

(Translation)

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Quarterly Report

From October 1, 2018 to December 31, 2018

(Third Quarter of the 150th Fiscal Year)

KOMATSU LTD.

Quarterly Report

Certain References and Information:

1. This is an English translation of the Quarterly Securities Report (“Shihanki Hokokusho”) filed via the Electronic Disclosure for Investors’ Network (“EDINET”) system as set forth in Article 27-30-2 of the Financial Instruments and Exchange Act of Japan. Komatsu Ltd. filed its Quarterly Securities Report for the three months ended December 31, 2018 with the Director-General of the Kanto Local Finance Bureau on February 13, 2019. The Quarterly Securities Report contains, among other information, Quarterly Consolidated Financial Statements for the three months and nine months ended December 31, 2018. Material information in the Quarterly Securities Report, other than the Quarterly Consolidated Financial Statements, has already been reported by Komatsu Ltd. in its press release dated January 31, 2019. Attached is an English translation of Quarterly Consolidated Financial Statements for the three months and nine months ended December 31, 2018.
2. In this report, Komatsu Ltd. is hereinafter referred to as the “Company” and together with its consolidated subsidiaries as “Komatsu.”

Cautionary Statement with respect to forward-looking statements:

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

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

Financial Information

1. Basis of preparation of the quarterly consolidated financial statements

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

2. Audit certification

Pursuant to Article 193-2, paragraph 1 of the Financial Instruments and Exchange Act of Japan, the quarterly consolidated financial statements for the three months ended December 31, 2018 (from October 1 to December 31, 2018) and for the nine months ended December 31, 2018 (from April 1 to December 31, 2018) were reviewed by KPMG AZSA LLC.

Quarterly Consolidated Financial Statements, etc.

Quarterly Consolidated Financial Statements

Consolidated Balance Sheets (Unaudited)

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

Assets	December 31, 2018		March 31, 2018	
	Millions of yen	Ratio (%)	Millions of yen	Ratio (%)
Current assets				
Cash and cash equivalents (Note 14)	¥ 148,215		¥ 144,397	
Time deposits (Note 14)	2,378		2,460	
Trade notes and accounts receivable, net (Notes 3, 9 and 14)	790,743		792,714	
Inventories (Note 4)	825,588		730,288	
Other current assets (Notes 13, 14 and 15)	136,763		127,732	
Total current assets	1,903,687	54.3	1,797,591	53.3
Long-term trade receivables, net (Notes 3, 9 and 14)	373,940	10.7	362,367	10.8
Investments				
Investments in and advances to affiliated companies	36,555		32,879	
Investment securities (Notes 1, 5, 14 and 15)	7,491		9,213	
Other	2,506		2,655	
Total investments	46,552	1.3	44,747	1.3
Property, plant and equipment				
– less accumulated depreciation and amortization of ¥874,845 million at December 31, 2018 and ¥850,395 million at March 31, 2018	759,304	21.6	740,528	22.0
Goodwill	165,057	4.7	155,881	4.6
Other intangible assets (Note 6)				
– less accumulated amortization	169,887	4.8	173,215	5.1
Deferred income taxes and other assets (Notes 1, 13, 14, 15 and 19)	90,872	2.6	98,209	2.9
Total assets	¥ 3,509,299	100.0	¥ 3,372,538	100.0
	December 31, 2018		March 31, 2018	
	Millions of yen	Ratio (%)	Millions of yen	Ratio (%)
Liabilities and Equity				
Current liabilities				
Short-term debt (Note 14)	¥ 438,705		¥ 259,093	
Current maturities of long-term debt (Note 14)	73,573		70,806	
Trade notes, bills and accounts payable (Note 14)	255,622		303,556	
Income taxes payable (Note 19)	28,230		66,541	
Other current liabilities (Notes 9, 13, 14 and 15)	290,787		289,665	
Total current liabilities	1,086,917	31.0	989,661	29.3
Long-term liabilities				
Long-term debt (Note 14)	453,973		480,698	
Liability for pension and retirement benefits	86,186		86,374	
Deferred income taxes and other liabilities (Notes 1, 9, 13, 14, 15 and 19)	82,130		72,215	
Total long-term liabilities	622,289	17.7	639,287	19.0
Total liabilities	1,709,206	48.7	1,628,948	48.3
Commitments and contingent liabilities (Note 12)				
Equity				
Komatsu Ltd. shareholders' equity				
Common stock:				
Authorized 3,955,000,000 shares				
Issued 972,252,460 shares				
Outstanding 943,806,644 shares at December 31, 2018 and 943,305,489 shares at March 31, 2018	68,311		67,870	
Capital surplus	136,989		138,450	
Retained earnings:				
Appropriated for legal reserve	46,152		45,828	
Unappropriated (Note 1)	1,581,687		1,491,965	
Accumulated other comprehensive income (loss) (Notes 1, 5, 8, 13 and 15)	(65,395)		(29,150)	
Treasury stock at cost,				
28,445,816 shares at December 31, 2018 and 28,662,171 shares at March 31, 2018	(50,053)		(50,423)	
Total Komatsu Ltd. shareholders' equity	1,717,691	48.9	1,664,540	49.4
Noncontrolling interests	82,402	2.4	79,050	2.3
Total equity	1,800,093	51.3	1,743,590	51.7
Total liabilities and equity	¥ 3,509,299	100.0	¥ 3,372,538	100.0

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

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

Komatsu Ltd. and Consolidated Subsidiaries
 Nine months ended December 31, 2018 and 2017.

Consolidated Statements of Income

	Nine months ended December 31, 2018		Nine months ended December 31, 2017	
	Millions of yen	Ratio (%)	Millions of yen	Ratio (%)
Net sales (Notes 1 and 9)	¥ 2,018,609	100.0	¥ 1,805,801	100.0
Cost of sales (Notes 1, 6, 7 and 13)	1,392,524	69.0	1,283,151	71.1
Selling, general and administrative expenses (Notes 1, 6, 7 and 10)	329,797	16.3	323,958	17.9
Other operating income (expenses), net	(453)	(0.0)	(12,672)	(0.7)
Operating income	295,835	14.7	186,020	10.3
Other income (expenses), net				
Interest and dividend income	5,470	0.3	4,059	0.2
Interest expense	(17,755)	(0.9)	(13,427)	(0.7)
Gain on sales of investment securities, net (Notes 1 and 8)	—	—	48,287	2.7
Other, net (Notes 1, 5, 7, 8, 13 and 15)	(5,570)	(0.3)	(9,599)	(0.5)
Total	(17,855)	(0.9)	29,320	1.6
Income before income taxes and equity in earnings of affiliated companies	277,980	13.8	215,340	11.9
Income taxes (Notes 1, 8 and 19)				
Current	87,034		53,982	
Deferred	(5,399)		(23)	
Total	81,635	4.0	53,959	3.0
Income before equity in earnings of affiliated companies	196,345	9.7	161,381	8.9
Equity in earnings of affiliated companies	2,854	0.1	2,851	0.2
Net income	199,199	9.9	164,232	9.1
Less: Net income attributable to noncontrolling interests	15,002	0.7	9,168	0.5
Net income attributable to Komatsu Ltd.	¥ 184,197	9.1	¥ 155,064	8.6
	Yen			
Per share data (Note 11):				
Net income attributable to Komatsu Ltd.:				
Basic	195.22		164.41	
Diluted	194.99		164.19	

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

Consolidated Statements of Comprehensive Income

	Millions of yen	
	Nine months ended December 31, 2018	Nine months ended December 31, 2017
Net income	¥ 199,199	¥ 164,232
Other comprehensive income (loss), for the period, net of tax		
Foreign currency translation adjustments (Note 8)	(35,179)	41,971
Net unrealized holding gains (losses) on securities available for sale (Notes 1, 5 and 8)	—	(28,554)
Pension liability adjustments (Notes 7 and 8)	(1,178)	1,648
Net unrealized holding gains (losses) on derivative instruments (Notes 8 and 13)	(781)	1,360
Total	<u>(37,138)</u>	<u>16,425</u>
Comprehensive income (loss)	162,061	180,657
Less: Comprehensive income (loss) attributable to noncontrolling interests	11,382	11,667
Comprehensive income (loss) attributable to Komatsu Ltd.	<u>¥ 150,679</u>	<u>¥ 168,990</u>

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

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

Komatsu Ltd. and Consolidated Subsidiaries
Three months ended December 31, 2018 and 2017.

Consolidated Statements of Income

	Three months ended December 31, 2018		Three months ended December 31, 2017	
	Millions of yen	Ratio (%)	Millions of yen	Ratio (%)
Net sales (Notes 1 and 9)	¥ 700,568	100.0	¥ 646,843	100.0
Cost of sales (Notes 1, 6, 7 and 13)	492,005	70.2	450,439	69.6
Selling, general and administrative expenses (Notes 1, 6, 7 and 10)	111,408	15.9	109,993	17.0
Other operating income (expenses), net	(1,627)	(0.2)	(11,575)	(1.8)
Operating income	95,528	13.6	74,836	11.6
Other income (expenses), net				
Interest and dividend income	1,787	0.3	1,107	0.2
Interest expense	(6,345)	(0.9)	(5,190)	(0.8)
Gain on sales of investment securities, net (Notes 1 and 8)	—	—	8,724	1.3
Other, net (Notes 1, 5, 7, 8, 13 and 15)	(5,499)	(0.8)	(8,254)	(1.3)
Total	(10,057)	(1.4)	(3,613)	(0.6)
Income before income taxes and equity in earnings of affiliated companies	85,471	12.2	71,223	11.0
Income taxes (Notes 1, 8 and 19)				
Current	31,310		13,863	
Deferred	(7,214)		1,846	
Total	24,096	3.4	15,709	2.4
Income before equity in earnings of affiliated companies	61,375	8.8	55,514	8.6
Equity in earnings of affiliated companies	592	0.1	1,102	0.2
Net income	61,967	8.8	56,616	8.8
Less: Net income attributable to noncontrolling interests	3,155	0.5	3,307	0.5
Net income attributable to Komatsu Ltd.	¥ 58,812	8.4	¥ 53,309	8.2
	Yen			
Per share data (Note 11):				
Net income attributable to Komatsu Ltd.:				
Basic	62.32		56.52	
Diluted	62.25		56.44	

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

Consolidated Statements of Comprehensive Income

	Millions of yen	
	Three months ended December 31, 2018	Three months ended December 31, 2017
Net income	¥ 61,967	¥ 56,616
Other comprehensive income (loss), for the period, net of tax		
Foreign currency translation adjustments (Note 8)	(76,884)	11,301
Net unrealized holding gains (losses) on securities available for sale (Notes 1, 5 and 8)	—	(4,951)
Pension liability adjustments (Notes 7 and 8)	(1,768)	800
Net unrealized holding gains (losses) on derivative instruments (Notes 8 and 13)	1,909	78
Total	(76,743)	7,228
Comprehensive income (loss)	(14,776)	63,844
Less: Comprehensive income (loss) attributable to noncontrolling interests	(2,319)	4,015
Comprehensive income (loss) attributable to Komatsu Ltd.	¥ (12,457)	¥ 59,829

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

Consolidated Statements of Equity (Unaudited)

Komatsu Ltd. and Consolidated Subsidiaries

Nine months ended December 31, 2018

	Millions of yen								
	Common stock	Capital surplus	Retained earnings		Accumulated other comprehensive income (loss)	Treasury stock	Total Komatsu Ltd. shareholders' equity	Non-controlling interests	Total equity
			Appropriated for legal reserve	Un-appropriated					
Balance at March 31, 2018	¥ 67,870	¥ 138,450	¥ 45,828	¥ 1,491,965	¥ (29,150)	¥ (50,423)	¥ 1,664,540	¥ 79,050	¥ 1,743,590
Cumulative effects of Accounting Standards Update—adoption of ASU 2014-09, net of tax (Note 1)				(515)			(515)	(12)	(527)
Cumulative effects of Accounting Standards Update—adoption of ASU 2016-01, net of tax (Note 1)				681	(681)		—		—
Cumulative effects of Accounting Standards Update—adoption of ASU 2016-16, net of tax (Note 1)				(860)			(860)		(860)
Cash dividends (Note 17)				(93,457)			(93,457)	(4,669)	(98,126)
Transfer to retained earnings appropriated for legal reserve			324	(324)			—		—
Other changes		(1,497)			(2,046)		(3,543)	(3,349)	(6,892)
Net income				184,197			184,197	15,002	199,199
Other comprehensive income (loss), for the period, net of tax (Note 8)					(33,518)		(33,518)	(3,620)	(37,138)
Issuance and exercise of stock acquisition rights (Note 10)		(438)					(438)		(438)
Purchase of treasury stock						(35)	(35)		(35)
Sales of treasury stock		36				405	441		441
Restricted stock compensation (Note 10)	441	438					879		879
Balance at December 31, 2018	¥ 68,311	¥ 136,989	¥ 46,152	¥ 1,581,687	¥ (65,395)	¥ (50,053)	¥ 1,717,691	¥ 82,402	¥ 1,800,093

Nine months ended December 31, 2017

	Millions of yen								
	Common stock	Capital surplus	Retained earnings		Accumulated other comprehensive income (loss)	Treasury stock	Total Komatsu Ltd. shareholders' equity	Non-controlling interests	Total equity
			Appropriated for legal reserve	Un-appropriated					
Balance at March 31, 2017	¥ 67,870	¥ 138,285	¥ 45,368	¥ 1,357,350	¥ 18,682	¥ (50,881)	¥ 1,576,674	¥ 71,841	¥ 1,648,515
Cash dividends (Note 17)				(61,335)			(61,335)	(3,191)	(64,526)
Transfer to retained earnings appropriated for legal reserve			460	(460)			—		—
Other changes							—	1,280	1,280
Net income				155,064			155,064	9,168	164,232
Other comprehensive income (loss), for the period, net of tax (Note 8)					13,926		13,926	2,499	16,425
Issuance and exercise of stock acquisition rights (Note 10)		206					206		206
Purchase of treasury stock						(40)	(40)		(40)
Sales of treasury stock		55				414	469		469
Balance at December 31, 2017	¥ 67,870	¥ 138,546	¥ 45,828	¥ 1,450,619	¥ 32,608	¥ (50,507)	¥ 1,684,964	¥ 81,597	¥ 1,766,561

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

Consolidated Statements of Cash Flows (Unaudited)

Komatsu Ltd. and Consolidated Subsidiaries
 Nine months ended December 31, 2018 and 2017

	Millions of yen	
	Nine months ended December 31, 2018	Nine months ended December 31, 2017
Operating activities		
Net income	¥ 199,199	¥ 164,232
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	98,114	98,857
Deferred income taxes	(5,399)	(23)
Impairment loss and net loss (gain) from sale of investment securities	600	(48,146)
Net loss (gain) on sale of property	(486)	(376)
Loss on disposal of fixed assets	1,556	1,858
Pension and retirement benefits, net	(1,622)	(2,779)
Changes in assets and liabilities:		
Decrease (increase) in trade receivables	(22,445)	(115,732)
Decrease (increase) in inventories	(115,117)	(86,229)
Increase (decrease) in trade payables	(45,097)	22,259
Increase (decrease) in income taxes payable	(37,571)	20,013
Other, net	28,610	27,690
Net cash provided by (used in) operating activities	<u>100,342</u>	<u>81,624</u>
Investing activities		
Capital expenditures	(144,862)	(122,996)
Proceeds from sale of property	9,567	16,256
Proceeds from sale of available for sale investment securities	1,815	60,823
Purchases of available for sale investment securities	(342)	(589)
Proceeds from sale of subsidiaries and equity investees, net of cash disposed	42	570
Acquisition of subsidiaries and equity investees, net of cash acquired	(8,025)	(273,534)
Collection of loan receivables	838	136
Disbursement of loan receivables	(1,307)	(775)
Decrease (increase) in time deposits, net	54	(100)
Net cash provided by (used in) investing activities	<u>(142,220)</u>	<u>(320,209)</u>
Financing activities		
Proceeds from debt issued (Original maturities greater than three months)	272,607	423,248
Payment on debt (Original maturities greater than three months)	(203,315)	(175,336)
Short-term debt, net (Original maturities three months or less)	87,909	101,830
Repayments of capital lease obligations	(48)	(36)
Sale (purchase) of treasury stock, net	(17)	62
Dividends paid	(93,457)	(61,335)
Other, net	(12,957)	(6,711)
Net cash provided by (used in) financing activities	<u>50,722</u>	<u>281,722</u>
Effect of exchange rate change on cash and cash equivalents	<u>(5,026)</u>	<u>2,266</u>
Net increase (decrease) in cash and cash equivalents	3,818	45,403
Cash and cash equivalents, beginning of year	144,397	119,901
Cash and cash equivalents, end of period	<u>¥ 148,215</u>	<u>¥ 165,304</u>

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

Komatsu Ltd. and Consolidated Subsidiaries
Three months and nine months ended December 31, 2018 and 2017
Notes to Quarterly Consolidated Financial Statements (Unaudited)

1. Basis of Quarterly Financial Statement Presentation and Summary of Significant Accounting Policies

Basis of Quarterly Financial Statement Presentation

The Company prepares and presents the accompanying quarterly consolidated financial statements in accordance with generally accepted accounting principles in the United States of America (hereinafter “U.S. GAAP”).

The accompanying quarterly consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and principally operates.

Some adjustments without booked on each subsidiaries’ and affiliates’ quarterly financial statements are added to the accompanying quarterly consolidated financial statements. These adjustments are mainly due to the gaps of accounting principle between Japan and the United States of America. See Note 21 “Terminology, Forms and Preparation Methods of Quarterly Consolidated Financial Statements”.

Preparation of Financial Statements and Registration with the U.S. Securities and Exchange Commission

The Company has been preparing its consolidated financial statements in accordance with U.S. GAAP since 1963, because the Company issued foreign currency convertible bonds at European market in 1964. The Company registered its convertible bonds issued in the United States in 1967 and its common shares issued for U.S. shareholders as well as Japanese shareholders in 1970 with the U.S. Securities and Exchange Commission (hereinafter “SEC”). Since then, the Company, as a non-U.S. issuer, had been having the reporting obligations, such as filing annual report with its consolidated financial statements in accordance with U.S. GAAP, under the Securities Exchange Act of 1934. The Company's registration with SEC was terminated on June 30, 2014.

Summary of Significant Accounting Policies

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

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

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

From the three months ended June 30, 2018, Komatsu has adopted ASU 2017-07 “Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost”. This update requires an entity to divide net periodic pension cost and net periodic postretirement benefit cost into the service cost component and other components, and present the former in the same line item as other personnel expenses while presenting the latter in non-operating income or expenses. Of net periodic pension cost and net periodic postretirement benefit cost, only the service cost component is allowed to be capitalized into inventory and others. The presentation change is applied retrospectively, whereas the capitalization change is applied prospectively. Due to the application of the provision requiring the division into the service cost component and other components, Komatsu reclassified ¥76 million and ¥2,093 million from cost of sales and selling, general and administrative expenses, respectively, to other, net under other income (expenses), net for the nine months ended December 31, 2017. As a result, operating income for the nine months ended December 31, 2017 decreased by ¥2,169 million compared with that before the reclassification. Komatsu reclassified ¥8 million and ¥722 million from

cost of sales and selling, general and administrative expenses, respectively, to other, net under other income (expenses), net for the three months ended December 31, 2017. As a result, operating income for the three months ended December 31, 2017 decreased by ¥730 million compared with that before the reclassification. The application of the provision that limits cost eligible for capitalization to the service cost component has no significant impact on Komatsu's financial position and results of operations.

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

2. Supplemental Cash Flow Information

Additional cash flow information and noncash investing and financing activities for the nine months ended December 31, 2018 and 2017 are as follows:

	Millions of yen	
	Nine months ended December 31, 2018	Nine months ended December 31, 2017
Additional cash flow information:		
Interest paid	¥ 17,906	¥ 11,822
Income taxes paid	119,992	40,121
Noncash investing and financing activities:		
Capital lease obligations incurred	¥ 534	¥ 537

3. Allowance for Doubtful Receivables

At December 31, 2018 and at March 31, 2018, allowances for doubtful receivables deducted from trade notes and accounts receivable, net and long-term trade receivables, net are ¥18,959 million and ¥23,657 million, respectively.

4. Inventories

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

	Millions of yen	
	December 31, 2018	March 31, 2018
Finished products, including finished parts held for sale	¥ 565,059	¥ 512,511
Work in process	188,786	159,190
Materials and supplies	71,743	58,587
Total	¥ 825,588	¥ 730,288

5. Investment Securities

Investment securities at March 31, 2018 primarily consisted of securities available for sale, and unrealized holding gains and losses are included as a component of accumulated other comprehensive income (loss) until realized.

The cost, gross unrealized holding gains and losses, and fair value for such investment securities by major security types at March 31, 2018 are as follows:

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

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

The realized gain and losses and gross unrealized holding gains and losses for such equity securities which are recorded in other income (expenses), net in the accompanying consolidated statements of income for the nine months ended December 31, 2018 are as follows:

	Millions of yen
	Nine months ended December 31, 2018
Net gains and losses recognized during the period on equity securities.	¥ (600)
Less: net gains and losses recognized during the period on equity securities sold during the period.	(46)
Unrealized gains and losses recognized during the period on equity securities still held as of December 31, 2018.	<u>¥ (554)</u>

The realized gain and losses and gross unrealized holding gains and losses for such equity securities which are recorded in other income (expenses), net in the accompanying consolidated statements of income for the three months ended December 31, 2018 are as follows:

	Millions of yen
	Three months ended December 31, 2018
Net gains and losses recognized during the period on equity securities.	¥ (157)
Less: net gains and losses recognized during the period on equity securities sold during the period.	—
Unrealized gains and losses recognized during the period on equity securities still held as of December 31, 2018.	<u>¥ (157)</u>

From the three months ended June 30, 2018, Komatsu has measured equity securities without readily determinable fair values by the method where changes in observable prices in orderly transactions for identical or similar investments issued by the same issuer are added to or subtracted from the carrying amount after the write-down due to impairment. As of December 31, 2018, Komatsu did not record any impairment or other adjustments, and the carrying amount of these investments was ¥7,080 million.

6. Other Intangible Assets

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

	Millions of yen					
	December 31, 2018			March 31, 2018		
	Gross carrying amount	Accumulated amortization	Net carrying amount	Gross carrying amount	Accumulated amortization	Net carrying amount
Other intangible assets subject to amortization:						
Software	¥41,652	¥ (20,244)	¥ 21,408	¥38,195	¥ (18,573)	¥ 19,622
Leasehold	7,903	(1,709)	6,194	8,803	(1,746)	7,057
Trademarks	57,585	(7,092)	50,493	54,145	(4,047)	50,098
Customer relationships	74,578	(19,641)	54,937	73,281	(15,006)	58,275
Technology assets	33,943	(10,108)	23,835	32,952	(8,598)	24,354
Backlog	—	—	—	7,317	(6,242)	1,075
Other	10,472	(6,730)	3,742	9,190	(5,909)	3,281
Total	226,133	(65,524)	160,609	223,883	(60,121)	163,762
Other intangible assets not subject to amortization			9,278			9,453
Total other intangible assets			¥169,887			¥173,215

The aggregate amortization expense of other intangible assets subject to amortization during the nine months ended December 31, 2018 and 2017 were ¥14,897 million and ¥17,852 million, respectively. The aggregate amortization expense of other intangible assets subject to amortization during the three months ended December 31, 2018 and 2017 were ¥4,490 million and ¥6,021 million, respectively.

7. Cost of Retirement Benefits

Net periodic cost of Komatsu's defined benefit plans for the nine months ended December 31, 2018 and 2017, consisted of the following components:

	Millions of yen	
	Nine months ended December 31, 2018	Nine months ended December 31, 2017
Service cost	¥ 6,796	¥ 6,772
Interest cost on projected benefit obligations	5,513	5,471
Expected return on plan assets	(9,057)	(9,188)
Amortization of actuarial loss	978	1,366
Amortization of prior service cost	148	114
Net periodic cost	¥ 4,378	¥ 4,535

Net periodic cost of the postretirement benefit plans for the nine months ended December 31, 2018 and 2017 included the following components:

	Millions of yen	
	Nine months ended December 31, 2018	Nine months ended December 31, 2017
Service cost	¥ 405	¥ 344
Interest cost on projected benefit obligations	436	392
Expected return on plan assets	(453)	(448)
Amortization of actuarial loss	86	66
Amortization of prior service cost	4	58
Net periodic cost	¥ 478	¥ 412

Net periodic cost of Komatsu's defined benefit plans for the three months ended December 31, 2018 and 2017, consisted of the following components:

	Millions of yen	
	Three months ended December 31, 2018	Three months ended December 31, 2017
Service cost	¥ 2,291	¥ 2,239
Interest cost on projected benefit obligations	1,823	1,839
Expected return on plan assets	(3,013)	(3,071)
Amortization of actuarial loss	333	443
Amortization of prior service cost	80	36
Net periodic cost	¥ 1,514	¥ 1,486

Net periodic cost of the postretirement benefit plans for the three months ended December 31, 2018 and 2017 included the following components:

	Millions of yen	
	Three months ended December 31, 2018	Three months ended December 31, 2017
Service cost	¥ 138	¥ 116
Interest cost on projected benefit obligations	147	132
Expected return on plan assets	(153)	(151)
Amortization of actuarial loss	29	22
Amortization of prior service cost	1	20
Net periodic cost	¥ 162	¥ 139

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 nine months ended December 31, 2018 and 2017 are as follows:

	Millions of yen				
	Nine months ended December 31, 2018				
	Foreign currency translation adjustments	Net unrealized holding gains(losses) on securities available for sale	Pension liability adjustments	Net unrealized holding gains (losses) on derivative instruments	Total
Balance, beginning of year	¥ (10,166)	¥ 681	¥ (22,745)	¥ 3,080	¥ (29,150)
Cumulative effects of Accounting Standards Update—adoption of ASU 2016-01, net of tax *1	—	(681)	—	—	(681)
Other comprehensive income (loss) before reclassifications	(35,179)	—	(1,773)	(2,904)	(39,856)
Amounts reclassified from accumulated other comprehensive income (loss)	—	—	595	2,123	2,718
Net other comprehensive income (loss)	(35,179)	—	(1,178)	(781)	(37,138)
Less: other comprehensive income (loss) attributable to noncontrolling interests	(3,576)	—	7	(51)	(3,620)
Other comprehensive income (loss) attributable to Komatsu Ltd.	(31,603)	—	(1,185)	(730)	(33,518)
Equity transactions with noncontrolling interests	(2,074)	—	28	—	(2,046)
Balance, end of period	¥ (43,843)	¥ —	¥ (23,902)	¥ 2,350	¥ (65,395)

All amounts are net of tax.

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

	Millions of yen				
	Nine months ended December 31, 2017				
	Foreign currency translation adjustments	Net unrealized holding gains(losses) on securities available for sale	Pension liability adjustments	Net unrealized holding gains (losses) on derivative instruments	Total
Balance, beginning of year	¥ 11,014	¥ 30,114	¥ (23,149)	¥ 703	¥ 18,682
Other comprehensive income (loss) before reclassifications	41,971	3,446	210	3,050	48,677
Amounts reclassified from accumulated other comprehensive income (loss)	—	(32,000)	1,438	(1,690)	(32,252)
Net other comprehensive income (loss)	41,971	(28,554)	1,648	1,360	16,425
Less: other comprehensive income (loss) attributable to noncontrolling interests	2,426	—	42	31	2,499
Other comprehensive income (loss) attributable to Komatsu Ltd.	39,545	(28,554)	1,606	1,329	13,926
Balance, end of period	¥ 50,559	¥ 1,560	¥ (21,543)	¥ 2,032	¥ 32,608

All amounts are net of tax.

Changes in accumulated other comprehensive income (loss) for the three months ended December 31, 2018 and 2017 are as follows:

	Millions of yen				
	Three months ended December 31, 2018				
	Foreign currency translation adjustments	Net unrealized holding gains(losses) on securities available for sale	Pension liability adjustments	Net unrealized holding gains (losses) on derivative instruments	Total
Balance, beginning of period	¥ 27,612	¥ —	¥ (22,134)	¥ 396	¥ 5,874
Other comprehensive income (loss) before reclassifications	(76,884)	—	(1,844)	2,212	(76,516)
Amounts reclassified from accumulated other comprehensive income (loss)	—	—	76	(303)	(227)
Net other comprehensive income (loss)	(76,884)	—	(1,768)	1,909	(76,743)
Less: other comprehensive income (loss) attributable to noncontrolling interests	(5,429)	—	—	(45)	(5,474)
Other comprehensive income (loss) attributable to Komatsu Ltd.	(71,455)	—	(1,768)	1,954	(71,269)
Equity transactions with noncontrolling interests	—	—	—	—	—
Balance, end of period	¥ (43,843)	¥ —	¥ (23,902)	¥ 2,350	¥ (65,395)

All amounts are net of tax.

	Millions of yen				
	Three months ended December 31, 2017				
	Foreign currency translation adjustments	Net unrealized holding gains(losses) on securities available for sale	Pension liability adjustments	Net unrealized holding gains (losses) on derivative instruments	Total
Balance, beginning of period	¥ 39,946	¥ 6,511	¥ (22,327)	¥ 1,958	¥ 26,088
Other comprehensive income (loss) before reclassifications	11,301	690	78	367	12,436
Amounts reclassified from accumulated other comprehensive income (loss)	—	(5,641)	722	(289)	(5,208)
Net other comprehensive income (loss)	11,301	(4,951)	800	78	7,228
Less: other comprehensive income (loss) attributable to noncontrolling interests	688	—	16	4	708
Other comprehensive income (loss) attributable to Komatsu Ltd.	10,613	(4,951)	784	74	6,520
Balance, end of period	¥ 50,559	¥ 1,560	¥ (21,543)	¥ 2,032	¥ 32,608

All amounts are net of tax.

Reclassification out of accumulated other comprehensive income (loss) for the nine months ended December 31, 2018 and 2017 are as follows:

	Millions of yen	
	Nine months ended December 31, 2018	Affected line items in consolidated statements of income
Pension liability adjustments		
Amortization of actuarial loss and prior service cost	¥ (1,216)	*2
	(1,216)	Total before tax
	621	Income taxes
	(595)	Net of tax
Net unrealized holding gains (losses) on derivative instruments		
Forwards contracts	(2,406)	Other income (expenses), net: Other, net
	(2,406)	Total before tax
	283	Income taxes
	(2,123)	Net of tax
Total reclassification for the period	¥ (2,718)	Net of tax

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

	Millions of yen	
	Nine months ended December 31, 2017	Affected line items in consolidated statements of income
Net unrealized holding gains (losses) on securities available for sale		
Gain from sale	¥ 48,446	Other income (expenses), net: Gain on sales of investment securities
	48,446	Total before tax
	(16,446)	Income taxes
	32,000	Net of tax
Pension liability adjustments		
Amortization of actuarial loss and prior service cost	(1,604)	*3
	(1,604)	Total before tax
	166	Income taxes
	(1,438)	Net of tax
Net unrealized holding gains (losses) on derivative instruments		
Forwards contracts	2,378	Other income (expenses), net: Other, net
	2,378	Total before tax
	(688)	Income taxes
	1,690	Net of tax
Total reclassification for the period	¥ 32,252	Net of tax

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

Reclassification out of accumulated other comprehensive income (loss) for the three months ended December 31, 2018 and 2017 are as follows:

	Millions of yen	
	Three months ended December 31, 2018	Affected line items in consolidated statements of income
Pension liability adjustments		
Amortization of actuarial loss and prior service cost	¥ (443)	*4
	(443)	Total before tax
	367	Income taxes
	(76)	Net of tax
Net unrealized holding gains (losses) on derivative instruments		
Forwards contracts	942	Other income (expenses), net: Other, net
	942	Total before tax
	(639)	Income taxes
	303	Net of tax
Total reclassification for the period	¥ 227	Net of tax

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

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

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

Tax effects allocated to each component of other comprehensive income (loss) for the nine months ended December 31, 2018 and 2017 are as follows:

	Millions of yen		
	Nine months ended December 31, 2018		
	Before tax amount	Tax (expense) or benefit	Net of tax amount
Foreign currency translation adjustments			
Foreign currency translation adjustments arising during period	¥ (35,197)	¥ 18	¥ (35,179)
Less: reclassification adjustment for gains included in net income	—	—	—
Net foreign currency translation adjustments	(35,197)	18	(35,179)
Pension liability adjustments			
Pension liability adjustments arising during period	(1,977)	204	(1,773)
Less: reclassification adjustment for losses included in net income	1,216	(621)	595
Net pension liability adjustments	(761)	(417)	(1,178)
Net unrealized holding gains (losses) on derivative instruments			
Unrealized holding losses arising during period	(3,379)	475	(2,904)
Less: reclassification adjustment for losses included in net income	2,406	(283)	2,123
Net unrealized holding losses	(973)	192	(781)
Other comprehensive income (loss)	¥ (36,931)	¥ (207)	¥ (37,138)

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

Tax effects allocated to each component of other comprehensive income (loss) for the three months ended December 31, 2018 and 2017 are as follows:

	Millions of yen		
	Three months ended December 31, 2018		
	Before tax amount	Tax (expense) or benefit	Net of tax amount
Foreign currency translation adjustments			
Foreign currency translation adjustments arising during period	¥ (77,008)	¥ 124	¥ (76,884)
Less: reclassification adjustment for gains included in net income	—	—	—
Net foreign currency translation adjustments	(77,008)	124	(76,884)
Pension liability adjustments			
Pension liability adjustments arising during period	(2,056)	212	(1,844)
Less: reclassification adjustment for losses included in net income	443	(367)	76
Net pension liability adjustments	(1,613)	(155)	(1,768)
Net unrealized holding gains (losses) on derivative instruments			
Unrealized holding losses arising during period	3,772	(1,560)	2,212
Less: reclassification adjustment for losses included in net income	(942)	639	(303)
Net unrealized holding losses	2,830	(921)	1,909
Other comprehensive income (loss)	¥ (75,791)	¥ (952)	¥ (76,743)

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

9. Revenue

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

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

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

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

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

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

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

(1) Disaggregation of revenue

Net sales determined by customer location for the nine months ended December 31, 2018 are as follows:

	Millions of yen			
	Nine months ended December 31, 2018			
	Construction, Mining and Utility Equipment	Retail Finance	Industrial Machinery and Others	Total
Japan	¥ 225,182	¥ 1,385	¥ 58,778	¥ 285,345
The Americas	692,617	31,740	24,950	749,307
Europe and CIS	248,643	2,009	10,967	261,619
China	118,728	2,431	17,461	138,620
Asia (excluding Japan and China) and Oceania	430,087	4,124	29,054	463,265
Middle East and Africa	120,302	75	76	120,453
Total	¥ 1,835,559	¥ 41,764	¥ 141,286	¥ 2,018,609

Net sales determined by customer location for the three months ended December 31, 2018 are as follows:

	Millions of yen			
	Three months ended December 31, 2018			
	Construction, Mining and Utility Equipment	Retail Finance	Industrial Machinery and Others	Total
Japan	¥ 87,694	¥ 472	¥ 18,270	¥ 106,436
The Americas	249,320	11,674	6,291	267,285
Europe and CIS	82,819	675	3,816	87,310
China	37,288	830	6,996	45,114
Asia (excluding Japan and China) and Oceania	142,484	1,459	9,638	153,581
Middle East and Africa	40,768	29	45	40,842
Total	¥ 640,373	¥ 15,139	¥ 45,056	¥ 700,568

(2) Contract balances

Contract balances arising from contracts with customers at December 31, 2018 and at April 1, 2018 are as follows:

	Millions of yen	
	December 31, 2018	April 1, 2018
Receivables *1	¥ 983,958	¥ 991,124
Contract assets *2	6,072	5,604
Contract liabilities *3	86,268	70,180

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

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

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

Revenue recognized for the nine months ended December 31, 2018, that was included in the contract liability balance as of April 1, 2018 was ¥46,542 million. Revenue recognized for the three months ended December 31, 2018, that was included in the contract liability balance as of April 1, 2018 was ¥7,583 million.

The amount of revenue recognized during the nine months and three months ended December 31, 2018, from performance obligations satisfied or partially satisfied in previous periods was immaterial.

(3) Transaction price allocated to the remaining performance obligations

As of December 31, 2018, the aggregate amount of the transaction price allocated to the remaining performance obligations that have original expected durations greater than one year was ¥173,416 million, of which ¥27,896 million is expected to be recognized as revenue in the fiscal year ending March 31, 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. Compensation expenses during the nine months ended December 31, 2017 and the three months ended December 31, 2017 were ¥519 million and ¥311 million, respectively, and were recorded in selling, general and administrative expenses.

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

11. Net Income Attributable to Komatsu Ltd. per Share

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

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

	Millions of yen	
	Nine months ended December 31, 2018	Nine months ended December 31, 2017
Net income attributable to Komatsu Ltd.	¥ 184,197	¥ 155,064
Net income attributable to participating securities (restricted stocks)	24	—
Net income attributable to common shareholders	¥ 184,173	¥ 155,064

	Number of shares	
	Nine months ended December 31, 2018	Nine months ended December 31, 2017
Weighted average number of common shares outstanding, less treasury stock	943,542,648	943,135,301
Weighted average number of participating securities (restricted stocks)	124,276	—
Weighted average number of common shares	943,418,372	943,135,301

	Yen	
	Nine months ended December 31, 2018	Nine months ended December 31, 2017
Basic net income attributable to Komatsu Ltd. per share	195.22	164.41

	Millions of yen	
	Three months ended December 31, 2018	Three months ended December 31, 2017
Net income attributable to Komatsu Ltd.	¥ 58,812	¥ 53,309
Net income attributable to participating securities (restricted stocks)	18	—
Net income attributable to common shareholders	¥ 58,794	¥ 53,309

	Number of shares	
	Three months ended December 31, 2018	Three months ended December 31, 2017
Weighted average number of common shares outstanding, less treasury stock	943,776,570	943,240,560
Weighted average number of participating securities (restricted stocks)	284,800	—
Weighted average number of common shares	943,491,770	943,240,560

	Yen	
	Three months ended December 31, 2018	Three months ended December 31, 2017
Basic net income attributable to Komatsu Ltd. per share	62.32	56.52

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	
	Nine months ended December 31, 2018	Nine months ended December 31, 2017
Net income attributable to Komatsu Ltd.	¥ 184,197	¥ 155,064
Net income attributable to participating securities (restricted stocks)	24	—
Net income attributable to common shareholders	¥ 184,173	¥ 155,064

	Number of shares	
	Nine months ended December 31, 2018	Nine months ended December 31, 2017
Weighted average number of common shares outstanding, less treasury stock	943,542,648	943,135,301
Dilutive effect of:		
Stock options	1,108,906	1,268,035
Weighted average number of participating securities (restricted stocks)	124,276	—
Weighted average number of diluted common shares	944,527,278	944,403,336

	Yen	
	Nine months ended December 31, 2018	Nine months ended December 31, 2017
Diluted net income attributable to Komatsu Ltd. per share	194.99	164.19

	Millions of yen	
	Three months ended December 31, 2018	Three months ended December 31, 2017
Net income attributable to Komatsu Ltd.	¥ 58,812	¥ 53,309
Net income attributable to participating securities (restricted stocks)	18	—
Net income attributable to common shareholders	¥ 58,794	¥ 53,309

	Number of shares	
	Three months ended December 31, 2018	Three months ended December 31, 2017
Weighted average number of common shares outstanding, less treasury stock	943,776,570	943,240,560
Dilutive effect of:		
Stock options	1,031,828	1,297,181
Weighted average number of participating securities (restricted stocks)	284,800	—
Weighted average number of diluted common shares	944,523,598	944,537,741

	Yen	
	Three months ended December 31, 2018	Three months ended December 31, 2017
Diluted net income attributable to Komatsu Ltd. per share	62.25	56.44

12. Contingent Liabilities

At December 31, 2018 and at March 31, 2018, Komatsu was contingently liable for discounted and transferred receivables on a recourse basis with the financial institutions of ¥69 million and ¥97 million, respectively.

Komatsu provides guarantees to third parties of loans of the employees, affiliated companies, customers and other companies. The guarantees of loans relating to the employees are mainly made for their housing loans. The guarantees of loans relating to the affiliated companies, customers and other companies are made to enhance the credit of those companies. For each guarantee provided, Komatsu would have to perform under a guarantee if the borrower defaults on a payment within the contract terms. The contract terms are from 10 years to 30 years in the case of employees with housing loans, and from 1 year to 7 years in the case of loans relating to the affiliated companies, customers and other companies. The maximum amount of undiscounted payments Komatsu would have had to make in the event of default at December 31, 2018 and at March 31, 2018 were ¥15,428 million and ¥15,034 million, respectively. The fair value of the liabilities recognized for Komatsu's obligations as guarantors under those guarantees at December 31, 2018 were insignificant. Certain of those guarantees were secured by collateral and insurance issued to Komatsu.

Komatsu provides guarantees that subsidiaries of the Company perform the obligations of the terms and conditions of contracts by standby letters of credit issued by banks. Komatsu would have to pay the liabilities incurred to banks if the subsidiaries don't perform the obligations of the terms and conditions of contracts. The maximum amount of undiscounted payments Komatsu would have had to make in the event of defaults of the contracts at December 31, 2018 and at March 31, 2018 were ¥16,455 million and ¥13,694 million, respectively.

Management of the Company believes that losses from those contingent liabilities, if any, would not have a material effect on the quarterly consolidated financial statements.

Komatsu is involved in certain legal actions and claims arising mainly in the ordinary course of its business. It is the opinion of management and legal counsel that such litigation and claims will be resolved without material effect on Komatsu's financial position.

Komatsu has business activities with customers, dealers and associates around the world and its trade receivables from such parties and the guarantees for them are well diversified to minimize concentrations of credit risks. Management does not anticipate incurring losses on its trade receivables in excess of established allowances.

13. Derivative Financial Instruments

Notional principal amounts of derivative financial instruments outstanding at December 31, 2018 and at March 31, 2018 are as follows:

	Millions of yen	
	December 31, 2018	March 31, 2018
Forwards contracts:		
Sale of foreign currencies	¥ 203,831	¥ 188,433
Purchase of foreign currencies	128,832	152,208
Interest rate swaps and cross-currency swap agreements	104,027	93,736

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

	Millions of yen			
	December 31, 2018			
	Derivative Assets		Derivative Liabilities	
Derivative instruments designated as hedging instruments	Location on the consolidated Balance Sheets	Estimated fair value	Location on the consolidated Balance Sheets	Estimated fair value
Forwards contracts	Other current assets	¥ 3,778	Other current liabilities	¥ 1,198
	Deferred income taxes and other assets	85	Deferred income taxes and other liabilities	207
Interest rate swaps and cross-currency swap agreements	Other current assets	1	Other current liabilities	1
	Deferred income taxes and other assets	6	Deferred income taxes and other liabilities	212
Total		¥ 3,870		¥ 1,618
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	¥ 3,311	Other current liabilities	¥ 1,277
	Deferred income taxes and other assets	21	Deferred income taxes and other assets	11
Interest rate swaps and cross-currency swap agreements	Other current assets	143	Other current liabilities	140
	Deferred income taxes and other assets	89	Deferred income taxes and other liabilities	41
Total		¥ 3,564		¥ 1,469
Total Derivative Instruments		¥ 7,434		¥ 3,087

Millions of yen

March 31, 2018

Derivative instruments designated as hedging instruments	Derivative Assets		Derivative Liabilities	
	Location on the consolidated Balance Sheets	Estimated fair value	Location on the consolidated Balance Sheets	Estimated fair value
Forwards contracts	Other current assets	¥ 3,375	Other current liabilities	¥ 752
	Deferred income taxes and other assets	3,618	Deferred income taxes and other liabilities	147
Interest rate swaps and cross-currency swap agreements	Other current assets	24	Other current liabilities	68
	Deferred income taxes and other assets	—	Deferred income taxes and other liabilities	—
Total		¥ 7,017		¥ 967

Undesignated derivative instruments	Derivative Assets		Derivative Liabilities	
	Location on the consolidated Balance Sheets	Estimated fair value	Location on the consolidated Balance Sheets	Estimated fair value
Forwards contracts	Other current assets	¥ 1,300	Other current liabilities	¥ 2,883
	Deferred income taxes and other assets	64	Deferred income taxes and other liabilities	32
Interest rate swaps and cross-currency swap agreements	Other current assets	12	Other current liabilities	278
	Deferred income taxes and other assets	—	Deferred income taxes and other liabilities	8
Total		¥ 1,376		¥ 3,201
Total Derivative Instruments		¥ 8,393		¥ 4,168

The effects of derivative instruments on the consolidated statements of income and the consolidated statements of comprehensive income for the nine months ended December 31, 2018 and 2017 are as follows:

Derivative instruments designated as cash flow hedging relationships

	Millions of yen				
	Nine months ended December 31, 2018				
	Effective portion			Ineffective portion and amount excluded from effectiveness testing	
	Amount of gains (losses) recognized in OCI on derivatives	Location of gains (losses) reclassified from accumulated OCI into income	Amount of gains (losses) reclassified from accumulated OCI into income	Location of gains (losses) recognized in income on derivatives	Amount of gains (losses) recognized in income on derivatives
Forwards contracts	¥ (3,201)	Other income (expenses), net: Other, net	¥ (4,102)	Other income (expenses), net: Other, net	¥ 1,696
Interest rate swaps and cross-currency swap agreements	(178)	—	—	—	—
Total	¥ (3,379)		¥ (4,102)		¥ 1,696

	Millions of yen				
	Nine months ended December 31, 2017				
	Effective portion			Ineffective portion and amount excluded from effectiveness testing	
	Amount of gains (losses) recognized in OCI on derivatives	Location of gains (losses) reclassified from accumulated OCI into income	Amount of gains (losses) reclassified from accumulated OCI into income	Location of gains (losses) recognized in income on derivatives	Amount of gains (losses) recognized in income on derivatives
Forwards contracts	¥ 3,730	Other income (expenses), net: Other, net	¥ 2,543	Other income (expenses), net: Other, net	¥ (165)
Interest rate swaps and cross-currency swap agreements	110	—	—	—	—
Total	¥ 3,840		¥ 2,543		¥ (165)

* OCI stands for other comprehensive income (loss).

Derivative instruments not designated as hedging instruments relationships

Millions of yen		
Nine months ended December 31, 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	¥ 1,073
Interest rate swaps and cross-currency swap agreements	Cost of sales	(87)
	Other income (expenses), net: Other, net	65
Total		¥ 1,051

Millions of yen		
Nine months ended December 31, 2017		
	Location of gains (losses) recognized in income on derivatives	Amount of gains (losses) recognized in income on derivatives
Forwards contracts	Other income (expenses), net: Other, net	¥ (3,538)
Interest rate swaps and cross-currency swap agreements	Cost of sales	(80)
	Other income (expenses), net: Other, net	38
Total		¥ (3,580)

The effects of derivative instruments on the consolidated statements of income and the consolidated statements of comprehensive income for the three months ended December 31, 2018 and 2017 are as follows:

Derivative instruments designated as cash flow hedging relationships

Millions of yen					
Three months ended December 31, 2018					
	Effective portion			Ineffective portion and amount excluded from effectiveness testing	
	Amount of gains (losses) recognized in OCI on derivatives	Location of gains (losses) reclassified from accumulated OCI into income	Amount of gains (losses) reclassified from accumulated OCI into income	Location of gains (losses) recognized in income on derivatives	Amount of gains (losses) recognized in income on derivatives
Forwards contracts	¥ 3,932	Other income (expenses), net: Other, net	¥ 712	Other income (expenses), net: Other, net	¥ 230
Interest rate swaps and cross-currency swap agreements	(160)	—	—	—	—
Total	¥ (3,772)		¥ 712		¥ 230

Millions of yen					
Three months ended December 31, 2017					
	Effective portion			Ineffective portion and amount excluded from effectiveness testing	
	Amount of gains (losses) recognized in OCI on derivatives	Location of gains (losses) reclassified from accumulated OCI into income	Amount of gains (losses) reclassified from accumulated OCI into income	Location of gains (losses) recognized in income on derivatives	Amount of gains (losses) recognized in income on derivatives
Forwards contracts	¥ 401	Other income (expenses), net: Other, net	¥ 646	Other income (expenses), net: Other, net	¥ (275)
Interest rate swaps and cross-currency swap agreements	15	—	—	—	—
Total	¥ 416		¥ 646		¥ (275)

* OCI stands for other comprehensive income (loss).

Derivative instruments not designated as hedging instruments relationships

Millions of yen		
Three months ended December 31, 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	¥ (160)
Interest rate swaps and cross-currency swap agreements	Cost of sales	(29)
	Other income (expenses), net: Other, net	79
Total		¥ (110)

Millions of yen		
Three months ended December 31, 2017		
	Location of gains (losses) recognized in income on derivatives	Amount of gains (losses) recognized in income on derivatives
Forwards contracts	Other income (expenses), net: Other, net	¥ (1,350)
Interest rate swaps and cross-currency swap agreements	Cost of sales	(30)
	Other income (expenses), net: Other, net	25
Total		¥ (1,355)

14. Fair Values of Financial Instruments

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

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

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

The fair values of investment securities available for sale for which it is practicable to estimate fair value are based on quoted market prices and are recognized on the accompanying consolidated balance sheets.

(3) Long-term trade receivables

The fair values of long-term trade receivables are based on the present value of future cash flows through maturity, discounted using the current interest rates for similar receivables of comparable maturity and is classified in Level 2 in the fair value hierarchy.

(4) Long-term debt, including current portion (Note 15)

The fair values of each of the long-term debt are based on the quoted price in the most active market or the present value of future cash flows associated with each instrument discounted using the current market borrowing rate for similar debt of comparable maturity and is classified in Level 2 in the fair value hierarchy.

(5) Derivatives (Notes 13 and 15)

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

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

	Millions of yen			
	December 31, 2018		March 31, 2018	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Cash and cash equivalents	¥ 148,215	¥ 148,215	¥ 144,397	¥ 144,397
Time deposits	2,378	2,378	2,460	2,460
Trade notes and accounts receivable, net	790,743	790,743	792,714	792,714
Long-term trade receivables, net	373,940	373,940	362,367	362,367
Investment securities, marketable equity securities	411	411	1,528	1,528
Short-term debt	438,705	438,705	259,093	259,093
Trade notes, bills and accounts payable	255,622	255,622	303,556	303,556
Long-term debt, including current portion	527,546	524,489	551,504	551,188
Derivatives:				
Forwards contracts				
Assets	7,195	7,195	8,357	8,357
Liabilities	2,693	2,693	3,814	3,814
Interest rate swaps and cross-currency swap agreements				
Assets	239	239	36	36
Liabilities	394	394	354	354

Limitations

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could affect the estimates.

15. Fair value measurements

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

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

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

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

At December 31, 2018	Millions of yen			
	Level 1	Level 2	Level 3	Total
Assets				
Investment securities available for sale				
Manufacturing industry	¥ 411	¥ —	¥ —	¥ 411
Other	—	—	—	—
Derivatives				
Forward contracts	—	7,195	—	7,195
Interest rate swaps and cross-currency swap agreements	—	239	—	239
Total	¥ 411	¥ 7,434	¥ —	¥ 7,845
Liabilities				
Derivatives				
Forward contracts	¥ —	¥ 2,693	¥ —	¥ 2,693
Interest rate swaps and cross-currency swap agreements	—	394	—	394
Other	—	—	—	—
Total	¥ —	¥ 3,087	¥ —	¥ 3,087
At March 31, 2018				
	Millions of yen			
	Level 1	Level 2	Level 3	Total
Assets				
Investment securities available for sale				
Manufacturing industry	¥ 970	¥ —	¥ —	¥ 970
Other	558	—	—	558
Derivatives				
Forward contracts	—	8,357	—	8,357
Interest rate swaps and cross-currency swap agreements	—	36	—	36
Total	¥ 1,528	¥ 8,393	¥ —	¥ 9,921
Liabilities				
Derivatives				
Forward contracts	¥ —	¥ 3,814	¥ —	¥ 3,814
Interest rate swaps and cross-currency swap agreements	—	354	—	354
Other	—	—	242	242
Total	¥ —	¥ 4,168	¥ 242	¥ 4,410

Investment securities available for sale

Marketable equity securities are classified in Level 1 in the fair value hierarchy. Marketable equity securities are measured using a market approach based on the quoted market prices in active markets.

Derivatives (Notes 13 and 14)

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

The following table summarizes information about changes of Level 3 for the nine months ended December 31, 2018 and 2017:

	Millions of yen	
	Nine months ended December 31, 2018	Nine months ended December 31, 2017
Balance, beginning of year	¥ (242)	¥ (248)
Total gains or losses (realized / unrealized)	242	232
Included in earnings	257	234
Included in other comprehensive income (loss)	(15)	(2)
Balance, end of period	¥ —	¥ (16)

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

The following table summarizes information about changes of Level 3 for the three months ended December 31, 2018 and 2017:

	Millions of yen	
	Three months ended December 31, 2018	Three months ended December 31, 2017
Balance, beginning of period	¥ (206)	¥ (299)
Total gains or losses (realized / unrealized)	206	283
Included in earnings	206	283
Included in other comprehensive income (loss)	—	—
Balance, end of period	¥ —	¥ (16)

The amount of unrealized gains on classified in Level 3 liabilities recognized in earnings for the three months ended December 31, 2017 related to liabilities still held at December 31, 2017 were gains of ¥283 million. These gains were reported in other income (expenses), net in the consolidated statements of income.

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

During nine months ended December 31, 2018 and 2017 assets and liabilities that were measured at fair value on a non-recurring basis were not material.

16. Committed Credit Lines

Certain consolidated subsidiaries have entered into contracts with certain financial institutions for committed credit lines. These total amounts of committed credit lines at December 31, 2018 and at March 31, 2018 were ¥135,540 million and ¥30,251 million, respectively. These total amounts of unused committed credit lines available for full and immediate borrowings at December 31, 2018 and at March 31, 2018 were ¥126,875 million and ¥22,484 million, respectively.

17. Dividends

Nine months ended December 31, 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
Board of Directors held on October 29, 2018	Common stock	48,155	Retained earnings	51	September 30, 2018	November 29, 2018

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

Nine months ended December 31, 2017

Payment amount of dividends

Resolution	Type of stock	Aggregate amount of dividends (Millions of yen)	Resource of dividends	Dividend per share (Yen)	Record date	Effective date
Ordinary general meeting of shareholders held on June 20, 2017	Common stock	27,362	Retained earnings	29	March 31, 2017	June 21, 2017
Board of Directors held on October 27, 2017	Common stock	33,972	Retained earnings	36	September 30, 2017	November 30, 2017

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

18. Business Segment and Geographic Information

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

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

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

Operating segments:

Information about operating segments for the nine months ended December 31, 2018 and 2017 is as follows:

	Millions of yen	
	Nine months ended December 31, 2018	Nine months ended December 31, 2017
Net sales:		
Construction, Mining and Utility Equipment –		
External customers	¥ 1,835,559	¥ 1,648,621
Intersegment	10,339	10,314
Total	1,845,898	1,658,935
Retail Finance –		
External customers	41,764	36,780
Intersegment	4,408	9,212
Total	46,172	45,992
Industrial Machinery and Others –		
External customers	141,286	120,400
Intersegment	1,459	1,091
Total	142,745	121,491
Elimination	(16,206)	(20,617)
Consolidated	¥ 2,018,609	¥ 1,805,801
Segment profit:		
Construction, Mining and Utility Equipment	¥ 272,545	¥ 181,787
Retail Finance	13,120	8,952
Industrial Machinery and Others	12,678	9,135
Total segment profit	298,343	199,874
Corporate expenses and elimination	(2,055)	(1,182)
Consolidated	¥ 296,288	¥ 198,692

Information about operating segments for the three months ended December 31, 2018 and 2017 is as follows:

	Millions of yen	
	Three months ended December 31, 2018	Three months ended December 31, 2017
Net sales:		
Construction, Mining and Utility Equipment –		
External customers	¥ 640,373	¥ 591,797
Intersegment	4,929	2,719
Total	645,302	594,516
Retail Finance –		
External customers	15,139	13,099
Intersegment	1,596	1,651
Total	16,735	14,750
Industrial Machinery and Others –		
External customers	45,056	41,947
Intersegment	647	359
Total	45,703	42,306
Elimination	(7,172)	(4,729)
Consolidated	¥ 700,568	¥ 646,843
Segment profit:		
Construction, Mining and Utility Equipment	¥ 88,607	¥ 79,442
Retail Finance	3,538	3,043
Industrial Machinery and Others	5,164	4,326
Total segment profit	97,309	86,811
Corporate expenses and elimination	(154)	(400)
Consolidated	¥ 97,155	¥ 86,411

Reconciliation of total segment profit to consolidated income before income taxes and equity in earnings of affiliated companies for the nine months ended December 31, 2018 and 2017 is as follows:

	Millions of yen	
	Nine months ended December 31, 2018	Nine months ended December 31, 2017
Total segment profit	¥ 298,343	¥ 199,874
Corporate expenses and elimination	(2,055)	(1,182)
Consolidated	296,288	198,692
Other operating income (expenses), net	(453)	(12,672)
Operating income	295,835	186,020
Interest and dividend income	5,470	4,059
Interest expense	(17,755)	(13,427)
Gain on sales of investment securities, net	—	48,287
Other, net	(5,570)	(9,599)
Consolidated income before income taxes and equity in earnings of affiliated companies	¥ 277,980	¥ 215,340

Reconciliation of total segment profit to consolidated income before income taxes and equity in earnings of affiliated companies for the three months ended December 31, 2018 and 2017 is as follows:

	Millions of yen	
	Three months ended December 31, 2018	Three months ended December 31, 2017
Total segment profit	¥ 97,309	¥ 86,811
Corporate expenses and elimination	(154)	(400)
Consolidated	97,155	86,411
Other operating income (expenses), net	(1,627)	(11,575)
Operating income	95,528	74,836
Interest and dividend income	1,787	1,107
Interest expense	(6,345)	(5,190)
Gain on sales of investment securities, net	—	8,724
Other, net	(5,499)	(8,254)
Consolidated income before income taxes and equity in earnings of affiliated companies	¥ 85,471	¥ 71,223

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 nine months ended December 31, 2018 and 2017 are as follows:

	Millions of yen	
	Nine months ended December 31, 2018	Nine months ended December 31, 2017
Japan	¥ 285,345	¥ 284,255
The Americas	749,307	683,169
Europe and CIS	261,619	214,146
China	138,620	132,864
Asia (excluding Japan and China) and Oceania	463,265	374,099
Middle East and Africa	120,453	117,268
Consolidated net sales	¥ 2,018,609	¥ 1,805,801

Net sales determined by customer location for the three months ended December 31, 2018 and 2017 are as follows:

	Millions of yen	
	Three months ended December 31, 2018	Three months ended December 31, 2017
Japan	¥ 106,436	¥ 94,467
The Americas	267,285	251,039
Europe and CIS	87,310	69,577
China	45,114	53,626
Asia (excluding Japan and China) and Oceania	153,581	137,465
Middle East and Africa	40,842	40,669
Consolidated net sales	¥ 700,568	¥ 646,843

Net sales determined by geographic origin for the nine months ended December 31, 2018 and 2017 are as follows:

	Millions of yen	
	Nine months ended December 31, 2018	Nine months ended December 31, 2017
Japan	¥ 466,756	¥ 435,174
The Americas	685,789	619,524
Europe and CIS	270,158	224,709
China	127,763	122,641
Others	468,143	403,753
Total	¥ 2,018,609	¥ 1,805,801

Net sales determined by geographic origin for the three months ended December 31, 2018 and 2017 are as follows:

	Millions of yen	
	Three months ended December 31, 2018	Three months ended December 31, 2017
Japan	¥ 165,534	¥ 150,069
The Americas	249,091	204,717
Europe and CIS	89,930	73,191
China	41,238	47,355
Others	154,775	171,511
Total	¥ 700,568	¥ 646,843

There were no sales to a single major external customer for the nine months and three months ended December 31, 2018 and 2017.

19. Income Taxes

The Tax Cuts and Jobs Act (the “Act”) was enacted on December 22, 2017 in the United States of America. The measurement of income tax accounting effects of the Act under ASC 740, “Income Taxes” was completed during the three months ended December 31, 2018.

Komatsu recorded adjustments which were remeasured income tax accounting effects of the Act during the three months ended December 31, 2018. The change in income tax accounting effects of the Act is not material to Komatsu’s financial position and results of operations.

20. Material Subsequent Events

Not applicable.

Komatsu evaluated subsequent events through February 13, 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.