, respectively.

17. Dividends

Six months ended September 30, 2018

(1) Payment amount of dividends

Resolution	Type of stock	Aggregate amount of dividends (Millions of yen)	Resource of dividends	Dividend per share (Yen)	Record date	Effective date
Ordinary general meeting of shareholders held on June 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.

(2) Dividends to be paid for the six months ended September 30, 2018, of which effective date is after September 30, 2018

Resolution	Type of stock	Aggregate amount of dividends (Millions of yen)	Resource of dividends	Dividend per share (Yen)	Record date	Effective date
Board of Directors held on October 29, 2018	Common stock	48,155	Retained earnings	51	September 30, 2018	November 29, 2018

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

Six months ended September 30, 2017

(1) Payment amount of dividends

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

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

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

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

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

18. Business Segment and Geographic Information

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

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

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

Operating segments:

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

	Millions of yen	
	Six months ended September 30, 2018	Six months ended September 30, 2017
Net sales:		
Construction, Mining and Utility Equipment –		
External customers	¥ 1,195,186	¥ 1,056,824
Intersegment	5,410	7,595
Total	1,200,596	1,064,419
Retail Finance –		
External customers	26,625	23,681
Intersegment	2,812	7,561
Total	29,437	31,242
Industrial Machinery and Others –		
External customers	96,230	78,453
Intersegment	812	732
Total	97,042	79,185
Elimination	(9,034)	(15,888)
Consolidated	¥ 1,318,041	¥ 1,158,958
Segment profit:		
Construction, Mining and Utility Equipment	¥ 183,938	¥ 102,345
Retail Finance	9,582	5,909
Industrial Machinery and Others	7,514	4,809
Total segment profit	201,034	113,063
Corporate expenses and elimination	(1,901)	(782)
Consolidated	¥ 199,133	¥ 112,281

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

	Millions of yen	
	Three months ended September 30, 2018	Three months ended September 30, 2017
Net sales:		
Construction, Mining and Utility Equipment –		
External customers	¥ 603,063	¥ 545,826
Intersegment	3,322	3,530
Total	606,385	549,356
Retail Finance –		
External customers	13,654	11,697
Intersegment	1,524	1,993
Total	15,178	13,690
Industrial Machinery and Others –		
External customers	55,264	40,224
Intersegment	533	292
Total	55,797	40,516
Elimination	(5,379)	(5,815)
Consolidated	¥ 671,981	¥ 597,747
Segment profit:		
Construction, Mining and Utility Equipment	¥ 95,620	¥ 55,082
Retail Finance	4,090	2,584
Industrial Machinery and Others	4,470	2,420
Total segment profit	104,180	60,086
Corporate expenses and elimination	(957)	(100)
Consolidated	¥ 103,223	¥ 59,986

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

	Millions of yen	
	Six months ended September 30, 2018	Six months ended September 30, 2017
Total segment profit	¥ 201,034	¥ 113,063
Corporate expenses and elimination	(1,901)	(782)
Consolidated	199,133	112,281
Other operating income (expenses), net	1,174	(1,097)
Operating income	200,307	111,184
Interest and dividend income	3,683	2,952
Interest expense	(11,410)	(8,237)
Gain on sales of investment securities, net	—	39,563
Other, net	(71)	(1,345)
Consolidated income before income taxes and equity in earnings of affiliated companies	¥ 192,509	¥ 144,117

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

	Millions of yen	
	Three months ended September 30, 2018	Three months ended September 30, 2017
Total segment profit	¥ 104,180	¥ 60,086
Corporate expenses and elimination	(957)	(100)
Consolidated	103,223	59,986
Other operating income (expenses), net	1,036	(505)
Operating income	104,259	59,481
Interest and dividend income	1,710	1,588
Interest expense	(5,987)	(4,665)
Gain on sales of investment securities, net	—	39,563
Other, net	(413)	56
Consolidated income before income taxes and equity in earnings of affiliated companies	¥ 99,569	¥ 96,023

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 six months ended September 30, 2018 and 2017 are as follows:

	Millions of yen	
	Six months ended September 30, 2018	Six months ended September 30, 2017
Japan	¥ 178,909	¥ 189,788
The Americas	482,022	432,130
Europe and CIS	174,309	144,569
China	93,506	79,238
Asia (excluding Japan and China) and Oceania	309,684	236,634
Middle East and Africa	79,611	76,599
Consolidated net sales	¥ 1,318,041	¥ 1,158,958

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

	Millions of yen	
	Three months ended September 30, 2018	Three months ended September 30, 2017
Japan	¥ 97,095	¥ 105,665
The Americas	248,502	224,343
Europe and CIS	85,120	70,450
China	37,658	37,283
Asia (excluding Japan and China) and Oceania	162,184	118,707
Middle East and Africa	41,422	41,299
Consolidated net sales	¥ 671,981	¥ 597,747

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

	Millions of yen	
	Six months ended September 30, 2018	Six months ended September 30, 2017
Japan	¥ 301,222	¥ 285,105
The Americas	436,698	414,807
Europe and CIS	180,228	151,518
China	86,525	75,286
Others	313,368	232,242
Total	¥ 1,318,041	¥ 1,158,958

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

	Millions of yen	
	Three months ended September 30, 2018	Three months ended September 30, 2017
Japan	¥ 161,018	¥ 151,354
The Americas	223,102	217,251
Europe and CIS	89,314	76,203
China	34,691	35,427
Others	163,856	117,512
Total	¥ 671,981	¥ 597,747

There were no sales to a single major external customer for the six months and three months ended September 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 six months ended September 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 November 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.