KPMG

# Independent Auditor's Report

To the Board of Directors of Komatsu Ltd.:

We have audited the accompanying consolidated financial statements of Komatsu Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2016 and 2015, and the consolidated statements of income, the consolidated statements of comprehensive income, the consolidated statements of equity and the consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements and supplementary schedules.

**Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, pursuant to Paragraph 3 of the Supplementary Provisions of the Cabinet Office Ordinance for Partial Amendment of the Regulations for Terminology, Forms and Preparation Methods of Consolidated Financial Statements (the Cabinet Office Ordinance No.11 of 2002), and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Komatsu Ltd. and its consolidated subsidiaries as at March 31, 2016 and 2015, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

KPMG AZSA LLC

June 21, 2016
Tokyo, Japan

# 1. Consolidated Financial Statements, etc.

## (1) Consolidated Financial Statements

Consolidated Balance Sheets

Komatsu Ltd. and Consolidated Subsidiaries March 31, 2016 and 2015

| | 2016 | | 2015 | |
|---|---|---|---|---|
| **Assets** | **Millions of yen** | **Ratio (%)** | **Millions of yen** | **Ratio (%)** |
| **Current assets** | | | | |
| Cash and cash equivalents (Note 20) | ¥ 106,259 | | ¥ 105,905 | |
| Time deposits (Note 20) | 2,212 | | 1,407 | |
| Trade notes and accounts receivable, net (Notes 4, 7, 20 and 23) | 583,390 | | 620,076 | |
| Inventories (Note 5) | 539,611 | | 622,876 | |
| Assets held for sale | 13,388 | | — | |
| Deferred income taxes and other current assets (Notes 7, 9, 15, 19, 20, 21 and 23) | 141,593 | | 171,171 | |
| **Total current assets** | 1,386,453 | 53.0 | 1,521,435 | 54.4 |
| **Long-term trade receivables, net** (Notes 4, 20 and 23) | 291,923 | 11.2 | 280,138 | 10.0 |
| **Investments** | | | | |
| Investments in and advances to affiliated companies (Note 7) | 28,123 | | 28,358 | |
| Investment securities (Notes 6, 20 and 21) | 51,590 | | 73,420 | |
| Other | 2,640 | | 1,731 | |
| **Total investments** | 82,353 | 3.2 | 103,509 | 3.7 |
| **Property, plant and equipment** – less accumulated depreciation and amortization (Notes 8 and 16) | 697,742 | 26.7 | 743,919 | 26.6 |
| **Goodwill** (Note 10) | 40,005 | 1.5 | 36,266 | 1.3 |
| **Other intangible assets** – less accumulated amortization (Note 10) | 63,056 | 2.4 | 58,715 | 2.1 |
| **Deferred income taxes and other assets** (Notes 12, 15, 19, 20, 21 and 23) | 53,122 | 2.0 | 54,425 | 1.9 |
| | ¥ 2,614,654 | 100.0 | ¥ 2,798,407 | 100.0 |

| | 2016 | | 2015 | |
|---|---|---|---|---|
| **Liabilities and Equity** | **Millions of yen** | **Ratio (%)** | **Millions of yen** | **Ratio (%)** |
| **Current liabilities** | | | | |
| Short-term debt (Notes 11 and 20) | ¥ 144,552 | | ¥ 191,937 | |
| Current maturities of long-term debt (Notes 11, 16 and 20) | 100,364 | | 117,922 | |
| Trade notes, bills and accounts payable (Notes 7 and 20) | 205,411 | | 225,093 | |
| Income taxes payable (Note 15) | 29,310 | | 39,396 | |
| Liabilities held for sale (Note 12) | 7,057 | | — | |
| Deferred income taxes and other current liabilities (Notes 12, 15, 18, 19, 20, 21 and 23) | 214,200 | | 230,563 | |
| **Total current liabilities** | 700,894 | 26.8 | 804,911 | 28.8 |
| **Long-term liabilities** | | | | |
| Long-term debt (Notes 11, 16 and 20) | 212,636 | | 279,270 | |
| Liability for pension and retirement benefits (Note 12) | 67,972 | | 55,396 | |
| Deferred income taxes and other liabilities (Notes 15, 18, 19, 20 and 21) | 45,392 | | 60,330 | |
| **Total long-term liabilities** | 326,000 | 12.5 | 394,996 | 14.1 |
| **Total liabilities** | 1,026,894 | 39.3 | 1,199,907 | 42.9 |
| **Commitments and contingent liabilities** (Note 18) | | | | |
| **Equity** | | | | |
| **Komatsu Ltd. shareholders' equity** (Note 13) | | | | |
| Common stock: | | | | |
| Authorized 3,955,000,000 shares | | | | |
| Issued 971,967,660 shares | | | | |
| Outstanding 942,675,356 shares in 2016 and 942,364,824 shares in 2015 | 67,870 | | 67,870 | |
| Capital surplus | 138,243 | | 138,696 | |
| Retained earnings: | | | | |
| Appropriated for legal reserve | 44,018 | | 40,980 | |
| Unappropriated | 1,300,030 | | 1,220,338 | |
| Accumulated other comprehensive income (loss) (Notes 6, 12, 14, 19 and 21) | 18,667 | | 113,018 | |
| Treasury stock at cost, | | | | |
| 29,292,304 shares in 2016 and 29,602,836 shares in 2015 (Note 13) | (51,414) | | (51,936) | |
| **Total Komatsu Ltd. shareholders' equity** | 1,517,414 | 58.0 | 1,528,966 | 54.6 |
| **Noncontrolling interests** | 70,346 | 2.7 | 69,534 | 2.5 |
| **Total equity** | 1,587,760 | 60.7 | 1,598,500 | 57.1 |
| | ¥ 2,614,654 | 100.0 | ¥ 2,798,407 | 100.0 |

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

Consolidated Statements of Income and Consolidated Statements of Comprehensive Income

Komatsu Ltd. and Consolidated Subsidiaries
Years ended March 31, 2016 and 2015.

Consolidated Statements of Income

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Millions of yen | Ratio (%) | Millions of yen | Ratio (%) |
| Net sales (Note 7) | ¥ 1,854,964 | 100.0 | ¥ 1,978,676 | 100.0 |
| Cost of sales (Notes 10, 12, 14, 16, 19 and 24) | 1,315,773 | 70.9 | 1,401,193 | 70.8 |
| Selling, general and administrative expenses (Notes 10, 12, 13, 14, 16 and 24) | 337,133 | 18.2 | 336,506 | 17.0 |
| Impairment loss on long-lived assets (Note 24) | 3,032 | 0.2 | 1,124 | 0.1 |
| Other operating income, net (Note 24) | 9,551 | 0.5 | 2,209 | 0.1 |
| **Operating income** | 208,577 | 11.2 | 242,062 | 12.2 |
| **Other income (expenses), net** (Note 24) | | | | |
| Interest and dividend income (Note 7) | 3,689 | 0.2 | 3,266 | 0.2 |
| Interest expense | (8,771) | (0.5) | (9,328) | (0.5) |
| Other, net (Notes 6, 14, 19 and 21) | 1,386 | 0.1 | 74 | 0.0 |
| Total | (3,696) | (0.2) | (5,988) | (0.3) |
| **Income before income taxes and equity in earnings of affiliated companies** | 204,881 | 11.0 | 236,074 | 11.9 |
| **Income taxes** (Notes 14 and 15) | | | | |
| Current | 62,301 | | 77,509 | |
| Deferred | 1,416 | | 986 | |
| Total | 63,717 | 3.4 | 78,495 | 4.0 |
| **Income before equity in earnings of affiliated companies** | 141,164 | 7.6 | 157,579 | 8.0 |
| **Equity in earnings of affiliated companies** | 1,973 | 0.1 | 3,869 | 0.2 |
| **Net income** | 143,137 | 7.7 | 161,448 | 8.2 |
| **Less: Net income attributable to noncontrolling interests** | 5,711 | 0.3 | 7,439 | 0.4 |
| **Net income attributable to Komatsu Ltd.** | ¥ 137,426 | 7.4 | ¥ 154,009 | 7.8 |

| | Yen | |
|---|---|---|
| **Per share data** (Note 17): | | |
| **Net income attributable to Komatsu Ltd.:** | | |
| Basic | 145.80 | 162.07 |
| Diluted | 145.61 | 161.86 |
| **Cash dividends per share** | 58.00 | 58.00 |

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

Consolidated Statements of Comprehensive Income

| | Millions of yen | |
|---|---|---|
| | 2016 | 2015 |
| **Net income** | ¥ 143,137 | ¥ 161,448 |
| **Other comprehensive income (loss), for the period, net of tax** | | |
| Foreign currency translation adjustments (Notes 14 and 15) | (82,127) | 85,360 |
| Net unrealized holding gains (losses) on securities available for sale (Notes 6, 14 and 15) | (13,595) | 4,547 |
| Pension liability adjustments (Notes 12, 14 and 15) | (5,635) | (2,185) |
| Net unrealized holding gains on derivative instruments (Notes 14, 15 and 19) | 790 | 165 |
| Total | (100,567) | 87,887 |
| **Comprehensive income** | 42,570 | 249,335 |
| **Less: Comprehensive income (loss) attributable to noncontrolling interests** | (112) | 12,343 |
| **Comprehensive income attributable to Komatsu Ltd.** | ¥ 42,682 | ¥ 236,992 |

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

## Consolidated Statements of Equity

Komatsu Ltd. and Consolidated Subsidiaries

### For the fiscal year ended March 31, 2016

Millions of yen

| | Common stock | Capital surplus | Retained earnings: Appropriated for legal reserve | Retained earnings: Un-appropriated | Accumulated other comprehensive income (loss) | Treasury stock | Total Komatsu Ltd. shareholders' equity | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|---|
| **Balance at March 31, 2015** | **¥ 67,870** | **¥ 138,696** | **¥ 40,980** | **¥ 1,220,338** | **¥ 113,018** | **¥ (51,936)** | **¥ 1,528,966** | **¥ 69,534** | **¥ 1,598,500** |
| Cash dividends | | | | (54,696) | | | (54,696) | (3,429) | (58,125) |
| Transfer to retained earnings appropriated for legal reserve | | | 3,038 | (3,038) | | | — | | — |
| Other changes | | (512) | | | 393 | | (119) | 4,353 | 4,234 |
| Net income | | | | 137,426 | | | 137,426 | 5,711 | 143,137 |
| Other comprehensive income (loss), for the period, net of tax (Note 14) | | | | | (94,744) | | (94,744) | (5,823) | (100,567) |
| Issuance and exercise of stock acquisition rights (Note 13) | | (5) | | | | | (5) | | (5) |
| Purchase of treasury stock | | | | | | (36) | (36) | | (36) |
| Sales of treasury stock | | 64 | | | | 558 | 622 | | 622 |
| **Balance at March 31, 2016** | **¥ 67,870** | **¥ 138,243** | **¥ 44,018** | **¥ 1,300,030** | **¥ 18,667** | **¥ (51,414)** | **¥ 1,517,414** | **¥ 70,346** | **¥ 1,587,760** |

### For the fiscal year ended March 31, 2015

Millions of yen

| | Common stock | Capital surplus | Retained earnings: Appropriated for legal reserve | Retained earnings: Un-appropriated | Accumulated other comprehensive income (loss) | Treasury stock | Total Komatsu Ltd. shareholders' equity | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|---|
| **Balance at March 31, 2014** | **¥ 67,870** | **¥ 138,984** | **¥ 39,962** | **¥ 1,141,751** | **¥ 30,035** | **¥ (42,211)** | **¥ 1,376,391** | **¥ 64,720** | **¥ 1,441,111** |
| Cash dividends | | | | (55,324) | | | (55,324) | (7,534) | (62,858) |
| Transfer to retained earnings appropriated for legal reserve | | | 1,018 | (1,018) | | | — | | — |
| Other changes | | (59) | | | | | (59) | 5 | (54) |
| Net income | | | | 154,009 | | | 154,009 | 7,439 | 161,448 |
| Other comprehensive income (loss), for the period, net of tax (Note 14) | | | | | 82,983 | | 82,983 | 4,904 | 87,887 |
| Issuance and exercise of stock acquisition rights (Note 13) | | 115 | | | | | 115 | | 115 |
| Purchase of treasury stock (Note 13) | | | | | | (30,041) | (30,041) | | (30,041) |
| Sales of treasury stock | | 384 | | | | 508 | 892 | | 892 |
| Retirement of treasury stock (Note 13) | | (728) | | (19,080) | | 19,808 | — | | — |
| **Balance at March 31, 2015** | **¥ 67,870** | **¥ 138,696** | **¥ 40,980** | **¥ 1,220,338** | **¥ 113,018** | **¥ (51,936)** | **¥ 1,528,966** | **¥ 69,534** | **¥ 1,598,500** |

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

Consolidated Statements of Cash Flows

Komatsu Ltd. and Consolidated Subsidiaries
Years ended March 31, 2016 and 2015

| | Millions of yen | |
|---|---|---|
| | 2016 | 2015 |
| **Operating activities** | | |
| Net income | ¥ 143,137 | ¥ 161,448 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 112,467 | 102,239 |
| Deferred income taxes | 1,416 | 986 |
| Impairment loss and net gain from sale of investment securities | (3,751) | (1,446) |
| Net gain on sale of property | (10,091) | (4,652) |
| Loss on disposal of fixed assets | 3,015 | 2,939 |
| Impairment loss on long-lived assets | 3,032 | 1,124 |
| Pension and retirement benefits, net | 1,809 | 3,411 |
| Changes in assets and liabilities: | | |
| Decrease (increase) in trade receivables | (23,877) | 46,531 |
| Decrease (increase) in inventories | 53,867 | 47,178 |
| Increase (decrease) in trade payables | (13,446) | (13,522) |
| Increase (decrease) in income taxes payable | (9,640) | (2,640) |
| Other, net | 61,696 | 58 |
| Net cash provided by operating activities | 319,634 | 343,654 |
| **Investing activities** | | |
| Capital expenditures | (166,479) | (200,080) |
| Proceeds from sale of property | 30,786 | 19,671 |
| Proceeds from sale of available for sale investment securities | 5,353 | 2,682 |
| Purchases of available for sale investment securities | (440) | (361) |
| Proceeds from sale of subsidiaries and equity investees, net of cash disposed | 210 | — |
| Acquisition of subsidiaries and equity investees, net of cash acquired | (16,198) | (3,081) |
| Collection of loan receivables | 210 | 408 |
| Disbursement of loan receivables | — | (2) |
| Increase in time deposits, net | (2,084) | (1,030) |
| Net cash used in investing activities | (148,642) | (181,793) |
| **Financing activities** | | |
| Proceeds from debt issued (Original maturities greater than three months) | 140,743 | 241,372 |
| Payment on debt (Original maturities greater than three months) | (240,626) | (315,316) |
| Short-term debt, net (Original maturities three months or less) | (13,039) | 28,279 |
| Repayments of capital lease obligations | (669) | (4,322) |
| Sale (purchase) of treasury stock, net | 64 | (29,574) |
| Dividends paid | (54,696) | (55,324) |
| Other, net | (4,856) | (9,098) |
| Net cash used in financing activities | (173,079) | (143,983) |
| **Effect of exchange rate change on cash and cash equivalents** | 2,441 | (2,845) |
| **Net increase in cash and cash equivalents** | 354 | 15,033 |
| **Cash and cash equivalents, beginning of year** | 105,905 | 90,872 |
| **Cash and cash equivalents, end of year** | ¥ 106,259 | ¥ 105,905 |

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

**Notes to Consolidated Financial Statements**
**Komatsu Ltd. and Consolidated Subsidiaries**
**Years ended March 31, 2016 and 2015**

### 1. Description of Business, Basis of Financial Statement Presentation and Summary of Significant Accounting Policies

### Description of Business

Komatsu (the Company and its consolidated subsidiaries) primarily manufactures and markets various types of construction, mining and utility equipment throughout the world, and is also engaged in the manufacture and sale of industrial machinery and others.

The consolidated net sales of Komatsu for the year ended March 31, 2016, consisted of the following: construction, mining and utility equipment business – 88.3%, industrial machinery and others business – 11.7%.

Sales are made principally under the Komatsu brand name, and are almost entirely executed through sales subsidiaries and sales distributors. These subsidiaries and distributors are responsible for marketing and distribution and primarily sell to retail dealers in their geographical area. Of consolidated net sales for the year ended March 31, 2016, 77.6% were generated outside Japan, with 35.7% in the Americas, 10.9% in Europe and CIS, 5.4% in China, 18.0% in Asia (excluding Japan and China) and Oceania, and 7.6% in the Middle East and Africa.

The manufacturing operations of Komatsu are conducted primarily at plants in Japan, the United States, Brazil, the United Kingdom, Germany, Italy, Sweden, Russia, China, Indonesia, Thailand and India.

### Basis of Financial Statement Presentation

The accompanying consolidated financial statements are prepared and presented in accordance with generally accepted accounting principles in the United States of America (hereinafter "U.S. GAAP").

The accompanying 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 being booked on each subsidiaries' and affiliates' financial statements are added to the accompanying consolidated financial statements. These adjustments are mainly due to the gaps of accounting principles between Japan and the United States of America. See Note 26 "Terminology, Forms and Preparation Methods of 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

#### (1) Consolidation and Investments in Affiliated Companies

The consolidated financial statements include the accounts of the Company and all of its majority-owned Japanese and foreign subsidiaries, except for certain immaterial subsidiaries.

Variable interest entities are consolidated in which the Company is the primary beneficiary in accordance with Financial Accounting Standards Board (hereinafter "FASB") Accounting Standards Codification™ (hereinafter "ASC") 810, "Consolidation". The consolidated balance sheets as of March 31, 2016 and 2015 include assets of ¥34,103 million and ¥33,764 million, respectively. Consolidated variable interest entities mainly engage in equipment leasing in Europe. The majority of these assets are trade notes and accounts receivable, and long-term trade receivables.

Investments in affiliated companies whereby Komatsu has the ability to exercise significant influence over the operational and financial policies of a company, but does not have a controlling financial interest, are accounted for by the equity method.

#### (2) Foreign Currency Translation and Transactions

Assets and liabilities of foreign operations are translated at the exchange rates in effect at each fiscal year-end, and income and expenses of foreign operations are translated at the average rates of exchange prevailing during each fiscal year in consolidating the financial statements of overseas subsidiaries. The resulting translation adjustments are included as a separate component of accumulated other comprehensive income (loss) in the accompanying consolidated financial statements. All foreign currency transaction gains and losses are included in other income (expenses), net in the period incurred.

### (3) Allowance for Doubtful Trade Receivables

Komatsu records allowance for doubtful receivables as the best estimate of the amount of probable credit losses in Komatsu's existing receivables including financing receivables. The amount is determined based on historical experience, credit information of individual customers, and assessment of overdue receivables. An additional allowance for individual receivables is recorded when Komatsu becomes aware of a customer's inability to meet its financial obligations, such as in the case of bankruptcy filings or deterioration of the customer's business performance. The amount of estimated credit losses is further adjusted to reflect changes in customer circumstances.

### (4) Inventories

Inventories are stated at the lower of cost or market. Komatsu determines cost of work in process and finished products using the specific identification method based on actual costs accumulated under a job-order cost system. The cost of finished parts is determined principally using the first-in first-out method. Cost of materials and supplies is stated at average cost.

### (5) Investment Securities

Komatsu's investments in debt and marketable equity securities are categorized as available-for-sale securities which are stated at fair value. Changes in fair values are included as a separate component of accumulated other comprehensive income (loss) in the accompanying consolidated financial statements.

Unrealized losses on marketable securities are charged against net earnings when a decline in market value below initial cost is determined to be other than temporary based primarily on the financial condition and near term prospects of the issuer and the extent and length of the time of the decline.

Non-marketable equity securities are carried at cost. In assessing other-than-temporary impairment of these securities, Komatsu considers the financial condition and prospects of each investee company and other relevant factors. Impairment to be recognized is measured based on the amount by which the carrying amount of the investment securities exceeds its estimated fair value which is regularly determined using discounted cash flows or other valuation techniques considered appropriate.

### (6) Property, Plant and Equipment, and Related Depreciation and Amortization

Property, plant and equipment are stated at cost, less accumulated depreciation. Depreciation is calculated by the straight-line method based on the estimated useful lives of the assets.
The estimated useful lives used in computing depreciation of property, plant and equipment are as follows:

| Asset | Life |
|---|---|
| Buildings | 3 to 50 years |
| Machinery and equipment | 2 to 20 years |

Certain leased machinery and equipment are accounted for as capital leases. The aggregate cost included in property, plant and equipment and related accumulated amortization as of March 31, 2016 and 2015 were as follows:

| | Millions of yen | |
|---|---|---|
| | 2016 | 2015 |
| Aggregate cost | ¥ 8,403 | ¥ 12,641 |
| Accumulated amortization | 5,748 | 7,913 |

Accumulated amortization related to capital leases is included in accumulated depreciation.

Ordinary maintenance and repairs are charged to expense as incurred. Major replacements and improvements are capitalized. When properties are retired or otherwise disposed of, the costs of those properties and the related accumulated depreciation are relieved from the consolidated balance sheets and the differences between the costs of those properties and the related accumulated depreciation are recognized in other operating income, net in the consolidated statements of income.

### (7) Goodwill and Other Intangible Assets

Komatsu uses the acquisition method of accounting for business combinations. Goodwill is tested for impairment at least once annually. Any recognized intangible assets determined to have an indefinite useful life are not to be amortized, but instead tested for impairment at least once annually until its life is determined to no longer be indefinite. Intangible assets with finite useful lives are amortized over their respective estimated useful lives and reviewed for impairment whenever there is an indicator of possible impairment. An impairment loss would be recognized when the carrying amount of an asset or an asset group exceeds the estimated undiscounted cash flows expected to be generated by the asset or an asset group. The amount of the impairment loss to be recorded is determined by the difference between the fair value of the asset or an asset group estimated using a discounted cash flow valuation model and carrying value.

**(8) Revenue Recognition**

Komatsu recognizes revenue when (1) persuasive evidence of an arrangement exists, (2) delivery has occurred or services have been rendered for customers or dealers, (3) sales price is fixed or determinable, and (4) collectability is reasonably assured.

Revenue from sales of products including construction, mining and utility equipment and industrial machinery is recognized when title and risk of ownership is transferred to independently owned and operated customers or dealers, which occurs upon the attainment of customer acceptance or when installation is completed. The conditions of acceptance are governed by the terms of the contract or arrangement. For arrangements with multiple elements, which may include any combination of products, installation and maintenance, Komatsu allocates revenue to each element based on its relative fair value if such elements meet the criteria for treatment as a separate unit of accounting. When Komatsu enters into a separate contract to render transportation or technical advice, principally related to a sale of mining equipment and large-sized industrial machinery, these service revenues are accounted for separately from the product sale and recognized at the completion of the service delivery specified in the contract.

Service revenues from repair and maintenance and from transportation are recognized at the completion of service-delivery. Revenues from long-term fixed price maintenance contracts are recognized ratably over the contract period.

Certain consolidated subsidiaries rent construction equipment to customers. Rent revenue is recognized on a straight-line basis over the rental period.

Revenues are recorded net of discounts. In addition, taxes collected from customers and remitted to governmental-authorities on revenue-producing transactions are accounted for on a net basis and therefore are excluded from revenues in the consolidated statements of income.

**(9) Income Taxes**

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences and carryforwards are expected to be realized or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

If a tax position meets the more-likely-than-not recognition threshold based on the technical merits of the position, Komatsu recognizes the benefit of such position in the financial statements. The benefit of the tax position is measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon settlement with appropriate taxing authority.

**(10) Product Warranties**

Komatsu establishes a liability for estimated product warranty cost at the time of sale. Estimates for accrued product warranty cost are primarily based on historical experience and are classified as other current liabilities and other liabilities.

**(11) Pension and Retirement Benefits**

Komatsu recognizes the overfunded or underfunded status of the defined benefit plans as an asset or liability in the consolidated balance sheet, with a corresponding adjustment to accumulated other comprehensive income (loss), net of tax.

Amortization of actuarial net gain or loss is included as a component of Komatsu's net periodic pension cost for defined benefit plans for a year if, as of the beginning of the year, that unrecognized net gain or loss exceeds 10 percent of the greater of (1) the projected benefit obligation or (2) the fair value of that plan's assets.

In such case, the amount of amortization recognized is the resulting excess divided by average remaining service period of active employees expected to receive benefits under the plan. The expected return on plan assets is determined based on the historical long-term rate of return on plan assets. The discount rate is determined based on the rates of return of high-quality fixed income investments currently available and expected to be available during the period to maturity of the pension benefits.

**(12) Share-Based Compensation**

The Company recognizes share-based compensation expense using the fair value method. Compensation expense is measured at grant-date fair value of the share-based award and charged to expense over the vesting period.

**(13) Per Share Data**

Basic net income attributable to Komatsu Ltd. per share has been computed by dividing net income attributable to Komatsu Ltd. by the weighted-average number of common shares outstanding during each fiscal year, after deducting treasury stock. Diluted net income attributable to Komatsu Ltd. per share reflects the potential dilution computed on the basis that all stock options were exercised (less the number of treasury stock assumed to be purchased from proceeds using the average market price of the Company's common shares) to the extent that each is not antidilutive.

Dividends per share shown in the accompanying consolidated statements of income are based on dividends approved and paid in each fiscal year.

**(14) Cash and Cash Equivalents**

Cash and cash equivalents include highly liquid investments with an original maturity of three months or less at the date of purchase.

Komatsu's overseas subsidiaries participate in a global cash pooling system based on agreement with a single financial institution, which is used to fund short-term liquidity needs. This agreement contains specific provisions for the right to offset positive and negative cash balances on a global basis. The facility allows for cash withdrawals from this financial institution up to our aggregate cash deposits within the same financial institution. Komatsu's consolidated balance sheets as of March 31, 2016 and 2015 reflect cash net of withdrawals of ¥176,753 million and ¥158,726 million respectively.

**(15) Derivative Financial Instruments**

Komatsu uses various derivative financial instruments to manage its interest rate and foreign exchange exposure.

All derivatives, including derivatives embedded in other financial instruments, are measured at fair value and recognized as either assets or liabilities on the consolidated balance sheet. Changes in the fair values of derivative instruments not designated or not qualifying as hedges and any ineffective portion of qualified hedges are recognized in earnings in the current period. Changes in the fair values of derivative instruments which qualify as fair value hedges are recognized in earnings, along with changes in the fair value of the hedged item. Changes in the fair value of the effective portions of cash flow hedges are reported in accumulated other comprehensive income (loss), and recognized in earnings when the hedged item is recognized in earnings.

**(16) Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed of**

Long-lived assets and certain identifiable intangibles to be held and used by Komatsu are reviewed for impairment based on a cash flow analysis of the asset or an asset group whenever events or changes in circumstances indicate that the carrying amount of an asset or an asset group may not be recoverable. The assets to be held for use are considered to be impaired when estimated undiscounted cash flows expected to result from the use of the assets and their eventual disposition is less than their carrying amounts. The impairment losses are measured as the amount by which the carrying amount of the asset or an asset group exceeds the fair value. Long-lived assets and identifiable intangibles to be disposed of are reported at the lower of carrying amount or fair value less cost to sell.

**(17) Use of Estimates**

Komatsu has made a number of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses presented in consolidated financial statements prepared in accordance with U.S. GAAP. Actual results could differ from the estimates and assumptions.

Komatsu has identified several areas where it believes estimates and assumptions are particularly critical to the financial statements. These are the determination of the useful lives of Property, Plant and Equipment, the allowance for doubtful receivables, impairment of long-lived assets and goodwill, pension liabilities and expenses, product warranty liabilities, fair value of financial instruments, realization of deferred tax assets, income tax uncertainties and other contingencies. The current economic environment has increased the degree of uncertainty inherent in those estimates.

**(18) New Accounting Standards**

In May 2014, the FASB issued Accounting Standards Update (hereinafter "ASU") 2014-09 "Revenue from Contracts with Customers". This update replaces the revenue recognition requirements in ASC 605. This update requires that an entity should recognize revenue to depict the transfer of promised 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. This update is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early adoption is not permitted. In August 2015, the FASB issued ASU 2015-14 "Revenue from Contracts with Customers: Deferral of the Effective date" that defer for one year the revenue recognition standard's effective date. In this update, its early adoption would be permitted, but not before the original effective date. Komatsu is currently considering the adoption date and the impact of this update on Komatsu's financial position and results of operations.

In September 2015, the FASB issued ASU 2015-16 "Business Combinations: Simplifying the Accounting for Measurement-Period Adjustments". This update eliminates the requirement to retrospectively account for adjustments made to provisional amounts during the measurement period recognized in a business combination. This update also requires an acquirer in a business combination to recognize the adjustment to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. This update is effective for annual reporting periods beginning after December 15, 2015, including interim periods within that reporting period. Komatsu is currently evaluating the impact of this update on Komatsu's financial position and results of operations.

In November 2015, the FASB issued ASU 2015-17 "Balance Sheet Classification of Deferred Taxes". This update requires deferred tax assets and liabilities be classified as noncurrent in the classified consolidated balance sheets. This update is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period, and its early adoption is permitted. Komatsu is currently considering the adoption date and the impact of this update on Komatsu's financial position and results of operations.

In January 2016, the FASB issued 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 a company and also changes recognition of fair value changes of financial liability held by a company with the fair value option. In principle, this update requires that equity investments be measured at fair value with changes in the fair value recognized in net income. This update also requires that for financial liabilities, when the fair value option has been elected, changes in fair value due to instrument-specific credit risk be recognized separately in other comprehensive income. This update is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period, and its early adoption is permitted for certain provisions. Komatsu is currently considering the adoption date and the impact of this update on Komatsu's financial position and results of operations.

In February 2016, the FASB issued ASU 2016-02 "Leases". This update requires lessees to recognize most leases on their balance sheets. This update does not substantially change lessor accounting from current U.S.GAAP. This update is effective for annual reporting periods beginning after December 15, 2018, including interim periods within that reporting period, and its early adoption is permitted. Komatsu is currently considering the adoption date and the impact of this update on Komatsu's financial position and results of operations.

## 2. Supplemental Cash Flow Information

Additional cash flow information and noncash investing and financing activities for the years ended March 31, 2016 and 2015, are as follows:

| | Millions of yen | |
|---|---|---|
| | 2016 | 2015 |
| **Additional cash flow information:** | | |
| Interest paid | ¥ 9,287 | ¥ 9,565 |
| Income taxes paid | 64,138 | 85,419 |
| **Noncash investing and financing activities:** | | |
| Capital lease obligations incurred | ¥ 214 | ¥ 149 |

## 3. Business Combination

**Road Machinery Co., S.A. de C.V.**

On February 12, 2016, the Company acquired, through a Komatsu Group company, 60% of the equity interests in Road Machinery Co., S.A. de C.V. (hereinafter "Road Machinery"), Mitsui & Co., Ltd.'s subsidiary in Mexico which services Komatsu mining equipment. The total purchase price for the acquisition was ¥12,368 million.

Komatsu positions Mexico which is a mineral resource-rich country as an important growth market for its mining equipment business. Komatsu plans to strengthen its capabilities in winning new customers and product support, in the forms of overhauling and prompt supply of spare parts by taking the leadership role of managing Road Machinery.

The fair value measurement of the acquired assets and assumed liabilities under ASC 805, "Business Combinations" is not completed as of the issue date of the consolidated financial statements.

The amounts of net sales and net income of Road Machinery included in the consolidated statements of income since the date of acquisition for the fiscal year ended March 31, 2016 were immaterial.

Assuming this acquisition had been made at the beginning of any period presented, the consolidated pro forma results would not be materially different from reported results.

**4. Trade Notes and Accounts Receivable**

Receivables at March 31, 2016 and 2015 are summarized as follows:

| | Millions of yen | |
|---|---|---|
| | 2016 | 2015 |
| Trade notes | ¥ 159,117 | ¥ 154,518 |
| Accounts receivable | 440,068 | 481,940 |
| Total | 599,185 | 636,458 |
| Less: allowance-current | (15,795) | (16,382) |
| Trade notes and accounts receivable, net | ¥ 583,390 | ¥ 620,076 |
| Long-term trade receivables | 293,717 | 282,103 |
| Less: allowance-noncurrent | (1,794) | (1,965) |
| Long-term trade receivables, net | ¥ 291,923 | ¥ 280,138 |

Installment and lease receivables (less unearned interest) are included in trade notes and accounts receivable and long-term trade receivables.

The roll-forward schedule of the allowance for credit losses of the financing receivables for the years ended March 31, 2016 and 2015 are as follows:

| | Millions of yen | |
|---|---|---|
| | 2016 | 2015 |
| Balance at beginning of year | ¥ 11,705 | ¥ 10,068 |
| Provision | 1,485 | 1,833 |
| Charge-offs | (1,801) | (1,407) |
| Other | (838) | 1,211 |
| Balance at end of year | ¥ 10,551 | ¥ 11,705 |

Komatsu considers that financing receivables of retail finance subsidiaries are past due, if unpaid for greater than 30 days. Cumulative past due financing receivables (31-90 days, greater than 90 days) at March 31, 2016 and 2015 were summarized as follows:

| | Millions of yen | |
|---|---|---|
| | 2016 | 2015 |
| 31-90 days past due | ¥ 2,763 | ¥ 4,002 |
| Greater than 90 days past due | 14,868 | 15,385 |
| Total past due | ¥ 17,631 | ¥ 19,387 |

Nonaccrual financing receivables at March 31, 2016 and 2015 were not material.

Equipment sales revenue from sales-type leases is recognized at the inception of the lease. At March 31, 2016 and 2015, lease receivables comprised the following:

| | Millions of yen | |
|---|---|---|
| | 2016 | 2015 |
| Minimum lease payments receivable | ¥ 135,708 | ¥ 179,672 |
| Unearned income | (9,284) | (15,224) |
| Net lease receivables | ¥ 126,424 | ¥ 164,448 |

The residual values of leased assets at March 31, 2016 and 2015 were not material.

Komatsu did not have any cash flows from securitization activities from the sale of trade notes and accounts receivable for the years ended March 31, 2016 and 2015.

## 5. Inventories

At March 31, 2016 and 2015, inventories comprised the following:

| | Millions of yen | |
|---|---|---|
| | 2016 | 2015 |
| Finished products, including finished parts held for sale | ¥ 385,623 | ¥ 452,081 |
| Work in process | 106,233 | 121,525 |
| Materials and supplies | 47,755 | 49,270 |
| Total | ¥ 539,611 | ¥ 622,876 |

## 6. Investment Securities

Investment securities at March 31, 2016 and 2015, primarily consisted of securities available for sale.

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, 2016 and 2015, are as follows:

| | Millions of yen | | | |
|---|---|---|---|---|
| | | Gross unrealized holding | | |
| | Cost | Gains | Losses | Fair value |
| **At March 31, 2016** | | | | |
| Investment securities: | | | | |
| Marketable equity securities available for sale | ¥ 13,297 | ¥ 30,520 | ¥ — | ¥ 43,817 |
| Other investment securities at cost | 7,773 | | | |
| | ¥ 21,070 | | | |
| **At March 31, 2015** | | | | |
| Investment securities: | | | | |
| Marketable equity securities available for sale | ¥ 14,642 | ¥ 50,814 | ¥ — | ¥ 65,456 |
| Other investment securities at cost | 7,964 | | | |
| | ¥ 22,606 | | | |

Other investment securities primarily include non-marketable equity securities.

Proceeds from the sale of investment securities available for sale during the years ended March 31, 2016 and 2015, amounted to ¥5,353 million and ¥2,682 million, respectively.

Impairment loss and net gain (loss) from sale of investment securities available for sale during the years ended March 31, 2016 and 2015, amounted to gains of ¥3,751 million and ¥1,446 million, respectively. Such gains were included in other income (expenses), net in the accompanying consolidated statements of income.

The cost of the investment securities sold was computed based on the average cost method.

### 7. Investments in and Advances to Affiliated Companies

At March 31, 2016 and 2015, investments in and advances to affiliated companies comprised the following:

| | Millions of yen | |
|---|---|---|
| | 2016 | 2015 |
| Investments in capital stock | ¥ 28,123 | ¥ 28,277 |
| Advances | — | 81 |
| Total | ¥ 28,123 | ¥ 28,358 |

The investments in and advances to affiliated companies relate to 20% to 50% owned companies whereby Komatsu has the ability to exercise significant influence over the operational and financial policies.

At March 31, 2016 and 2015, trade notes and accounts receivable and short-term loans receivable from and trade notes, bills and accounts payable to affiliated companies comprised the following:

| | Millions of yen | |
|---|---|---|
| | 2016 | 2015 |
| Trade notes and accounts receivable, net | ¥ 24,604 | ¥ 26,397 |
| Short-term loans receivable | 252 | 376 |
| Trade notes, bills and accounts payable | 11,006 | 9,368 |

Net sales to and dividends received from affiliated companies for the years ended March 31, 2016 and 2015, are as follows.

| | Millions of yen | |
|---|---|---|
| | 2016 | 2015 |
| Net sales | ¥ 73,333 | ¥ 67,223 |
| Dividends | 1,214 | 1,051 |

Intercompany profits (losses) have been eliminated in the consolidated financial statements.

As of March 31, 2016 and 2015, consolidated unappropriated retained earnings included Komatsu's share of undistributed earnings of affiliated companies accounted for by the equity method in the amount of ¥16,177 million and ¥15,458 million, respectively.

The difference between the carrying value of the investments in affiliated companies and Komatsu's equity in the underlying net assets of such affiliated companies is insignificant as of March 31, 2016 and 2015.

Summarized financial information for affiliated companies at March 31, 2016 and 2015, and for the years ended March 31, 2016 and 2015, is as follows:

| | Millions of yen | |
|---|---|---|
| | 2016 | 2015 |
| Current assets | ¥ 142,683 | ¥ 139,340 |
| Net property, plant and equipment – less accumulated depreciation and amortization | 48,746 | 51,935 |
| Investments and other assets | 19,647 | 27,597 |
| Total assets | ¥ 211,076 | ¥ 218,872 |
| Current liabilities | ¥ 102,115 | ¥ 98,245 |
| Noncurrent liabilities | 30,891 | 42,904 |
| Equity | 78,070 | 77,723 |
| Total liabilities and equity | ¥ 211,076 | ¥ 218,872 |

| | Millions of yen | |
|---|---|---|
| | 2016 | 2015 |
| Net sales | ¥ 218,919 | ¥ 221,649 |
| Net income | ¥ 5,729 | ¥ 8,180 |

## 8. Property, Plant and Equipment

The major classes of property, plant and equipment at March 31, 2016 and 2015, are as follows:

| | Millions of yen | |
|---|---|---|
| | 2016 | 2015 |
| Land | ¥ 102,141 | ¥ 105,341 |
| Buildings | 439,475 | 441,895 |
| Machinery and equipment | 944,039 | 971,141 |
| Construction in progress | 14,477 | 17,664 |
| Total | 1,500,132 | 1,536,041 |
| Less: accumulated depreciation and amortization | (802,390) | (792,122) |
| Net property, plant and equipment | ¥ 697,742 | ¥ 743,919 |

## 9. Pledged Assets

At March 31, 2016 and 2015, assets pledged as collateral for guarantees for debt are as follows:

| | Millions of yen | |
|---|---|---|
| | 2016 | 2015 |
| Other current assets | ¥ 548 | ¥ 996 |
| Total | ¥ 548 | ¥ 996 |

The above assets were pledged against the following liabilities:

| | Millions of yen | |
|---|---|---|
| | 2016 | 2015 |
| Guarantees for debt | ¥ 548 | ¥ 996 |
| Total | ¥ 548 | ¥ 996 |

### 10. Goodwill and Other Intangible Assets

Intangible assets other than goodwill at March 31, 2016 and 2015 are as follows:

| | Millions of yen | | | | | |
|---|---|---|---|---|---|---|
| | 2016 | | | 2015 | | |
| | Gross carrying amount | Accumulated amortization | Net carrying amount | Gross carrying amount | Accumulated amortization | Net carrying amount |
| Other intangible assets subject to amortization: | | | | | | |
| Software | ¥28,798 | ¥ (14,269) | ¥14,529 | ¥30,325 | ¥ (16,580) | ¥13,745 |
| Leasehold | 8,070 | (856) | 7,214 | 9,128 | (897) | 8,231 |
| Other | 46,147 | (19,587) | 26,560 | 39,953 | (17,984) | 21,969 |
| Total | 83,015 | (34,712) | 48,303 | 79,406 | (35,461) | 43,945 |
| Other intangible assets not subject to amortization | | | 14,753 | | | 14,770 |
| Total other intangible assets | | | ¥63,056 | | | ¥58,715 |

At March 31, 2016, net carrying amounts of other intangible assets subject to amortization mainly consist of customer relationships of ¥989 million and technology assets of ¥4,219 million resulting from the acquisition of additional shares of Gigaphoton Inc. for the fiscal year ended March 31, 2012 and customer relationships of ¥7,586 million and technology assets of ¥2,420 million resulting from the acquisition of additional shares of Komatsu NTC Ltd. for the fiscal year ended March 31, 2008.

The aggregate amortization expense of other intangible assets subject to amortization for the years ended March 31, 2016 and 2015 were ¥7,388 million and ¥7,394 million, respectively.

At March 31, 2016, the future estimated amortization expenses for each of five years relating to intangible assets currently recorded in the consolidated balance sheet are as follows:

| Year ending March 31 | Millions of yen |
|---|---|
| 2017 | ¥ 8,107 |
| 2018 | 7,507 |
| 2019 | 6,440 |
| 2020 | 4,692 |
| 2021 | 3,355 |

The changes in carrying amounts of goodwill by operating segment for the years ended March 31, 2016 and 2015 are as follows:

| | Millions of yen | | |
|---|---|---|---|
| | Construction, Mining and Utility Equipment | Industrial Machinery and Others | Total |
| **Balance at March 31, 2014** | | | |
| Goodwill | 29,722 | 15,017 | 44,739 |
| Accumulated impairment losses | (8,179) | (540) | (8,719) |
| | ¥ 21,543 | ¥ 14,477 | ¥ 36,020 |
| Foreign exchange impact | 246 | — | 246 |
| **Balance at March 31, 2015** | | | |
| Goodwill | 29,968 | 15,017 | 44,985 |
| Accumulated impairment losses | (8,179) | (540) | (8,719) |
| | ¥ 21,789 | ¥ 14,477 | ¥ 36,266 |
| Goodwill acquired during the year | 4,859 | — | 4,859 |
| Impairment losses | (308) | — | (308) |
| Foreign exchange impact | (812) | — | (812) |
| **Balance at March 31, 2016** | | | |
| Goodwill | 34,015 | 15,017 | 49,032 |
| Accumulated impairment losses | (8,487) | (540) | (9,027) |
| | ¥ 25,528 | ¥ 14,477 | ¥ 40,005 |

**11. Short-Term and Long-Term Debt**

(1) Short-term debt at March 31, 2016 and 2015, consisted of the following:

| | Millions of yen | |
|---|---|---|
| | 2016 | 2015 |
| Banks, insurance companies and other financial institutions | ¥ 122,552 | ¥ 127,937 |
| Commercial paper | 22,000 | 64,000 |
| Short-term debt | ¥ 144,552 | ¥ 191,937 |

The weighted-average annual interest rates applicable to short-term debt outstanding at March 31, 2016 and 2015, were 1.5% and 2.0%, respectively.

Certain consolidated subsidiaries have entered into contracts for committed credit lines totaling ¥20,269 million and have unused committed lines of credit amounting to ¥15,094 million with certain financial institutions at March 31, 2016, which are available for full and immediate borrowings. The Company is a party to a committed ¥150,000 million commercial paper program and unused committed commercial paper program amounting to ¥128,000 million at March 31, 2016, is available upon the satisfaction of certain customary procedural requirements.

(2) Long-term debt at March 31, 2016 and 2015, consisted of the following:

| | Millions of yen | |
|---|---|---|
| | 2016 | 2015 |
| Long-term debt without collateral: | | |
| Banks, insurance companies and other financial institutions maturing serially through 2016–2021, weighted-average rate 2.1% | ¥ 164,519 | ¥ 196,446 |
| Euro Medium-Term Notes maturing serially through 2016–2018, weighted-average rate 1.6% | 61,897 | 113,624 |
| 0.58% Unsecured Bonds due 2016 | 30,000 | 30,000 |
| 0.32% Unsecured Bonds due 2017 | 30,000 | 30,000 |
| 0.28% Unsecured Bonds due 2019 | 20,000 | 20,000 |
| Capital lease obligations (Note 16) | 1,007 | 2,111 |
| Other | 5,577 | 5,011 |
| Total | 313,000 | 397,192 |
| Less: current maturities | (100,364) | (117,922) |
| Long-term debt | ¥ 212,636 | ¥ 279,270 |

(3) The Company, Komatsu Finance America Inc. and Komatsu Capital Europe S.A. registered as an issuer under the Euro Medium-Term Note (hereinafter "EMTN") Program on the London Stock Exchange. The registered amount of the EMTN Program at March 31, 2016 and 2015 were U.S.$1.4 billion and U.S.$1.6 billion, respectively.
Under the EMTN Program, each of the issuers may from time to time issue notes denominated in any currency as may be agreed between the relevant issuers and dealers. The issuers under the EMTN Program did not issue any EMTNs during the fiscal year ended March 31, 2016, while they issued ¥6,652 million during the fiscal year ended March 31, 2015 of EMTNs with various interest rates and maturity dates.
In November 2014, the Company's bond program was renewed so that it could issue up to ¥100,000 million of variable-term bonds within a two-year period. As of March 31, 2016, ¥100,000 million remained unused under this program. On the other hand, the aggregate principal amount of bonds outstanding as of March 31, 2016 was issued under the past bond program prior to its 2014 renewal.

(4) As is customary in Japan, substantially all bank loans are made under general agreements.

(5) Maturities of long-term debt at March 31, 2016 and 2015, excluding market value adjustments of ¥143 million (loss) and ¥680 million (loss), respectively are as follows:

| | Millions of yen | |
|---|---|---|
| | **2016** | **2015** |
| Due within one year | ¥ 100,190 | ¥ 117,515 |
| Due after one year through two years | 66,356 | 108,356 |
| Due after two years through three years | 91,191 | 62,052 |
| Due after three years through four years | 29,842 | 80,040 |
| Due after four years through five years | 19,833 | 24,302 |
| Due after five years | 5,445 | 4,247 |
| Total | ¥ 312,857 | ¥ 396,512 |

## 12. Liability for Pension and Other Retirement Benefits

The Company's employees, with certain minor exceptions, are covered by a severance payment and a defined benefit cash balance pension plan. The plan provides that approximately 60% of the employee benefits are payable as a pension payment, commencing upon retirement at age 60 (mandatory retirement age) and that the remaining benefits are payable as a lump-sum severance payment based on remuneration, years of service and certain other factors at the time of retirement. The plan also provides for lump-sum severance payments, payable upon earlier termination of employment.

Under the cash balance pension plan, each employee has an account which is credited yearly based on the current rate of pay and market-related interest rate.

Certain subsidiaries have various funded pension plans and/or unfunded severance payment plans for their employees, which are based on years of service and certain other factors. Komatsu's funding policy is to contribute the amounts to provide not only for benefits attributed to service to date but also for those expected to be earned in the future.

The reconciliation of beginning and ending balances of the benefit obligations and the fair value of the plan assets of the defined benefit plans are as follows:

| | Millions of yen | |
|---|---|---|
| | 2016 | 2015 |
| Change in benefit obligations: | | |
| Benefit obligations, beginning of year | ¥ 171,218 | ¥ 152,531 |
| Service cost | 8,366 | 8,321 |
| Interest cost | 2,780 | 2,869 |
| Actuarial loss | 7,833 | 14,400 |
| Plan participants' contributions | 207 | 143 |
| Plan amendment | 826 | (1,221) |
| Settlements | (125) | — |
| Benefits paid | (9,110) | (8,290) |
| Foreign currency exchange rate change | (4,226) | 2,465 |
| Benefit obligations, end of year | ¥ 177,769 | ¥ 171,218 |
| Change in plan assets: | | |
| Fair value of plan assets, beginning of year | ¥ 129,363 | ¥ 113,409 |
| Actual return on plan assets | 239 | 12,490 |
| Employers' contributions | 4,953 | 5,478 |
| Plan participants' contributions | 207 | 143 |
| Settlements | (125) | — |
| Benefits paid | (6,905) | (5,966) |
| Foreign currency exchange rate change | (4,405) | 3,809 |
| Fair value of plan assets, end of year | ¥ 123,327 | ¥ 129,363 |
| Funded status, end of year | ¥ (54,442) | ¥ (41,855) |

Amounts recognized in the consolidated balance sheets at March 31, 2016 and 2015 are as follows:

| | Millions of yen | |
|---|---|---|
| | 2016 | 2015 |
| Deferred income taxes and other assets | ¥ 7,902 | ¥ 7,302 |
| Liabilities held for sale | (700) | — |
| Deferred income taxes and other current liabilities | (266) | (278) |
| Liability for pension and retirement benefits | (61,378) | (48,879) |
| | ¥ (54,442) | ¥ (41,855) |

Amounts recognized in accumulated other comprehensive income (loss) at March 31, 2016 and 2015 are as follows:

| | Millions of yen | |
|---|---|---|
| | 2016 | 2015 |
| Actuarial loss | ¥ 42,392 | ¥ 32,555 |
| Prior service cost | 383 | 206 |
| | ¥ 42,775 | ¥ 32,761 |

The accumulated benefit obligations for all defined benefit plans at March 31, 2016 and 2015 were ¥159,910 million and ¥154,426 million, respectively.
Information for pension plans with accumulated benefit obligations in excess of plan assets and pension plans with projected benefit obligations in excess of plan assets is as follows:

| | Millions of yen | |
|---|---|---|
| | 2016 | 2015 |
| Plans with accumulated benefit obligations in excess of plan assets: | | |
| Accumulated benefit obligations | ¥ 127,465 | ¥ 114,376 |
| Fair value of plan assets | 82,464 | 79,792 |
| Plans with projected benefit obligations in excess of plan assets: | | |
| Projected benefit obligations | ¥ 145,218 | ¥ 130,044 |
| Fair value of plan assets | 83,494 | 80,900 |

Net periodic cost of Komatsu's defined benefit plans for the years ended March 31, 2016 and 2015, consisted of the following components:

| | Millions of yen | |
|---|---|---|
| | 2016 | 2015 |
| Service cost | ¥ 8,366 | ¥ 8,321 |
| Interest cost on projected benefit obligations | 2,780 | 2,869 |
| Expected return on plan assets | (3,818) | (3,585) |
| Amortization of actuarial loss | 1,575 | 1,564 |
| Amortization of prior service cost | 649 | 545 |
| Net periodic cost | ¥ 9,552 | ¥ 9,714 |

Other changes in plan assets and benefit obligations recognized in other comprehensive income (loss) for the years ended March 31, 2016 and 2015 are summarized as follows:

| | Millions of yen | |
|---|---|---|
| | 2016 | 2015 |
| Current year actuarial loss | ¥ 11,412 | ¥ 5,495 |
| Amortization of actuarial loss | (1,575) | (1,564) |
| Current year prior service cost | 826 | (1,221) |
| Amortization of prior service cost | (649) | (545) |
| | ¥ 10,014 | ¥ 2,165 |

The estimated actuarial loss and prior service cost for the defined benefit plans that will be amortized from accumulated other comprehensive income (loss) into net periodic cost for the year ending March 31, 2017 are summarized as follows:

| | Millions of yen |
|---|---|
| Amortization of actuarial loss | ¥ 2,388 |
| Amortization of prior service cost | 660 |

Weighted-average assumptions used to determine benefit obligations of Komatsu's defined benefit plans at March 31, 2016 and 2015 are as follows:

| | Japanese plans | | Foreign plans | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Discount rate | 0.1% | 0.8% | 4.1% | 3.8% |
| Assumed rate of increase in future compensation levels (Point-based benefit system) | 3.9% | 3.9% | — | — |
| Assumed rate of increase in future compensation levels | 2.6% | 2.6% | 3.6% | 3.6% |

Weighted-average assumptions used to determine net periodic cost of Komatsu's defined benefit plans for the years ended March 31, 2016 and 2015 are as follows:

| | Japanese plans | | Foreign plans | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Discount rate | 0.8% | 1.5% | 3.8% | 4.7% |
| Assumed rate of increase in future compensation levels (Point-based benefit system) | 3.9% | 3.9% | — | — |
| Assumed rate of increase in future compensation levels | 2.6% | 2.0% | 3.6% | 4.6% |
| Expected long-term rate of return on plan assets | 1.5% | 1.5% | 5.4% | 5.7% |

The Company and certain Japanese subsidiaries have defined benefit cash balance pension plans. These companies adopt the assumed rate of increase in future compensation levels under the point-based benefit system.

Komatsu determines the expected long-term rate of return on plan assets based on the consideration of the current expectations for future returns and actual historical returns of each plan asset category.

**Plan assets**

In order to secure long-term comprehensive earnings, Komatsu's investment policy is designed to ensure adequate plan assets to provide future payments of pension benefits to eligible participants. Taking into account the expected long-term rate of return on plan assets, Komatsu formulates a basic portfolio comprised of the judged optimum combination of equity and debt securities. Plan assets are principally invested in equity securities, debt securities and life insurance company general accounts in accordance with the guidelines of the basic portfolio in order to produce a total return that will match the expected return on a mid-term to long-term basis. Komatsu evaluates the gap between expected return and actual return of invested plan assets on an annual basis to determine if such differences necessitate a revision in the formulation of the basic portfolio. Komatsu revises the basic portfolio when and to the extent considered necessary to achieve the expected long-term rate of return on plan assets.

The "Pension and Retirement Benefit Committee" is organized in the Company in order to periodically monitor the performance of such plan assets.

Komatsu's targeted basic portfolio for plan assets consists of three major components: approximately 35% invested in equity securities, approximately 35% invested in debt securities, and approximately 30% invested in other assets, primarily consisting of investments in life insurance company general accounts.

The equity securities are selected primarily from stocks that are listed on the securities exchanges. Prior to investing, Komatsu has investigated the business condition of the investee companies, and appropriately diversified investments by type of industry and other relevant factors. The debt securities are selected primarily from government bonds and municipal bonds, and corporate bonds. Prior to investing, Komatsu has investigated the quality of the issue, including rating, interest rate and repayment dates, and has appropriately diversified the investments. Pooled funds are selected using strategies consistent with the equity described above. As for investments in life insurance company general accounts, the contracts with the insurance companies include a guaranteed interest rate and return of capital. With respect to investments in foreign investment assets, Komatsu has investigated the stability of the underlying governments and economies, the market characteristics such as settlement systems and the taxation systems. For each such investment, Komatsu has selected the appropriate investment country and currency. There is no significant concentration of risk within the portfolio of investments.

The three levels of input used to measure fair value are more full described in Note 21.

The fair values of benefit plan assets at March 31, 2016 and 2015 by asset class are as follows:

| | Millions of yen | | | |
|---|---|---|---|---|
| **At March 31, 2016** | **Level 1** | **Level 2** | **Level 3** | **Total** |
| Plan assets | | | | |
| Cash | ¥ 1,064 | ¥ — | ¥ — | ¥ 1,064 |
| Equity securities | | | | |
| Japanese equities | 8,645 | 298 | — | 8,943 |
| Foreign equities | 16,395 | 3,949 | — | 20,344 |
| Pooled funds | 7,507 | 1,269 | — | 8,776 |
| Debt securities | | | | |
| Government bonds and municipal bonds | 23,175 | 8,288 | — | 31,463 |
| Corporate bonds | — | 15,476 | — | 15,476 |
| Other assets | | | | |
| Life insurance company general accounts | — | 36,177 | — | 36,177 |
| Other | 719 | 365 | — | 1,084 |
| Total | ¥ 57,505 | ¥ 65,822 | ¥ — | ¥ 123,327 |

| | Millions of yen | | | |
|---|---|---|---|---|
| **At March 31, 2015** | **Level 1** | **Level 2** | **Level 3** | **Total** |
| Plan assets | | | | |
| Cash | ¥ 2,617 | ¥ — | ¥ — | ¥ 2,617 |
| Equity securities | | | | |
| Japanese equities | 10,191 | 593 | — | 10,784 |
| Foreign equities | 18,624 | 7,212 | — | 25,836 |
| Pooled funds | 8,377 | 1,754 | — | 10,131 |
| Debt securities | | | | |
| Government bonds and municipal bonds | 22,084 | 7,854 | — | 29,938 |
| Corporate bonds | — | 13,279 | — | 13,279 |
| Other assets | | | | |
| Life insurance company general accounts | — | 35,724 | — | 35,724 |
| Other | 436 | 618 | — | 1,054 |
| Total | ¥ 62,329 | ¥ 67,034 | ¥ — | ¥ 129,363 |

(1) The plan's equity securities include common stock of the Company in the amount of ¥25 million and ¥46 million at March 31, 2016 and 2015, respectively.

(2) The plan's pooled funds which are primarily held by the U.S. subsidiaries include listed foreign equity securities primarily consisting of U.S. equity.

(3) The plan's government bonds and municipal bonds include approximately 25% Japanese bonds and 75% foreign bonds.

Each level into which assets are categorized is based on inputs used to measure the fair value of the assets, and does not indicate the risks of the assets.

Level 1 assets are comprised principally of equity and debt securities, which are valued using quoted prices in active markets. Level 2 assets are comprised of equity securities, debt securities and investments in life insurance company general accounts. Equity and debt securities are valued using inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly or indirectly. Investments in life insurance company general accounts are valued at conversion value.

**Cash flows**

**(1) Contributions**

Komatsu expects to contribute ¥4,336 million to their benefit plans in the year ending March 31, 2017.

**(2) Estimated future benefit payments**

The benefits expected to be paid in each of the next five years, and in the aggregate for the five years thereafter which reflect estimated future employee service are as follows:

| Year ending March 31 | | Millions of yen |
|---|---|---|
| 2017 | ¥ | 9,484 |
| 2018 | | 8,729 |
| 2019 | | 8,067 |
| 2020 | | 8,131 |
| 2021 | | 8,516 |
| Through 2022-2026 | | 45,658 |

**Other postretirement benefit plans**

Some U.S. subsidiaries provide certain postretirement health care and life insurance benefits for substantially all of their employees. The plans are contributory, with contributions indexed to salary levels. Employee contributions are adjusted to provide for any costs of the plans in excess of those paid for by the subsidiaries. The policy is to fund the cost of these benefits as claims and premiums are paid. In the fiscal year ended March 31, 2008 certain U.S. subsidiaries established a Voluntary Employees' Beneficiary Association ("VEBA") trust to hold assets and pay substantially all of these subsidiaries' self-funded post employment benefit plan obligations. The VEBA trust arrangement provides for segregation and legal restriction of the plan assets to satisfy plan obligations, and tax deductibility for contributions to the trust, subject to certain tax code limitations.

The reconciliation of beginning and ending balances of the accumulated postretirement benefit obligations and the fair value of the plan assets of the U.S. subsidiaries' plans are as follows:

| | Millions of yen | | | |
|---|---|---|---|---|
| | | 2016 | | 2015 |
| Change in accumulated postretirement benefit obligations: | | | | |
| Accumulated postretirement benefit obligations, beginning of year | ¥ | 16,346 | ¥ | 12,350 |
| Service cost | | 574 | | 459 |
| Interest cost | | 620 | | 597 |
| Actuarial loss (gain) | | (1,277) | | 1,327 |
| Plan participants' contributions | | 6 | | 4 |
| Medicare Part D | | 65 | | 69 |
| Benefits paid | | (1,090) | | (1,014) |
| Foreign currency exchange rate change | | (599) | | 2,554 |
| Accumulated postretirement benefit obligation, end of year | ¥ | 14,645 | ¥ | 16,346 |
| Change in plan assets: | | | | |
| Fair value of plan assets, beginning of year | ¥ | 10,986 | ¥ | 9,396 |
| Actual return on plan assets | | 45 | | 585 |
| Employers' contributions | | 25 | | 46 |
| Plan participants' contributions | | 6 | | 4 |
| Benefits paid | | (395) | | (621) |
| Foreign currency exchange rate change | | (664) | | 1,576 |
| Fair value of plan assets, end of year | ¥ | 10,003 | ¥ | 10,986 |
| Funded status, end of year | ¥ | (4,642) | ¥ | (5,360) |

Amounts recognized in the consolidated balance sheets at March 31, 2016 and 2015 are as follows:

| | Millions of yen | |
|---|---|---|
| | 2016 | 2015 |
| Deferred income taxes and other assets | ¥ 1,712 | ¥ 896 |
| Deferred income taxes and other current liabilities | (42) | (43) |
| Liability for pension and retirement benefits | (6,312) | (6,213) |
| | ¥ (4,642) | ¥ (5,360) |

Amounts recognized in accumulated other comprehensive income (loss) at March 31, 2016 and 2015 are as follows:

| | Millions of yen | |
|---|---|---|
| | 2016 | 2015 |
| Actuarial loss | ¥ 2,955 | ¥ 4,034 |
| Prior service cost | 208 | 306 |
| | ¥ 3,163 | ¥ 4,340 |

Accumulated postretirement benefit obligations exceed plan assets for each of the U.S. subsidiaries' plans.

Net periodic cost of the U.S. subsidiaries' plans for the years ended March 31, 2016 and 2015 included the following components:

| | Millions of yen | |
|---|---|---|
| | 2016 | 2015 |
| Service cost | ¥ 574 | ¥ 459 |
| Interest cost on projected benefit obligations | 620 | 597 |
| Expected return on plan assets | (577) | (520) |
| Amortization of actuarial loss | 334 | 208 |
| Amortization of prior service cost | 98 | 89 |
| Net periodic cost | ¥ 1,049 | ¥ 833 |

Other changes in plan assets and accumulated postretirement benefit obligations recognized in other comprehensive income (loss) for the years ended March 31, 2016 and 2015 are summarized as follows:

| | Millions of yen | |
|---|---|---|
| | 2016 | 2015 |
| Current year actuarial loss (gain) | ¥ (745) | ¥ 1,262 |
| Amortization of actuarial loss | (334) | (208) |
| Amortization of prior service cost | (98) | (89) |
| | ¥ (1,177) | ¥ 965 |

The estimated actuarial loss and prior service cost for the postretirement benefit plans that will be amortized from accumulated other comprehensive income (loss) into net periodic cost for the year ending March 31, 2017 are summarized as follows:

| | Millions of yen |
|---|---|
| Amortization of actuarial loss | ¥ 252 |
| Amortization of Prior service cost | 115 |

Weighted-average assumptions used to determine accumulated postretirement benefit obligations of the U.S. subsidiaries' plans at March 31, 2016 and 2015 are as follows:

| | 2016 | 2015 |
|---|---|---|
| Discount rate | 4.0% | 3.8% |
| Assumed rate of increase in future compensation levels | 4.0% | 4.0% |
| Current healthcare cost trend rate | 6.5% | 6.8% |
| Ultimate healthcare cost trend rate | 5.0% | 5.0% |
| Number of years to ultimate healthcare cost trend rate | 6 | 7 |

Weighted-average assumptions used to determine net periodic cost of the U.S. subsidiaries' plans for the years ended March 31, 2016 and 2015 are as follows:

| | 2016 | 2015 |
|---|---|---|
| Discount rate | 3.8% | 4.5% |
| Assumed rate of increase in future compensation levels | 4.0% | 4.0% |
| Expected long-term rate of return on plan assets | 5.4% | 5.4% |
| Current healthcare cost trend rate | 6.8% | 7.0% |
| Ultimate healthcare cost trend rate | 5.0% | 5.0% |
| Number of years to ultimate healthcare cost trend rate | 7 | 8 |

At March 31, 2016 and 2015, the impact of one percentage point change in the assumed health care cost trend rates would not be material to Komatsu's financial position and results of operations.

**Plan assets**

The U.S. subsidiaries' investment policies are to provide returns that will maximize principal growth while accepting only moderate risk.

The U.S. subsidiaries' asset portfolio will be invested in a manner that emphasizes safety of capital while achieving total returns consistent with prudent levels of risk. The basic portfolio for the plan assets are comprised approximately of 35% equity securities and 65% debt securities.

The equity securities are selected primarily from stocks that are listed on the securities exchanges. Prior to investing, the U.S. subsidiaries have investigated the business condition of the invested companies, and appropriately diversified investments by type of industry and other relevant factors. The debt securities are selected primarily from government bonds and municipal bonds, and corporate bonds. Prior to investing, the U.S. subsidiaries have investigated the quality of the issue, including rating, interest rate and repayment dates, and have appropriately diversified the investments. Pooled funds are selected using strategies consistent with the equity described above. There is no significant concentration of risk within the portfolio of investments.

The three levels of input used to measure fair value are more full described in Note 21.

The fair values of postretirement benefit plan assets at March 31, 2016 and 2015, by asset class are as follows:

| | Millions of yen | | | |
|---|---|---|---|---|
| **At March 31, 2016** | **Level 1** | **Level 2** | **Level 3** | **Total** |
| Plan assets | | | | |
| Cash | ¥ 317 | ¥ — | ¥ — | ¥ 317 |
| Equity securities | | | | |
| Foreign equities | 1,374 | — | — | 1,374 |
| Pooled funds | 2,171 | — | — | 2,171 |
| Debt securities | | | | |
| Government bonds and municipal bonds | 1,236 | 3,443 | — | 4,679 |
| Corporate bonds | — | 1,462 | — | 1,462 |
| Other assets | | | | |
| Other | — | — | — | — |
| Total | ¥ 5,098 | ¥ 4,905 | ¥ — | ¥ 10,003 |

| | Millions of yen | | | |
|---|---|---|---|---|
| **At March 31, 2015** | **Level 1** | **Level 2** | **Level 3** | **Total** |
| Plan assets | | | | |
| Cash | ¥ 164 | ¥ — | ¥ — | ¥ 164 |
| Equity securities | | | | |
| Foreign equities | 1,602 | — | — | 1,602 |
| Pooled funds | 2,163 | — | — | 2,163 |
| Debt securities | | | | |
| Government bonds and municipal bonds | 1,196 | 3,898 | — | 5,094 |
| Corporate bonds | — | 1,920 | — | 1,920 |
| Other assets | | | | |
| Other | — | 43 | — | 43 |
| Total | ¥ 5,125 | ¥ 5,861 | ¥ — | ¥ 10,986 |

(1) The plan's pooled funds include listed foreign equity securities primarily consisting of U.S. equity.

(2) The plan's government bonds consist of U.S. government bonds.

Each level into which assets are categorized is based on inputs used to measure the fair value of the assets, and does not indicate the risks of the assets.

Level 1 assets are comprised principally of equity securities, which are valued using quoted prices in active markets. Level 2 assets are comprised principally of debt securities, which are valued using inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly or indirectly.

**Cash flows**

**(1) Contributions**

The U.S. subsidiaries expect to contribute ¥42 million to their postretirement benefit plans in the year ending March 31, 2017.

**(2) Estimated future benefit payments**

The benefits expected to be paid in each of the next five years, and in the aggregate for the five years thereafter which reflect estimated future employee service are as follows:

| Year ending March 31 | Millions of yen |
|---|---|
| 2017 | ¥ 840 |
| 2018 | 871 |
| 2019 | 884 |
| 2020 | 912 |
| 2021 | 948 |
| Through 2022-2026 | 5,407 |

Directors of Japanese subsidiaries are primarily covered by unfunded retirement allowance plans. At March 31, 2016 and 2015, the amounts required if all directors covered by the plans had terminated their service have been fully accrued. Such amounts are not material to Komatsu’s financial position and results of operations for any of the periods presented.

Certain subsidiaries maintain various defined contribution plans covering certain employees. The amount of cost recognized for all periods presented is not material to Komatsu’s financial position and results of operations.

## 13. Komatsu Ltd. Shareholders' Equity

**(1)** At March 31, 2016 and 2015, affiliated companies owned 1,092,000 and 1,192,000 shares which represent 0.12% and 0.13% of the Company's common shares outstanding, respectively.

**(2)** The Companies Act of Japan (hereinafter "the Act") imposes certain limitations on the amount of retained earnings available for dividends. Accordingly, total shareholders' equity of ¥493,903 million, included in the Company's general books of account as of March 31, 2016 is available for dividends under the Act.
The payment of a cash dividend totaling ¥27,354 million to shareholders of record on March 31, 2016 will be discussed at the Ordinary General Meeting of Shareholders held on June 22, 2016. The dividend has not been reflected in the consolidated financial statements as of March 31, 2016. Dividends are reported in the consolidated statements of equity when approved and paid.

**(3)** The Company's Board of Directors resolved the acquisition of treasury stock pursuant to Article 156 of the Act as modified by Paragraph 3, Article 165 of the Act, and the Company retired repurchased shares pursuant to Article 178 of the Act at the meeting of the Board of Directors held on November 14, 2014. By March 31, 2015, the Company repurchased and retired 11,162,600 shares on the above resolutions. The purchasing and retiring amounts are ¥29,997 million and ¥19,808 million respectively. The difference of the amounts is due to the difference between the purchasing price and moving average book value of the shares.

**(4)** The Company has two types of stock option plans as stock-based remuneration.

**The stock option plans resolved by the meeting of the Board of Directors held in and before June 2010.**

The right to purchase the Company's shares is granted at a predetermined price to directors and certain employees and certain directors of major subsidiaries. The purchase price is the amount calculated by taking the average of the closing prices applicable to ordinary transactions of shares of the Company on the Tokyo Stock Exchange on all days for a month immediately preceding the month in which the date of grant of the right falls and multiplying by 1.05, provided that the exercise price shall not be less than the closing price of the shares of the Company on the Tokyo Stock Exchange on the date of the grant.

**The stock option plans resolved by the meeting of the Board of Directors held in and after July 2010.**

The right to purchase the Company's shares is granted at an exercise price of ¥1 per share to directors and certain employees and certain directors of major subsidiaries.
Based on the resolutions of the Ordinary General Meeting of Shareholders on June 23, 2010 and the Board of Directors on July 11, 2014, the Company issued 589 rights of its Stock Acquisition Rights to directors. Based on the resolutions of the Ordinary General Meeting of Shareholders on June 18, 2014 and the Board of Directors on July 11, 2014, the Company also issued 2,169 rights of its Stock Acquisition Rights to certain employees and certain directors of major subsidiaries during the year ended March 31, 2015. The options vest 100% on each of the grant dates and are exercisable from August 1, 2017.
In addition, based on the resolutions of the Ordinary General Meeting of Shareholders on June 23, 2010 and the Board of Directors on July 10, 2015, the Company issued 499 rights of its Stock Acquisition Rights to directors. Based on the resolutions of the Ordinary General Meeting of Shareholders on June 24, 2015 and the Board of Directors on July 10, 2015, the Company also issued 1,930 rights of its Stock Acquisition Rights to certain employees and certain representative directors of major subsidiaries during the year ended March 31, 2016. The options vest 100% on each of the grant dates and are exercisable from August 3, 2018.
The number of shares subject to one Stock Acquisition Right is 100 shares.

The Company recognizes compensation expense using the fair value method. Compensation expenses during the years ended March 31, 2016 and 2015 were ¥483 million and ¥554 million, respectively, and were recorded in selling, general and administrative expenses.
The Company transfers treasury stock without issuance of new stock when the Stock Acquisition Rights are exercised.

The following table summarizes information about stock option activity for the years ended March 31, 2016 and 2015:

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Number of shares | Weighted average exercise price (Yen) | Number of shares | Weighted average exercise price (Yen) |
| Outstanding at beginning of year | 2,006,300 | ¥ 1,147 | 2,639,600 | ¥ 1,590 |
| Granted | 242,900 | 1 | 275,800 | 1 |
| Exercised | (307,400) | 276 | (349,100) | 1,298 |
| Forfeited | (348,000) | 3,618 | (560,000) | 2,578 |
| Outstanding at end of year | 1,593,800 | 600 | 2,006,300 | 1,147 |
| Exercisable at end of year | 783,200 | 1,220 | 1,098,800 | 2,093 |

The intrinsic values of options exercised were ¥552 million and ¥401 million for the years ended March 31, 2016 and 2015.

The information for options outstanding and options exercisable at March 31, 2016 is as follows:

| | Outstanding | | | | Options Exercisable | | | |
|---|---|---|---|---|---|---|---|---|
| Exercise prices | Number of shares | Weighted average exercise price (Yen) | Intrinsic value (Millions of yen) | Weighted average remaining contractual life (Years) | Number of shares | Weighted average exercise price (Yen) | Intrinsic value (Millions of yen) | Weighted average remaining contractual life (Years) |
| ¥1 – 1,350 | 1,149,800 | ¥ 1 | ¥ 2,202 | 5.6 | 339,200 | ¥ 1 | ¥ 650 | 3.8 |
| ¥1,351 – 2,325 | 200,000 | 1,729 | 37 | 1.4 | 200,000 | 1,729 | 37 | 1.4 |
| ¥2,326 – 2,500 | 244,000 | 2,499 | 0 | 0.4 | 244,000 | 2,499 | 0 | 0.4 |
| ¥1 – 2,500 | 1,593,800 | 600 | 2,239 | 4.2 | 783,200 | 1,220 | 687 | 2.1 |

The fair value of each share option award is estimated on the date of grant using a discrete-time model (a binomial model) based on the assumptions noted in the following table. Because a discrete-time model incorporates ranges of assumptions for inputs, those ranges are disclosed. Expected volatilities are based on implied volatilities from historical volatility of the Company's shares.
The Company uses historical data to estimate share option exercise and employee departure behavior used in the discrete-time model. The expected term of share options granted represents the period of time that share options granted are expected to be outstanding. The risk-free rate for periods within the contractual term of the share option is based on the Japanese government bond yield curve in effect at the time of grant.

| | As of August 3, 2015 | As of August 1, 2014 |
|---|---|---|
| Grant-date fair value | ¥ 1,989 | ¥ 2,010 |
| Expected term | 5 years | 5 years |
| Risk-free rate | 0.01% – 0.42% | 0.05% – 0.55% |
| Expected volatility | 31.00% | 37.00% |
| Expected dividend yield | 2.39% | 2.54% |

Interest rate corresponding to discount periods is applied to risk-free rate, that is as follows:

| | 1 year | 2 years | 3 years | 4 years | 5 years | 6 years | 7 years | 8 years | 9 years | 10 years |
|---|---|---|---|---|---|---|---|---|---|---|
| **2016** | 0.01% | 0.01% | 0.01% | 0.04% | 0.09% | 0.15% | 0.22% | 0.28% | 0.35% | 0.42% |
| **2015** | 0.05% | 0.07% | 0.09% | 0.11% | 0.15% | 0.19% | 0.27% | 0.36% | 0.46% | 0.55% |

## 14. Other Comprehensive Income (Loss)

Changes in accumulated other comprehensive income (loss) for the years ended March 31, 2016 and 2015 are as follows:

| | Millions of yen | | | | |
|---|---|---|---|---|---|
| | 2016 | | | | |
| | 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 | ¥ 102,292 | ¥ 32,848 | ¥ (22,351) | ¥ 229 | ¥ 113,018 |
| Other comprehensive income (loss) before reclassifications | (82,016) | (11,866) | (7,372) | 1,078 | (100,176) |
| Amounts reclassified from accumulated other comprehensive income (loss) | (111) | (1,729) | 1,737 | (288) | (391) |
| Net other comprehensive income (loss) | (82,127) | (13,595) | (5,635) | 790 | (100,567) |
| Less: other comprehensive income (loss) attributable to noncotrolling interests | (6,045) | — | 81 | 141 | (5,823) |
| Other comprehensive income (loss) attributable to Komatsu Ltd. | (76,082) | (13,595) | (5,716) | 649 | (94,744) |
| Equity transactions with noncontrolling interests | 393 | — | — | — | 393 |
| Balance, end of year | ¥ 26,603 | ¥ 19,253 | ¥ (28,067) | ¥ 878 | ¥ 18,667 |

All amounts are net of tax.

| | Millions of yen | | | | |
|---|---|---|---|---|---|
| | 2015 | | | | |
| | 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 | ¥ 21,988 | ¥ 28,301 | ¥ (20,239) | ¥ (15) | ¥ 30,035 |
| Other comprehensive income (loss) before reclassifications | 85,169 | 5,399 | (3,758) | (9,127) | 77,683 |
| Amounts reclassified from accumulated other comprehensive income (loss) | 191 | (852) | 1,573 | 9,292 | 10,204 |
| Net other comprehensive income (loss) | 85,360 | 4,547 | (2,185) | 165 | 87,887 |
| Less: other comprehensive income (loss) attributable to noncotrolling interests | 5,056 | — | (73) | (79) | 4,904 |
| Other comprehensive income (loss) attributable to Komatsu Ltd. | 80,304 | 4,547 | (2,112) | 244 | 82,983 |
| Equity transactions with noncontrolling interests | — | — | — | — | — |
| Balance, end of year | ¥ 102,292 | ¥ 32,848 | ¥ (22,351) | ¥ 229 | ¥ 113,018 |

All amounts are net of tax.

Reclassification out of accumulated other comprehensive income (loss) for the years ended March 31, 2016 and 2015 are as follows:

| | Millions of yen 2016 | Affected line items in consolidated statements of income |
|---|---|---|
| Foreign currency translation adjustments | | |
| Liquidation and sale | ¥ 111 | Other income (expenses), net: Other, net |
| | 111 | Total before tax |
| | — | Income taxes |
| | 111 | Net of tax |
| Net unrealized holding gains (losses) on securities available for sale | | |
| Gain from sale | 2,823 | Other income (expenses), net: Other, net |
| | 2,823 | Total before tax |
| | (1,094) | Income taxes |
| | 1,729 | Net of tax |
| Pension liability adjustments | | |
| Amortization of actuarial loss | (1,910) | *1 |
| Amortization of prior service cost | (747) | *1 |
| | (2,657) | Total before tax |
| | 920 | Income taxes |
| | (1,737) | Net of tax |
| Net unrealized holding gains (losses) on derivative instruments | | |
| Forwards contracts | 420 | Other income (expenses), net: Other, net |
| | 420 | Total before tax |
| | (132) | Income taxes |
| | 288 | Net of tax |
| Total reclassification for the year | ¥ 391 | Net of tax |

*1 These amounts are included in the computation of net periodic pension cost. (Note 12)

| | Millions of yen | |
|---|---|---|
| | 2015 | Affected line items in consolidated statements of income |
| Foreign currency translation adjustments | | |
| Liquidation | ¥ (191) | Other income (expenses), net: Other, net |
| | (191) | Total before tax |
| | — | Income taxes |
| | (191) | Net of tax |
| Net unrealized holding gains (losses) on securities available for sale | | |
| Gain from sale | 1,376 | Other income (expenses), net: Other, net |
| | 1,376 | Total before tax |
| | (524) | Income taxes |
| | 852 | Net of tax |
| Pension liability adjustments | | |
| Amortization of actuarial loss | (1,772) | *1 |
| Amortization of prior service cost | (634) | *1 |
| | (2,406) | Total before tax |
| | 833 | Income taxes |
| | (1,573) | Net of tax |
| Net unrealized holding gains (losses) on derivative instruments | | |
| Forwards contracts | (13,815) | Other income (expenses), net: Other, net |
| | (13,815) | Total before tax |
| | 4,523 | Income taxes |
| | (9,292) | Net of tax |
| Total reclassification for the year | ¥ (10,204) | Net of tax |

*1 These amounts are included in the computation of net periodic pension cost. (Note 12)

Tax effects allocated to each component of other comprehensive income (loss) for the years ended March 31, 2016 and 2015 are as follows:

| | Millions of yen | | |
|---|---|---|---|
| | 2016 | | |
| | Before tax amount | Tax (expense) or benefit | Net of tax amount |
| Foreign currency translation adjustments | | | |
| Foreign currency translation adjustments arising during the year | ¥ (82,253) | ¥ 237 | ¥ (82,016) |
| Less: reclassification adjustment for gains included in net income | (111) | — | (111) |
| Net foreign currency translation adjustments | (82,364) | 237 | (82,127) |
| Net unrealized holding gains (losses) on securities available for sale | | | |
| Unrealized holding losses arising during the year | (17,414) | 5,548 | (11,866) |
| Less: reclassification adjustment for gains included in net income | (2,823) | 1,094 | (1,729) |
| Net unrealized holding losses | (20,237) | 6,642 | (13,595) |
| Pension liability adjustments | | | |
| Pension liability adjustments arising during the year | (11,497) | 4,125 | (7,372) |
| Less: reclassification adjustment for losses included in net income | 2,657 | (920) | 1,737 |
| Net pension liability adjustments | (8,840) | 3,205 | (5,635) |
| Net unrealized holding gains (losses) on derivative instruments | | | |
| Unrealized holding gains arising during the year | 1,736 | (658) | 1,078 |
| Less: reclassification adjustment for gains included in net income | (420) | 132 | (288) |
| Net unrealized holding gains | 1,316 | (526) | 790 |
| Other comprehensive income (loss) | ¥ (110,125) | ¥ 9,558 | ¥ (100,567) |

| | Millions of yen | | |
|---|---|---|---|
| | 2015 | | |
| | Before tax amount | Tax (expense) or benefit | Net of tax amount |
| Foreign currency translation adjustments | | | |
| Foreign currency translation adjustments arising during the year | ¥ 85,430 | ¥ (261) | ¥ 85,169 |
| Less: reclassification adjustment for losses included in net income | 191 | — | 191 |
| Net foreign currency translation adjustments | 85,621 | (261) | 85,360 |
| Net unrealized holding gains (losses) on securities available for sale | | | |
| Unrealized holding gains arising during the year | 8,792 | (3,393) | 5,399 |
| Less: reclassification adjustment for gains included in net income | (1,376) | 524 | (852) |
| Net unrealized holding gains | 7,416 | (2,869) | 4,547 |
| Pension liability adjustments | | | |
| Pension liability adjustments arising during the year | (5,536) | 1,778 | (3,758) |
| Less: reclassification adjustment for losses included in net income | 2,406 | (833) | 1,573 |
| Net pension liability adjustments | (3,130) | 945 | (2,185) |
| Net unrealized holding gains (losses) on derivative instruments | | | |
| Unrealized holding losses arising during the year | (13,872) | 4,745 | (9,127) |
| Less: reclassification adjustment for losses included in net income | 13,815 | (4,523) | 9,292 |
| Net unrealized holding losses | (57) | 222 | 165 |
| Other comprehensive income (loss) | ¥ 89,850 | ¥ (1,963) | ¥ 87,887 |

## 15. Income Taxes

The sources of income before income taxes and equity in earnings of affiliated companies and the sources of income taxes for the years ended March 31, 2016 and 2015, were as follows:

| | Millions of yen | |
|---|---|---|
| | 2016 | 2015 |
| Income before income taxes and equity in earnings of affiliated companies: | | |
| Japan | ¥ 104,422 | ¥ 106,265 |
| Foreign | 100,459 | 129,809 |
| | ¥ 204,881 | ¥ 236,074 |
| Income taxes: | | |
| Current – | | |
| Japan | ¥ 32,198 | ¥ 37,683 |
| Foreign | 30,103 | 39,826 |
| | ¥ 62,301 | ¥ 77,509 |
| Deferred – | | |
| Japan | ¥ 4,291 | ¥ 1,633 |
| Foreign | (2,875) | (647) |
| | ¥ 1,416 | ¥ 986 |
| Total | ¥ 63,717 | ¥ 78,495 |

Total income taxes recognized for the years ended March 31, 2016 and 2015 were applicable to the following:

| | Millions of yen | |
|---|---|---|
| | 2016 | 2015 |
| Income before income taxes and equity in earnings of affiliated companies | ¥ 63,717 | ¥ 78,495 |
| Other comprehensive income(loss): | | |
| Foreign currency translation adjustments | (237) | 261 |
| Net unrealized holding gains(losses) on securities available for sale | (6,642) | 2,869 |
| Pension liability adjustments | (3,205) | (945) |
| Net unrealized holding gains(losses) on derivative instruments | 526 | (222) |
| Total income taxes | ¥ 54,159 | ¥ 80,458 |

Temporary differences and tax loss carryforwards which gave rise to deferred tax assets and liabilities at March 31, 2016 and 2015, are as follows:

| | Millions of yen | |
|---|---|---|
| | 2016 | 2015 |
| Deferred tax assets: | | |
| Allowances provided, not yet recognized for tax | ¥ 5,283 | ¥ 7,302 |
| Accrued expenses | 36,056 | 38,081 |
| Investment securities | 3,300 | 3,210 |
| Pension and retirement benefits | 13,219 | 8,620 |
| Property, plant and equipment | 4,651 | 5,943 |
| Inventories | 13,397 | 14,592 |
| Net operating loss carryforwards | 23,541 | 20,927 |
| Research and development expenses | 1,606 | 2,314 |
| Other | 4,805 | 11,164 |
| Total gross deferred tax assets | 105,858 | 112,153 |
| Less: valuation allowance | (20,893) | (24,723) |
| Total deferred tax assets | ¥ 84,965 | ¥ 87,430 |
| Deferred tax liabilities: | | |
| Unrealized holding gains on securities available for sale | ¥ 9,546 | ¥ 16,599 |
| Property, plant and equipment | 9,245 | 9,820 |
| Intangible assets | 8,020 | 8,801 |
| Undistributed earnings of foreign subsidiaries and affiliated companies accounted for by the equity method | 6,179 | 5,381 |
| Total deferred tax liabilities | ¥ 32,990 | ¥ 40,601 |
| Total deferred tax assets | ¥ 51,975 | ¥ 46,829 |

Net deferred tax assets and liabilities as of March 31, 2016 and 2015 are reflected on the consolidated balance sheets under the following captions:

| | Millions of yen | |
|---|---|---|
| | 2016 | 2015 |
| Deferred income taxes and other current assets | ¥ 47,695 | ¥ 55,613 |
| Deferred income taxes and other assets | 16,380 | 17,449 |
| Deferred income taxes and other current liabilities | (384) | (256) |
| Deferred income taxes and other liabilities | (11,716) | (25,977) |
| | ¥ 51,975 | ¥ 46,829 |

The valuation allowance was ¥25,649 million as of March 31, 2014. The net changes in the total valuation allowance for the years ended March 31, 2016 and 2015 were a decrease of ¥3,830 million and a decrease of ¥926 million, respectively.
In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible and net operating losses available to be utilized. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets, net of the existing valuation allowances at March 31, 2016 and 2015, are deductible, management believes it is more likely than not that the companies will realize the benefits of these deductible differences and net operating loss carryforwards. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced.

The Company and its Japanese subsidiaries are subject to a National Corporate tax rate of approximately 24%, an inhabitant tax of approximately 5% and a deductible Enterprise tax of approximately 7%, which in the aggregate resulted in a Japanese statutory tax rate of approximately 33.4% for the years ended March 31, 2016 and are subject to a National Corporate tax rate of approximately 26%, an inhabitant tax of approximately 5% and a deductible Enterprise tax of approximately 8%, which in the aggregate resulted in a Japanese statutory tax rate of approximately 35.7% for the years ended March 31, 2015. The inhabitant tax rate and Enterprise tax rate vary by local jurisdiction.

The differences between the Japanese statutory tax rates and the effective tax rates for the years ended March 31, 2016 and 2015, are summarized as follows:

| | 2016 | 2015 |
|---|---|---|
| Japanese statutory tax rate | 33.4% | 35.7% |
| Increase (decrease) in tax rates resulting from: | | |
| Change in valuation allowance | (0.8) | 0.1 |
| Expenses not deductible for tax purposes | 0.1 | 1.2 |
| Income of foreign subsidiaries taxed at lower than Japanese normal rate | (2.4) | (3.3) |
| Tax credit for research and development expenses | (2.3) | (2.5) |
| Other, net | 3.1 | 2.1 |
| Effective tax rate | 31.1% | 33.3% |

On March 29, 2016, the National Diet of Japan approved the laws for amendments to previous income tax laws. Upon the change in the laws, the statutory income tax rate in Japan will be changed to approximately 31.5% for fiscal years beginning on or after April 1, 2016, and to approximately 31.3% for fiscal years beginning on or after April 1, 2018. Thus, the Company and its Japanese subsidiaries measured deferred tax assets and liabilities based on the tax rates to be applied in the fiscal years in which temporary differences are expected to be recovered or settled. The effect of tax rate changes in Japan did not have a material impact on Komatsu's consolidated financial statements.

Foreign subsidiaries are subject to income taxes of the countries in which they operate. At March 31, 2016 and 2015, undistributed earnings of foreign subsidiaries amount to ¥762,430 million and ¥713,429 million, respectively. The Company has a policy to distribute a certain portion of undistributed earnings of foreign subsidiaries. As of March 31, 2016 and 2015, Komatsu recognized deferred tax liabilities of ¥896 million and ¥952 million, respectively, associated with those earnings. As of March 31, 2016 and 2015, Komatsu did not recognize deferred tax liabilities of ¥38,906 million and ¥36,652 million, respectively, for such portion of undistributed earnings of foreign subsidiaries that the Company intends to reinvest indefinitely.

At March 31, 2016, certain subsidiaries had net operating loss carryforwards aggregating approximately ¥70,903 million, which may be used as a deduction in determining taxable income in future periods. The period available to offset future taxable income varies in each tax jurisdiction as follows:

| At March 31, 2016 | Millions of yen |
|---|---|
| Within 5 years | ¥ 19,453 |
| 6 to 20 years | 26,130 |
| Indefinite periods | 25,320 |
| Total | ¥ 70,903 |

Although Komatsu believes its estimates of unrecognized tax benefits are reasonable, uncertainties regarding the final determination of income tax audit settlements and any related litigation could affect the total amount of unrecognized tax benefits in the future periods. For the years ended March 31, 2016 and 2015, Komatsu did not have material unrecognized tax benefits and thus, no significant interest and penalties related to unrecognized tax benefits were recognized. Based on the information available as of March 31, 2016, Komatsu does not expect significant changes to the unrecognized tax benefits within the next twelve months.

Komatsu files income tax returns in Japan and various foreign tax jurisdictions. Komatsu is no longer subject to income tax examinations by the tax authority before and in the fiscal year ended March 31, 2009 in Japan and, is no longer subject to income tax examinations by the tax authority before and in the fiscal year ended March 31, 2008 in the United States. In other foreign tax jurisdictions, the other subsidiaries are no longer subject to income tax examinations by tax authorities before and in the fiscal year ended March 31, 2008 with few exceptions.

## 16. Rent Expenses

Komatsu leases office space and equipment and employee housing, etc. under cancelable and non-cancelable lease agreements. Rent expenses under cancelable and non-cancelable operating leases amounted to ¥15,174 million and ¥15,824 million, respectively, for the years ended March 31, 2016 and 2015.

At March 31, 2016, the future minimum lease payments under non-cancelable operating leases and capital leases are as follows:

| | Millions of yen | | |
|---|---|---|---|
| **Year ending March 31** | Capital leases | Operating lease commitments | Total |
| 2017 | ¥ 463 | ¥ 3,537 | ¥ 4,000 |
| 2018 | 156 | 2,083 | 2,239 |
| 2019 | 128 | 1,222 | 1,350 |
| 2020 | 130 | 767 | 897 |
| 2021 | 120 | 504 | 624 |
| Thereafter | 109 | 884 | 993 |
| Total minimum lease payments | ¥ 1,106 | ¥ 8,997 | ¥ 10,103 |
| Less: amounts representing interest | (99) | | |
| Present value of net minimum capital lease payments | ¥ 1,007 | | |

At March 31, 2015, the future minimum lease payments under non-cancelable operating leases and capital leases were as follows:

| | Millions of yen | | |
|---|---|---|---|
| **Year ending March 31** | Capital leases | Operating lease commitments | Total |
| 2016 | ¥ 1,291 | ¥ 4,544 | ¥ 5,835 |
| 2017 | 297 | 3,122 | 3,419 |
| 2018 | 165 | 1,941 | 2,106 |
| 2019 | 135 | 1,052 | 1,187 |
| 2020 | 140 | 682 | 822 |
| Thereafter | 246 | 1,120 | 1,366 |
| Total minimum lease payments | ¥ 2,274 | ¥ 12,461 | ¥ 14,735 |
| Less: amounts representing interest | (163) | | |
| Present value of net minimum capital lease payments | ¥ 2,111 | | |

**17. Net Income Attributable to Komatsu Ltd. per Share**

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

| | Millions of yen | |
|---|---|---|
| | 2016 | 2015 |
| Net income attributable to Komatsu Ltd. | ¥ 137,426 | ¥ 154,009 |

| | Number of shares | |
|---|---|---|
| | 2016 | 2015 |
| Weighted average common shares outstanding, less treasury stock | 942,538,069 | 950,276,336 |
| Dilutive effect of: | | |
| Stock options | 1,239,059 | 1,222,234 |
| Weighted average diluted common shares outstanding | 943,777,128 | 951,498,570 |

| | Yen | |
|---|---|---|
| | 2016 | 2015 |
| Net income attributable to Komatsu Ltd. per share: | | |
| Basic | 145.80 | 162.07 |
| Diluted | 145.61 | 161.86 |

## 18. Commitments and Contingent Liabilities

At March 31, 2016 and 2015, Komatsu was contingently liable for discounted and transferred receivables on a recourse basis with the financial institutions of ¥47 million and ¥808 million, respectively.

Komatsu provides guarantees to third parties of loans of the employees, affiliated companies, customers and other companies. The guarantees of loans relating to the employees are mainly made for their housing loans. The guarantees of loans relating to the affiliated companies, customers and other companies are made to enhance the credit of those companies. For each guarantee provided, Komatsu would have to perform under a guarantee, if the borrower defaults on a payment within the contract terms. The contract terms are from 10 years to 30 years in the case of employees with housing loans, and from 1 year to 8 years in the case of loans relating to the affiliated companies, customers and other companies. The maximum amount of undiscounted payments Komatsu would have had to make in the event of default at March 31, 2016 and 2015 were ¥21,526 million and ¥47,627 million, respectively. The fair value of the liabilities recognized for Komatsu's obligations as guarantors under those guarantees at March 31, 2016 were insignificant. Certain of those guarantees were secured by collateral and insurance issued to Komatsu.

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

Commitments for capital investment outstanding at March 31, 2016 and 2015 aggregated approximately ¥13,700 million and approximately ¥15,500 million, respectively.

Komatsu is involved in certain legal actions and claims arising 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.

Komatsu also issues contractual product warranties under which it generally guarantees the performance of products delivered and services rendered for a certain period or term. Change in accrued product warranty cost for the years ended March 31, 2016 and 2015 is summarized as follows:

| | Millions of yen | |
|---|---|---|
| | 2016 | 2015 |
| Balance at beginning of year | ¥ 28,725 | ¥ 30,934 |
| Addition | 20,769 | 17,351 |
| Utilization | (19,299) | (20,948) |
| Other | (1,391) | 1,388 |
| Balance at end of year | ¥ 28,804 | ¥ 28,725 |

## 19. Derivative Financial Instruments

### Risk Management Policy

Komatsu is exposed to market risk primarily from changes in foreign currency exchange and interest rates with respect to debt obligations, international operations and foreign currency denominated credits and debts. In order to manage these risks that arise in the normal course of business, Komatsu enters into various derivative transactions for hedging pursuant to its policies and procedures (Notes 20 and 21). Komatsu does not enter into derivative financial transactions for trading or speculative purposes.

Komatsu has entered into interest rate swap and cap agreements, partly concurrent with currency swap agreements for the purpose of managing the risk resulting from changes in cash flow or fair value that arise in their interest rate and foreign currency exposure with respect to certain short-term and long-term debts.

Komatsu operates internationally, which exposes Komatsu to the foreign exchange risk against existing assets and liabilities and transactions denominated in foreign currencies (principally the U.S. dollar and the Euro). In order to reduce these risks, Komatsu executes forward exchange contracts and option contracts based on its projected cash flow in foreign currencies.

Komatsu is exposed to credit-related losses in the event of nonperformance by counterparties to derivative financial instruments, but Komatsu does not expect any counterparties to fail to meet their obligations because of the high credit rating of the counterparties. Komatsu has not held any derivative instruments which consisted credit-risk-related contingent features.

### Cash Flow Hedges

Komatsu uses derivative financial instruments designated as cash flow hedges to manage Komatsu’s foreign exchange risks associated with forecasted transactions and Komatsu’s interest risks associated with debt obligations. For transactions denominated in foreign currencies, Komatsu typically hedges forecasted and firm commitment exposures to the variability in cash flow basically up to one year. For the variable rate debt obligations, Komatsu enters into interest rate swap contracts to manage the changes in cash flows. Komatsu records the changes in fair value of derivative instruments designated as cash flow hedges in accumulated other comprehensive income (loss). These amounts are reclassified into earnings through other income (expenses), net when the hedged items impact earnings. Approximately ¥703 million of existing losses included in accumulated other comprehensive income (loss) at March 31, 2016 will be reclassified into earnings within twelve months from that date. No cash flow hedges were discontinued during the year ended March 31, 2016 as a result of anticipated transactions that are no longer probable of occurring.

### Undesignated Derivative Instruments

Komatsu has entered into interest rate swap and cross-currency swap contracts not designated as hedging instruments under ASC 815, “Derivatives and Hedging” as a means of managing Komatsu’s interest rate exposures for short-term and long-term debts. Forward contracts not designated as hedging instruments under ASC 815 are also used to hedge certain foreign currency exposures. The changes in fair value of such instruments are recognized currently in earnings.

**Notional Principal Amounts of Derivative Financial Instruments**

Notional principal amounts of derivative financial instruments outstanding at March 31, 2016 and 2015 are as follows.

| | Millions of yen 2016 | Millions of yen 2015 |
|---|---|---|
| Forwards contracts: | | |
| Sale of foreign currencies | ¥ 77,214 | ¥ 107,605 |
| Purchase of foreign currencies | 79,291 | 47,716 |
| Interest rate swaps and cross-currency swap agreements | 89,310 | 102,697 |

Fair value of derivative instruments at March 31, 2016 and 2015 on the consolidated balance sheets are as follows:

| Derivative instruments designated as hedging instruments | Derivative Assets — Location on the consolidated Balance Sheets | Derivative Assets — Estimated fair value | Derivative Liabilities — Location on the consolidated Balance Sheets | Derivative Liabilities — Estimated fair value |
|---|---|---|---|---|
| | Millions of yen 2016 | | | |
| Forwards contracts | Deferred income taxes and other current assets | ¥ 1,879 | Deferred income taxes and other current liabilities | ¥ 2,960 |
| | Deferred income taxes and other assets | 121 | Deferred income taxes and other liabilities | — |
| Interest rate swaps and cross-currency swap agreements | Deferred income taxes and other current assets | 14 | Deferred income taxes and other current liabilities | 340 |
| Total | | ¥ 2,014 | | ¥ 3,300 |

| Undesignated derivative instruments | Derivative Assets — Location on the consolidated Balance Sheets | Derivative Assets — Estimated fair value | Derivative Liabilities — Location on the consolidated Balance Sheets | Derivative Liabilities — Estimated fair value |
|---|---|---|---|---|
| Forwards contracts | Deferred income taxes and other current assets | ¥ 771 | Deferred income taxes and other current liabilities | ¥ 2,015 |
| | Deferred income taxes and other assets | — | Deferred income taxes and other liabilities | — |
| Interest rate swaps and cross-currency swap agreements | Deferred income taxes and other current assets | 322 | Deferred income taxes and other current liabilities | 258 |
| | Deferred income taxes and other assets | 136 | Deferred income taxes and other liabilities | 248 |
| Total | | ¥ 1,229 | | ¥ 2,521 |
| Total Derivative Instruments | | ¥ 3,243 | | ¥ 5,821 |

| | Millions of yen | | | |
|---|---|---|---|---|
| | 2015 | | | |
| | 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 | Deferred income taxes and other current assets | ¥ 466 | Deferred income taxes and other current liabilities | ¥ 6,736 |
| | Deferred income taxes and other assets | 108 | Deferred income taxes and other liabilities | 901 |
| Interest rate swaps and cross-currency swap agreements | Deferred income taxes and other current assets | 1 | Deferred income taxes and other current liabilities | 862 |
| Total | | ¥ 575 | | ¥ 8,499 |

| | Derivative Assets | | Derivative Liabilities | |
|---|---|---|---|---|
| **Undesignated derivative instruments** | Location on the consolidated Balance Sheets | Estimated fair value | Location on the consolidated Balance Sheets | Estimated fair value |
| Forwards contracts | Deferred income taxes and other current assets | ¥ 666 | Deferred income taxes and other current liabilities | ¥ 1,323 |
| | Deferred income taxes and other assets | — | Deferred income taxes and other liabilities | — |
| Interest rate swaps and cross-currency swap agreements | Deferred income taxes and other current assets | 752 | Deferred income taxes and other current liabilities | 229 |
| | Deferred income taxes and other assets | 360 | Deferred income taxes and other liabilities | — |
| Total | | ¥ 1,778 | | ¥ 1,552 |
| Total Derivative Instruments | | ¥ 2,353 | | ¥10,051 |

The effects of derivative instruments on the consolidated statements of income and the consolidated statements of comprehensive income for the years ended March 31, 2016 and 2015 are as follows:

**Derivative instruments designated as cash flow hedging relationships**

| | Millions of yen | | | | |
|---|---|---|---|---|---|
| | 2016 | | | | |
| | 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 | ¥ 1,230 | Other income (expenses), net: Other, net | ¥ 420 | Other income (expenses), net: Other, net | ¥ (180) |
| Interest rate swaps and cross-currency swap agreements | 506 | — | — | — | — |
| Total | ¥ 1,736 | | ¥ 420 | | ¥ (180) |

| | Millions of yen | | | | |
|---|---|---|---|---|---|
| | 2015 | | | | |
| | 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 | ¥ (13,589) | Other income (expenses), net: Other, net | ¥ (13,815) | — | ¥ — |
| Interest rate swaps and cross-currency swap agreements | (283) | — | — | — | — |
| Total | ¥ (13,872) | | ¥ (13,815) | | ¥ — |

* OCI stands for other comprehensive income (loss).

**Derivative instruments not designated as hedging instruments relationships**

| | Millions of yen | | |
|---|---|---|---|
| | 2016 | | |
| | 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 | ¥ | (523) |
| Interest rate swaps and | Cost of sales | | 16 |
| cross-currency swap agreements | Other income (expenses), net: Other, net | | 13 |
| Total | | ¥ | (494) |

| | Millions of yen | | |
|---|---|---|---|
| | 2015 | | |
| | 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 | ¥ | 673 |
| Interest rate swaps and | Cost of sales | | (327) |
| cross-currency swap agreements | Other income (expenses), net: Other, net | | (15) |
| Total | | ¥ | 331 |

## 20. Fair Values of Financial Instruments

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

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

**(2) Investment securities, marketable equity securities**

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** (Note 4)

The fair values of long-term trade receivables are based on the present value of future cash flows through maturity, discounted using estimated current interest rates. The fair values computed on such a basis approximate the carrying amounts.

**(4) Long-term debt, including current portion** (Note 21)

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

**(5) Derivatives** (Notes 19 and 21)

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 March 31, 2016 and 2015, are summarized as follows:

| | Millions of yen | | | |
|---|---|---|---|---|
| | 2016 | | 2015 | |
| | Carrying amount | Estimated fair value | Carrying amount | Estimated fair value |
| Cash and cash equivalents | ¥ 106,259 | ¥ 106,259 | ¥ 105,905 | ¥ 105,905 |
| Time deposits | 2,212 | 2,212 | 1,407 | 1,407 |
| Trade notes and accounts receivable, net | 583,390 | 583,390 | 620,076 | 620,076 |
| Long-term trade receivables, net | 291,923 | 291,923 | 280,138 | 280,138 |
| Investment securities, marketable equity securities | 43,817 | 43,817 | 65,456 | 65,456 |
| Short-term debt | 144,552 | 144,552 | 191,937 | 191,937 |
| Trade notes, bills and accounts payable | 205,411 | 205,411 | 225,093 | 225,093 |
| Long-term debt, including current portion | 313,000 | 311,288 | 397,192 | 393,997 |
| Derivatives: | | | | |
| Forwards contracts | | | | |
| Assets | 2,771 | 2,771 | 1,240 | 1,240 |
| Liabilities | 4,975 | 4,975 | 8,960 | 8,960 |
| Interest rate swaps and cross-currency swap agreements | | | | |
| Assets | 472 | 472 | 1,113 | 1,113 |
| Liabilities | 846 | 846 | 1,091 | 1,091 |

**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.

## 21. Fair value measurements

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 March 31, 2016 and 2015 are as follows:

| | Millions of yen | | | |
|---|---|---|---|---|
| **At March 31, 2016** | Level 1 | Level 2 | Level 3 | Total |
| Assets | | | | |
| Investment securities available for sale | | | | |
| Manufacturing industry | ¥ 22,858 | ¥ — | ¥ — | ¥ 22,858 |
| Financial service industry | 16,501 | — | — | 16,501 |
| Other | 4,458 | — | — | 4,458 |
| Derivatives | | | | |
| Forward contracts | — | 2,771 | — | 2,771 |
| Interest rate swaps and cross-currency swap agreements | — | 472 | — | 472 |
| Total | ¥ 43,817 | ¥ 3,243 | ¥ — | ¥ 47,060 |
| Liabilities | | | | |
| Derivatives | | | | |
| Forward contracts | ¥ — | ¥ 4,975 | ¥ — | ¥ 4,975 |
| Interest rate swaps and cross-currency swap agreements | — | 846 | — | 846 |
| Other | — | 23,448 | 301 | 23,749 |
| Total | ¥ — | ¥ 29,269 | ¥ 301 | ¥ 29,570 |

| | Millions of yen | | | |
|---|---|---|---|---|
| **At March 31, 2015** | Level 1 | Level 2 | Level 3 | Total |
| Assets | | | | |
| Investment securities available for sale | | | | |
| Manufacturing industry | ¥ 34,564 | ¥ — | ¥ — | ¥ 34,564 |
| Financial service industry | 25,049 | — | — | 25,049 |
| Other | 5,843 | — | — | 5,843 |
| Derivatives | | | | |
| Forward contracts | — | 1,240 | — | 1,240 |
| Interest rate swaps and cross-currency swap agreements | — | 1,113 | — | 1,113 |
| Total | ¥ 65,456 | ¥ 2,353 | ¥ — | ¥ 67,809 |
| Liabilities | | | | |
| Derivatives | | | | |
| Forward contracts | ¥ — | ¥ 8,960 | ¥ — | ¥ 8,960 |
| Interest rate swaps and cross-currency swap agreements | — | 1,091 | — | 1,091 |
| Other | — | 68,034 | 369 | 68,403 |
| Total | ¥ — | ¥ 78,085 | ¥ 369 | ¥ 78,454 |

**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 19 and 20)

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.

**Other**

Other primarily represents loans which are measured at fair value under the Fair Value Option of ASC 825, “Financial Instruments”. The fair value of loans is based on a valuation model based on market yield curve data and credit spread data and is classified in Level 2 in the fair value hierarchy. The credit spread data was obtained through use of credit default swaps for each counterparty.

The following table summarizes information about changes of Level 3 for the years ended March 31, 2016 and 2015:

| | Millions of yen | |
|---|---|---|
| | 2016 | 2015 |
| Balance, beginning of year | ¥ (369) | ¥ (508) |
| Total gains or losses (realized / unrealized) | 68 | 139 |
| Included in earnings | 51 | 209 |
| Included in other comprehensive income (loss) | 17 | (70) |
| Balance, end of year | ¥ (301) | ¥ (369) |

The amount of unrealized gains on classified in Level 3 liabilities recognized in earnings for the years ended March 31, 2016 and 2015 related to liabilities still held at March 31, 2016 and 2015 were gains of ¥51 million and ¥209 million, respectively. These gains were reported in other income (expense), net of the consolidated statements of income.

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

For the years ended March 31, 2016 and 2015, assets and liabilities that were measured at fair value on a non-recurring basis were not material.

### 22. Business Segment and Geographic Information

Komatsu has two operating segments: 1) Construction, Mining and Utility Equipment, and 2) 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 used by the segments are the same as those used in the preparation of the consolidated financial statements. 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.

The following tables present financial information regarding Komatsu's operating segments and geographic information at March 31, 2016 and 2015, and for the years then ended:

**Operating segments:**

| | Millions of yen | |
|---|---|---|
| | 2016 | 2015 |
| **Net sales:** | | |
| Construction, Mining and Utility Equipment – | | |
| External customers | ¥ 1,638,410 | ¥ 1,761,391 |
| Intersegment | 2,632 | 2,032 |
| Total | 1,641,042 | 1,763,423 |
| Industrial Machinery and Others – | | |
| External customers | 216,554 | 217,285 |
| Intersegment | 3,611 | 4,232 |
| Total | 220,165 | 221,517 |
| Elimination | (6,243) | (6,264) |
| Consolidated | ¥ 1,854,964 | ¥ 1,978,676 |
| **Segment profit:** | | |
| Construction, Mining and Utility Equipment | ¥ 184,168 | ¥ 227,272 |
| Industrial Machinery and Others | 19,386 | 16,257 |
| Total segment profit | 203,554 | 243,529 |
| Corporate expenses and elimination | (1,496) | (2,552) |
| Total | 202,058 | 240,977 |
| Impairment loss on long-lived assets | 3,032 | 1,124 |
| Other operating income, net | 9,551 | 2,209 |
| Operating income | 208,577 | 242,062 |
| Interest and dividend income | 3,689 | 3,266 |
| Interest expense | (8,771) | (9,328) |
| Other, net | 1,386 | 74 |
| Consolidated income before income taxes and equity in earnings of affiliated companies | ¥ 204,881 | ¥ 236,074 |
| **Segment assets:** | | |
| Construction, Mining and Utility Equipment | ¥ 2,334,057 | ¥ 2,472,244 |
| Industrial Machinery and Others | 241,614 | 252,078 |
| Corporate assets and elimination | 38,983 | 74,085 |
| Consolidated | ¥ 2,614,654 | ¥ 2,798,407 |
| **Depreciation and amortization:** | | |
| Construction, Mining and Utility Equipment | ¥ 104,151 | ¥ 93,794 |
| Industrial Machinery and Others | 7,023 | 6,872 |
| Consolidated | ¥ 111,174 | ¥ 100,666 |
| **Capital investment:** | | |
| Construction, Mining and Utility Equipment | ¥ 153,026 | ¥ 186,726 |
| Industrial Machinery and Others | 7,025 | 5,998 |
| Consolidated | ¥ 160,051 | ¥ 192,724 |

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

b) 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.

Segment assets are those assets used in the operations of each segment. Unallocated corporate assets consist primarily of cash and cash equivalents and marketable investment securities maintained for general corporate purposes.

Amortization for the years ended March 31, 2016 and 2015, does not include amortization of long-term prepaid expenses of ¥1,293 million and ¥1,573 million.

Impairment loss on long-lived assets recorded in each segment asset for the years ended March 31, 2016 and 2015, are as follows:

| | Millions of yen | |
|---|---|---|
| | 2016 | 2015 |
| Construction, Mining and Utility Equipment | ¥ 1,953 | ¥ 404 |
| Industrial Machinery and Others | 1,079 | 720 |
| Total | ¥ 3,032 | ¥ 1,124 |

**Geographic information:**

Net sales determined by customer location for the years ended March 31, 2016 and 2015, are as follows:

| | Millions of yen | |
|---|---|---|
| | 2016 | 2015 |
| Japan | ¥ 414,762 | ¥ 424,381 |
| The Americas | 661,805 | 650,171 |
| Europe and CIS | 202,934 | 213,187 |
| China | 100,004 | 132,417 |
| Asia (excluding Japan and China) and Oceania | 333,928 | 385,865 |
| Middle East and Africa | 141,531 | 172,655 |
| Consolidated net sales | ¥ 1,854,964 | ¥ 1,978,676 |

Net sales to U.S.A. in the Americas for the years ended March 31, 2016 and 2015 were ¥332,015 million and ¥312,213 million, respectively.

Net sales determined by geographic origin for the years ended March 31, 2016 and 2015, and property, plant and equipment determined based on physical location at March 31, 2016 and 2015, are as follows:

| | Millions of yen | |
|---|---|---|
| | 2016 | 2015 |
| Net sales: | | |
| Japan | ¥ 615,823 | ¥ 661,719 |
| The Americas | 622,138 | 590,274 |
| Europe and CIS | 216,694 | 231,500 |
| China | 84,497 | 116,750 |
| Others | 315,813 | 378,433 |
| Total | ¥ 1,854,964 | ¥ 1,978,676 |
| Property, plant and equipment: | | |
| Japan | ¥ 388,571 | ¥ 396,494 |
| The Americas | 174,178 | 196,344 |
| Europe and CIS | 27,413 | 26,846 |
| Others | 107,580 | 124,235 |
| Total | ¥ 697,742 | ¥ 743,919 |

There were no sales to a single major external customer for the years ended March 31, 2016 and 2015.

Property, plant and equipment located in U.S.A in the Americas at March 31, 2016 and 2015 were ¥119,682 million and ¥138,735 million, respectively.

## 23. Supplementary Information to Balance Sheets

At March 31, 2016 and 2015, deferred income taxes and other current assets were comprised of the following:

| | Millions of yen | |
|---|---|---|
| | 2016 | 2015 |
| Prepaid expenses | ¥ 5,375 | ¥ 6,139 |
| Short-term loans receivable: | | |
| Affiliated companies | 252 | 376 |
| Other | 13 | 18 |
| Total | ¥ 265 | ¥ 394 |
| Deferred income taxes | 47,695 | 55,613 |
| Other | 88,258 | 109,025 |
| Total | ¥ 141,593 | ¥ 171,171 |

At March 31, 2016 and 2015, deferred income taxes and other current liabilities were comprised of the following:

| | Millions of yen | |
|---|---|---|
| | 2016 | 2015 |
| Accrued expenses | ¥ 101,329 | ¥ 103,322 |
| Deferred income taxes | 384 | 256 |
| Other | 112,487 | 126,985 |
| Total | ¥ 214,200 | ¥ 230,563 |

Valuation and qualifying accounts deducted from assets to which they apply for the years ended March 31, 2016 and 2015 were comprised of the following:

| | Millions of yen | |
|---|---|---|
| | 2016 | 2015 |
| Allowance for doubtful receivables | | |
| Balance at beginning of fiscal period | ¥ 18,347 | ¥ 19,463 |
| Additions | | |
| Charged to costs and expenses | 5,817 | 4,166 |
| Charged to other accounts | 55 | 15 |
| Deductions | (6,630) | (5,297) |
| Balance at end of fiscal period | ¥ 17,589 | ¥ 18,347 |

Deductions were principally collectible or uncollectible accounts and notes charged to the allowance.

| | Millions of yen | |
|---|---|---|
| | 2016 | 2015 |
| Valuation allowance for deferred tax assets | | |
| Balance at beginning of fiscal period | ¥ 24,723 | ¥ 25,649 |
| Additions | | |
| Charged to costs and expenses | 4,217 | 475 |
| Charged to other accounts | (544) | 1,407 |
| Deductions | (7,503) | (2,808) |
| Balance at end of fiscal period | ¥ 20,893 | ¥ 24,723 |

Deductions were principally realization or expiration of net operating loss carryforwards.

## 24. Supplementary Information to Statements of Income

The following information shows research and development expenses and advertising costs, for the years ended March 31, 2016 and 2015. Research and development expenses and advertising costs are charged to expense as incurred and are included in cost of sales and selling, general and administrative expenses in consolidated statements of income.

| | Millions of yen | |
|---|---|---|
| | 2016 | 2015 |
| Research and development expenses | ¥ 70,736 | ¥ 70,715 |
| Advertising costs | 2,053 | 2,249 |

Shipping and handling costs included in selling, general and administrative expenses for the years ended March 31, 2016 and 2015, were as follows:

| | Millions of yen | |
|---|---|---|
| | 2016 | 2015 |
| Shipping and handling costs | ¥ 43,755 | ¥ 46,589 |

For the fiscal years ended March 31, 2016 and 2015, Komatsu recognized an impairment loss of ¥3,032 million and ¥1,124 million related to property, plant and equipment and intangible assets subject to amortization at the Company and certain subsidiaries, as profitability of the assets was expected to be low in the future and Komatsu estimated the carrying amounts would not be recovered by the future cash flows.

Other operating income, net for the years ended March 31, 2016 and 2015, were comprised of the following:

| | Millions of yen | |
|---|---|---|
| | 2016 | 2015 |
| Gain on sale of property | ¥ 10,745 | ¥ 5,022 |
| Loss on disposal or sale of fixed assets | (3,669) | (3,309) |
| Other | 2,475 | 496 |
| Total | ¥ 9,551 | ¥ 2,209 |

Other income (expenses), net for the years ended March 31, 2016 and 2015, were comprised of the following:

| | Millions of yen | |
|---|---|---|
| | 2016 | 2015 |
| Interest income | | |
| Installment receivables | ¥ 241 | ¥ 723 |
| Other | 1,894 | 1,254 |
| Dividends | 1,554 | 1,289 |
| Interest expense | (8,771) | (9,328) |
| Impairment loss and net gain from sale of investment securities | 3,751 | 1,446 |
| Exchange gain (loss), net | (2,532) | (1,354) |
| Other | 167 | (18) |
| Total | ¥ (3,696) | ¥ (5,988) |

## 25. Material Subsequent Events

Not applicable.
Komatsu evaluated subsequent events through June 21, 2016, the issue date of its consolidated financial statements.

## 26. Terminology, Forms and Preparation Methods of Consolidated Financial Statements

The terminology, forms and preparation methods of the Company's consolidated financial statements are in accordance with U.S. GAAP.
The main differences between consolidated financial statements prepared in accordance with U.S. GAAP and those prepared in accordance with the Accounting Standards for Consolidated Financial Statements and the Ordinance on Terminology, Forms and Preparation Methods of Consolidated Financial Statements of Japan are as follows.

(1) Scope of consolidation
For consolidated financial statements in Japan, the scope of consolidation is determined on an effective control and influence basis. For 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 Japan, the Company recognizes income at the time of sales without deferring income on installment sales in its consolidated financial statements in accordance with U.S. GAAP.

b. Share issuance cost
Although in Japan, 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 consolidated financial statements in accordance with U.S. GAAP.

c. Accounting for retirement benefits
Although in Japan, 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 consolidated financial statements in accordance with U.S. GAAP.

d. Business combination and goodwill
Goodwill is required to be amortized over certain periods in Japan, 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 Japan, legal retained earnings is recorded as retained earnings together with other surplus, the Company separately presents as appropriated legal reserve in its consolidated financial statements in accordance with U.S. GAAP.

b. Extraordinary income and loss
In Japan, 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 such items of the Company are not qualified to be presented in extraordinary income or losses in accordance with U.S. GAAP, extraordinary income or loss is not presented in the Company's consolidated financial statements.

c. Investment and rental properties
In Japan, if the investment and rental properties are material, disclose notes for the outline, the carrying amount in the consolidated balance sheets and fair value of these properties are required. However, such notes are omitted in the Company's consolidated financial statements because the total amount of investment and rental properties is immaterial.

Supplementary Schedule

Detailed Statements of Bonds

Refer to Note 11 in the notes of consolidated financial statements.

Detailed Statements of Borrowings, etc.

Refer to Note 11 in the notes of consolidated financial statements.

Detailed Statements of Asset Retirement Obligation

The amounts of asset retirement obligation at the beginning and end of this fiscal year are less than a hundredth of the amounts of total liabilities and total equity at the beginning and end of this fiscal year, respectively. This statement has been omitted because it is immaterial.