

(Translation)

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Quarterly Report

From April 1, 2019 to June 30, 2019

(First Quarter of the 151th Fiscal Year)

KOMATSU LTD.

Quarterly Report

Certain References and Information:

1. This is an English translation of the Quarterly Securities Report (“Shihanki Hokokusho”) filed via the Electronic Disclosure for Investors’ Network (“EDINET”) system as set forth in Article 27-30-2 of the Financial Instruments and Exchange Act of Japan. Komatsu Ltd. filed its Quarterly Securities Report for the three months ended June 30, 2019 with the Director-General of the Kanto Local Finance Bureau on August 9, 2019. The Quarterly Securities Report contains, among other information, Quarterly Consolidated Financial Statements for the three months ended June 30, 2019. Material information in the Quarterly Securities Report, other than the Quarterly Consolidated Financial Statements, has already been reported by Komatsu Ltd. in its press release dated July 29, 2019. Attached is an English translation of Quarterly Consolidated Financial Statements for the three months ended June 30, 2019.
2. In this report, Komatsu Ltd. is hereinafter referred to as the “Company” and together with its consolidated subsidiaries as “Komatsu.”

Cautionary Statement with respect to forward-looking statements:

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

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

Financial Information

1. Basis of preparation of the quarterly consolidated financial statements

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

2. Audit certification

Pursuant to Article 193-2, paragraph 1 of the Financial Instruments and Exchange Act of Japan, the quarterly consolidated financial statements for the three months ended June 30, 2019 (from April 1 to June 30, 2019) were reviewed by KPMG AZSA LLC.

Quarterly Consolidated Financial Statements, etc.

Quarterly Consolidated Financial Statements

Consolidated Balance Sheets (Unaudited)

Komatsu Ltd. and Consolidated Subsidiaries as of June 30, 2019 and March 31, 2019

Assets	June 30, 2019		March 31, 2019	
	Millions of yen	Ratio (%)	Millions of yen	Ratio (%)
Current assets				
Cash and cash equivalents (Note 15)	¥ 193,487		¥ 148,479	
Time deposits (Note 15)	2,238		2,331	
Trade notes and accounts receivable, net (Notes 3 and 9)	776,174		842,183	
Inventories (Note 4)	875,026		837,552	
Other current assets (Notes 14, 15 and 16)	144,426		138,415	
Total current assets	1,991,351	53.9	1,968,960	54.1
Long-term trade receivables, net (Notes 3, 9 and 15)	419,212	11.3	416,363	11.4
Investments				
Investments in and advances to affiliated companies	37,964		37,321	
Investment securities (Notes 5, 15 and 16)	7,273		7,473	
Other	2,469		2,528	
Total investments	47,706	1.3	47,322	1.3
Property, plant and equipment				
– less accumulated depreciation and amortization of ¥882,176 million at June 30, 2019 and ¥890,142 million at March 31, 2019	762,682	20.7	776,422	21.3
Operating lease right-of-use assets (Note 1)	51,097	1.4	–	–
Goodwill	161,051	4.4	161,921	4.5
Other intangible assets (Note 6)				
– less accumulated amortization	163,409	4.4	166,406	4.6
Deferred income taxes and other assets (Notes 14, 15 and 16)	95,039	2.6	100,825	2.8
Total assets	¥ 3,691,547	100.0	¥ 3,638,219	100.0

Liabilities and Equity	June 30, 2019		March 31, 2019	
	Millions of yen	Ratio (%)	Millions of yen	Ratio (%)
Current liabilities				
Short-term debt (Note 15)	¥ 476,371		¥ 404,659	
Current maturities of long-term debt (Note 15)	37,633		53,556	
Trade notes, bills and accounts payable	255,323		266,951	
Income taxes payable	26,055		43,022	
Current operating lease liabilities (Note 1)	15,373		–	
Other current liabilities (Notes 9, 14, 15 and 16)	317,780		313,951	
Total current liabilities	1,128,535	30.6	1,082,139	29.7
Long-term liabilities				
Long-term debt (Note 15)	490,386		472,485	
Liability for pension and retirement benefits	87,415		90,187	
Long-term operating lease liabilities (Note 1)	36,002		–	
Deferred income taxes and other liabilities (Notes 9, 14, 15 and 16)	89,121		90,540	
Total long-term liabilities	702,924	19.0	653,212	18.0
Total liabilities	1,831,459	49.6	1,735,351	47.7

Commitments and contingent liabilities (Note 13)

Equity				
Komatsu Ltd. shareholders' equity				
Common stock:				
Authorized 3,955,000,000 shares				
Issued 972,252,460 shares				
Outstanding 943,969,668 shares at June 30, 2019 and 943,908,946 shares at March 31, 2019	68,277		68,311	
Capital surplus	136,653		136,798	
Retained earnings:				
Appropriated for legal reserve	46,565		46,028	
Unappropriated	1,645,325		1,654,105	
Accumulated other comprehensive income (loss) (Notes 8, 14 and 16)	(70,771)		(39,792)	
Treasury stock at cost, 28,282,792 shares at June 30, 2019 and 28,343,514 shares at March 31, 2019	(49,763)		(49,868)	
Total Komatsu Ltd. shareholders' equity	1,776,286	48.1	1,815,582	49.9
Noncontrolling interests	83,802	2.3	87,286	2.4
Total equity	1,860,088	50.4	1,902,868	52.3
Total liabilities and equity	¥ 3,691,547	100.0	¥ 3,638,219	100.0

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

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

Komatsu Ltd. and Consolidated Subsidiaries
Three months ended June 30, 2019 and 2018.

Consolidated Statements of Income

	Three months ended June 30, 2019		Three months ended June 30, 2018	
	Millions of yen	Ratio (%)	Millions of yen	Ratio (%)
Net sales (Notes 1, 9, 11 and 14)	¥ 609,767	100.0	¥ 646,060	100.0
Cost of sales (Notes 1, 6, 7 and 14)	427,357	70.1	441,249	68.3
Selling, general and administrative expenses (Notes 6, 7 and 10)	109,667	18.0	108,901	16.9
Other operating income (expenses), net	2,017	0.3	138	0.0
Operating income	74,760	12.3	96,048	14.9
Other income (expenses), net				
Interest and dividend income	1,746	0.3	1,973	0.3
Interest expense	(6,650)	(1.1)	(5,423)	(0.8)
Other, net (Notes 5, 7, 8, 14 and 16)	(2,946)	(0.5)	342	0.1
Total	(7,850)	(1.3)	(3,108)	(0.5)
Income before income taxes and equity in earnings of affiliated companies	66,910	11.0	92,940	14.4
Income taxes (Note 8)				
Current	13,082		22,749	
Deferred	4,749		5,274	
Total	17,831	2.9	28,023	4.3
Income before equity in earnings of affiliated companies	49,079	8.0	64,917	10.0
Equity in earnings of affiliated companies	668	0.1	1,098	0.2
Net income	49,747	8.2	66,015	10.2
Less: Net income attributable to noncontrolling interests	2,271	0.4	3,045	0.5
Net income attributable to Komatsu Ltd.	¥ 47,476	7.8	¥ 62,970	9.7
	Yen			
Per share data (Note 12):				
Net income attributable to Komatsu Ltd.:				
Basic	50.30		66.75	
Diluted	50.25		66.67	

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

Consolidated Statements of Comprehensive Income

	Millions of yen	
	Three months ended June 30, 2019	Three months ended June 30, 2018
Net income	¥ 49,747	¥ 66,015
Other comprehensive income (loss), for the period, net of tax		
Foreign currency translation adjustments (Note 8)	(33,311)	17,996
Pension liability adjustments (Notes 7 and 8)	328	226
Net unrealized holding gains (losses) on derivative instruments (Notes 8 and 14)	(714)	(1,693)
Total	(33,697)	16,529
Comprehensive income	16,050	82,544
Less: Comprehensive income (loss) attributable to noncontrolling interests	(447)	3,643
Comprehensive income attributable to Komatsu Ltd.	¥ 16,497	¥ 78,901

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

Consolidated Statements of Equity (Unaudited)

Komatsu Ltd. and Consolidated Subsidiaries

Three months ended June 30, 2019

	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, 2019	¥ 68,311	¥ 136,798	¥ 46,028	¥ 1,654,105	¥ (39,792)	¥ (49,868)	¥ 1,815,582	¥ 87,286	¥ 1,902,868
Cash dividends (Note 18)				(55,719)			(55,719)	(3,037)	(58,756)
Transfer to retained earnings appropriated for legal reserve			537	(537)			—		—
Net income				47,476			47,476	2,271	49,747
Other comprehensive income (loss), for the period, net of tax (Note 8)					(30,979)		(30,979)	(2,718)	(33,697)
Issuance and exercise of stock acquisition rights (Note 10)		(120)					(120)		(120)
Purchase of treasury stock						(6)	(6)		(6)
Sales of treasury stock		9				111	120		120
Restricted stock compensation (Note 10)	(34)	(34)					(68)		(68)
Balance at June 30, 2019	¥ 68,277	¥ 136,653	¥ 46,565	¥ 1,645,325	¥ (70,771)	¥ (49,763)	¥ 1,776,286	¥ 83,802	¥ 1,860,088

Three months ended June 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				(515)			(515)	(12)	(527)
Cumulative effects of Accounting Standards Update—adoption of ASU 2016-01, net of tax				681	(681)		—		—
Cumulative effects of Accounting Standards Update—adoption of ASU 2016-16, net of tax				(860)			(860)		(860)
Cash dividends (Note 18)				(45,301)			(45,301)	(1,968)	(47,269)
Transfer to retained earnings appropriated for legal reserve			61	(61)			—		—
Net income				62,970			62,970	3,045	66,015
Other comprehensive income (loss), for the period, net of tax (Note 8)					15,931		15,931	598	16,529
Issuance and exercise of stock acquisition rights (Note 10)		(161)					(161)		(161)
Purchase of treasury stock						(8)	(8)		(8)
Sales of treasury stock		12				150	162		162
Balance at June 30, 2018	¥ 67,870	¥ 138,301	¥ 45,889	¥ 1,508,879	¥ (13,900)	¥ (50,281)	¥ 1,696,758	¥ 80,713	¥ 1,777,471

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

Consolidated Statements of Cash Flows (Unaudited)

Komatsu Ltd. and Consolidated Subsidiaries
Three months ended June 30, 2019 and 2018

	Millions of yen	
	Three months ended June 30, 2019	Three months ended June 30, 2018
Operating activities		
Net income	¥ 49,747	¥ 66,015
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	32,677	32,920
Deferred income taxes	4,749	5,274
Impairment loss and net loss (gain) on valuation of investment securities	(18)	267
Net loss (gain) on sale of property	(444)	(22)
Loss on disposal of fixed assets	694	396
Pension and retirement benefits, net	(1,554)	(693)
Changes in assets and liabilities:		
Decrease (increase) in trade receivables	35,377	10,881
Decrease (increase) in inventories	(56,019)	(51,685)
Increase (decrease) in trade payables	(7,657)	(32,010)
Increase (decrease) in income taxes payable	(16,858)	(39,541)
Other, net	17,215	8,123
Net cash provided by (used in) operating activities	<u>57,909</u>	<u>(75)</u>
Investing activities		
Capital expenditures	(43,998)	(42,045)
Proceeds from sale of property	4,390	2,988
Proceeds from sale of investment securities	415	1,664
Purchases of investment securities	(218)	(136)
Acquisition of subsidiaries and equity investees, net of cash acquired	(7,459)	(5,380)
Other, net	(757)	177
Net cash provided by (used in) investing activities	<u>(47,627)</u>	<u>(42,732)</u>
Financing activities		
Proceeds from debt issued (Original maturities greater than three months)	138,093	46,625
Payment on debt (Original maturities greater than three months)	(115,411)	(29,013)
Short-term debt, net (Original maturities three months or less)	70,053	81,637
Repayments of finance lease obligations	(20)	(19)
Sale (purchase) of treasury stock, net	(3)	(6)
Dividends paid	(55,719)	(45,301)
Other, net	(3,662)	(2,556)
Net cash provided by (used in) financing activities	<u>33,331</u>	<u>51,367</u>
Effect of exchange rate change on cash and cash equivalents	<u>1,395</u>	<u>(7,256)</u>
Net increase (decrease) in cash and cash equivalents	<u>45,008</u>	<u>1,304</u>
Cash and cash equivalents, beginning of year	<u>148,479</u>	<u>144,397</u>
Cash and cash equivalents, end of period	<u>¥ 193,487</u>	<u>¥ 145,701</u>

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

In the three months ended June 30, 2019, Komatsu (the Company and its consolidated subsidiaries) has classified "Collection of loan receivables", "Disbursement of loan receivables" and "Decrease (increase) in time deposits, net" as "Other, net" in the investing activities. Accordingly, the figures for the three months ended June 30, 2018 were reclassified to conform to the presentation for the three months ended June 30, 2019.

Komatsu Ltd. and Consolidated Subsidiaries

Three months ended June 30, 2019 and 2018

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, 2019, Komatsu has adopted the Accounting Standards Update (hereinafter “ASU”) 2016-02 “Leases”. This update requires lessees to recognize most leases as the right-of-use assets and the lease liabilities on their balance sheets. This update does not substantially change lessor accounting. The Financial Accounting Standards Board (hereinafter “FASB”) also modified the definition of lease. Additionally, the guidance expands qualitative and quantitative disclosures related to lease. Concerning accounting in relation to this update, Komatsu has adopted the rule in which an entity does not separate lease and non-lease components and regards all components as those of a single lease, and the exceptional rule in which an entity does not recognize short-term leases on the balance sheet. Concerning the transition methods in relation to this update, Komatsu has adopted a series of practical expedients in which an entity does not reassess whether any expired or existing lease contracts are or contain leases, the lease classification for them and initial direct costs for them. Komatsu has also adopted the additional transition methods in which an entity does not retrospectively restate presentation or disclosure of comparative years at the period of the application of the new accounting standards and an entity does not assess whether existing or expired land easements that were not previously accounted for as leases. The application of the provision has no significant impact on Komatsu’s financial position and results of operations.

From the three months ended June 30, 2019, Komatsu has adopted ASU 2017-12 “Targeted Improvements to Accounting for Hedging Activities”. This update improves the application of hedge accounting under certain circumstances to reflect the economic consequences of an entity’s risk management activities in financial statements more appropriately. The update eliminates the requirement to separately measure and present effective portion and ineffective portion of hedging and requires an entity to record the full amount of change in fair value of the hedging instrument in the same income statement line as gain or loss arising from the hedged item. The application of the provision 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, 2019.

2. Supplemental Cash Flow Information

Additional cash flow information for the three months ended June 30, 2019 and 2018 are as follows:

	Millions of yen	
	Three months ended June 30, 2019	Three months ended June 30, 2018
Additional cash flow information:		
Interest paid	¥ 6,656	¥ 5,348
Income taxes paid	29,725	58,551

3. Allowance for Doubtful Receivables

At June 30, 2019 and at March 31, 2019, allowances for doubtful receivables deducted from trade notes and accounts receivable, net and long-term trade receivables, net are ¥14,215 million and ¥12,758 million, respectively.

4. Inventories

At June 30, 2019 and at March 31, 2019, inventories comprised the following:

	Millions of yen	
	June 30, 2019	March 31, 2019
Finished products, including finished parts held for sale	¥ 624,480	¥ 594,880
Work in process	184,111	171,063
Materials and supplies	66,435	71,609
Total	¥ 875,026	¥ 837,552

5. Investment Securities

The realized gains 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, respectively, for the three months ended June 30, 2019 and 2018 are as follows:

	Millions of yen	
	Three months ended June 30, 2019	Three months ended June 30, 2018
Net gains and losses recognized during the period on equity securities.	¥ 18	¥ (267)
Less: net gains and losses recognized during the period on equity securities sold during the period.	16	1
Unrealized gains and losses recognized during the period on equity securities still held as of June 30.	¥ 2	¥ (268)

Komatsu measures equity securities without readily determinable fair values by the method where changes in observable prices in orderly transactions for identical or similar investments issued by the same issuer are added to or subtracted from the carrying amount after the write-down due to impairment. As of June 30, 2019 and as of March 31, 2019, the carrying amounts of these investments were ¥7,039 million and ¥7,043 million, respectively, and any impairment or other adjustments were not recorded until June 30, 2019 and until March 31, 2019.

6. Other Intangible Assets

Intangible assets at June 30, 2019 and at March 31, 2019 are as follows:

	Millions of yen					
	June 30, 2019			March 31, 2019		
	Gross carrying amount	Accumulated amortization	Net carrying amount	Gross carrying amount	Accumulated amortization	Net carrying amount
Other intangible assets subject to amortization:						
Software	¥ 44,437	¥ (20,793)	¥ 23,644	¥ 42,798	¥ (20,030)	¥ 22,768
Leasehold	7,564	(1,724)	5,840	8,363	(1,844)	6,519
Trademarks	54,851	(8,535)	46,316	55,913	(7,832)	48,081
Customer relationships	73,702	(21,375)	52,327	73,773	(20,752)	53,021
Technology assets	31,958	(9,530)	22,428	32,030	(9,177)	22,853
Other	7,421	(3,820)	3,601	7,359	(3,579)	3,780
Total	219,933	(65,777)	154,156	220,236	(63,214)	157,022
Other intangible assets not subject to amortization			9,253			9,384
Total other intangible assets			¥ 163,409			¥ 166,406

The aggregate amortization expense of other intangible assets subject to amortization during the three months ended June 30, 2019 and 2018 were ¥4,483 million and ¥5,659 million, respectively.

7. Cost of Retirement Benefits

Net periodic cost of Komatsu's defined benefit plans for the three months ended June 30, 2019 and 2018, consisted of the following components:

	Millions of yen	
	Three months ended June 30, 2019	Three months ended June 30, 2018
Service cost	¥ 2,315	¥ 2,257
Interest cost on projected benefit obligations	1,732	1,845
Expected return on plan assets	(2,753)	(3,013)
Amortization of actuarial loss	293	324
Amortization of prior service cost	72	33
Net periodic cost	¥ 1,659	¥ 1,446

Net periodic cost of the postretirement benefit plans for the three months ended June 30, 2019 and 2018 included the following components:

	Millions of yen	
	Three months ended June 30, 2019	Three months ended June 30, 2018
Service cost	¥ 141	¥ 125
Interest cost on projected benefit obligations	140	135
Expected return on plan assets	(148)	(148)
Amortization of actuarial loss	12	27
Amortization of prior service cost	1	1
Net periodic cost	¥ 146	¥ 140

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

8. Other Comprehensive Income (Loss)

Changes in accumulated other comprehensive income (loss) for the three months ended June 30, 2019 and 2018 are as follows:

	Millions of yen				
	Three months ended June 30, 2019				
	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	¥ (15,438)	¥ —	¥ (25,890)	¥ 1,536	¥ (39,792)
Other comprehensive income (loss) before reclassifications	(33,311)	—	72	72	(33,167)
Amounts reclassified from accumulated other comprehensive income (loss)	—	—	256	(786)	(530)
Net other comprehensive income (loss)	(33,311)	—	328	(714)	(33,697)
Less: other comprehensive income (loss) attributable to noncontrolling interests	(2,625)	—	—	(93)	(2,718)
Other comprehensive income (loss) attributable to Komatsu Ltd.	(30,686)	—	328	(621)	(30,979)
Balance, end of period	¥ (46,124)	¥ —	¥ (25,562)	¥ 915	¥ (70,771)

All amounts are net of tax.

	Millions of yen				
	Three months ended June 30, 2018				
	Foreign currency translation adjustments	Net unrealized holding gains(losses) on securities available for sale	Pension liability adjustments	Net unrealized holding gains (losses) on derivative instruments	Total
Balance, beginning of year	¥ (10,166)	¥ 681	¥ (22,745)	¥ 3,080	¥ (29,150)
Cumulative effects of Accounting Standards Update—adoption of ASU 2016-01, net of tax	—	(681)	—	—	(681)
Other comprehensive income (loss) before reclassifications	17,996	—	(22)	(2,680)	15,294
Amounts reclassified from accumulated other comprehensive income (loss)	—	—	248	987	1,235
Net other comprehensive income (loss)	17,996	—	226	(1,693)	16,529
Less: other comprehensive income (loss) attributable to noncontrolling interests	607	—	(7)	(2)	598
Other comprehensive income (loss) attributable to Komatsu Ltd.	17,389	—	233	(1,691)	15,931
Balance, end of period	¥ 7,223	¥ —	¥ (22,512)	¥ 1,389	¥ (13,900)

All amounts are net of tax.

Reclassification out of accumulated other comprehensive income (loss) for the three months ended June 30, 2019 and 2018 are as follows:

	Millions of yen	
	Three months ended June 30, 2019	Affected line items in consolidated statements of income
Pension liability adjustments		
Amortization of actuarial loss and prior service cost	¥ (378)	Other income (expenses), net: Other, net
	(378)	Total before tax
	122	Income taxes
	(256)	Net of tax
Net unrealized holding gains (losses) on derivative instruments		
Forwards contracts	192	Net sales
	121	Cost of sales
	1,267	Other income (expenses), net: Other, net
	1,580	Total before tax
	(794)	Income taxes
	786	Net of tax
Total reclassification for the period	¥ 530	Net of tax

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

Tax effects allocated to each component of other comprehensive income (loss) for the three months ended June 30, 2019 and 2018 are as follows:

	Millions of yen		
	Three months ended June 30, 2019		
	Before tax amount	Tax (expense) or benefit	Net of tax amount
Foreign currency translation adjustments			
Foreign currency translation adjustments arising during period	¥ (33,318)	¥ 7	¥ (33,311)
Less: reclassification adjustment for gains included in net income	—	—	—
Net foreign currency translation adjustments	(33,318)	7	(33,311)
Pension liability adjustments			
Pension liability adjustments arising during the period	109	(37)	72
Less: reclassification adjustment for losses included in net income	378	(122)	256
Net pension liability adjustments	487	(159)	328
Net unrealized holding gains (losses) on derivative instruments			
Unrealized holding losses arising during period	725	(653)	72
Less: reclassification adjustment for losses included in net income	(1,580)	794	(786)
Net unrealized holding losses	(855)	141	(714)
Other comprehensive income (loss)	¥ (33,686)	¥ (11)	¥ (33,697)

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

9. Revenue

(1) Disaggregation of revenue

The disaggregation of revenue by operating and geographic segment are described in Note 19.

(2) Contract balances

Contract balances arising from contracts with customers at June 30, 2019 and at March 31, 2019 are as follows:

	Millions of yen	
	June 30, 2019	March 31, 2019
Receivables *1	¥ 1,000,637	¥ 1,067,025
Contract assets *2	7,689	7,443
Contract liabilities *3	110,693	94,720

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

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

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

Revenue recognized for the three months ended June 30, 2019, that was included in the contract liability balance as of March 31, 2019 was ¥24,423 million.

In addition, the amount of revenue recognized during the three months ended June 30, 2019, from performance obligations satisfied or partially satisfied in previous periods was immaterial.

(3) Transaction price allocated to the remaining performance obligations

As of June 30, 2019, the aggregate amount of the transaction price allocated to the remaining performance obligations that have original expected durations greater than one year was ¥195,640 million, of which ¥96,062 million is expected to be recognized as revenue in the twelve months following June 30, 2019.

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.

From the fiscal year ended March 31, 2019, the Company has introduced a new compensation plan, i.e., the restricted stock compensation system for the purpose of providing directors (other than outside directors) and employees of the Company and directors and employees of major subsidiaries with medium- to long-term incentives and advancing the sharing of value between the directors and shareholders of the company. Compensation expenses during the three months ended June 30, 2019 and 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. Leases

Revenues from finance and operating leases as lessor, included in net sales on the consolidated statement of income, for the three months ended June 30, 2019 were as follows:

	<u>Millions of yen</u>	
	<u>Three months ended</u>	
	<u>June 30, 2019</u>	
Finance lease (sales-type lease) revenue		
Revenue recognized at the commencement date *1	¥	31,101
Interest income		2,589
Total finance lease (sales-type lease) revenue		33,690
Operating lease revenue		22,093
Total	¥	55,783

*1 The revenue recognized at the commencement date is included in net sales of the Construction, Mining and Utility Equipment operating segment.

12. 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	
	Three months ended June 30, 2019	Three months ended June 30, 2018
Net income attributable to Komatsu Ltd.	¥ 47,476	¥ 62,970
Net income attributable to participating securities (restricted stocks)	14	—
Net income attributable to common shareholders	¥ 47,462	¥ 62,970

	Number of shares	
	Three months ended June 30, 2019	Three months ended June 30, 2018
Weighted average number of common shares outstanding, less treasury stock	943,935,658	943,335,472
Weighted average number of participating securities (restricted stocks)	281,660	—
Weighted average number of common shares	943,653,998	943,335,472

	Yen	
	Three months ended June 30, 2019	Three months ended June 30, 2018
Basic net income attributable to Komatsu Ltd. per share	50.30	66.75

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	
	Three months ended June 30, 2019	Three months ended June 30, 2018
Net income attributable to Komatsu Ltd.	¥ 47,476	¥ 62,970
Net income attributable to participating securities (restricted stocks)	14	—
Net income attributable to common shareholders	¥ 47,462	¥ 62,970

	Number of shares	
	Three months ended June 30, 2019	Three months ended June 30, 2018
Weighted average number of common shares outstanding, less treasury stock	943,935,658	943,335,472
Dilutive effect of:		
Stock options	864,319	1,195,576
Weighted average number of participating securities (restricted stocks)	281,660	—
Weighted average number of diluted common shares	944,518,317	944,531,048

	Yen	
	Three months ended June 30, 2019	Three months ended June 30, 2018
Diluted net income attributable to Komatsu Ltd. per share	50.25	66.67

13. Contingent Liabilities

At June 30, 2019 and at March 31, 2019, Komatsu was contingently liable for discounted and transferred receivables on a recourse basis with the financial institutions of ¥109 million and ¥103 million, respectively.

Komatsu provides guarantees to third parties of loans of the employees, affiliated companies, customers and other companies. The guarantees of loans relating to the employees are mainly made for their housing loans. The guarantees of loans relating to the affiliated companies, customers and other companies are made to enhance the credit of those companies. For each guarantee provided, Komatsu would have to perform under a guarantee if the borrower defaults on a payment within the contract terms. The contract terms are from 10 years to 30 years in the case of employees with housing loans, and from 1 year to 7 years in the case of loans relating to the affiliated companies, customers and other companies. The maximum amount of undiscounted payments Komatsu would have had to make in the event of default at June 30, 2019 and at March 31, 2019 were ¥14,025 million and ¥14,917 million, respectively. The fair value of the liabilities recognized for Komatsu's obligations as guarantors under those guarantees at June 30, 2019 were insignificant. Certain of those guarantees were secured by collateral and insurance issued to Komatsu.

Komatsu provides guarantees that subsidiaries of the Company perform the obligations of the terms and conditions of contracts by standby letters of credit issued by banks. Komatsu would have to pay the liabilities incurred to banks if the subsidiaries don't perform the obligations of the terms and conditions of contracts. The maximum amount of undiscounted payments Komatsu would have had to make in the event of defaults of the contracts at June 30, 2019 and at March 31, 2019 were ¥14,133 million and ¥16,850 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.

14. Derivative Financial Instruments

Notional principal amounts of derivative financial instruments outstanding at June 30, 2019 and at March 31, 2019 are as follows:

	Millions of yen	
	June 30, 2019	March 31, 2019
Forwards contracts:		
Sale of foreign currencies	¥ 229,442	¥ 209,878
Purchase of foreign currencies	152,241	145,476
Interest rate swaps and cross-currency swap agreements	83,254	108,606

Fair value of derivative instruments at June 30, 2019 and at March 31, 2019 on the consolidated balance sheets are as follows:

	Millions of yen			
	June 30, 2019			
	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	¥ 1,692	Other current liabilities	¥ 1,155
	Deferred income taxes and other assets	23	Deferred income taxes and other liabilities	303
Interest rate swaps and cross-currency swap agreements	Other current assets	—	Other current liabilities	121
	Deferred income taxes and other assets	—	Deferred income taxes and other liabilities	696
Total		¥ 1,715		¥ 2,275
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	¥ 1,805	Other current liabilities	¥ 2,288
	Deferred income taxes and other assets	4	Deferred income taxes and other assets	4
Interest rate swaps and cross-currency swap agreements	Other current assets	64	Other current liabilities	283
	Deferred income taxes and other assets	80	Deferred income taxes and other liabilities	69
Total		¥ 1,953		¥ 2,644
Total Derivative Instruments		¥ 3,668		¥ 4,919

Millions of yen

March 31, 2019

	Derivative Assets		Derivative Liabilities	
	Location on the consolidated Balance Sheets	Estimated fair value	Location on the consolidated Balance Sheets	Estimated fair value
Derivative instruments designated as hedging instruments				
Forwards contracts	Other current assets	¥ 893	Other current liabilities	¥ 577
	Deferred income taxes and other assets	1	Deferred income taxes and other liabilities	404
Interest rate swaps and cross-currency swap agreements	Other current assets	1	Other current liabilities	1
	Deferred income taxes and other assets	3	Deferred income taxes and other liabilities	513
Total		¥ 898		¥ 1,495
	Derivative Assets		Derivative Liabilities	
	Location on the consolidated Balance Sheets	Estimated fair value	Location on the consolidated Balance Sheets	Estimated fair value
Undesignated derivative instruments				
Forwards contracts	Other current assets	¥ 1,980	Other current liabilities	¥ 1,649
	Deferred income taxes and other assets	2	Deferred income taxes and other liabilities	2
Interest rate swaps and cross-currency swap agreements	Other current assets	98	Other current liabilities	163
	Deferred income taxes and other assets	104	Deferred income taxes and other liabilities	46
Total		¥ 2,184		¥ 1,860
Total Derivative Instruments		¥ 3,082		¥ 3,355

The effects of derivative instruments on the consolidated statements of income and the consolidated statements of comprehensive income for the three months ended June 30, 2019 and 2018 are as follows:

Derivative instruments designated as cash flow hedging relationships

Millions of yen				
Three months ended June 30, 2019				
	Amount of gains (losses) recognized in OCI on derivatives	Gains (losses) reclassified from accumulated OCI on derivatives		
		Location of consolidated statements of income		Amount
Forwards contracts	¥ 1,058	Net sales		¥ 192
		Cost of sales		121
		Other income (expenses), net:		1,267
		Other, net		
Interest rate swaps and cross-currency swap agreements	(333)	—		—
Total	¥ 725			¥ 1,580

Millions of yen					
Three months ended June 30, 2018					
	Amount of gains (losses) recognized in OCI on derivatives	Effective portion		Ineffective portion and amount excluded from effectiveness testing	
		Location of gains (losses) reclassified from accumulated OCI into income	Amount of gains (losses) reclassified from accumulated OCI into income	Location of gains (losses) recognized in income on derivatives	Amount of gains (losses) recognized in income on derivatives
Forwards contracts	¥ (4,128)	Other income (expenses), net:	¥ (2,246)	Other income (expenses), net:	¥ 403
		Other, net		Other, net	
Interest rate swaps and cross-currency swap agreements	(3)	—	—	—	—
Total	¥ (4,131)		¥ (2,246)		¥ 403

* OCI stands for other comprehensive income (loss).

Derivative instruments not designated as hedging instruments relationships

Millions of yen		
Three months ended June 30, 2019		
	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	¥ (178)
Interest rate swaps and cross-currency swap agreements	Cost of sales	(123)
	Other income (expenses), net: Other, net	(8)
Total		¥ (309)

Millions of yen		
Three months ended June 30, 2018		
	Location of gains (losses) recognized in income on derivatives	Amount of gains (losses) recognized in income on derivatives
Forwards contracts	Other income (expenses), net: Other, net	¥ 1,078
Interest rate swaps and cross-currency swap agreements	Cost of sales	(28)
	Other income (expenses), net: Other, net	24
Total		¥ 1,074

15. Fair Values of Financial Instruments

(1) Cash and cash equivalents, Time deposits, Short-term debt

The carrying amounts approximate fair value because of the short maturity of these instruments.

(2) Investment securities, marketable equity securities (Note 16)

The fair values of investment securities are stated in Note 16 and therefore are not included in the table below.

(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.

(4) Long-term debt, including current portion

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.

(5) Derivatives (Notes 14 and 16)

The fair values of derivative financial instruments are stated in Note 16 and therefore are not included in the table below.

The carrying amounts and the estimated fair values of the financial instruments as of June 30, 2019 and as of March 31, 2019, and fair value levels are summarized as follows:

	Millions of yen				Fair Value Levels
	June 30, 2019		March 31, 2019		
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value	
Cash and cash equivalents	¥ 193,487	¥ 193,487	¥ 148,479	¥ 148,479	Level 1
Time deposits	2,238	2,238	2,331	2,331	Level 2
Long-term trade receivables, net	419,212	419,212	416,363	416,363	Level 2
Short-term debt	476,371	476,371	404,659	404,659	Level 2
Long-term debt, including current portion	528,019	528,455	526,041	523,921	Level 2

Notes:

1) 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.

2) The fair value levels are stated in Note 16.

16. Fair Value Measurements

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

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

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

The fair value hierarchy levels of assets and liabilities that are measured at fair value on a recurring basis at June 30, 2019 and at March 31, 2019 are as follows:

At June 30, 2019	Millions of yen			
	Level 1	Level 2	Level 3	Total
Assets				
Investment securities, marketable equity securities				
Manufacturing industry	¥ 234	¥ —	¥ —	¥ 234
Derivatives				
Forward contracts	—	3,524	—	3,524
Interest rate swaps and cross-currency swap agreements	—	144	—	144
Total	¥ 234	¥ 3,668	¥ —	¥ 3,902
Liabilities				
Derivatives				
Forward contracts	¥ —	¥ 3,750	¥ —	¥ 3,750
Interest rate swaps and cross-currency swap agreements	—	1,169	—	1,169
Total	¥ —	¥ 4,919	¥ —	¥ 4,919
At March 31, 2019	Millions of yen			
	Level 1	Level 2	Level 3	Total
Assets				
Investment securities, marketable equity securities				
Manufacturing industry	¥ 430	¥ —	¥ —	¥ 430
Derivatives				
Forward contracts	—	2,876	—	2,876
Interest rate swaps and cross-currency swap agreements	—	206	—	206
Total	¥ 430	¥ 3,082	¥ —	¥ 3,512
Liabilities				
Derivatives				
Forward contracts	¥ —	¥ 2,632	¥ —	¥ 2,632
Interest rate swaps and cross-currency swap agreements	—	723	—	723
Total	¥ —	¥ 3,355	¥ —	¥ 3,355

Investment securities

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 14 and 15)

Derivatives primarily represent foreign exchange contracts and interest rate swap agreements. The fair value of foreign exchange contracts is based on a valuation model that discounts cash flows resulting from the differential between contract rate and the market-based forward rate and is classified in Level 2 in the fair value hierarchy. The fair value of interest rate swap agreements is based on a valuation model that discounts cash flows based on the terms of the contract and the swap curves and is classified in Level 2 in the fair value hierarchy.

The following table summarizes information about changes of Level 3 for the three months ended June 30, 2019 and 2018:

	Millions of yen	
	Three months ended June 30, 2019	Three months ended June 30, 2018
Balance, beginning of year	¥ —	¥ (242)
Total gains or losses (realized / unrealized)	—	30
Included in earnings	—	39
Included in other comprehensive income (loss)	—	(9)
Balance, end of period	¥ —	¥ (212)

The amount of unrealized gains on classified in Level 3 liabilities recognized in earnings for the three months ended June 30, 2018 related to liabilities still held at June 30, 2018 was a gain of ¥39 million. This gain was reported in other income (expenses), net in the consolidated statements of income.

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

During three months ended June 30, 2019 and 2018 assets and liabilities that were measured at fair value on a non-recurring basis were not material.

17. Committed Credit Lines

Certain consolidated subsidiaries have entered into contracts with certain financial institutions for committed credit lines. These total amounts of committed credit lines at June 30, 2019 and at March 31, 2019 were ¥131,018 million and ¥136,014 million, respectively. These total amounts of unused committed credit lines available for full and immediate borrowings at June 30, 2019 and at March 31, 2019 were ¥125,705 million and ¥124,150 million, respectively.

18. Dividends

Three months ended June 30, 2019

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 18, 2019	Common stock	55,718	Retained earnings	59	March 31, 2019	June 19, 2019

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

Three months ended June 30, 2018

Payment amount of dividends

Resolution	Type of stock	Aggregate amount of dividends (Millions of yen)	Resource of dividends	Dividend per share (Yen)	Record date	Effective date
Ordinary general meeting of shareholders held on June 19, 2018	Common stock	45,301	Retained earnings	48	March 31, 2018	June 20, 2018

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

19. Business Segment and Geographic Information

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

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

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

Operating segments:

Information about operating segments for the three months ended June 30, 2019 and 2018 is as follows:

	Millions of yen	
	Three months ended June 30, 2019	Three months ended June 30, 2018
Net sales:		
Construction, Mining and Utility Equipment –		
External customers	¥ 560,598	¥ 592,123
Intersegment	879	2,088
Total	561,477	594,211
Retail Finance –		
External customers	15,466	12,971
Intersegment	1,813	1,288
Total	17,279	14,259
Industrial Machinery and Others –		
External customers	33,703	40,966
Intersegment	318	279
Total	34,021	41,245
Elimination	(3,010)	(3,655)
Consolidated	¥ 609,767	¥ 646,060
Segment profit:		
Construction, Mining and Utility Equipment	¥ 68,689	¥ 88,318
Retail Finance	3,404	5,492
Industrial Machinery and Others	554	3,044
Total segment profit	72,647	96,854
Corporate expenses and elimination	96	(944)
Consolidated	¥ 72,743	¥ 95,910

Reconciliation of total segment profit to consolidated income before income taxes and equity in earnings of affiliated companies for the three months ended June 30, 2019 and 2018 is as follows:

	Millions of yen	
	Three months ended June 30, 2019	Three months ended June 30, 2018
Total segment profit	¥ 72,647	¥ 96,854
Corporate expenses and elimination	96	(944)
Consolidated	72,743	95,910
Other operating income (expenses), net	2,017	138
Operating income	74,760	96,048
Interest and dividend income	1,746	1,973
Interest expense	(6,650)	(5,423)
Other, net	(2,946)	342
Consolidated income before income taxes and equity in earnings of affiliated companies	¥ 66,910	¥ 92,940

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

a) Construction, Mining and Utility Equipment operating segment:

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

b) Retail Finance:

Financing

c) Industrial Machinery and Others operating segment:

Metal forging and stamping presses, sheet-metal machines, machine tools, defense systems, temperature-control equipment and others
Transfers between segments are made at estimated arm's length prices.

Geographic information:

Net sales determined by customer location for the three months ended June 30, 2019 and 2018 are as follows:

	Millions of yen			
	Three months ended June 30, 2019			
	Construction, Mining and Utility Equipment	Retail Finance	Industrial Machinery and Others	Total
Japan	¥ 63,777	¥ 445	¥ 13,854	¥ 78,076
The Americas	217,962	11,991	3,229	233,182
Europe and CIS	93,197	675	1,099	94,971
China	36,237	836	6,217	43,290
Asia (excluding Japan and China) and Oceania	118,518	1,501	9,289	129,308
Middle East and Africa	30,907	18	15	30,940
Total	¥ 560,598	¥ 15,466	¥ 33,703	¥ 609,767

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

Net sales determined by geographic origin for the three months ended June 30, 2019 and 2018 are as follows:

Millions of yen			
	Three months ended June 30, 2019	Three months ended June 30, 2018	
Japan	¥ 115,233	¥ 140,204	
The Americas	217,378	213,596	
Europe and CIS	97,970	90,914	
China	39,163	51,834	
Others	140,023	149,512	
Total	¥ 609,767	¥ 646,060	

There were no sales to a single major external customer for the three months ended June 30, 2019 and 2018.

20. Material Subsequent Events

Not applicable.

Komatsu evaluated subsequent events through August 9, 2019, 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.