

## Independent Auditor's Report

To the Board of Directors of Komatsu Ltd.:

### Opinion

We have audited the accompanying consolidated financial statements of Komatsu Ltd. ("the Company") and its consolidated subsidiaries (collectively referred to as "the Group"), which comprise the consolidated balance sheets as at March 31, 2021 and 2020, 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 fiscal years then ended, and notes to the consolidated financial statements and supplementary schedules.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2021 and 2020, and its consolidated financial performance and its consolidated cash flows for the fiscal years then ended 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).

### Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

<b>Reasonableness of the Company's estimates of a specific allowance for those doubtful receivables with the possibility of default among Retail Finance Receivables</b>	
<b>The key audit matter</b>	<b>How the matter was addressed in our audit</b>
As described in Note 4 "Trade Notes and Accounts Receivable" to the consolidated financial statements, trade notes and accounts receivable, and long-term trade receivables recognized in the consolidated balance sheet of Komatsu Ltd. and subsidiaries (hereinafter, collectively referred to as the "Company") as of March 31, 2021 included installment and lease receivables in the retail finance business (hereinafter, "Retail Finance Receivables") of ¥761,691 million, for which an allowance for doubtful receivables of ¥11,894 million has been recorded.	In order to assess the reasonableness of the Company's estimates of a specific allowance for those doubtful receivables with the possibility of default among Retail Finance Receivables, we requested the component auditors of consolidated subsidiaries to perform the procedures set out below. We then evaluated the reports from the component auditors to conclude on whether sufficient and appropriate audit evidence was obtained from these procedures.  <b>(1) Internal control testing</b>
As described in Note 1 "Description of Business, Basis of Financial Statement Presentation and Summary of Significant Accounting Policies" to the consolidated financial statements, the Company calculates a general allowance for doubtful receivables based on	Testing the design and operating effectiveness of certain of the Company's internal controls relevant to the estimates of a specific allowance for doubtful receivables.

<p>historical loss rates. On the other hand, for those doubtful receivables with the possibility of default, including those in cases where a customer's ability to meet its financial obligations has become doubtful due to a bankruptcy filing or deterioration in its business performance, the Company estimates credit losses based on the credit status of individual customers and an analysis on the overdue status of receivables, and then recognizes a specific allowance for doubtful receivables at an amount of the estimated credit losses reduced by an expected amount recoverable from the collateral.</p> <p>The key elements of the valuation model used to estimate a specific allowance for doubtful receivables are set out below. Each of these elements involved a high degree of uncertainty and required a high degree of management judgement.</p> <ul style="list-style-type: none"> <li>● selection of doubtful receivables subject to a specific allowance;</li> <li>● calculation of estimated credit losses based on the assessment of customers' ability to meet their financial obligations; and</li> <li>● calculation of an expected amount recoverable from the collateral</li> </ul> <p>In addition, the collection period of Retail Finance Receivables spans a long time, and customers' ability to meet their financial obligations may be affected by the novel coronavirus disease (COVID-19).</p> <p>We, therefore, determined that our assessment of the reasonableness of the Company's estimates of a specific allowance for those doubtful receivables with the possibility of default among Retail Finance Receivables was of most significance in our audit of the consolidated financial statements for the current fiscal year, and accordingly, a key audit matter.</p>	<p><b>(2) Assessment of the reasonableness of the estimates of a specific allowance for doubtful receivables</b></p> <ul style="list-style-type: none"> <li>● Involved credit specialists who assisted in our assessment of the appropriateness of the valuation model used to estimate a specific allowance for doubtful receivables.</li> <li>● Obtained an understanding of management's judgement process by inquiring of management about the following: <ul style="list-style-type: none"> <li>➢ selection of doubtful receivables subject to a specific allowance;</li> <li>➢ calculation of estimated credit losses that reflected the assessment of customers' ability to meet their financial obligations based on the credit status of individual customers and an analysis on the overdue status of receivables, considering the impact of COVID-19; and</li> <li>➢ calculation of an expected amount recoverable from the collateral.</li> </ul> </li> <li>● Assessed the reasonableness of the Company's estimates of a specific allowance for doubtful receivables, including the aforementioned management judgments, that took into account: customers' payment history; the status of collateral setting; market environments related to the customers' business; overdue status, the reasonableness of the estimates of a specific allowance in the past; and additional information obtained subsequent to the year end related to the customers' ability to meet their financial obligations.</li> </ul>
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**Responsibilities of Management, Audit & Supervisory Board Members and the Audit & Supervisory Board for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in the United States of America.

Audit & Supervisory Board Members and the Audit & Supervisory Board are responsible for overseeing the directors' performance of their duties with regard to the design, implementation and maintenance of the Group's financial reporting process.

## **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of our audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the objective of the audit is not to express an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the presentation and disclosures in the consolidated financial statements are in accordance with accounting standards generally accepted in the United States of America, the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with Audit & Supervisory Board Members and the Audit & Supervisory Board regarding, among other matters, the planned scope and timing of the audit, significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Audit & Supervisory Board Members and the Audit & Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with Audit & Supervisory Board Members and the Audit & Supervisory Board, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## **Interest required to be disclosed by the Certified Public Accountants Act of Japan**

We do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Masafumi Tanabu  
Designated Engagement Partner  
Certified Public Accountant

Tomoo Nishigori  
Designated Engagement Partner  
Certified Public Accountant

Daisuke Toyama  
Designated Engagement Partner  
Certified Public Accountant

KPMG AZSA LLC  
Tokyo Office, Japan  
June 17, 2021



Consolidated Statements of Income and Consolidated Statements of Comprehensive Income

Komatsu Ltd. and Consolidated Subsidiaries

For the fiscal years ended March 31, 2021 and 2020

Consolidated Statements of Income

	2021		2020	
	Millions of yen	Ratio(%)	Millions of yen	Ratio(%)
Net sales (Notes 7, 14, 15, 17 and 20)	¥ 2,189,512	100.0	¥ 2,444,870	100.0
Cost of sales (Notes 8, 10, 12, 14, 17, 20 and 25)	1,608,457	73.5	1,749,048	71.5
Selling, general and administrative expenses (Notes 3, 8, 10, 12, 13, 17 and 25)	408,716	18.7	440,792	18.0
Impairment loss on long-lived assets (Notes 23 and 25)	2,403	0.1	3,194	0.1
Impairment loss on goodwill (Note 10)	—	—	3,699	0.2
Other operating income (expenses), net (Note 25)	(2,608)	(0.1)	2,570	0.1
<b>Operating income</b>	<b>167,328</b>	<b>7.6</b>	<b>250,707</b>	<b>10.3</b>
<b>Other income (expenses), net</b> (Note 25)				
Interest and dividend income (Note 7)	5,293	0.2	7,378	0.3
Interest expense	(13,766)	(0.6)	(24,592)	(1.0)
Other, net (Notes 6, 12, 14 and 20)	3,920	0.2	(10,379)	(0.4)
Total	(4,553)	(0.2)	(27,593)	(1.1)
<b>Income before income taxes and equity in earnings of affiliated companies</b>	<b>162,775</b>	<b>7.4</b>	<b>223,114</b>	<b>9.1</b>
<b>Income taxes</b> (Notes 14 and 16)				
Current	52,207		66,464	
Deferred	(5,288)		(3,591)	
Total	46,919	2.1	62,873	2.6
<b>Income before equity in earnings of affiliated companies</b>	<b>115,856</b>	<b>5.3</b>	<b>160,241</b>	<b>6.6</b>
<b>Equity in earnings of affiliated companies</b>	<b>2,760</b>	<b>0.1</b>	<b>3,443</b>	<b>0.1</b>
<b>Net income</b>	<b>118,616</b>	<b>5.4</b>	<b>163,684</b>	<b>6.7</b>
<b>Less: Net income attributable to noncontrolling interests</b>	<b>12,379</b>	<b>0.6</b>	<b>9,840</b>	<b>0.4</b>
<b>Net income attributable to Komatsu Ltd.</b>	<b>¥ 106,237</b>	<b>4.9</b>	<b>¥ 153,844</b>	<b>6.3</b>
	<b>Yen</b>			
<b>Per share data</b> (Note 18):				
<b>Net income attributable to Komatsu Ltd.:</b>				
Basic	¥ 112.43		¥ 162.93	
Diluted	¥ 112.39		¥ 162.80	

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

Consolidated Statements of Comprehensive Income

	Millions of yen	
	2021	2020
<b>Net income</b>	¥ 118,616	¥ 163,684
<b>Other comprehensive income (loss), for the period, net of tax</b>		
Foreign currency translation adjustments (Notes 14 and 16)	105,466	(94,938)
Pension liability adjustments (Notes 12, 14 and 16)	(7,297)	(1,096)
Net unrealized holding gains (losses) on derivative instruments (Notes 14, 16 and 20)	(690)	(1,392)
Total	97,479	(97,426)
<b>Comprehensive income</b>	216,095	66,258
<b>Less: Comprehensive income attributable to noncontrolling interests</b>	21,543	3,259
<b>Comprehensive income attributable to Komatsu Ltd.</b>	¥ 194,552	¥ 62,999

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, 2021

	Millions of yen								
	Common stock	Capital surplus	Retained earnings		Accumulated other comprehensive income (loss)	Treasury stock	Total Komatsu Ltd. shareholders' equity	Non-controlling interests	Total equity
			Appropriated for legal reserve	Un-appropriated					
<b>Balance at March 31, 2020</b>	<b>¥ 68,689</b>	<b>¥ 136,459</b>	<b>¥ 46,813</b>	<b>¥ 1,699,477</b>	<b>¥ (130,666)</b>	<b>¥ (49,166)</b>	<b>¥ 1,771,606</b>	<b>¥ 84,619</b>	<b>¥ 1,856,225</b>
Cash dividends				(53,878)			(53,878)	(6,108)	(59,986)
Transfer to retained earnings appropriated for legal reserve			565	(565)			—		—
Other changes		(639)		(357)	339		(657)	(326)	(983)
Net income				106,237			106,237	12,379	118,616
Other comprehensive income (loss), for the period, net of tax (Note 14)					88,315		88,315	9,164	97,479
Issuance and exercise of stock acquisition rights (Note 13)		(405)					(405)		(405)
Purchase of treasury stock						(57)	(57)		(57)
Sales of treasury stock		74				368	442		442
Restricted stock compensation (Note 13)	348	346					694		694
<b>Balance at March 31, 2021</b>	<b>¥ 69,037</b>	<b>¥ 135,835</b>	<b>¥ 47,378</b>	<b>¥ 1,750,914</b>	<b>¥ (42,012)</b>	<b>¥ (48,855)</b>	<b>¥ 1,912,297</b>	<b>¥ 99,728</b>	<b>¥ 2,012,025</b>

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

For the fiscal year ended March 31, 2020

	Millions of yen								
	Common stock	Capital surplus	Retained earnings		Accumulated other comprehensive income (loss)	Treasury stock	Total Komatsu Ltd. shareholders' equity	Non-controlling interests	Total equity
			Appropriated for legal reserve	Un-appropriated					
<b>Balance at March 31, 2019</b>	<b>¥ 68,311</b>	<b>¥ 136,798</b>	<b>¥ 46,028</b>	<b>¥ 1,654,105</b>	<b>¥ (39,792)</b>	<b>¥ (49,868)</b>	<b>¥ 1,815,582</b>	<b>¥ 87,286</b>	<b>¥ 1,902,868</b>
Cash dividends				(107,687)			(107,687)	(6,065)	(113,752)
Transfer to retained earnings appropriated for legal reserve			785	(785)			—		—
Other changes		10			(29)		(19)	139	120
Net income				153,844			153,844	9,840	163,684
Other comprehensive income (loss), for the period, net of tax (Note 14)					(90,845)		(90,845)	(6,581)	(97,426)
Issuance and exercise of stock acquisition rights (Note 13)		(759)					(759)		(759)
Purchase of treasury stock						(33)	(33)		(33)
Sales of treasury stock		35				735	770		770
Restricted stock compensation (Note 13)	378	375					753		753
<b>Balance at March 31, 2020</b>	<b>¥ 68,689</b>	<b>¥ 136,459</b>	<b>¥ 46,813</b>	<b>¥ 1,699,477</b>	<b>¥ (130,666)</b>	<b>¥ (49,166)</b>	<b>¥ 1,771,606</b>	<b>¥ 84,619</b>	<b>¥ 1,856,225</b>

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



Consolidated Statements of Cash Flows  
 Komatsu Ltd. and Consolidated Subsidiaries  
 For the fiscal years ended March 31, 2021 and 2020

	Millions of yen	
	2021	2020
<b>Operating activities</b>		
Net income	¥ 118,616	¥ 163,684
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	133,126	131,596
Deferred income taxes	(5,288)	(3,591)
Impairment loss and net gain on valuation of investment securities, net	(47)	(97)
Net gain on sale of fixed assets	(875)	(4,714)
Loss on disposal of fixed assets	2,921	3,980
Impairment loss on long-lived assets	2,403	3,194
Impairment loss on goodwill	—	3,699
Pension and retirement benefits, net	(148)	(1,672)
Changes in assets and liabilities:		
Decrease (increase) in trade receivables	(39,209)	44,568
Decrease (increase) in inventories	56,156	(9,915)
Increase (decrease) in trade payables	30,483	(38,340)
Increase (decrease) in income taxes payable	2,967	(19,445)
Other, net	53,024	22,234
Net cash provided by operating activities	354,129	295,181
<b>Investing activities</b>		
Capital expenditures	(181,548)	(184,707)
Proceeds from sale of fixed assets	18,332	14,968
Proceeds from sale of investment securities	22	844
Purchases of investment securities	(772)	(630)
Acquisition of subsidiaries and equity investees, net of cash acquired	(1,770)	(21,646)
Other, net	2,679	241
Net cash used in investing activities	(163,057)	(190,930)
<b>Financing activities</b>		
Proceeds from debt issued (Original maturities greater than three months)	702,701	587,157
Payment on debt (Original maturities greater than three months)	(725,363)	(436,952)
Short-term debt, net (Original maturities three months or less)	(114,126)	(37,449)
Dividends paid	(53,878)	(107,687)
Other, net	(9,001)	(8,526)
Net cash used in financing activities	(199,667)	(3,457)
<b>Effect of exchange rate change on cash and cash equivalents</b>	2,782	(1,657)
<b>Net increase (decrease) in cash and cash equivalents</b>	(5,813)	99,137
<b>Cash and cash equivalents, beginning of year</b>	247,616	148,479
<b>Cash and cash equivalents, end of year</b>	¥ 241,803	¥ 247,616

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

## **Notes to Consolidated Financial Statements**

### **Komatsu Ltd. and Consolidated Subsidiaries**

**For the fiscal years ended March 31, 2021 and 2020**

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

In this report, Komatsu Ltd. is hereinafter referred to as the “Company” and together with its consolidated subsidiaries as “Komatsu.”

Komatsu primarily manufactures and markets various types of construction, mining and utility equipment throughout the world, provides retail financing to customers and sales distributors and is also engaged in the manufacture and sale of industrial machinery and others.

The consolidated net sales of Komatsu for the fiscal year ended March 31, 2021 consisted of the following: construction, mining and utility equipment business - 89.5%, retail finance business - 2.7%, industrial machinery and others business - 7.8%.

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 fiscal year ended March 31, 2021, 82.4% were generated outside Japan, with 36.5% in the Americas, 14.1% in Europe and CIS, 7.7% in China, 18.5% in Asia (excluding Japan and China) and Oceania, and 5.6% 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 27 “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 for which the Company is the primary beneficiary in accordance with Financial Accounting Standards Board (hereinafter “FASB”) Accounting Standards Codification<sup>TM</sup> (hereinafter “ASC”) 810, “Consolidation”. The consolidated balance sheets as of March 31, 2021 and 2020 include assets for the Variable interest entities of ¥10,658 million and ¥15,211 million, respectively. Consolidated variable interest entities mainly engage in equipment leasing in Europe. The majority of these assets are cash and cash equivalents, 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 calculates a general allowance for doubtful receivables based on historical loss rates. On the other hand, for those doubtful receivables with the possibility of default, including those in cases where a customer’s ability to meet its financial obligations has become doubtful due to a bankruptcy filing or deterioration in its business performance, Komatsu estimates credit losses based on the credit status of individual customers and an analysis on the overdue status of receivables, and then recognizes a specific allowance for doubtful receivables at an amount of the estimated credit losses reduced by an expected amount recoverable from the collateral. 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. The cost of finished products and work in process is mainly valued by the specific identification method. The cost of finished parts is mainly stated using the first-in first-out method. The cost of raw materials and supplies is stated at periodic average cost.

### (5) Investment Securities

Komatsu’s investments in marketable equity securities are stated at fair value. Changes in fair values are included in net income in the accompanying consolidated statements of income.

Komatsu measures equity securities without readily determinable fair values at the carrying amount after the writedown due to impairment, except for investments which are measured at net asset value per share. If Komatsu identifies observable price changes in orderly transactions for identical or similar investments issued by the same issuer, Komatsu measures the equity security at fair value as of the date that the observable transaction occurred.

## **(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:

<u>Asset</u>	<u>Life</u>
Buildings	2 to 60 years
Machinery and equipment	2 to 20 years

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 removed 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 (expenses), net in the consolidated statements of income.

## **(7) Leases**

Komatsu has leasing arrangements as a lessee. Komatsu determines if an arrangement is a lease at the inception of each contract in accordance with FASB ASC 842, "Leases". Some of the contracts include lease and non-lease components, which are not separated and accounted all components as those of a single lease. Additionally, Komatsu has adopted the rule in which an entity does not recognize operating lease right-of-use assets regarding operating leases agreement with an initial estimated lease term of twelve months or less.

Komatsu has leasing arrangements as a lessor. Komatsu determines if an arrangement is a lease at the inception of each contract in accordance with FASB ASC 842, "Leases".

The details are as described in Note 17 "Leases".

## **(8) Goodwill and Other Intangible Assets**

Komatsu uses the acquisition method of accounting for business combinations. Goodwill is tested for impairment at least once annually and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value below its carrying amount. 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 and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value below its carrying amount until its useful 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.

## **(9) Revenue Recognition**

Komatsu recognizes revenue based on the following five steps in accordance with FASB ASC 606, "Revenue from Contracts with Customers".

Step 1: Identify the contracts with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

The details are as described in Note 15 "Revenue".

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

**(10) 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.

**(11) Product Warranties**

After the product were sold or delivered, Komatsu repairs and replaces parts free of charge for a certain period in accordance with the contract. Thus, in order to provide for disbursement of the after-sales service costs, provision for product warranties is recognized based on the relevant historical result and is classified as other current liabilities and other liabilities.

**(12) 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 prior service cost due to defined benefit plan amendments is amortized on a straight-line basis over the average remaining service period of employees at the time of occurrence of such cost. 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.

**(13) Share-Based Compensation**

The Company recognizes share-based compensation expense using the fair value method. The compensation expense for the stock option plans is measured at grant-date fair value and charged to expense over the vesting period. The compensation expense for the restricted stock compensation is expensed over the service period and recorded at the expected compensation amount.

**(14) Per Share Data**

Basic net income attributable to Komatsu Ltd. per share has been computed by dividing net income attributable to common shareholders 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.

### **(15) 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, 2021 and 2020 reflect cash net of withdrawals of ¥271,433 million and ¥267,138 million, respectively.

### **(16) 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 are recognized in earnings in the current period. Changes in the fair values of derivative instruments which designated as fair value hedges are recognized in earnings, along with changes in the fair value of the hedged item. Changes in the fair values of derivative instruments which designated as cash flow hedges are reported in accumulated other comprehensive income (loss), and recognized in earnings when the hedged item is recognized in earnings.

### **(17) 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.

### **(18) 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.

Regarding the impact of COVID-19 pandemic on the financial position and results of Komatsu, just when COVID-19 will be contained and other factors are still unclear. Nevertheless, Komatsu has assumed that a certain level of the COVID-19-related impacts will continue in the future, based on the information which is available at present and our predictions. Komatsu is making its best estimates based on the assumption to assess the calculation of the estimated credit losses, the likelihood of recovery of deferred tax assets and the impairment losses on long-lived assets and goodwill given these items are relatively material among the accounting estimates. However, if actual future trends deviate from the assumption, Komatsu's financial position and results of operations may be adversely affected.

### (19) Recently Issued Accounting Standards Not Yet Adopted

In June 2016, the FASB issued ASU 2016-13 “Financial Instruments — Credit Losses: Measurement of Credit Losses on Financial Instruments”. This update requires an entity to recognize credit losses for many financial assets based on current expected credit loss model instead of existing incurred loss model. The new current expected credit loss model requires an entity to immediately recognize estimated credit losses expected to occur over the remaining life of the financial assets which are within the scope of this update. For all entities other than SEC filers, this update was planned to be effective for annual reporting periods beginning after December 15, 2020, including interim periods within that reporting period originally. In November 2019, the FASB changed the effective date of this update and this update will be effective for annual reporting periods beginning after December 15, 2022, including interim periods within that reporting period. Early adoption is permitted. This update should be adopted under the modified-retrospective approach through a cumulative-effect adjustment to retained earnings at the beginning of the initial application period. 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 for the fiscal years ended March 31, 2021 and 2020 are as follows:

	Millions of yen			
	2021		2020	
<b>Additional cash flow information:</b>				
Interest paid	¥	13,814	¥	24,876
Income taxes paid, net		35,544		89,558

### 3. Business Combination

#### Immersive Corporation Pty Ltd

On July 1, 2019, the Company acquired Immersive Corporation Pty Ltd (hereafter “Immersive”), a mining workforce optimization company, through a wholly-owned subsidiary of the Company by purchasing all of the outstanding shares of Immersive.

Immersive develops, manufactures and sells mining equipment simulators for training machine operators for surface and underground mines. Immersive also offers educational programs designed to enhance the safety and productivity of customers’ site operations by using simulators, and provides training solutions designed to promote operational optimization by proposing recommendations.

In April 2019, Komatsu embarked on the new three-year mid-term management plan (FY2019- 2021), "DANTOTSU Value — FORWARD Together for Sustainable Growth," working together with its customers to achieve safe, highly productive, smart and clean worksites of the future. By integrating Immersive’s solutions into its line-up, Komatsu anticipates improvements in safety and productivity, as well as optimization of operations for our mining customers.

The fair value measurement of the acquired assets and assumed liabilities under ASC 805, “Business Combinations” was completed on January 31, 2020.

Following is a summary of the acquired assets and assumed liabilities after the allocation of acquisition cost on the acquisition date.

	Millions of yen	
Consideration		
Cash and cash equivalents	¥	15,755
Fair value of total consideration transferred		15,755
Recognized amounts of identifiable acquired assets and assumed liabilities		
Current assets	¥	3,583
Property, plant and equipment		444
Intangible assets		8,158
Other non-current assets		84
Total acquired assets		12,269
Current liabilities		(1,571)
Long-term liabilities		(2,576)
Total assumed liabilities		(4,147)
Net acquired assets		8,122
Goodwill		7,633
	¥	15,755



Intangible assets of ¥8,158 million are all intangible assets subject to amortization and primarily consist of the following.

	<u>Millions of yen</u>	
	<u>Gross carrying amount</u>	<u>Amortization period</u>
Customer relationships	¥ 2,026	16 years
Technology assets	5,844	13 years

The goodwill of ¥7,633 million was assigned to the Construction, Mining and Utility Equipment operating segment. The goodwill is not deductible for tax purpose.

Acquisition-related costs for the fiscal year ended March 31, 2020 are ¥300 million (accumulated acquisition-related costs: ¥332 million) and included in selling, general and administrative expenses in the consolidated statements of income for the fiscal year ended March 31, 2020.

Immersive's results of operations included in the consolidated statements of income for the fiscal year ended March 31, 2020 since the date of acquisition were immaterial.

Assuming this acquisition had been made on April 1, 2018, the impact on Net Sales and Net income attributable to Komatsu Ltd. for the fiscal year ended March 31, 2020 and 2019 would be immaterial.

#### 4. Trade Notes and Accounts Receivable

Receivables at March 31, 2021 and 2020 are summarized as follows:

	Millions of yen			
	2021		2020	
Trade notes and accounts receivable	¥	831,501	¥	756,161
Less: allowance-current		(10,803)		(11,766)
Trade notes and accounts receivable, net	¥	820,698	¥	744,395
Long-term trade receivables		453,206		425,974
Less: allowance-noncurrent		(6,346)		(5,056)
Long-term trade receivables, net	¥	446,860	¥	420,918

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 of retail finance business (hereinafter "retail finance receivables") for the fiscal years ended March 31, 2021 and 2020 are as follows:

	Millions of yen			
	2021		2020	
Balance at beginning of year	¥	9,221	¥	8,004
Provision		6,277		5,071
Charge-offs		(4,027)		(3,507)
Other		423		(347)
Balance at end of year	¥	11,894	¥	9,221

Komatsu considers that retail finance receivables are past due, if unpaid for greater than 30 days. The balance of retail finance receivables at March 31, 2021 and 2020 were ¥761,691 million and ¥694,632 million, respectively. Cumulative past due retail financing receivables (31-90 days, greater than 90 days) at March 31, 2021 and 2020 were summarized as follows:

	Millions of yen			
	2021		2020	
31-90 days past due	¥	1,738	¥	1,088
Greater than 90 days past due		2,669		773
Total past due	¥	4,407	¥	1,861

Nonaccrual financing receivables at March 31, 2021 and 2020 were not material.

Komatsu did not have any cash flows from securitization activities for the fiscal years ended March 31, 2021 and 2020.

Komatsu did not have any securitized trade notes and accounts receivable at March 31, 2021 and 2020.

## 5. Inventories

At March 31, 2021 and 2020, inventories comprise the following:

	Millions of yen	
	2021	2020
Finished products, including finished parts held for sale	¥ 571,103	¥ 586,468
Work in process	159,515	153,082
Materials and supplies	63,234	65,759
Total	¥ 793,852	¥ 805,309

## 6. Investment Securities

The realized gains and losses and gross unrealized holding gains and losses for such equity securities which are recorded in other income (expenses), net in the accompanying consolidated statements of income, respectively, for the fiscal years ended March 31, 2021 and 2020 are as follows:

	Millions of yen	
	2021	2020
Net gains and losses recognized during the year on equity securities	¥ 47	¥ 97
Less: net gains and losses recognized during the year on equity securities sold during the year	6	(185)
Unrealized gains and losses recognized during the year on equity securities still held as of March 31, 2021 and 2020	¥ 41	¥ 282

Komatsu measures equity securities without readily determinable fair values at the carrying amount after the writedown due to impairment, except for investments which are measured at net asset value per share. If Komatsu identifies observable price changes in orderly transactions for identical or similar investments issued by the same issuer, Komatsu measures the equity security at fair value as of the date that the observable transaction occurred. As of March 31, 2021 and 2020, the carrying amounts of these investments were ¥8,236 million and ¥7,328 million, respectively. Any impairment or any adjustment relating to observable price changes recorded until March 31, 2021 and 2020 were not material.

## 7. Investments in and Advances to Affiliated Companies

At March 31, 2021 and 2020, investments in and advances to affiliated companies comprised the following:

	Millions of yen	
	2021	2020
Investments in capital stock	¥ 37,707	¥ 36,610
Advances	1,579	1,600
Total	¥ 39,286	¥ 38,210

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

At March 31, 2021 and 2020, 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	
	2021	2020
Trade notes and accounts receivable, net	¥ 28,417	¥ 27,976
Short-term loans receivable	1,296	1,723
Trade notes, bills and accounts payable	8,997	5,876

Net sales to and dividends received from affiliated companies for the fiscal years ended March 31, 2021 and 2020 are as follows.

	Millions of yen	
	2021	2020
Net sales	¥ 70,092	¥ 81,730
Dividends	1,453	1,399

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

As of March 31, 2021 and 2020, consolidated unappropriated retained earnings included Komatsu's share of undistributed earnings of affiliated companies accounted for by the equity method in the amount of ¥25,062 million and ¥23,937 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, 2021 and 2020.

Summarized financial information for affiliated companies as of March 31, 2021 and 2020, and for the fiscal years ended March 31, 2021 and 2020 is as follows:

	Millions of yen	
	2021	2020
Current assets	¥ 148,689	¥ 151,972
Net property, plant and equipment - less accumulated depreciation and amortization	54,653	54,568
Investments and other assets	32,151	32,342
Total assets	¥ 235,493	¥ 238,882
Current liabilities	¥ 92,618	¥ 97,745
Noncurrent liabilities	32,883	36,785
Equity	109,992	104,352
Total liabilities and equity	¥ 235,493	¥ 238,882

  

	Millions of yen	
	2021	2020
Net sales	¥ 211,911	¥ 236,507
Net income	8,649	10,276

## 8. Property, Plant and Equipment

The major classes of property, plant and equipment at March 31, 2021 and 2020 are as follows:

	Millions of yen	
	2021	2020
Land	¥ 112,403	¥ 112,683
Buildings	540,582	512,160
Machinery and equipment	691,456	660,007
Equipment leased to others	334,862	335,248
Construction in progress	52,150	31,909
Total	1,731,453	1,652,007
Less: accumulated depreciation and amortization	(944,080)	(894,328)
Net property, plant and equipment	¥ 787,373	¥ 757,679

Depreciation for the fiscal years ended March 31, 2021 and 2020 were ¥109,574 million and ¥111,108 million, respectively.

## 9. Pledged Assets

At March 31, 2021 and 2020, assets pledged as collateral for guarantees for debt are as follows:

	Millions of yen	
	2021	2020
Other current assets	¥ 149	¥ 211
Total	¥ 149	¥ 211

The above assets were pledged against the following liabilities:

	Millions of yen	
	2021	2020
Guarantees for debt	¥ 149	¥ 211
Total	¥ 149	¥ 211

## 10. Goodwill and Other Intangible Assets

Intangible assets other than goodwill at March 31, 2021 and 2020 are as follows:

	Millions of yen					
	2021			2020		
	Gross carrying amount	Accumulated amortization	Net carrying amount	Gross carrying amount	Accumulated amortization	Net carrying amount
Other intangible assets subject to amortization:						
Software	¥ 63,605	¥ (25,376)	¥ 38,229	¥ 52,813	¥ (21,678)	¥ 31,135
Leasehold	7,146	(1,842)	5,304	6,959	(1,675)	5,284
Trademarks	56,262	(15,241)	41,021	52,444	(10,866)	41,578
Customer relationships	77,204	(29,170)	48,034	73,505	(25,197)	48,308
Technology assets	39,278	(13,415)	25,863	37,423	(11,950)	25,473
Other	7,278	(4,757)	2,521	7,292	(4,635)	2,657
Total	250,773	(89,801)	160,972	230,436	(76,001)	154,435
Other intangible assets not subject to amortization			8,009			7,627
Total other intangible assets			¥ 168,981			¥ 162,062

The aggregate amortization expense of other intangible assets subject to amortization for the fiscal years ended March 31, 2021 and 2020 were ¥20,858 million and ¥18,417 million, respectively.

At March 31, 2021, 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
2022	¥ 22,633
2023	21,554
2024	18,422
2025	16,104
2026	13,105

The changes in carrying amounts of goodwill by operating segment for the fiscal years ended March 31, 2021 and 2020 are as follows:

	Millions of yen			
	Construction, Mining and Utility Equipment	Retail Finance	Industrial Machinery and Others	Total
<b>Balance at March 31, 2019</b>				
Goodwill	168,568	776	15,017	184,361
Accumulated impairment losses	(8,504)	—	(13,936)	(22,440)
	<u>¥ 160,064</u>	<u>¥ 776</u>	<u>¥ 1,081</u>	<u>¥ 161,921</u>
Goodwill acquired during the year	11,007	—	—	11,007
Impairment losses	(3,699)	—	—	(3,699)
Foreign exchange impact	(11,580)	(128)	—	(11,708)
<b>Balance at March 31, 2020</b>				
Goodwill	167,995	648	15,017	183,660
Accumulated impairment losses	(12,203)	—	(13,936)	(26,139)
	<u>¥ 155,792</u>	<u>¥ 648</u>	<u>¥ 1,081</u>	<u>¥ 157,521</u>
Foreign exchange impact	13,179	180	—	13,359
Goodwill sold during the year	(193)	—	—	(193)
<b>Balance at March 31, 2021</b>				
Goodwill	180,981	828	15,017	196,826
Accumulated impairment losses	(12,203)	—	(13,936)	(26,139)
	<u>¥ 168,778</u>	<u>¥ 828</u>	<u>¥ 1,081</u>	<u>¥ 170,687</u>



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

(1) Short-term debt at March 31, 2021 and 2020 consisted of the following:

	Millions of yen			
	2021		2020	
Banks, insurance companies and other financial institutions	¥	80,804	¥	178,733
Commercial paper		190,658		304,925
Short-term debt	¥	271,462	¥	483,658

The weighted-average annual interest rates applicable to short-term debt outstanding at March 31, 2021 and 2020 were 0.6% and 1.9%, respectively.

The Company and certain consolidated subsidiaries have entered into contracts for committed credit lines totaling ¥458,330 million and have unused committed lines of credit amounting to ¥443,989 million with certain financial institutions at March 31, 2021 which are available for full and immediate borrowings. The Company and Komatsu Finance America Inc. are a party to a committed ¥300,000 million and U.S.\$962 million commercial paper program and unused committed commercial paper program amounting to ¥190,000 million and U.S.\$233 million at March 31, 2021 are available upon the satisfaction of certain customary procedural requirements.

(2) Long-term debt at March 31, 2021 and 2020 consisted of the following:

	Millions of yen			
	2021		2020	
Long-term debt without collateral:				
Banks, insurance companies and other financial institutions maturing serially through 2021-2027, weighted-average rate 2.1%	¥	340,807	¥	268,356
Euro Medium-Term Notes maturing serially through 2021-2025, weighted-average rate 2.3%		138,397		102,845
0.05% Unsecured Bonds due 2020		—		50,000
2.12% Unsecured Bonds due 2020		—		32,638
2.44% Unsecured Bonds due 2022		55,300		54,323
0.001% Unsecured Bonds due 2023		40,001		—
0.85% Unsecured Bonds due 2023		33,098		—
0.11% Unsecured Bonds due 2024		20,000		20,000
0.13% Unsecured Bonds due 2025		10,000		—
Other		918		558
Total		638,521		528,720
Less: current maturities		(98,004)		(118,880)
Long-term debt	¥	540,517	¥	409,840

(3) The Company, Komatsu Finance America Inc. and Komatsu Europe Coordination Center N.V. 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, 2021 and 2020 were U.S.\$2,000 million and U.S.\$1,500 million 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 issued ¥47,797 million during the fiscal year ended March 31, 2021 and ¥2,989 million during the fiscal year ended March 31, 2020.

In November 2020, 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, 2021, ¥100,000 million remained unused under this program. In September 2017, the Komatsu Finance America Inc. issued U.S.\$800 million of variable-term bonds within a three-year or a five-year period and also issued U.S.\$300 million of variable-term bonds within a three-year period in September 2020. On the other hand, ¥70,000 million in the aggregate principal amount of bonds outstanding as of March 31, 2021 was issued under the past bond program prior to its 2020 renewal.

(4) As is customary in Japan, substantially all long-term and short-term bank loans are made under general agreements.

(5) Maturities of long-term debt at March 31, 2021 and 2020 respectively are as follows. There are no market value adjustments excluded from the amount of 2021 and 2020.

	Millions of yen	
	2021	2020
Due within one year	¥ 98,004	¥ 118,880
Due after one year through two years	257,462	102,080
Due after two years through three years	128,342	221,213
Due after three years through four years	81,390	12,218
Due after four years through five years	73,242	74,329
Due after five years	81	—
Total	¥ 638,521	¥ 528,720

## 12. Liability for Pension and Other Retirement Benefits

The Company's employees, with certain minor exceptions, are covered by a lump-sum 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 mandatory retirement 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.

In the fiscal year ended March 31, 2021, the Company and certain subsidiaries in Japan, to respond to diversifying the work style of employees, decided to introduce a retirement scheme with an option to choose retirement age (a system allowing employees to choose their retirement age; either 60 or 65 for general employees and 60 or 62 for employees assuming management position), and to make revisions to a retirement benefit plan, including the introduction of a defined contribution pension plan and promoted the Mid-Career support program on April 1, 2021 or July 1, 2021.

Due to such revisions in plans whereby retirement benefits are added consistently until the employees' age reaches the selected retirement age, Komatsu's benefit obligations increased by ¥11,989 million as of March 31, 2021 and the same amount of prior service cost was incurred. The prior service cost is amortized on a straight-line basis over the average remaining service period of employees at the time of occurrence of such cost.

In addition, part of the Company's retirement benefit plan (lump-sum severance payment plan and defined benefit cash balance pension plan) has been transferred to the defined contribution pension plan on April 1, 2021.

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			
	2021		2020	
	Domestic	Overseas	Domestic	Overseas
Change in benefit obligations:				
Benefit obligations, beginning of year	¥ 138,563	¥ 219,518	¥ 135,947	¥ 234,821
Service cost	9,174	973	8,400	988
Interest cost	81	6,024	79	6,922
Actuarial loss (gain)	1,535	13,332	(574)	1,397
Plan participants' contributions	—	125	—	162
Plan amendment	11,989	385	1,329	—
Settlements	—	(1,386)	—	(1,637)
Benefits paid	(6,839)	(12,294)	(6,618)	(12,821)
Foreign currency exchange rate change	—	13,818	—	(10,314)
Benefit obligations, end of year	¥ 154,503	¥ 240,495	¥ 138,563	¥ 219,518
Change in plan assets:				
Fair value of plan assets, beginning of year	¥ 82,302	¥ 203,019	¥ 82,257	¥ 216,623
Actual return on plan assets	7,425	15,961	(775)	8,631
Employers' contributions	3,666	1,535	3,707	1,893
Plan participants' contributions	—	125	—	162
Plan amendment	—	—	984	—
Settlements	—	(1,386)	—	(1,637)
Benefits paid	(4,122)	(11,858)	(3,871)	(12,493)
Foreign currency exchange rate change	—	14,228	—	(10,160)
Fair value of plan assets, end of year	¥ 89,271	¥ 221,624	¥ 82,302	¥ 203,019
Funded status, end of year	¥ (65,232)	¥ (18,871)	¥ (56,261)	¥ (16,499)

Amounts recognized in the consolidated balance sheets at March 31, 2021 and 2020 are as follows:

	Millions of yen			
	2021		2020	
	Domestic	Overseas	Domestic	Overseas
Deferred income taxes and other assets	¥ —	¥ 14,191	¥ —	¥ 16,930
Other current liabilities	(57)	(637)	(146)	(607)
Liability for pension and retirement benefits	(65,175)	(32,425)	(56,115)	(32,822)
	¥ (65,232)	¥ (18,871)	¥ (56,261)	¥ (16,499)

Amounts recognized in accumulated other comprehensive income (loss) at March 31, 2021 and 2020 are as follows:

	Millions of yen			
	2021		2020	
	Domestic	Overseas	Domestic	Overseas
Actuarial loss	¥ 18,930	¥ 22,359	¥ 24,641	¥ 16,665
Prior service cost	13,197	1,178	1,512	909
	¥ 32,127	¥ 23,537	¥ 26,153	¥ 17,574

The accumulated benefit obligations for all defined benefit plans at March 31, 2021 and 2020 are as follows:

	Millions of yen			
	2021		2020	
	Domestic	Overseas	Domestic	Overseas
Accumulated benefit obligations	¥ 137,945	¥ 236,825	¥ 123,630	¥ 216,445

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			
	2021		2020	
	Domestic	Overseas	Domestic	Overseas
Plans with accumulated benefit obligations in excess of plan assets:				
Accumulated benefit obligations	¥ 136,763	¥ 193,670	¥ 122,514	¥ 126,785
Fair value of plan assets	87,752	163,481	80,988	95,535
Plans with projected benefit obligations in excess of plan assets:				
Projected benefit obligations	¥ 154,503	¥ 198,454	¥ 138,563	¥ 129,179
Fair value of plan assets	89,271	165,392	82,302	95,750

Net periodic cost of Komatsu's defined benefit plans for the fiscal years ended March 31, 2021 and 2020 consisted of the following components:

	Millions of yen			
	2021		2020	
	Domestic	Overseas	Domestic	Overseas
Service cost	¥ 9,174	¥ 973	¥ 8,400	¥ 988
Interest cost on projected benefit obligations	81	6,024	79	6,922
Expected return on plan assets	(1,240)	(8,590)	(1,236)	(9,692)
Amortization of actuarial loss or gain	1,061	267	1,051	(57)
Amortization of prior service cost	304	116	175	134
Net periodic cost	¥ 9,380	¥ (1,210)	¥ 8,469	¥ (1,705)

Net periodic cost components other than the service cost are recorded in other income (expenses), net in the accompanying consolidated statements of income.

Other changes in plan assets and benefit obligations recognized in other comprehensive income (loss) for the fiscal years ended March 31, 2021 and 2020 are summarized as follows:

	Millions of yen			
	2021		2020	
	Domestic	Overseas	Domestic	Overseas
Current year actuarial loss (gain)	¥ (4,650)	¥ 5,961	¥ 1,437	¥ 2,458
Amortization of actuarial loss or gain	(1,061)	(267)	(1,051)	57
Current year prior service cost	11,989	385	345	—
Amortization of prior service cost	(304)	(116)	(175)	(134)
	¥ 5,974	¥ 5,963	¥ 556	¥ 2,381

Weighted-average assumptions used to determine benefit obligations of Komatsu's defined benefit plans at March 31, 2021 and 2020 are as follows:

	2021		2020	
	Domestic	Overseas	Domestic	Overseas
Discount rate	0.1%	2.8%	0.1%	3.1%
Assumed rate of increase in future compensation levels (Point-based benefit system)	4.1%	—	4.5%	—
Assumed rate of increase in future compensation levels	2.6%	3.7%	2.6%	3.1%
Interest crediting rate for cash balance plans	1.0%	—	1.0%	—

Weighted-average assumptions used to determine net periodic cost of Komatsu's defined benefit plans for the fiscal years ended March 31, 2021 and 2020 are as follows:

	2021		2020	
	Domestic	Overseas	Domestic	Overseas
Discount rate	0.1%	3.1%	0.1%	3.4%
Assumed rate of increase in future compensation levels (Point-based benefit system)	4.5%	—	4.5%	—
Assumed rate of increase in future compensation levels	2.6%	3.1%	2.6%	3.8%
Expected long-term rate of return on plan assets	1.5%	4.4%	1.5%	4.6%
Interest crediting rate for cash balance plans	1.0%	—	1.0%	—

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.

The Company and its Japanese subsidiaries' targeted basic portfolio for plan assets consists of three major components: approximately 20% invested in equity securities, approximately 30% invested in debt securities, and approximately 50% invested in other assets, primarily consisting of investments in life insurance company general accounts. Foreign subsidiaries' targeted basic portfolio for plan assets, which varies by country, primarily consists of as follows: approximately 35% invested in equity securities and approximately 65% invested in debt securities. 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 credit 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 fully described in Note 22.

The fair values of benefit plan assets at March 31, 2021 and 2020 by asset class are as follows:

	Millions of yen									
	Domestic					Overseas				
	Level 1	Level 2	Level 3	Investments measured at net asset value	Total	Level 1	Level 2	Level 3	Investments measured at net asset value	Total
<b>At March 31, 2021</b>										
Plan assets										
Cash	¥ 528	¥ —	¥ —	¥ —	¥ 528	¥ (2,132)	¥ —	¥ —	¥ —	¥ (2,132)
Equity securities										
Japanese equities	9,658	—	—	—	9,658	939	—	—	—	939
Foreign equities	9,729	—	—	875	10,604	11,555	38,900	—	35	50,490
Pooled funds	—	—	—	—	—	—	—	—	—	—
Debt securities										
Government bonds and municipal bonds	22,031	180	—	—	22,211	495	45,230	—	—	45,725
Corporate bonds	225	3,438	—	—	3,663	544	107,942	1,886	—	110,372
Other assets										
Life insurance company general accounts	—	37,040	—	—	37,040	—	—	—	—	—
Other	343	751	1,135	3,338	5,567	341	3,781	12,108	—	16,230
<b>Total</b>	<b>¥ 42,514</b>	<b>¥ 41,409</b>	<b>¥ 1,135</b>	<b>¥ 4,213</b>	<b>¥ 89,271</b>	<b>¥ 11,742</b>	<b>¥ 195,853</b>	<b>¥ 13,994</b>	<b>¥ 35</b>	<b>¥ 221,624</b>

	Millions of yen									
	Domestic					Overseas				
	Level 1	Level 2	Level 3	Investments measured at net asset value	Total	Level 1	Level 2	Level 3	Investments measured at net asset value	Total
<b>At March 31, 2020</b>										
Plan assets										
Cash	¥ 396	¥ —	¥ —	¥ —	¥ 396	¥ (2,841)	¥ —	¥ —	¥ —	¥ (2,841)
Equity securities										
Japanese equities	7,379	—	—	—	7,379	794	—	—	—	794
Foreign equities	5,869	—	—	565	6,434	8,438	37,040	—	30	45,508
Pooled funds	—	—	—	—	—	55	—	—	—	55
Debt securities										
Government bonds and municipal bonds	22,100	151	—	—	22,251	123	43,802	—	—	43,925
Corporate bonds	228	3,418	—	—	3,646	—	97,175	1,721	—	98,896
Other assets										
Life insurance company general accounts	—	36,982	—	—	36,982	—	—	—	—	—
Other	641	452	1,050	3,071	5,214	1,188	5,000	10,494	—	16,682
<b>Total</b>	<b>¥ 36,613</b>	<b>¥ 41,003</b>	<b>¥ 1,050</b>	<b>¥ 3,636</b>	<b>¥ 82,302</b>	<b>¥ 7,757</b>	<b>¥ 183,017</b>	<b>¥ 12,215</b>	<b>¥ 30</b>	<b>¥ 203,019</b>

(1) The plan's equity securities include common stock of the Company in the amount of ¥24 million and ¥12 million at March 31, 2021 and 2020, respectively.

(2) The plan's government bonds and municipal bonds include approximately 10% Japanese bonds and 90% 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.

The fair value of Level 3 assets mainly consist of the U.K. buy-in contracts held by foreign subsidiaries. The amount of these buy-in contracts are ¥12,108 million and ¥10,494 million at March 31, 2021 and 2020, respectively. These buy-in contracts are categorized as Level 3 due to the lack of active markets for these types of investments and the use of unobservable measurement inputs. Amounts of actual returns on, purchases and sales of these buy-in contracts for the fiscal years ended March 31, 2021 and 2020 are not material.

Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the three-level fair value hierarchy but have been recorded separately.

## Cash flows

### (1) Contributions

Komatsu expects to contribute ¥3,053 million and ¥1,402 million to their domestic benefit plans and their overseas benefit plans, respectively in the fiscal year ending March 31, 2022.

### (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:

Fiscal year ending March 31	Millions of yen	
	Domestic	Overseas
2022	¥ 1,798	¥ 12,465
2023	1,888	12,524
2024	5,224	12,568
2025	6,456	12,601
2026	5,737	12,612
Through 2027-2031	38,593	62,085

### 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	
	2021	2020
<b>Change in accumulated postretirement benefit obligations:</b>		
Accumulated postretirement benefit obligations, beginning of year	¥ 15,160	¥ 16,537
Service cost	511	558
Interest cost	410	562
Actuarial loss (gain)	(886)	(328)
Plan amendment	—	(1,157)
Benefits paid	(767)	(828)
Foreign currency exchange rate change	378	(184)
Accumulated postretirement benefit obligation, end of year	<u>¥ 14,806</u>	<u>¥ 15,160</u>
<b>Change in plan assets:</b>		
Fair value of plan assets, beginning of year	¥ 10,406	¥ 11,019
Actual return on plan assets	1,981	(36)
Employers' contributions	145	153
Benefits paid	(485)	(504)
Foreign currency exchange rate change	254	(226)
Fair value of plan assets, end of year	<u>¥ 12,301</u>	<u>¥ 10,406</u>
Funded status, end of year	<u>¥ (2,505)</u>	<u>¥ (4,754)</u>

Amounts recognized in the consolidated balance sheets at March 31, 2021 and 2020 are as follows:

	Millions of yen	
	2021	2020
Deferred income taxes and other assets	¥ 3,737	¥ 2,446
Other current liabilities	(196)	(190)
Liability for pension and retirement benefits	(6,046)	(7,010)
	<u>¥ (2,505)</u>	<u>¥ (4,754)</u>

Amounts recognized in accumulated other comprehensive income (loss) at March 31, 2021 and 2020 are as follows:

	Millions of yen	
	2021	2020
Actuarial loss (gain)	¥ (1,019)	¥ 1,426
Prior service cost	(1,031)	(1,149)
	<u>¥ (2,050)</u>	<u>¥ 277</u>

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

Net periodic cost of the U.S. subsidiaries' plans for the fiscal years ended March 31, 2021 and 2020 included the following components:

	Millions of yen	
	2021	2020
Service cost	¥ 511	¥ 558
Interest cost on projected benefit obligations	410	562
Expected return on plan assets	(493)	(583)
Amortization of actuarial loss or gain	71	39
Amortization of prior service cost	(118)	6
Net periodic cost	¥ 381	¥ 582

Net periodic cost components other than the service cost are recorded in other income (expenses), net in the accompanying consolidated statements of income.

Other changes in plan assets and accumulated postretirement benefit obligations recognized in other comprehensive income (loss) for the fiscal years ended March 31, 2021 and 2020 are summarized as follows:

	Millions of yen	
	2021	2020
Current year actuarial loss (gain)	¥ (2,374)	¥ 291
Amortization of actuarial loss or gain	(71)	(39)
Current year prior service cost	—	(1,157)
Amortization of prior service cost	118	(6)
	¥ (2,327)	¥ (911)

Weighted-average assumptions used to determine accumulated postretirement benefit obligations of the U.S. subsidiaries' plans at March 31, 2021 and 2020 are as follows:

	2021	2020
Discount rate	3.2%	3.3%
Assumed rate of increase in future compensation levels	4.0%	4.0%
Current healthcare cost trend rate	5.9%	6.3%
Ultimate healthcare cost trend rate	5.0%	4.9%
Number of years to reach ultimate healthcare cost trend rate	4	5

Weighted-average assumptions used to determine net periodic cost of the U.S. subsidiaries' plans for the fiscal years ended March 31, 2021 and 2020 are as follows:

	2021	2020
Discount rate	3.3%	3.9%
Assumed rate of increase in future compensation levels	4.0%	4.0%
Expected long-term rate of return on plan assets	5.0%	5.6%
Current healthcare cost trend rate	6.3%	6.5%
Ultimate healthcare cost trend rate	4.9%	5.0%
Number of years to reach ultimate healthcare cost trend rate	5	4

## 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 credit 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 fully described in Note 22.

The fair values of postretirement benefit plan assets at March 31, 2021 and 2020 by asset class are as follows:

	Millions of yen				
	Level 1	Level 2	Level 3	Investments measured at net asset value	Total
<b>At March 31, 2021</b>					
Plan assets					
Cash	¥ 479	¥ —	¥ —	¥ —	¥ 479
Equity securities					
Foreign equities	4,672	—	—	—	4,672
Debt securities					
Government bonds and municipal bonds	—	4,994	—	—	4,994
Corporate bonds	380	1,412	—	—	1,792
Other assets					
Other	—	364	—	—	364
Total	¥ 5,531	¥ 6,770	¥ —	¥ —	¥ 12,301

	Millions of yen				
	Level 1	Level 2	Level 3	Investments measured at net asset value	Total
<b>At March 31, 2020</b>					
Plan assets					
Cash	¥ 526	¥ —	¥ —	¥ —	¥ 526
Equity securities					
Foreign equities	3,493	—	—	—	3,493
Debt securities					
Government bonds and municipal bonds	—	4,126	—	—	4,126
Corporate bonds	503	1,490	—	—	1,993
Other assets					
Other	—	268	—	—	268
Total	¥ 4,522	¥ 5,884	¥ —	¥ —	¥ 10,406

Note: 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 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 will not expect to contribute to their postretirement benefit plans in the fiscal year ending March 31, 2022.

### (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:

<u>Fiscal year ending March 31</u>	<u>Millions of yen</u>	
2022	¥	834
2023		841
2024		836
2025		824
2026		815
Through 2027-2031		3,996

Directors of Japanese subsidiaries are primarily covered by unfunded retirement allowance plans. At March 31, 2021 and 2020, 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 the fiscal years ended March 31, 2021 and 2020 are ¥9,881 million and ¥10,180 million, respectively.

### 13. Komatsu Ltd. Shareholders' Equity

(1)The Company's common shares owned by affiliated companies at March 31, 2021 and 2020 both were 824,200 shares which represent 0.09% of the Company's common shares outstanding.

(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 ¥567,127 million, included in the Company's general books of account as of March 31, 2021 is available for dividends under the Act.

The payment of a cash dividend totaling ¥34,986 million to shareholders of record on March 31, 2021 will be discussed at the Ordinary General Meeting of Shareholders held on June 18, 2021. The dividend has not been reflected in the consolidated financial statements as of March 31, 2021. Dividends are reported in the consolidated statements of equity when they are approved.

(3)The Company had a stock option plan as stock-based remuneration.

#### 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 representative directors of major subsidiaries.

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 activities for the fiscal years ended March 31, 2021 and 2020:

	2021		2020	
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
		Yen		Yen
Outstanding at beginning of year	478,300	¥ 1	892,300	¥ 1
Granted	—	—	—	—
Exercised	(186,800)	1	(414,000)	1
Forfeited	—	—	—	—
Outstanding at end of year	<u>291,500</u>	1	<u>478,300</u>	1
Exercisable at end of year	291,500	1	278,600	1

The intrinsic values of options exercised were ¥447 million and ¥912 million for the fiscal years ended March 31, 2021 and 2020.

The information for options outstanding and options exercisable at March 31, 2021 is as follows:

Number of shares	Outstanding			Options Exercisable		
	Weighted average exercise price	Intrinsic value	Weighted average remaining contractual life	Weighted average exercise price	Intrinsic value	Weighted average remaining contractual life
	Yen	Millions of yen	Years	Yen	Millions of yen	Years
291,500	¥ 1	¥ 996	3.3	¥ 1	¥ 996	3.3

(4) From the fiscal year ended March 31, 2019, the Company has introduced a new compensation plan, i.e., the restricted stock compensation system for the purpose of providing directors (other than outside directors) and employees of the Company and directors and employees of major subsidiaries (hereinafter the “Eligible Directors, etc.”) with medium- to long-term incentives and advancing the sharing of value between the directors and shareholders of the Company. The system is comprised of the following two compensation systems:

#### **Stock-Based Remuneration A (Performance-Based Remuneration for a Single Year)**

As an alternative to stock acquisition rights which have been granted as stock-based remuneration, the Company shall determine the amount of remuneration based on the Company’s single-year performance, etc. and pay a part of the amount of remuneration so determined in the form of restricted stock to the Eligible Directors, etc. each fiscal year. The restrictions will, in principle, be lifted 3 years after the grant of the granted shares. If, prior to the expiry of the restriction period, the Eligible Director, etc. retires without any reason recognized as legitimate by the Board of Directors of the Company, the Company shall acquire, free of charge, all or part of the granted shares.

#### **Stock-Based Remuneration B (Performance-Based Remuneration Linked to Performance of Mid-Range Management Plan)**

With respect to the period of the Company’s mid-range management plan, the Company shall grant restricted stock to the Eligible Directors, etc. each fiscal year based on the base amount of remuneration for each position. After the expiry of the period of the mid-range management plan, the Company shall determine the number of shares with respect to which the restrictions will be lifted according to the achievement status of the targets raised in the mid-range management plan, etc. In principle, the Company shall lift the restrictions 3 years after the grant of the granted shares. The Company shall acquire, free of charge, the granted shares with respect to which the Company decides not to lift the restrictions pursuant to the above provision. If, prior to the expiry of the restriction period, the Eligible Director, etc. retires without any reason recognized as legitimate by the Board of Directors of the Company, the Company shall acquire, free of charge, all or part of the granted shares.

The granted shares have the same rights as common shares to net income attributable to Komatsu Ltd. regardless of whether the restrictions are still existing.

Based on the resolutions of the Ordinary General Meeting of Shareholders on June 19, 2018 and the Board of Directors on July 17, 2020, the Company issued 306,380 shares of common shares of the Company as the restricted stock compensation to the Eligible Directors, etc.

Based on the resolutions of the Ordinary General Meeting of Shareholders on June 19, 2018 and the Board of Directors on July 12, 2019, the Company issued 328,770 shares of common shares of the Company as the restricted stock compensation to the Eligible Directors, etc.

The Company recognizes compensation expense using the fair value method. The fair values of the restricted stock are measured at grant-date fair value of common shares of the Company. Compensation expense for the fiscal year ended March 31, 2021 and 2020 were recorded in selling, general and administrative expenses, and were not material to Komatsu’s financial position and results of operations.

The following table summarizes information about the restrict stock activities for the fiscal year ended March 31, 2021 and 2020:

	2021		2020	
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
		Yen		Yen
Outstanding at beginning of year	588,450	¥ 2,768	281,660	¥ 3,098
Granted	306,380	2,275	328,770	2,508
Lifted	—	—	—	—
Forfeited	(19,830)	2,652	(21,980)	3,098
Outstanding at end of year	<u>875,000</u>	<u>2,598</u>	<u>588,450</u>	<u>2,768</u>

#### 14. Other Comprehensive Income (Loss)

Changes in accumulated other comprehensive income (loss) for the fiscal years ended March 31, 2021 and 2020 are as follows:

	Millions of yen			
	2021			
	Foreign currency translation adjustments	Pension liability adjustments	Net unrealized holding gains (losses) on derivative instruments	Total
Balance, beginning of the year	¥(103,975)	¥ (26,976)	¥ 285	¥(130,666)
Other comprehensive income (loss) before reclassifications	105,466	(8,471)	(503)	96,492
Amounts reclassified from accumulated other comprehensive income (loss)	—	1,174	(187)	987
Net other comprehensive income (loss)	105,466	(7,297)	(690)	97,479
Less: other comprehensive income (loss) attributable to noncontrolling interests	9,016	17	131	9,164
Other comprehensive income (loss) attributable to Komatsu Ltd.	96,450	(7,314)	(821)	88,315
Equity transactions with noncontrolling interests	339	—	—	339
Balance, end of the year	¥ (7,186)	¥ (34,290)	¥ (536)	¥ (42,012)

All amounts are net of tax.

	Millions of yen			
	2020			
	Foreign currency translation adjustments	Pension liability adjustments	Net unrealized holding gains (losses) on derivative instruments	Total
Balance, beginning of the year	¥ (15,438)	¥ (25,890)	¥ 1,536	¥ (39,792)
Other comprehensive income (loss) before reclassifications	(95,102)	(2,061)	94	(97,069)
Amounts reclassified from accumulated other comprehensive income (loss)	164	965	(1,486)	(357)
Net other comprehensive income (loss)	(94,938)	(1,096)	(1,392)	(97,426)
Less: other comprehensive income (loss) attributable to noncontrolling interests	(6,430)	(10)	(141)	(6,581)
Other comprehensive income (loss) attributable to Komatsu Ltd.	(88,508)	(1,086)	(1,251)	(90,845)
Equity transactions with noncontrolling interests	(29)	—	—	(29)
Balance, end of the year	¥(103,975)	¥ (26,976)	¥ 285	¥(130,666)

All amounts are net of tax.



Reclassification out of accumulated other comprehensive income (loss) for the fiscal years ended March 31, 2021 and 2020 are as follows:

	Millions of yen	
	2021	Affected line items in consolidated statements of income
<b>Pension liability adjustments</b>		
Amortization of actuarial loss or gain	¥ (1,399)	Other income (expenses), net: Other, net
Amortization of prior service cost	(302)	Other income (expenses), net: Other, net
	(1,701)	Total before tax
	527	Income taxes
	(1,174)	Net of tax
<b>Net unrealized holding gains (losses) on derivative instruments</b>		
Forwards contracts	1,886	Net sales
	(369)	Cost of sales
	(1,246)	Other income (expenses), net: Other, net
	271	Total before tax
	(84)	Income taxes
	187	Net of tax
Total reclassification for the year	¥ (987)	Net of tax
	Millions of yen	
	2020	Affected line items in consolidated statements of income
<b>Foreign currency translation adjustments</b>		
Liquidation and sale	¥ (164)	Other income (expenses), net: Other, net
	(164)	Total before tax
	—	Income taxes
	(164)	Net of tax
<b>Pension liability adjustments</b>		
Amortization of actuarial loss or gain	(1,033)	Other income (expenses), net: Other, net
Amortization of prior service cost	(315)	Other income (expenses), net: Other, net
	(1,348)	Total before tax
	383	Income taxes
	(965)	Net of tax
<b>Net unrealized holding gains (losses) on derivative instruments</b>		
Forwards contracts	1,725	Net sales
	(211)	Cost of sales
	333	Other income (expenses), net: Other, net
	1,847	Total before tax
	(361)	Income taxes
	1,486	Net of tax
Total reclassification for the year	¥ 357	Net of tax

Tax effects allocated to each component of other comprehensive income (loss) for the fiscal years ended March 31, 2021 and 2020 are as follows:

	Millions of yen		
	2021		
	Before tax amount	Tax (expense) or benefit	Net of tax amount
<b>Foreign currency translation adjustments</b>			
Foreign currency translation adjustments arising during the year	¥ 105,518	¥ (52)	¥ 105,466
Less: reclassification adjustment for gains included in net income	—	—	—
Net foreign currency translation adjustments	105,518	(52)	105,466
<b>Pension liability adjustments</b>			
Pension liability adjustments arising during the year	(11,311)	2,840	(8,471)
Less: reclassification adjustment for losses included in net income	1,701	(527)	1,174
Net pension liability adjustments	(9,610)	2,313	(7,297)
<b>Net unrealized holding gains (losses) on derivative instruments</b>			
Unrealized holding losses arising during the year	(728)	225	(503)
Less: reclassification adjustment for gains included in net income	(271)	84	(187)
Net unrealized holding losses	(999)	309	(690)
<b>Other comprehensive income (loss)</b>	<b>¥ 94,909</b>	<b>¥ 2,570</b>	<b>¥ 97,479</b>

	Millions of yen		
	2020		
	Before tax amount	Tax (expense) or benefit	Net of tax amount
<b>Foreign currency translation adjustments</b>			
Foreign currency translation adjustments arising during the year	¥ (95,128)	¥ 26	¥ (95,102)
Less: reclassification adjustment for losses included in net income	164	—	164
Net foreign currency translation adjustments	(94,964)	26	(94,938)
<b>Pension liability adjustments</b>			
Pension liability adjustments arising during the year	(3,374)	1,313	(2,061)
Less: reclassification adjustment for losses included in net income	1,348	(383)	965
Net pension liability adjustments	(2,026)	930	(1,096)
<b>Net unrealized holding gains (losses) on derivative instruments</b>			
Unrealized holding gains arising during the year	639	(545)	94
Less: reclassification adjustment for gains included in net income	(1,847)	361	(1,486)
Net unrealized holding losses	(1,208)	(184)	(1,392)
<b>Other comprehensive income (loss)</b>	<b>¥ (98,198)</b>	<b>¥ 772</b>	<b>¥ (97,426)</b>

## 15. Revenue

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

For sale of equipment, parts, attachment and others, revenue is recognized when the customers accept the goods or services. Conditions for acceptance, such as shipping, receipt by customers, completion of installation or completion of performance test, depend on contracts or arrangements with customers and the like. The consideration for those transactions is generally collected within three months after the performance obligation is satisfied.

For services such as periodic check, maintenance, and repair and other services, revenue is recognized when provision of the service is completed, or over the period for which the service is provided. Conditions for completion of service provision, including receipt of completion report, depend on contracts or arrangements with customers and the like. The consideration for those transactions is generally collected within three months after the performance obligation is satisfied.

Komatsu’s certain consolidated subsidiaries have signed long-term maintenance contracts with their customers, in which case the customers receive services and simultaneously consume them as the performance obligations are satisfied. Thus, revenue from such services is recognized over the period of the contract with the customer in accordance with the progress percentage on the basis of costs incurred, which appropriately represents the transfer of control to the customer.

Shipping and handling activities occurring after control over an equipment has transferred to a customer are not identified as services.

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

Komatsu is obligated to accept parts returned from customers for a certain period after the sale. In consideration of the relevant historical return result and other factors, Komatsu’s right to recover parts from customers is recognized in other current assets as a return asset, and also a refund liability is recognized in other current liabilities for its obligation to refund the customers upon return of parts.

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

After the product are sold or delivered, Komatsu repairs the sold product and replaces parts free of charge for a certain period in accordance with the contract. Thus, in order to provide for disbursement of the after-sales service costs, provision for product warranties is recognized based on the relevant historical result. In addition to this standard warranty, Komatsu offers a package of extended warranty for power line (engine & power systems and hydraulic system) upon the purchase of a product and free maintenance service as a service program to maintain the performance of construction equipment over a longer period of time. Komatsu determines this program to be a service-type warranty, and identifies a separate performance obligation for recognizing revenue from this program. As the costs incurred to obtain a contract with a customer are to be amortized within one year, they are expensed as incurred by applying a practical expedient on the costs for obtaining a contract with a customer.

(1) Disaggregation of revenue

Revenue from contracts with customers and other sources during the fiscal year ended March 31, 2021 and 2020 are as follows.

	Millions of yen	
	2021	2020
Revenue recognized from contracts with customers	¥ 1,971,691	¥ 2,234,629
Revenue recognized from other sources	217,821	210,241
Total	¥ 2,189,512	¥ 2,444,870

The disaggregation of revenue by operating and geographic segment are described in Note 23.

Revenue recognized from other sources primarily comprises revenue recognized from lease contracts and financial income such as interest income.

(2) Contract balances

Contract balances arising from contracts with customers at March 31, 2021 and 2020 are as follows:

	Millions of yen	
	2021	2020
Receivables *1	¥ 1,036,127	¥ 980,371
Contract assets *2	2,886	3,483
Contract liabilities *3	106,990	100,472

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

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

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

Komatsu's contract assets mainly relate to its right to consideration for product sales contracts in the industrial machinery business, for which the performance obligation has been satisfied but the invoicing conditions have not been satisfied as of a reporting date. Contract assets are reclassified to receivables when the right to consideration becomes unconditional.

Komatsu's contract liabilities are those arising from all or part of the consideration received from the customers before the corresponding performance obligation is satisfied. The main components of the contract liabilities are unearned revenue and advances received. Komatsu recognizes unearned revenue by identifying separate performance obligations such as extended warranties. Advances received from the customers are recognized in long-term maintenance contracts for which revenue is recognized over the contract period, and also in product sales contracts for large press machines and the like for which revenue is recognized upon acceptance of the customers.

Revenue recognized for the fiscal year ended March 31, 2021 that was included in the contract liability balance as of March 31, 2020 was ¥55,849 million. Revenue recognized for the fiscal year ended March 31, 2020 that was included in the contract liability balance as of March 31, 2019 was ¥52,387 million.

The amount of revenue recognized during the fiscal year ended March 31, 2021 and 2020 from the performance obligations satisfied or partially satisfied in the previous periods and the amount of impairment losses recognized for receivables and contract assets are immaterial. Additionally, there were no significant changes in contract assets and contract liabilities for contracts with customers during the fiscal year ended March 31, 2021 and 2020.

### (3) Transaction price allocated to the remaining performance obligations

As of March 31, 2021, the aggregate amount of the transaction price allocated to the remaining performance obligations that have original expected durations greater than one year was ¥169,127 million, of which ¥80,489 million is expected to be recognized as revenue in the fiscal year ending March 31, 2022.

## 16. Income Taxes

The sources of income before income taxes and equity in earnings of affiliated companies and the sources of income taxes for the fiscal years ended March 31, 2021 and 2020 were as follows:

	Millions of yen			
	2021		2020	
Income before income taxes and equity in earnings of affiliated companies:				
Japan	¥	17,234	¥	65,421
Foreign		145,541		157,693
	¥	162,775	¥	223,114
Income taxes:				
Current -				
Japan	¥	14,384	¥	21,642
Foreign		37,823		44,822
	¥	52,207	¥	66,464
Deferred -				
Japan	¥	(4,897)	¥	1,427
Foreign		(391)		(5,018)
	¥	(5,288)	¥	(3,591)
Total	¥	46,919	¥	62,873

Total income taxes recognized for the fiscal years ended March 31, 2021 and 2020 were applicable to the following:

	Millions of yen			
	2021		2020	
Income before income taxes and equity in earnings of affiliated companies	¥	46,919	¥	62,873
Other comprehensive income(loss):				
Foreign currency translation adjustments		52		(26)
Pension liability adjustments		(2,313)		(930)
Net unrealized holding gains(losses) on derivative instruments		(309)		184
Total income taxes	¥	44,349	¥	62,101

Temporary differences and tax loss carryforwards which gave rise to deferred tax assets and liabilities at March 31, 2021 and 2020 are as follows:

	Millions of yen	
	2021	2020
Deferred tax assets:		
Allowances provided, not yet recognized for tax	¥ 8,963	¥ 7,473
Accrued expenses	38,292	40,601
Investment securities	1,083	1,054
Pension and retirement benefits	20,375	17,504
Property, plant and equipment	1,468	1,398
Operating lease liabilities	14,647	15,116
Inventories	13,580	11,959
Net operating loss carryforwards	39,364	31,794
Research and development expenses	1,435	1,431
Tax credit carryforwards	2,454	2,123
Other	11,650	9,013
Total gross deferred tax assets	153,311	139,466
Less: valuation allowance	(36,080)	(25,779)
Total deferred tax assets	¥ 117,231	¥ 113,687
Deferred tax liabilities:		
Property, plant and equipment	¥ 20,735	¥ 24,280
Operating lease right-of-use assets	14,883	15,093
Intangible assets	26,236	28,825
Undistributed earnings of foreign subsidiaries and affiliated companies accounted for by the equity method	7,325	8,294
Other	505	239
Total deferred tax liabilities	¥ 69,684	¥ 76,731
Total deferred tax assets	¥ 47,547	¥ 36,956

Net deferred tax assets and liabilities as of March 31, 2021 and 2020 are reflected on the consolidated balance sheets under the following captions:

	Millions of yen	
	2021	2020
Deferred income taxes and other assets	¥ 71,782	¥ 62,832
Deferred income taxes and other liabilities	(24,235)	(25,876)
	¥ 47,547	¥ 36,956

The valuation allowance was ¥29,118 million as of March 31, 2019. The net changes in the total valuation allowance for the fiscal years ended March 31, 2021 and 2020 were an increase of ¥10,301 million and a decrease of ¥3,339 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, 2021 and 2020, 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.

As of March 31, 2021, Komatsu had tax credit carryforwards of ¥2,454 million, which will expire within the year ending March 31, 2027.

The Company and its Japanese subsidiaries are subject to a National Corporate tax rate of approximately 23%, an inhabitant tax of approximately 5% and a deductible Enterprise tax of approximately 5%, which in the aggregate resulted in a Japanese statutory tax rate of approximately 31.3% for the fiscal year ended March 31, 2021 and 2020. 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 fiscal years ended March 31, 2021 and 2020 are summarized as follows:

	2021	2020
Japanese statutory tax rate	31.3%	31.3%
Increase (decrease) in tax rates resulting from:		
Change in valuation allowance	1.1	(0.5)
Expenses not deductible for tax purposes	0.4	2.1
Income of foreign subsidiaries taxed at lower than Japanese normal rate	(3.9)	(4.0)
Tax credit for research and development expenses	(1.6)	(1.9)
Other, net	1.5	1.2
Effective tax rate	<u>28.8%</u>	<u>28.2%</u>



Foreign subsidiaries are subject to income taxes of the countries in which they operate. At March 31, 2021 and 2020, undistributed earnings of foreign subsidiaries amount to ¥1,122,680 million and ¥1,055,635 million, respectively. The Company has a policy to distribute a certain portion of undistributed earnings of foreign subsidiaries. As of March 31, 2021 and 2020, Komatsu recognized deferred tax liabilities of ¥984 million and ¥2,612 million, respectively, associated with those earnings. As of March 31, 2021 and 2020, Komatsu did not recognize deferred tax liabilities of ¥52,929 million and ¥49,269 million, respectively, for such portion of undistributed earnings of foreign subsidiaries that the Company intends to reinvest indefinitely.

At March 31, 2021, certain subsidiaries had net operating loss carryforwards aggregating ¥76,088 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:

<u>At March 31, 2021</u>	<u>Millions of yen</u>	
Within 5 years	¥	32,717
6 to 20 years		1,645
Indefinite periods		41,726
Total	¥	<u>76,088</u>

For other net operating loss carryforwards than the aforementioned amount, at March 31, 2021, some U.S. subsidiaries had net operating loss carryforwards associated with state tax aggregating ¥234,952 million, which may be used as a deduction in determining taxable income in future periods. The deferred tax assets associated with those net operating loss carryforwards were ¥14,946 million.

The reconciliation of beginning and ending balances of unrecognized tax benefits are as follows:

	<u>Millions of yen</u>			
	<u>2021</u>		<u>2020</u>	
Balance at beginning of year	¥	16,389	¥	16,094
Additions for tax positions related to current period		394		1,215
Additions for tax positions related to prior period		683		386
Reductions for tax positions related to prior period		(40)		(411)
Reductions for settlements		(88)		(766)
Other		27		(129)
Balance at end of year	¥	<u>17,365</u>	¥	<u>16,389</u>

Total net amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate	17,237	16,389
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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 fiscal years ended March 31, 2021 and 2020, interest and penalties related to unrecognized tax benefits were not material. Based on the information available as of March 31, 2021, 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, 2015 in Japan and, is no longer subject to income tax examinations by the tax authority before and in the fiscal year ended March 31, 2013 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, 2011 with few exceptions.

## 17. Leases

### (1) Lessee

Komatsu leases lands, buildings, vehicles, employee housings, etc. through finance and operating leases. Some of these leases may include options to extend or terminate the lease with preliminary notice. Komatsu determines lease terms with the options on the lease commencement date if it is reasonably certain that Komatsu will exercise those options. As a rate implicit in the most of Komatsu's leases cannot be determined, Komatsu recognizes right-of-use assets and lease liabilities calculated present value of lease payments by using incremental borrowing rate based on the information available. Komatsu's finance leases are not material.

Supplementary information to operating leases on the balance sheets as of March 31, 2021 and 2020 are as follows:

	2021	2020
Weighted average remaining lease term	9.1years	8.6years
Weighted average discount rates	2.2%	1.9%

Amounts of maturities of operating lease liabilities in each of the next five years and in the aggregate for the five years thereafter as of March 31, 2021 are as follows:

	Millions of yen	
	2021	
2022	¥	16,526
2023		10,565
2024		6,660
2025		4,966
2026		3,878
Thereafter		20,141
Total minimum lease payments	¥	62,736
Less: Imputed interest		(6,872)
Total lease liabilities	¥	55,864

Lease costs for the fiscal years ended March 31, 2021 and 2020 are comprised of the following:

	Millions of yen			
	2021		2020	
Operating lease cost	¥	19,271	¥	18,834
Short term lease cost		4,141		4,479

Variable lease payments that are not included in lease liabilities are not material.

Supplementary cash flow information to leases for the fiscal years ended March 31, 2021 and 2020 are as follows:

	Millions of yen			
	2021		2020	
Cash paid for amount included in the measurement of lease liabilities				
Operating leases				
Cash flows by operating activities	¥	20,125	¥	19,214
Noncash activity - Rights of use assets obtained in exchange for lease liabilities				
Operating leases	¥	18,772	¥	17,475

Leases that have not yet commenced but that create significant rights and obligations as of March 31, 2021 and 2020 are not material.

## (2) Lessor

Komatsu provides sales-type and operating leases as a lessor for leveling cash payments of its customers when customers purchase primarily Komatsu's construction and mining equipment. Revenue from the sale of these products under sales-type leases is recognized at the inception of the lease. Interest income on sales-type leases is recognized over the life of each lease using the interest method. Revenue from operating leases is recognized on a straight-line basis over the lease term. Some of these leases may include options to extend or terminate the lease. Some of these leases also may include options for the lessee to purchase the underlying assets at stated fixed price or fair market value.

The residual value of Komatsu's leased equipment is determined based on its estimated end-of-term market values. Komatsu estimates the residual value of leased equipment at the inception of the lease based on historical used equipment market sales prices, latest trends of the market, etc. Komatsu monitors estimated residual values of the leased equipment during the term of leases through understanding trends of the market. The present values of guaranteed residual values provided by customers as of March 31, 2021 and 2020 are ¥9,825 million and ¥8,425 million.

Net investments in the sales-type leases as of March 31, 2021 and 2020 are comprised of the following:

	Millions of yen			
	2021		2020	
Lease receivables	¥	229,502	¥	181,560
Unguaranteed residual assets		9,406		8,105
Net investment in the sales-type leases *	¥	238,908	¥	189,665
Less: current portion		(105,306)		(82,700)
	¥	133,602	¥	106,965

\* The net investments in the sales-type leases are included in trade notes and accounts receivable, net and long-term trade receivables, net on the consolidated balance sheets.

Undiscounted lease payments to be received under sales-type and operating leases in each of the next five years and in the aggregate for the five years thereafter as of March 31, 2021 are as follows:

	Millions of yen	
	2021	
	Sales-type leases	Operating leases
2022	¥ 105,275	¥ 35,162
2023	75,077	18,132
2024	40,413	9,002
2025	16,285	5,129
2026	5,688	2,147
Thereafter	2,713	176
Total undiscounted lease payments to be received	¥ 245,451	¥ 69,748
Less: Imputed interest	(15,949)	—
Total lease receivables	¥ 229,502	¥ —

Revenues from sales-type and operating leases as a lessor, included in net sales on the consolidated statement of income, for the fiscal years ended March 31, 2021 and 2020 are as follows:

	Millions of yen	
	2021	2020
Sales-type lease revenue		
Revenue recognized at the commencement date *	¥ 111,881	¥ 91,122
Interest income	8,769	9,859
Total sales-type lease revenue	120,650	100,981
Operating lease revenue	79,977	92,664
Total	¥ 200,627	¥ 193,645

\* The revenues recognized at the commencement dates are included in net sales of the Construction, Mining and Utility Equipment operating segment.

## 18. Net Income Attributable to Komatsu Ltd. per Share

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

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

	Millions of yen	
	2021	2020
Net income attributable to Komatsu Ltd.	¥ 106,237	¥ 153,844
Net income attributable to participating securities (restricted stocks)	85	75
Net income attributable to common shareholders	¥ 106,152	¥ 153,769
	Number of shares	
	2021	2020
Weighted average number of common shares outstanding, less treasury stock	944,905,204	944,230,565
Weighted average number of participating securities (restricted stocks)	758,982	459,183
Weighted average number of common shares	944,146,222	943,771,382
	Yen	
	2021	2020
Basic net income attributable to Komatsu Ltd. per share	¥ 112.43	¥ 162.93

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

	Millions of yen	
	2021	2020
Net income attributable to Komatsu Ltd.	¥ 106,237	¥ 153,844
Net income attributable to participating securities (restricted stocks)	85	75
Net income attributable to common shareholders	¥ 106,152	¥ 153,769
	Number of shares	
	2021	2020
Weighted average number of common shares outstanding, less treasury stock	944,905,204	944,230,565
Dilutive effect of:		
Stock options	374,987	741,949
Weighted average number of participating securities (restricted stocks)	758,982	459,183
Weighted average number of diluted common shares	944,521,209	944,513,331
	Yen	
	2021	2020
Diluted net income attributable to Komatsu Ltd. per share	¥ 112.39	¥ 162.80

## 19. Commitments and Contingent Liabilities

At March 31, 2021, Komatsu was contingently liable for discounted and transferred receivables on a recourse basis with the financial institutions of ¥18 million.

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 6 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, 2021 and 2020 were ¥9,769 million and ¥12,142 million, respectively. The fair value of the liabilities recognized for Komatsu's obligations as guarantors under those guarantees at March 31, 2021 were insignificant. Certain of those guarantees were secured by collateral and insurance issued to Komatsu.

Komatsu provides guarantees that subsidiaries of the Company perform the obligations of the terms and conditions of contracts by standby letters of credit issued by banks. Komatsu would have to pay the liabilities incurred to banks if the subsidiaries don't perform the obligations of the terms and conditions of contracts. The maximum amount of undiscounted payments Komatsu would have had to make in the event of defaults of the contracts at March 31, 2021 and 2020 were ¥18,618 million and ¥15,590 million, respectively.

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, 2021 and 2020 aggregated approximately ¥38,900 million and approximately ¥52,300 million, respectively.

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

Komatsu has business activities with customers, dealers and associates around the world and its trade receivables from such parties and the guarantees for them are well diversified to minimize concentrations of credit risks.

Management does not anticipate incurring losses on its trade receivables in excess of established allowances.

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. Changes in accrued product warranty cost for the years ended March 31, 2021 and 2020 are summarized as follows:

	Millions of yen	
	2021	2020
Balance at beginning of year	¥ 38,459	¥ 43,565
Addition	31,172	25,942
Utilization	(33,038)	(29,227)
Other	1,543	(1,821)
Balance at end of year	¥ 38,136	¥ 38,459

## 20. 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 21 and 22). 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 of 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 same location as earnings derived from hedged item when the hedged items impact earnings. Approximately ¥606 million of existing income included in accumulated other comprehensive income (loss) at March 31, 2021 will be reclassified into earnings within twelve months from that date. Cash flow hedges discontinued during the fiscal year ended March 31, 2021 as a result of anticipated transactions that are no longer probable of occurring were not material to Komatsu's financial position and results of operations.

### 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, 2021 and 2020 are as follows:

	Millions of yen			
		2021		2020
Forwards contracts:				
Sale of foreign currencies	¥	185,798	¥	147,655
Purchase of foreign currencies		138,820		101,835
Interest rate swaps and cross-currency swap agreements		105,380		83,088

Fair value of derivative instruments at March 31, 2021 and 2020 on the consolidated balance sheets are as follows:

Millions of yen				
2021				
Derivative instruments designated as hedging instruments	Derivative Assets		Derivative Liabilities	
	Location on the consolidated Balance Sheets	Estimated fair value	Location on the consolidated Balance Sheets	Estimated fair value
Forwards contracts	Other current assets	¥ 738	Other current liabilities	¥ 3,057
	Deferred income taxes and other assets	—	Deferred income taxes and other liabilities	11
Interest rate swaps and cross-currency swap agreements	Other current assets	—	Other current liabilities	28
	Deferred income taxes and other assets	42	Deferred income taxes and other liabilities	615
<b>Total</b>		<b>¥ 780</b>		<b>¥ 3,711</b>
2020				
Undesignated derivative instruments	Derivative Assets		Derivative Liabilities	
	Location on the consolidated Balance Sheets	Estimated fair value	Location on the consolidated Balance Sheets	Estimated fair value
Forwards contracts	Other current assets	¥ 1,459	Other current liabilities	¥ 2,182
	Deferred income taxes and other assets	—	Deferred income taxes and other liabilities	5
Interest rate swaps and cross-currency swap agreements	Other current assets	181	Other current liabilities	282
	Deferred income taxes and other assets	—	Deferred income taxes and other liabilities	—
<b>Total</b>		<b>¥ 1,640</b>		<b>¥ 2,469</b>
<b>Total Derivative Instruments</b>		<b>¥ 2,420</b>		<b>¥ 6,180</b>
Millions of yen				
2020				
Derivative instruments designated as hedging instruments	Derivative Assets		Derivative Liabilities	
	Location on the consolidated Balance Sheets	Estimated fair value	Location on the consolidated Balance Sheets	Estimated fair value
Forwards contracts	Other current assets	¥ 1,567	Other current liabilities	¥ 1,836
	Deferred income taxes and other assets	9	Deferred income taxes and other liabilities	318
Interest rate swaps and cross-currency swap agreements	Other current assets	—	Other current liabilities	4
	Deferred income taxes and other assets	—	Deferred income taxes and other liabilities	866
<b>Total</b>		<b>¥ 1,576</b>		<b>¥ 3,024</b>
Undesignated derivative instruments	Derivative Assets		Derivative Liabilities	
	Location on the consolidated Balance Sheets	Estimated fair value	Location on the consolidated Balance Sheets	Estimated fair value
Forwards contracts	Other current assets	¥ 7,511	Other current liabilities	¥ 1,673
	Deferred income taxes and other assets	2	Deferred income taxes and other liabilities	2
Interest rate swaps and cross-currency swap agreements	Other current assets	546	Other current liabilities	196
	Deferred income taxes and other assets	207	Deferred income taxes and other liabilities	—
<b>Total</b>		<b>¥ 8,266</b>		<b>¥ 1,871</b>
<b>Total Derivative Instruments</b>		<b>¥ 9,842</b>		<b>¥ 4,895</b>



The effects of derivative instruments on the consolidated statements of income and the consolidated statements of comprehensive income for the fiscal years ended March 31, 2021 and 2020 are as follows:

### Derivative instruments designated as cash flow hedging relationships

Millions of yen			
2021			
	Amount of gains (losses) recognized in OCI on derivatives	Gains (losses) reclassified from accumulated OCI on derivatives	
		Location of consolidated statements of income	Amount
Forwards contracts	¥ (1,196)	Net sales	¥ 1,886
		Cost of sales	(369)
		Other income (expenses), net: Other, net	(1,246)
Interest rate swaps and cross-currency swap agreements	468	—	—
<b>Total</b>	<b>¥ (728)</b>		<b>¥ 271</b>

Millions of yen			
2020			
	Amount of gains (losses) recognized in OCI on derivatives	Gains (losses) reclassified from accumulated OCI on derivatives	
		Location of consolidated statements of income	Amount
Forwards contracts	¥ 1,146	Net sales	¥ 1,725
		Cost of sales	(211)
		Other income (expenses), net: Other, net	333
Interest rate swaps and cross-currency swap agreements	(507)	—	—
<b>Total</b>	<b>¥ 639</b>		<b>¥ 1,847</b>

\* OCI stands for other comprehensive income (loss).

## Derivative instruments not designated as hedging instruments relationships

Millions of yen		
2021		
	Location of gains (losses) recognized in income on derivatives	Amount of gains (losses) recognized in income on derivatives
Forwards contracts	Other income (expenses), net: Other, net	¥ (3,619)
Interest rate swaps and cross-currency swap agreements	Cost of sales	(105)
	Other income (expenses), net: Other, net	14
<b>Total</b>		<b>¥ (3,710)</b>

Millions of yen		
2020		
	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	¥ 4,067
Interest rate swaps and cross-currency swap agreements	Cost of sales	(34)
	Other income (expenses), net: Other, net	(27)
<b>Total</b>		<b>¥ 4,006</b>

## 21. Fair Values of Financial Instruments

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

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

### (2) Long-term trade receivables, net, excluding lease 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 the current interest rates for similar receivables of comparable maturity. The carrying amounts approximate the fair values computed on such a basis.

### (3) Long-term debt, including current portion

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

### (4) Derivatives (Notes 20 and 22)

The fair values of derivative financial instruments are stated in Note 22 and therefore are not included in the table below.

The carrying amounts and the estimated fair values of the financial instruments as of March 31, 2021 and 2020 and fair value levels are summarized as follows:

	Millions of yen				Fair Value Levels
	2021		2020		
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value	
Cash and cash equivalents	¥ 241,803	¥ 241,803	¥ 247,616	¥ 247,616	Level 1
Time deposits	1,324	1,324	2,057	2,057	Level 2
Long-term trade receivables, net, excluding lease receivables	316,111	316,111	314,592	314,592	Level 2
Short-term debt	271,462	271,462	483,658	483,658	Level 2
Long-term debt, including current portion	638,521	639,139	528,720	528,460	Level 2

#### Notes:

- 1) Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could affect the estimates.
- 2) The fair value levels are stated in Note 22.

## 22. 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, 2021 and 2020 are as follows:

		Millions of yen			
		Level 1	Level 2	Level 3	Total
<b>At March 31, 2021</b>					
<b>Assets</b>					
Derivatives					
Forward contracts	¥	—	¥ 2,197	¥ —	¥ 2,197
Interest rate swaps and cross-currency swap agreements		—	223	—	223
<b>Total</b>	<b>¥</b>	<b>—</b>	<b>¥ 2,420</b>	<b>¥ —</b>	<b>¥ 2,420</b>
<b>Liabilities</b>					
Derivatives					
Forward contracts	¥	—	¥ 5,255	¥ —	¥ 5,255
Interest rate swaps and cross-currency swap agreements		—	925	—	925
<b>Total</b>	<b>¥</b>	<b>—</b>	<b>¥ 6,180</b>	<b>¥ —</b>	<b>¥ 6,180</b>
		Millions of yen			
		Level 1	Level 2	Level 3	Total
<b>At March 31, 2020</b>					
<b>Assets</b>					
Derivatives					
Forward contracts	¥	—	¥ 9,089	¥ —	¥ 9,089
Interest rate swaps and cross-currency swap agreements		—	753	—	753
<b>Total</b>	<b>¥</b>	<b>—</b>	<b>¥ 9,842</b>	<b>¥ —</b>	<b>¥ 9,842</b>
<b>Liabilities</b>					
Derivatives					
Forward contracts	¥	—	¥ 3,829	¥ —	¥ 3,829
Interest rate swaps and cross-currency swap agreements		—	1,066	—	1,066
<b>Total</b>	<b>¥</b>	<b>—</b>	<b>¥ 4,895</b>	<b>¥ —</b>	<b>¥ 4,895</b>

**Derivatives** (Notes 20 and 21)

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.

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

For the fiscal years ended March 31, 2021 and 2020, assets and liabilities that were measured at fair value on a non-recurring basis were not material.

### 23. Business Segment and Geographic Information

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

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

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

The following tables present financial information regarding Komatsu's operating segments and geographic information at March 31, 2021 and 2020, and for the fiscal years then ended:

#### Operating segments:

	Millions of yen	
	2021	2020
<b>Net sales:</b>		
Construction, Mining and Utility Equipment -		
External customers	¥ 1,961,207	¥ 2,205,976
Intersegment	14,751	5,287
Total	1,975,958	2,211,263
Retail Finance -		
External customers	58,377	62,952
Intersegment	8,017	7,958
Total	66,394	70,910
Industrial Machinery and Others -		
External customers	169,928	175,942
Intersegment	1,327	1,644
Total	171,255	177,586
Elimination	(24,095)	(14,889)
Consolidated	¥ 2,189,512	¥ 2,444,870
<b>Segment profit:</b>		
Construction, Mining and Utility Equipment	¥ 143,788	¥ 227,311
Retail Finance	10,574	12,673
Industrial Machinery and Others	16,342	13,703
Total segment profit	170,704	253,687
Corporate expenses and elimination	1,635	1,343
Total	172,339	255,030
Impairment loss on long-lived assets	2,403	3,194
Impairment loss on goodwill	—	3,699
Other operating income (expenses), net	(2,608)	2,570
Operating income	167,328	250,707
Interest and dividend income	5,293	7,378
Interest expense	(13,766)	(24,592)
Other, net	3,920	(10,379)
Consolidated income before income taxes and equity in earnings of affiliated companies	¥ 162,775	¥ 223,114

	Millions of yen	
	2021	2020
<b>Segment assets:</b>		
Construction, Mining and Utility Equipment	¥ 2,689,427	¥ 2,521,646
Retail Finance	887,125	841,063
Industrial Machinery and Others	201,810	216,728
Corporate assets and elimination	6,479	74,249
Consolidated	¥ 3,784,841	¥ 3,653,686
<b>Depreciation and amortization:</b>		
Construction, Mining and Utility Equipment	¥ 93,883	¥ 91,049
Retail Finance	30,393	32,266
Industrial Machinery and Others	6,156	6,210
Consolidated	¥ 130,432	¥ 129,525
<b>Capital investment:</b>		
Construction, Mining and Utility Equipment	¥ 117,059	¥ 116,282
Retail Finance	41,722	45,636
Industrial Machinery and Others	4,393	4,634
Consolidated	¥ 163,174	¥ 166,552

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

a) Construction, Mining and Utility Equipment operating segment:

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

b) Retail Finance operating segment:

Financing

c) Industrial Machinery and Others operating segment:

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

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 maintained for general corporate purposes.

Amortization for the fiscal years ended March 31, 2021 and 2020 does not include amortization of long-term prepaid expenses of ¥2,694 million and ¥2,071 million.

Impairment loss on long-lived assets recorded in each segment asset for the fiscal years ended March 31, 2021 and 2020 are as follows:

	Millions of yen	
	2021	2020
Construction, Mining and Utility Equipment	¥ 1,986	¥ 2,158
Retail Finance	—	1
Industrial Machinery and Others	417	1,035
Total	¥ 2,403	¥ 3,194

**Geographic information:**

Net sales determined by customer location for the fiscal year ended March 31, 2021 are as follows:

	Millions of yen			
	2021			
	Construction, Mining and Utility Equipment	Retail Finance	Industrial Machinery and Others	Total
Japan	¥ 294,890	¥ 2,090	¥ 87,322	¥ 384,302
The Americas	732,463	42,540	23,387	798,390
Europe and CIS	295,916	4,089	8,039	308,044
China	146,225	3,056	20,317	169,598
Asia (excluding Japan and China) and Oceania	368,912	6,383	30,740	406,035
Middle East and Africa	122,801	219	123	123,143
<b>Total</b>	<b>¥ 1,961,207</b>	<b>¥ 58,377</b>	<b>¥ 169,928</b>	<b>¥ 2,189,512</b>

Net sales to U.S.A. in the Americas for the fiscal year ended March 31, 2021 were ¥411,102 million.

The amounts classified into revenue recognized from other sources described in Note 15 to the Consolidated Financial Statements for the fiscal year ended March 31, 2021 within the net sales of the Construction, Mining and Utility Equipment operating segment are ¥35,132 million in Japan, ¥24,977 million in the Americas, ¥38,040 million in Europe and CIS, ¥46,934 million in China, and ¥15,120 million in Asia (excluding Japan and China) and Oceania. Net sales of the Retail Finance operating segment for the fiscal year ended March 31, 2021 are primarily the amounts classified into revenue recognized from other sources described in Note 15 to the Consolidated Financial Statements.

Net sales determined by customer location for the fiscal year ended March 31, 2020 are as follows:

	Millions of yen			
	2020			
	Construction, Mining and Utility Equipment	Retail Finance	Industrial Machinery and Others	Total
Japan	¥ 310,856	¥ 2,324	¥ 83,404	¥ 396,584
The Americas	882,842	49,042	18,966	950,850
Europe and CIS	347,138	2,527	9,914	359,579
China	127,064	3,135	25,615	155,814
Asia (excluding Japan and China) and Oceania	409,158	5,845	37,728	452,731
Middle East and Africa	128,918	79	315	129,312
<b>Total</b>	<b>¥ 2,205,976</b>	<b>¥ 62,952</b>	<b>¥ 175,942</b>	<b>¥ 2,444,870</b>

Net sales to U.S.A. in the Americas for the fiscal year ended March 31, 2020 were ¥511,966 million.



The amounts classified into revenue recognized from other sources described in Note 15 to the Consolidated Financial Statements for the fiscal year ended March 31, 2020 within the net sales of the Construction, Mining and Utility Equipment operating segment are ¥35,733 million in Japan, ¥32,865 million in the Americas, ¥30,986 million in Europe and CIS, ¥32,636 million in China, and ¥15,752 million in Asia (excluding Japan and China) and Oceania. Net sales of the Retail Finance operating segment for the fiscal year ended March 31, 2020 are primarily the amounts classified into revenue recognized from other sources described in Note 15 to the Consolidated Financial Statements.

Net sales determined by geographic origin for the fiscal years ended March 31, 2021 and 2020, and property, plant and equipment determined based on physical location at March 31, 2021 and 2020 are as follows:

	Millions of yen			
	2021		2020	
<b>Net sales:</b>				
Japan	¥	500,258	¥	534,514
The Americas		726,325		891,329
Europe and CIS		316,155		355,928
China		158,536		137,257
Others		488,238		525,842
<b>Total</b>	<b>¥</b>	<b>2,189,512</b>	<b>¥</b>	<b>2,444,870</b>
<b>Property, plant and equipment:</b>				
Japan	¥	368,755	¥	364,347
The Americas		242,499		244,603
Europe and CIS		50,592		40,885
Others		125,527		107,844
<b>Total</b>	<b>¥</b>	<b>787,373</b>	<b>¥</b>	<b>757,679</b>

There were no sales to a single major external customer for the fiscal years ended March 31, 2021 and 2020. Property, plant and equipment located in U.S.A. in the Americas at March 31, 2021 and 2020 were ¥164,332 million and ¥173,024 million, respectively.

## 24. Supplementary Information to Balance Sheets

At March 31, 2021 and 2020, other current assets were comprised of the following:

	Millions of yen	
	2021	2020
Prepaid expenses	¥ 13,727	¥ 14,521
Short-term loans receivable:		
Affiliated companies	1,296	1,723
Other	224	30
Total	¥ 1,520	¥ 1,753
Other	116,368	131,139
Total	¥ 131,615	¥ 147,413

At March 31, 2021 and 2020, other current liabilities were comprised of the following:

	Millions of yen	
	2021	2020
Accrued expenses	¥ 116,777	¥ 110,310
Advances received	59,656	58,248
Other	145,914	129,267
Total	¥ 322,347	¥ 297,825

Valuation and qualifying accounts deducted from assets to which they apply for the fiscal years ended March 31, 2021 and 2020 were comprised of the following:

	Millions of yen	
	2021	2020
Allowance for doubtful receivables		
Balance at beginning of year	¥ 16,822	¥ 12,758
Additions		
Charged to costs and expenses	8,138	10,589
Charged to other accounts	121	22
Deductions	(7,932)	(6,547)
Balance at end of year	¥ 17,149	¥ 16,822

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

	Millions of yen	
	2021	2020
Valuation allowance for deferred tax assets		
Balance at beginning of year	¥ 25,779	¥ 29,118
Additions		
Charged to costs and expenses	14,954	2,364
Charged to other accounts	—	—
Deductions	(4,653)	(5,703)
Balance at end of year	¥ 36,080	¥ 25,779

Deductions were principally changes in the expected realization of deferred tax assets and realization or expiration of net operating loss carryforwards.

## 25. Supplementary Information to Statements of Income

The following information shows research and development expenses and advertising costs, for the fiscal years ended March 31, 2021 and 2020. 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	
	2021	2020
Research and development expenses	¥ 73,840	¥ 74,761
Advertising costs	1,874	3,694

Shipping and handling costs included in selling, general and administrative expenses for the fiscal years ended March 31, 2021 and 2020 were as follows:

	Millions of yen	
	2021	2020
Shipping and handling costs	¥ 44,424	¥ 48,217

For the fiscal years ended March 31, 2021 and 2020, Komatsu recognized an impairment loss of ¥2,403 million and ¥3,194 million related to property, plant and equipment and intangible assets 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 (expenses), net for the fiscal years ended March 31, 2021 and 2020 were comprised of the following:

	Millions of yen	
	2021	2020
Gain on sale of fixed assets	¥ 1,421	¥ 5,955
Loss on disposal or sale of fixed assets	(3,467)	(5,221)
Other	(562)	1,836
Total	¥ (2,608)	¥ 2,570

Other income (expenses), net for the fiscal years ended March 31, 2021 and 2020 were comprised of the following:

	Millions of yen	
	2021	2020
Interest income		
Installment receivables	¥ 1,222	¥ 1,684
Other	3,079	5,174
Dividends	992	520
Interest expense	(13,766)	(24,592)
Impairment loss and net loss (gain) on valuation of investment securities	47	97
Exchange gain (loss), net	1,274	(12,904)
Other	2,599	2,428
Total	¥ (4,553)	¥ (27,593)

## **26. Material Subsequent Events**

The Company resolved the following matters at the meeting of the Board of Directors held on April 30, 2021.

- (1) The Company will engage in the joint business (hereafter the “Joint Business”) of developing, providing, and servicing digital solutions (worksite visualization devices, platforms, and applications) for the construction industry at LANDLOG Ltd. (hereafter “LANDLOG”), a wholly-owned subsidiary of the Company, with NTT DOCOMO, INC. (hereafter “DOCOMO”), Sony Semiconductor Solutions Corporation (hereafter “Sony”), and Nomura Research Institute, Ltd. (hereafter “NRI”).
- (2) Toward the Joint Business, ( i ) the Company will transfer part of the rights and obligations related to the SMARTCONSTRUCTION business to LANDLOG through a company split (absorption-type company split) with effective date of July 1, 2021 (scheduled), and ( ii ) LANDLOG will execute the third-party allocation of shares to DOCOMO, Sony, and NRI.

Along with the Joint Business, LANDLOG plans to change its name to EARTHBRAIN Ltd. With the Joint Business, the Company’s ownership ratio in LANDLOG will decrease from 100% to 54.5%. The Company anticipates no material impact on Komatsu's financial position and results of operations.

## 27. 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 (hereinafter "J. GAAP") are as follows.

### (1) Scope of consolidation

For consolidated financial statements in accordance with J. GAAP, the scope of consolidation is determined on an effective control and influence basis. For consolidated financial statements in accordance with U.S. GAAP, the scope of consolidation is determined on the shareholding basis on which the determination is based on voting rights and on a consolidation basis of variable interest entities.

### (2) Accounting policies

#### a. Deferred income on installment sales

Although deferral of income on installment sales is permitted in accordance with J. GAAP, the Company recognizes income at the time of sales without deferring income on installment sales in its consolidated financial statements in accordance with U.S. GAAP.

#### b. Share issuance cost

Although in accordance with J. GAAP, share issuance cost is permitted to be recognized in profit or loss when incurred, the Company treats such cost in a deduction item from capital surplus as expenses incidental to capital transactions in its consolidated financial statements in accordance with U.S. GAAP.

#### c. Accounting for retirement benefits

Although in accordance with J. GAAP, net actuarial gains or losses are required to be amortized over certain periods that are shorter than the average remaining years of service, the Company has adopted the corridor approach in its consolidated financial statements in accordance with U.S. GAAP.

#### d. Business combination and goodwill

Goodwill is required to be amortized over certain periods in accordance with J. GAAP, while U.S. GAAP requires companies to implement impairment test at least once annually without goodwill being amortized. For intangible fixed assets with indefinite useful lives, U.S. GAAP also requires companies to implement impairment test without such assets being amortized.

### (3) Presentation methods and other matters

#### a. Presentation of legal retained earnings

Although in accordance with J. GAAP, legal retained earnings is recorded as retained earnings together with other surplus, the Company separately presents as appropriated legal reserve in its consolidated financial statements in accordance with U.S. GAAP.

#### b. Extraordinary income and loss

In accordance with J. GAAP, gain or loss on certain sales of non-current assets, such as gain or loss from the sale of fixed assets, is presented as extraordinary income or loss. However, since there is no concept of extraordinary items in U.S. GAAP, extraordinary income or loss is not presented in the Company's consolidated financial statements.

#### c. Investment and rental properties

In accordance with J. GAAP, 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.

## (2) Others

### Quarterly Financial Information

	Millions of yen except per share amounts			
	Three months ended June 30, 2020	Six months ended September 30, 2020	Nine months ended December 31, 2020	Fiscal year ended March 31, 2021
Net sales	¥ 458,731	¥ 957,717	¥ 1,513,310	¥ 2,189,512
Income before income taxes and equity in earnings of affiliated companies	28,497	58,530	103,359	162,775
Net income attributable to Komatsu Ltd.	16,251	37,294	65,976	106,237
Net income attributable to Komatsu Ltd. per share (Yen)				
Basic	17.20	39.48	69.83	112.43
Diluted	17.20	39.46	69.80	112.39

	Yen			
	Three months ended June 30, 2020	Three months ended September 30, 2020	Three months ended December 31, 2020	Three months ended March 31, 2021
Net income attributable to Komatsu Ltd. per share				
Basic	17.20	22.27	30.35	42.60
Diluted	17.20	22.26	30.34	42.59