

Komatsu Ltd.

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 URL: [https://home.komatsu /en/](https://home.komatsu/en/)

Consolidated Business Results for Six Months of the Fiscal Year Ending March 31, 2019 (U.S. GAAP)

1. Results for Six Months Ended September 30, 2018

(Amounts are rounded to the nearest million yen)

(1) Consolidated Financial Highlights

Millions of yen except per share amounts

	Six Months ended September 30, 2018	Six Months ended September 30, 2017	Changes Increase (Decrease)	
	[A]	[B]	[A-B]	[(A-B)/B]
Net sales	1,318,041	1,158,958	159,083	13.7 %
Operating income	200,307	111,184	89,123	80.2 %
Income before income taxes and equity in earnings of affiliated companies	192,509	144,117	48,392	33.6 %
Net income attributable to Komatsu Ltd.	125,385	101,755	23,630	23.2 %
Net income attributable to Komatsu Ltd. per share (Yen)				
Basic	¥ 132.90	¥ 107.90	¥ 25.00	
Diluted	¥ 132.74	¥ 107.75	¥ 24.99	

Note: Comprehensive income for six months ended September 30, 2018 and 2017

2018: 176,837 million of yen, up 51.4% from 2017

2017: 116,813 million of yen

(2) Consolidated Financial Position

Millions of yen except per share amounts

	As of September 30, 2018	As of March 31, 2018
Total assets	3,581,454	3,372,538
Total equity	1,863,281	1,743,590
Komatsu Ltd. shareholders' equity	1,778,333	1,664,540
Komatsu Ltd. shareholders' equity ratio	49.7%	49.4%
Komatsu Ltd. shareholders' equity per share (Yen)	¥ 1,884.32	¥ 1,764.58

2. Dividends

(For the fiscal years ended March 31, 2018 and ending March 31, 2019)

Yen

	The entire FY ending March 31, 2019		The entire FY ended March 31, 2018
	Results	2019 Projections	
First quarter period			
Second quarter period	51.00		36.00
Third quarter period			
Year-end		51.00	48.00
Total		102.00	84.00

Note: Changes in the projected cash dividend as of October 29, 2018: Applicable

3. Projections for the Fiscal Year Ending March 31, 2019

(From April 1, 2018 to March 31, 2019)

Millions of yen except per share amounts

	2019	
		Changes Increase (Decrease)
Net sales	2,662,000	6.4 %
Operating income	381,000	41.9 %
Income before income taxes and equity in earnings of affiliated companies	362,000	24.1 %
Net income attributable to Komatsu Ltd.	240,000	22.2 %
Net income attributable to Komatsu Ltd. per share - Basic (Yen)	¥ 254.35	

Note: Changes in the projected consolidated business results as of October 29, 2018: Applicable

4. Others

- (1) Changes in important subsidiaries during the six-month period under review: None
- (2) Use of simplified accounting procedures and adoption of specific accounting procedures for the preparation of consolidated quarterly financial statements: None
- (3) Changes in significant accounting rules, procedures and presentation and changes in significant accounting policies and estimates
 - 1) Changes resulting from revisions in accounting standards, etc.: Applicable
 - 2) Changes in other matters except for 1) above: None

Note: See (4) Others on page 10 for more details.

(4) Number of common shares outstanding

1) The numbers of common shares issued (including treasury stock) were as follows:

As of September 30, 2018: 972,252,460 shares

As of March 31, 2018: 971,967,660 shares

2) The numbers of shares of treasury were as follows:

As of September 30, 2018: 28,501,431 shares

As of March 31, 2018: 28,662,171 shares

3) The weighted average numbers of common shares outstanding were as follows:

Six months ended September 30, 2018: 943,381,570 shares

Six months ended September 30, 2017: 943,089,765 shares

[Reference]

Results for Three Months ended September 30, 2018

Millions of yen except per share amounts

	Three Months ended September 30, 2018	Three Months ended September 30, 2017	Changes Increase (Decrease)	
	[A]	[B]	[A-B]	[(A-B)/B]
Net sales	671,981	597,747	74,234	12.4%
Operating income	104,259	59,481	44,778	75.3%
Income before income taxes and equity in earnings of affiliated companies	99,569	96,023	3,546	3.7%
Net income attributable to Komatsu Ltd.	62,415	65,360	(2,945)	(4.5%)
Net income attributable to Komatsu Ltd. per share (Yen)				
Basic	¥ 66.15	¥ 69.30	¥ (3.15)	
Diluted	¥ 66.07	¥ 69.21	¥ (3.14)	

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Management Performance and Financial Conditions

(1) Outline of Operations and Business Results

Komatsu Ltd. (“Company”) and its consolidated subsidiaries (together “Komatsu”) have upheld the “Together We Innovate GEMBA Worldwide: Growth Toward Our 100th Anniversary (2021) and Beyond” three-year mid-range management plan to be completed in the fiscal year ending March 31, 2019. Under this plan, Komatsu is focusing its efforts on 1) Growth strategies based on innovation, 2) Growth strategies of existing businesses, and 3) Structural reforms designed to reinforce the business foundation.

For the first six-month period (April 1 - September 30, 2018) of the fiscal year ending March 31, 2019, consolidated net sales totaled JPY1,318.0 billion, up 13.7% from the corresponding period a year ago. In the construction, mining and utility equipment business, while demand for construction equipment declined in Japan mainly as a rebound of pre-buy demand in anticipation of the new emission control regulations of September 2017, Komatsu steadfastly captured growing demand in many regions of the world, centering on North America and Asia. As a result, sales improved from the corresponding period a year ago. In the industrial machinery and others business, six-month sales increased from the corresponding period a year ago, mainly supported by increased sales of machine tools to the automobile manufacturing industry.

With respect to profits for the first six-month period under review, operating income expanded by 80.2% from the corresponding period a year ago, to JPY200.3 billion, driven by increased sales in many regions of the world and reflecting reduced temporary expenses in association with the acquisition of Komatsu Mining Corp., which became a consolidated subsidiary in April 2017. The operating income ratio improved by 5.6 percentage points to 15.2%. Income before income taxes and equity in earnings of affiliated companies advanced to JPY192.5 billion, up 33.6%. Net income attributable to Komatsu Ltd. totaled JPY 125.3 billion, up 23.2%.

[Consolidated Financial Highlights]

Millions of yen

	Six Months ended September 30, 2018 1USD=JPY109.7 1EUR=JPY129.9 1RMB=JPY16.8	Six Months ended September 30, 2017 1USD=JPY111.1 1EUR=JPY125.8 1RMB=JPY16.4	Changes Increase (Decrease)
	[A]	[B]	[(A-B)/B]
Net sales	1,318,041	1,158,958	13.7 %
Construction, Mining and Utility Equipment	1,200,596	1,064,419	12.8 %
Retail Finance	29,437	31,242	(5.8 %)
Industrial Machinery and Others	97,042	79,185	22.6 %
Elimination	(9,034)	(15,888)	-
Segment profit	199,133	112,281	77.4 %
Construction, Mining and Utility Equipment	183,938	102,345	79.7 %
Retail Finance	9,582	5,909	62.2 %
Industrial Machinery and Others	7,514	4,809	56.2 %
Corporate & elimination	(1,901)	(782)	-
Operating income	200,307	111,184	80.2 %
Income before income taxes and equity in earnings of affiliated companies	192,509	144,117	33.6 %
Net income attributable to Komatsu Ltd.	125,385	101,755	23.2 %

Notes: 1) Unless otherwise noted, all sales by segment in this report indicate the amounts before elimination of inter-segment transactions.

2) From the three months ended June 30, 2018, Komatsu has adopted the Accounting Standards Update (“ASU”) 2017-07, “Compensation-Retirement Benefits: Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost”. Accordingly, the figures for the six months ended September 30, 2017, were reclassified in accordance with ASU 2017-07.

Business results by operation are described below.

Construction, Mining and Utility Equipment

For the first six-month period under review, sales of the construction, mining and utility equipment business expanded by 12.8% from the corresponding period a year ago, to JPY1,200.5 billion. Segment profit reached JPY183.9 billion, an increase of 79.7% from the corresponding period a year ago.

In April 2018, Komatsu Construction Equipment Sales & Service Japan Ltd., which engaged in sales and service of construction equipment in Japan, Komatsu Rental Ltd., a rental subsidiary of construction equipment in Japan, and Komatsu Forklift Ltd., which engaged in sales, service and rental of forklift trucks were merged to establish Komatsu Customer Support Japan, Ltd. As these former three separate companies integrate their operations and improve their collaborations, the new company is working to further enhance customer satisfaction by meeting the changing external environment and strengthening customer support operation.

With respect to “SMARTCONSTRUCTION”, a solutions business for construction jobsites, which Komatsu launched in Japan in February 2015, Komatsu has made steady progress, introducing this new business to over 6,000 construction jobsites to date (cumulative). In May 2018, Komatsu embarked on a new service under the name of

“EverydayDrone”. This new service uses special fully automated drones and edge computing capable of on-site high-speed data processing. For example, it generates 3D site survey data in about 20 minutes, which used to take a whole day, enabling the management of daily progress of jobsite work.

In October this year, Komatsu participated in CEATEC JAPAN 2018, Asia’s largest class CPS/IoT exhibition, for the first time. Under the theme of safer, more productive and smarter construction jobsites of the future, Komatsu introduced new challenges taken up by its SMARTCONSTRUCTION, including autonomous construction equipment currently under development. Komatsu will continue to further improve the safety and productivity of construction jobsite operations and accelerate the speed of achieving Jobsites of the Future.

[Sales to Outside Customers of Construction, Mining and Utility Equipment by Region]

Millions of yen

	Six Months ended September 30, 2018	Six Months ended September 30, 2017	Changes Increase (Decrease)	
	[A]	[B]	[A-B]	[(A-B)/B]
Japan	137,488	156,574	(19,086)	(12.2 %)
North America	289,176	247,522	41,654	16.8 %
Latin America	154,121	150,088	4,033	2.7 %
Americas	443,297	397,610	45,687	11.5 %
Europe	100,144	84,663	15,481	18.3 %
CIS	65,680	53,295	12,385	23.2 %
Europe & CIS	165,824	137,958	27,866	20.2 %
China	81,440	70,020	11,420	16.3 %
Asia*	177,657	133,085	44,572	33.5 %
Oceania	109,946	85,139	24,807	29.1 %
Asia* & Oceania	287,603	218,224	69,379	31.8 %
Middle East	14,428	17,503	(3,075)	(17.6 %)
Africa	65,106	58,935	6,171	10.5 %
Middle East & Africa	79,534	76,438	3,096	4.1 %
Total	1,195,186	1,056,824	138,362	13.1 %

Note: *Excluding Japan and China

Komatsu’s operations by region are described below.

Japan

For the first six-month period under review, sales decreased from the corresponding period a year ago, as affected mainly by a rebound of pre-buy demand in anticipation of the new emission controls regulations enforced in September 2017.

Americas

In North America, demand for construction equipment remained brisk, centering on the energy-related and infrastructure development sectors, and sales advanced from the corresponding period a year ago. In Latin America, sales improved, mainly reflecting increased demand in Brazil and Chile, while demand declined resulting from deteriorating market conditions in Argentina.

Europe and CIS

In Europe, sales advanced from the corresponding period a year ago, reflecting steady demand for construction equipment, especially in Germany, a major market of the region. In CIS, sales also increased, supported by the growing demand for construction equipment, especially in LPG projects, and continued increase in demand for mining equipment centering on coal and gold mines.

China

While the rate of demand growth was slower than the corresponding period a year ago, sales improved, mainly supported by good progress in infrastructure development nationwide.

Asia and Oceania

In Asia, sales expanded sharply from the corresponding period a year ago, mainly as demand remained strong for mining equipment in Indonesia, the largest market of the region, resulting from the growing price of coal. In Oceania, sales advanced from the corresponding period a year ago, supported by an increase in demand for both construction and mining equipment.

Middle East and Africa

In the Middle East, sales decreased from the corresponding period a year ago, mainly affected by reduced demand in public works in the region as governments tightened their budgets resulting from prolonged civil war in Yemen, as well as depreciated Turkish lira. In Africa, sales improved from the corresponding period a year ago, mainly supported by an increase in demand for mining equipment in South Africa.

Retail Finance

While revenues mainly increased in North America, total revenues declined by 5.8% from the corresponding period a year ago, to JPY29.4 billion, as affected by an extraordinary factor in which Komatsu had to sell used equipment resulting from the cancellation of a leasing contract in the corresponding period a year ago in Chile. Segment profit advanced by 62.2% to JPY9.5 billion, mainly because Komatsu was able to recover some of the doubtful accounts for which it recorded allowances in FY2016 and performed a reversal of allowances for doubtful accounts in China.

Industrial Machinery and Others

For the first six-month period under review, sales increased by 22.6% from the corresponding period a year ago, to JPY97.0 billion, mainly supported by increased sales of machine tools to the automobile manufacturing industry, as well as improved sales of Excimer laser-related business against the backdrop of brisk semiconductor market conditions. Segment profit improved by 56.2% to JPY7.5 billion.

In April 2018, Komatsu Industries Corp. opened a liaison office in Vietnam to strengthen its sales and service operations of industrial machines in Asia with expanding markets. Komatsu Industries Corp. also added a new branch (exhibition center) in Thailand in June, and opened exhibition as well as service and spare parts centers in Indonesia in August 2018.

(2) Financial Conditions

As of September 30, 2018, total assets increased by JPY208.9 billion from the previous fiscal year-end, to JPY3,581.4 billion, as the Japanese yen depreciated against the US dollar more than the previous fiscal year-end and Komatsu increased inventories to meet growing demand. Interest-bearing debt increased by JPY106.7 billion from the previous fiscal year-end, to JPY917.3 billion. Komatsu Ltd. shareholders' equity increased by JPY113.7 billion from the previous fiscal year-end, to JPY1,778.3 billion. As a result, Komatsu Ltd. shareholders' equity ratio increased by 0.3 percentage points from the previous fiscal year-end, to 49.7 %.

For the first six-month period under review, although net income increased from the corresponding period a year ago, net cash provided by operating activities amounted to JPY72.8 billion, a decrease of JPY8.3 billion from the previous first six-month period, mainly due to build-up of inventory to meet growing demand and decreased notes and accounts payable

as part of efforts for early settlement in Japan. Net cash used in investing activities amounted to JPY86.6 billion. This amount shows a decline of JPY208.2 billion from the corresponding period a year ago, as expenses associated with the acquisition of Joy Global Inc. were recorded for the period. Net cash provided by financing activities totaled JPY7.3 billion, due to financing the payments of taxes and cash dividends. For the corresponding period a year ago net cash provided by financing activities was JPY254.4 billion, mainly due to financing for paying the consideration of the acquisition of Joy Global Inc. After adding the effects of foreign exchange fluctuations, cash and cash equivalents, as of September 30, 2018, totaled JPY126.3 billion, a decrease of JPY18.0 billion from the previous fiscal year-end.

(3) Projection for the Fiscal Year Ending March 31, 2019

(From April 1, 2018 to March 31, 2019)

In the first six-month period (April 1 - September 30, 2018) of the fiscal year ending March 31, 2019, sales of construction and mining equipment outperformed the projections, centering on North America and Indonesia, and Komatsu anticipates that demand will remain strong, especially in North America and for mining equipment, in the second six-month period. Furthermore, the Japanese yen is depreciating more than projected. In this regard, Komatsu has reassessed projected foreign exchange rates, which are preconditions for the projection of full-year results. Specifically, Komatsu has changed the average exchange rate in the second six-month period of FY2018 to USD1=JPY105. As a result, Komatsu is revising consolidated sales and profits of the full-year projection of April 26, 2018 for FY2018 (April 1, 2018 - March 31, 2019).

Komatsu estimates the average exchange rates for the full year as follows: USD1=JPY107.4, EUR1=JPY126.4 and RMB1=JPY16.3. (Initial assumption: USD1=JPY100, EUR1=JPY123 and RMB1=JPY15.8)

Projection for Consolidated Business Results for FY2018 (April 1, 2018 - March 31, 2019)

Millions of yen except per share amounts

	Current projection	Earlier projection	Changes		Results for FY ended March 31, 2018
	[A]	[B]	[A-B]	[(A-B)/B]	
Net Sales	2,662,000	2,503,000	159,000	6.4%	2,501,107
Operating income	381,000	339,000	42,000	12.4%	268,503
Income before income taxes and equity in earnings of affiliated companies	362,000	320,000	42,000	13.1%	291,807
Net income attributable to Komatsu Ltd.	240,000	226,000	14,000	6.2%	196,410
Net income attributable to Komatsu Ltd. per share – Basic (Yen)	254.35	239.58	-	-	208.25

Note: From the three months ended June 30, 2018, Komatsu has adopted the Accounting Standards Update (“ASU”) 2017-07, “Compensation-Retirement Benefits: Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost”. Accordingly, the figures for the fiscal year ended March 31, 2018, were reclassified in accordance with ASU 2017-07.

The above-mentioned projections of future business results, plans, estimates and the like reflect the figures which the Company's top management has evaluated as rational based on information currently available. Please be advised in advance that actual business results can significantly change from the projections, plans or estimates in this news release, depending on a variety of factors. Such factors include changes in economic conditions and demand for products in Komatsu's principal markets, changes in foreign exchange rates, and regulatory changes and accounting principles and practices in Japan or foreign countries.

(4) Others

- 1) Changes in important subsidiaries during the six-month period under review: None
- 2) Use of simplified accounting procedures and adoption of specific accounting procedures for the preparation of consolidated quarterly financial statements: None
- 3) Changes in significant accounting rules, procedures and presentation and changes in significant accounting policies and estimates
 - a) Changes resulting from revisions in accounting standards, etc.

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.

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 JPY 68 million and JPY 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 JPY 1,439 million compared with that before the reclassification. Komatsu reclassified JPY65 million and JPY670 million from cost of sales and selling, general and administrative expenses into 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 JPY 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.

b) Changes in other matters except for a) above: None

Cautionary Statement

The announcement set forth herein contains forward-looking statements which reflect management's current views 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” 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.

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 the Company's principal products, owing to changes in the economic conditions in the Company's principal markets; changes in exchange rates or the impact of increased competition; unanticipated cost or delays encountered in achieving the Company's objectives with respect to globalized product sourcing and new Information Technology tools; uncertainties as to the results of the Company's research and development efforts and its ability to access and protect certain intellectual property rights; and, the impact of regulatory changes and accounting principles and practices.

Consolidated Financial Statements

(1) Consolidated Balance Sheets

Assets

Millions of yen

	As of September 30, 2018		As of March 31, 2018	
		Ratio (%)		Ratio (%)
Current assets				
Cash and cash equivalents	¥ 126,344		¥ 144,397	
Time deposits	2,425		2,460	
Trade notes and accounts receivable, net	817,327		792,714	
Inventories	845,166		730,288	
Other current assets	129,810		127,732	
Total current assets	1,921,072	53.6	1,797,591	53.3
Long-term trade receivables, net	396,248	11.1	362,367	10.8
Investments				
Investments in and advances to affiliated companies	38,541		32,879	
Investment securities	7,673		9,213	
Other	2,761		2,655	
Total investments	48,975	1.4	44,747	1.3
Property, plant and equipment				
- less accumulated depreciation and amortization	765,478	21.4	740,528	22.0
Goodwill	173,669	4.8	155,881	4.6
Other intangible assets				
- less accumulated amortization	180,380	5.0	173,215	5.1
Deferred income taxes and other assets	95,632	2.7	98,209	2.9
Total	¥ 3,581,454	100.0	¥ 3,372,538	100.0

Liabilities and Equity

Millions of yen

	As of September 30, 2018		As of March 31, 2018	
		Ratio (%)		Ratio (%)
Current liabilities				
Short-term debt	¥ 353,775		¥ 259,093	
Current maturities of long-term debt	76,357		70,806	
Trade notes, bills and accounts payable	275,299		303,556	
Income taxes payable	41,775		66,541	
Other current liabilities	317,390		289,665	
Total current liabilities	1,064,596	29.7	989,661	29.3
Long-term liabilities				
Long-term debt	487,219		480,698	
Liability for pension and retirement benefits	87,287		86,374	
Deferred income taxes and other liabilities	79,071		72,215	
Total long-term liabilities	653,577	18.3	639,287	19.0
Total liabilities	1,718,173	48.0	1,628,948	48.3
Komatsu Ltd. shareholders' equity				
Common stock	68,311		67,870	
Capital surplus	137,116		138,450	
Retained earnings:				
Appropriated for legal reserve	45,905		45,828	
Unappropriated	1,571,278		1,491,965	
Accumulated other comprehensive income (loss)	5,874		(29,150)	
Treasury stock	(50,151)		(50,423)	
Total Komatsu Ltd. shareholders' equity	1,778,333	49.7	1,664,540	49.4
Noncontrolling interests	84,948	2.3	79,050	2.3
Total equity	1,863,281	52.0	1,743,590	51.7
Total	¥ 3,581,454	100.0	¥ 3,372,538	100.0

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

Six months ended September 30, 2018 and 2017

Consolidated Statements of Income

Millions of yen except per share amounts

	Six Months ended September 30, 2018		Six Months ended September 30, 2017	
		Ratio (%)		Ratio (%)
Net sales	¥ 1,318,041	100.0	¥ 1,158,958	100.0
Cost of sales	900,519	68.3	832,712	71.9
Selling, general and administrative expenses	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	-	-	39,563	3.4
Other, net	(71)	(0.0)	(1,345)	(0.1)
Total other income (expenses)	(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	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
Net income attributable to Komatsu Ltd. per share (Yen)				
Basic	¥ 132.90		¥ 107.90	
Diluted	¥ 132.74		¥ 107.75	

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	41,705	30,670
Net unrealized holding gains (losses) on securities available for sale	-	(23,603)
Pension liability adjustments	590	848
Net unrealized holding gains (losses) on derivative instruments	(2,690)	1,282
Total other comprehensive income (loss), for the period, net of tax	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

Three months ended September 30, 2018 and 2017

Consolidated Statements of Income

Millions of yen except per share amounts

	Three Months ended September 30, 2018		Three Months ended September 30, 2017	
		Ratio (%)		Ratio (%)
Net sales	¥ 671,981	100.0	¥ 597,747	100.0
Cost of sales	459,270	68.3	430,544	72.0
Selling, general and administrative expenses	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	-	-	39,563	6.6
Other, net	(413)	(0.1)	56	0.0
Total other income (expenses)	(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	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
Net income attributable to Komatsu Ltd. per share (Yen)				
Basic	¥ 66.15		¥ 69.30	
Diluted	¥ 66.07		¥ 69.21	

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	23,709	19,656
Net unrealized holding gains (losses) on securities available for sale	-	(26,649)
Pension liability adjustments	364	465
Net unrealized holding gains (losses) on derivative instruments	(997)	1,213
Total other comprehensive income (loss), for the period, net of tax	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

(3) Consolidated Statements of Cash Flows

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	72,890	81,191
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	(86,678)	(294,900)
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	7,364	254,485
Effect of exchange rate change on cash and cash equivalents	(11,629)	745
Net increase (decrease) in cash and cash equivalents	(18,053)	41,521
Cash and cash equivalents, beginning of year	144,397	119,901
Cash and cash equivalents, end of period	¥ 126,344	¥ 161,422

(4) Note to the Going Concern Assumption

None

(5) Business Segment Information

1) Information by Operating Segments

Six Months ended September 30, 2018 and 2017

(For Six Months ended September 30, 2018)

Millions of yen

	Construction, Mining and Utility Equipment	Retail Finance	Industrial Machinery and Others	Subtotal	Corporate & elimination	Total
Net sales:						
Customers	1,195,186	26,625	96,230	1,318,041	-	1,318,041
Intersegment	5,410	2,812	812	9,034	(9,034)	-
Total	1,200,596	29,437	97,042	1,327,075	(9,034)	1,318,041
Segment profit	183,938	9,582	7,514	201,034	(1,901)	199,133

(For Six Months ended September 30, 2017)

Millions of yen

	Construction, Mining and Utility Equipment	Retail Finance	Industrial Machinery and Others	Subtotal	Corporate & elimination	Total
Net sales:						
Customers	1,056,824	23,681	78,453	1,158,958	-	1,158,958
Intersegment	7,595	7,561	732	15,888	(15,888)	-
Total	1,064,419	31,242	79,185	1,174,846	(15,888)	1,158,958
Segment profit	102,345	5,909	4,809	113,063	(782)	112,281

Three Months ended September 30, 2018 and 2017

(For Three Months ended September 30, 2018)

Millions of yen

	Construction, Mining and Utility Equipment	Retail Finance	Industrial Machinery and Others	Subtotal	Corporate & elimination	Total
Net sales:						
Customers	603,063	13,654	55,264	671,981	-	671,981
Intersegment	3,322	1,524	533	5,379	(5,379)	-
Total	606,385	15,178	55,797	677,360	(5,379)	671,981
Segment profit	95,620	4,090	4,470	104,180	(957)	103,223

(For Three Months ended September 30, 2017)

Millions of yen

	Construction, Mining and Utility Equipment	Retail Finance	Industrial Machinery and Others	Subtotal	Corporate & elimination	Total
Net sales:						
Customers	545,826	11,697	40,224	597,747	-	597,747
Intersegment	3,530	1,993	292	5,815	(5,815)	-
Total	549,356	13,690	40,516	603,562	(5,815)	597,747
Segment profit	55,082	2,584	2,420	60,086	(100)	59,986

Notes:1) Business categories and principal products & services included in each operating segment are as follows:

a) Construction, Mining and Utility Equipment

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

b) Retail Finance

Financing

c) Industrial Machinery and Others

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

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

3) From the three months ended June 30, 2018, Komatsu has adopted the Accounting Standards Update ("ASU") 2017-07, "Compensation Retirement Benefits: Improving the Presentation of Net Periodic Pension Cost and Net Period Postretirement Benefit Cost". Accordingly, the figures for the six and three months ended September 30, 2017, were reclassified in accordance with ASU 2017-07.

2) Geographic Information

Net sales determined by customer location were as follows:

For Six Months ended September 30, 2018 and 2017

Millions of yen

	Japan	Americas	Europe & CIS	China	Asia* & Oceania	Middle East & Africa	Total
FY2018	178,909	482,022	174,309	93,506	309,684	79,611	1,318,041
FY2017	189,788	432,130	144,569	79,238	236,634	76,599	1,158,958

For Three Months ended September 30, 2018 and 2017

Millions of yen

	Japan	Americas	Europe & CIS	China	Asia* & Oceania	Middle East & Africa	Total
FY2018	97,095	248,502	85,120	37,658	162,184	41,422	671,981
FY2017	105,665	224,343	70,450	37,283	118,707	41,299	597,747

Note: * Excluding Japan and China

(6) Note in Case of Notable Changes in the Amount of Shareholders' Equity

None

(end)