

(Translation)

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Quarterly Report

From October 1, 2019 to December 31, 2019

(Third Quarter of the 151st Fiscal Year)

KOMATSU LTD.

Third Quarter of the 151st Fiscal Year (from October 1, 2019 to December 31, 2019)

Quarterly Report

Certain References and Information:

1. This is an English translation of the Quarterly Securities Report (“Shihanki Hokokusho”) filed via the Electronic Disclosure for Investors’ Network (“EDINET”) system as set forth in Article 27-30-2 of the Financial Instruments and Exchange Act of Japan. Komatsu Ltd. filed its Quarterly Securities Report for the three months ended December 31, 2019 with the Director-General of the Kanto Local Finance Bureau on February 13, 2020. The Quarterly Securities Report contains, among other information, Quarterly Consolidated Financial Statements for the three months and nine months ended December 31, 2019. Material information in the Quarterly Securities Report, other than the Quarterly Consolidated Financial Statements, has already been reported by Komatsu Ltd. in its press release dated January 31, 2020. Attached is an English translation of Quarterly Consolidated Financial Statements for the three months and nine months ended December 31, 2019.
2. In this report, Komatsu Ltd. is hereinafter referred to as the “Company” and together with its consolidated subsidiaries as “Komatsu.”

Cautionary Statement with respect to forward-looking statements:

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

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

Financial Information

1. Basis of preparation of the quarterly consolidated financial statements

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

2. Audit certification

Pursuant to Article 193-2, paragraph 1 of the Financial Instruments and Exchange Act of Japan, the quarterly consolidated financial statements for the three months ended December 31, 2019 (from October 1 to December 31, 2019) and for the nine months ended December 31, 2019 (from April 1 to December 31, 2019) were reviewed by KPMG AZSA LLC.

Quarterly Consolidated Financial Statements, etc.

Quarterly Consolidated Financial Statements

Consolidated Balance Sheets (Unaudited)

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

Assets	December 31, 2019		March 31, 2019	
	Millions of yen	Ratio (%)	Millions of yen	Ratio (%)
Current assets				
Cash and cash equivalents (Note 16)	¥ 183,646		¥ 148,479	
Time deposits (Note 16)	1,852		2,331	
Trade notes and accounts receivable, net (Notes 4 and 10)	768,644		842,183	
Inventories (Note 5)	900,036		837,552	
Other current assets (Notes 15, 16 and 17)	150,260		138,415	
Total current assets	2,004,438	53.8	1,968,960	54.1
Long-term trade receivables, net (Notes 4, 10 and 16)	426,378	11.4	416,363	11.4
Investments				
Investments in and advances to affiliated companies	38,746		37,321	
Investment securities (Notes 6, 16 and 17)	7,151		7,473	
Other	2,391		2,528	
Total investments	48,288	1.3	47,322	1.3
Property, plant and equipment				
– less accumulated depreciation and amortization of ¥895,494 million at December 31, 2019 and ¥890,142 million at March 31, 2019	767,016	20.6	776,422	21.3
Operating lease right-of-use assets (Note 1)	49,284	1.3	—	—
Goodwill (Note 3)	168,901	4.5	161,921	4.5
Other intangible assets (Notes 3 and 7)				
– less accumulated amortization	170,952	4.6	166,406	4.6
Deferred income taxes and other assets (Notes 15, 16 and 17)	93,969	2.5	100,825	2.8
Total assets	¥ 3,729,226	100.0	¥ 3,638,219	100.0

Liabilities and Equity	December 31, 2019		March 31, 2019	
	Millions of yen	Ratio (%)	Millions of yen	Ratio (%)
Current liabilities				
Short-term debt (Note 16)	¥ 529,406		¥ 404,659	
Current maturities of long-term debt (Note 16)	112,244		53,556	
Trade notes, bills and accounts payable	229,608		266,951	
Income taxes payable	22,133		43,022	
Current operating lease liabilities (Note 1)	14,079		—	
Other current liabilities (Notes 10, 15, 16 and 17)	311,720		313,951	
Total current liabilities	1,219,190	32.7	1,082,139	29.7
Long-term liabilities				
Long-term debt (Note 16)	406,652		472,485	
Liability for pension and retirement benefits	87,454		90,187	
Long-term operating lease liabilities (Note 1)	34,739		—	
Deferred income taxes and other liabilities (Notes 10, 15, 16 and 17)	90,418		90,540	
Total long-term liabilities	619,263	16.6	653,212	18.0
Total liabilities	1,838,453	49.3	1,735,351	47.7
Commitments and contingent liabilities (Note 14)				

Equity

Komatsu Ltd. shareholders' equity

Common stock:

Authorized 3,955,000,000 shares

Issued 972,581,230 shares

Outstanding 944,393,314 shares at December 31, 2019 and

943,908,946 shares at March 31, 2019

Capital surplus	68,689		68,311	
Retained earnings:	136,845		136,798	
Appropriated for legal reserve	46,773		46,028	
Unappropriated	1,680,941		1,654,105	
Accumulated other comprehensive income (loss) (Notes 9, 15 and 17)	(80,009)		(39,792)	
Treasury stock at cost,				
28,187,916 shares at December 31, 2019 and 28,343,514 shares at March 31, 2019	(49,563)		(49,868)	
Total Komatsu Ltd. shareholders' equity	1,803,676	48.4	1,815,582	49.9
Noncontrolling interests	87,097	2.3	87,286	2.4
Total equity	1,890,773	50.7	1,902,868	52.3
Total liabilities and equity	¥ 3,729,226	100.0	¥ 3,638,219	100.0

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

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

Komatsu Ltd. and Consolidated Subsidiaries

Nine months ended December 31, 2019 and 2018.

Consolidated Statements of Income

	Nine months ended December 31, 2019		Nine months ended December 31, 2018	
	Millions of yen	Ratio(%)	Millions of yen	Ratio(%)
Net sales (Notes 1, 10, 12 and 15)	¥ 1,827,442	100.0	¥ 2,018,609	100.0
Cost of sales (Notes 1, 7, 8 and 15)	1,296,944	71.0	1,392,524	69.0
Selling, general and administrative expenses (Notes 3, 7, 8 and 11)	326,245	17.9	329,797	16.3
Other operating income (expenses), net	3,575	0.2	(453)	(0.0)
Operating income	207,828	11.4	295,835	14.7
Other income (expenses), net				
Interest and dividend income	5,403	0.3	5,470	0.3
Interest expense	(18,892)	(1.0)	(17,755)	(0.9)
Other, net (Notes 6, 8, 9, 15 and 17)	(4,417)	(0.2)	(5,570)	(0.3)
Total	(17,906)	(1.0)	(17,855)	(0.9)
Income before income taxes and equity in earnings of affiliated companies	189,922	10.4	277,980	13.8
Income taxes (Note 9)				
Current	47,432		87,034	
Deferred	2,439		(5,399)	
Total	49,871	2.7	81,635	4.0
Income before equity in earnings of affiliated companies	140,051	7.7	196,345	9.7
Equity in earnings of affiliated companies	2,717	0.1	2,854	0.1
Net income	142,768	7.8	199,199	9.9
Less: Net income attributable to noncontrolling interests	7,500	0.4	15,002	0.7
Net income attributable to Komatsu Ltd.	¥ 135,268	7.4	¥ 184,197	9.1
	Yen			
Per share data (Note 13):				
Net income attributable to Komatsu Ltd.:				
Basic	¥ 143.27		¥ 195.22	
Diluted	¥ 143.15		¥ 194.99	

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

Consolidated Statements of Comprehensive Income

	Millions of yen	
	Nine months ended December 31, 2019	Nine months ended December 31, 2018
Net income	¥ 142,768	¥ 199,199
Other comprehensive income (loss), for the period, net of tax		
Foreign currency translation adjustments (Note 9)	(43,371)	(35,179)
Pension liability adjustments (Notes 8 and 9)	399	(1,178)
Net unrealized holding gains (losses) on derivative instruments (Notes 9 and 15)	(430)	(781)
Total	(43,402)	(37,138)
Comprehensive income	99,366	162,061
Less: Comprehensive income attributable to noncontrolling interests	4,286	11,382
Comprehensive income attributable to Komatsu Ltd.	¥ 95,080	¥ 150,679

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

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

Komatsu Ltd. and Consolidated Subsidiaries

Three months ended December 31, 2019 and 2018.

Consolidated Statements of Income

	Three months ended December 31, 2019		Three months ended December 31, 2018	
	Millions of yen	Ratio(%)	Millions of yen	Ratio(%)
Net sales (Notes 1, 10, 12 and 15)	¥ 613,957	100.0	¥ 700,568	100.0
Cost of sales (Notes 1, 7, 8 and 15)	441,626	71.9	492,005	70.2
Selling, general and administrative expenses (Notes 3, 7, 8 and 11)	108,767	17.7	111,408	15.9
Other operating income (expenses), net	2,282	0.4	(1,627)	(0.2)
Operating income	65,846	10.7	95,528	13.6
Other income (expenses), net				
Interest and dividend income	1,671	0.3	1,787	0.3
Interest expense	(5,784)	(0.9)	(6,345)	(0.9)
Other, net (Notes 6, 8, 9, 15 and 17)	(23)	(0.0)	(5,499)	(0.8)
Total	(4,136)	(0.7)	(10,057)	(1.4)
Income before income taxes and equity in earnings of affiliated companies	61,710	10.1	85,471	12.2
Income taxes (Note 9)				
Current	11,484		31,310	
Deferred	2,769		(7,214)	
Total	14,253	2.3	24,096	3.4
Income before equity in earnings of affiliated companies	47,457	7.7	61,375	8.8
Equity in earnings of affiliated companies	987	0.2	592	0.1
Net income	48,444	7.9	61,967	8.8
Less: Net income attributable to noncontrolling interests	3,238	0.5	3,155	0.5
Net income attributable to Komatsu Ltd.	¥ 45,206	7.4	¥ 58,812	8.4
	Yen			
Per share data (Note 13):				
Net income attributable to Komatsu Ltd.:				
Basic	¥ 47.87		¥ 62.32	
Diluted	¥ 47.83		¥ 62.25	

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

Consolidated Statements of Comprehensive Income

	Millions of yen	
	Three months ended December 31, 2019	Three months ended December 31, 2018
Net income	¥ 48,444	¥ 61,967
Other comprehensive income (loss), for the period, net of tax		
Foreign currency translation adjustments (Note 9)	22,843	(76,884)
Pension liability adjustments (Notes 8 and 9)	254	(1,768)
Net unrealized holding gains (losses) on derivative instruments (Notes 9 and 15)	801	1,909
Total	23,898	(76,743)
Comprehensive income (loss)	72,342	(14,776)
Less: Comprehensive income (loss) attributable to noncontrolling interests	4,647	(2,319)
Comprehensive income (loss) attributable to Komatsu Ltd.	¥ 67,695	¥ (12,457)

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

Consolidated Statements of Equity (Unaudited)

Komatsu Ltd. and Consolidated Subsidiaries

Nine months ended December 31, 2019

	Millions of yen								
	Common stock	Capital surplus	Retained earnings		Accumulated other comprehensive income (loss)	Treasury stock	Total Komatsu Ltd. shareholders' equity	Non-controlling interests	Total equity
			Appropriated for legal reserve	Un-appropriated					
Balance at March 31, 2019	¥ 68,311	¥ 136,798	¥ 46,028	¥ 1,654,105	¥ (39,792)	¥ (49,868)	¥ 1,815,582	¥ 87,286	¥ 1,902,868
Cash dividends (Note 19)				(107,687)			(107,687)	(4,614)	(112,301)
Transfer to retained earnings appropriated for legal reserve			745	(745)			—		—
Other changes		10			(29)		(19)	139	120
Net income				135,268			135,268	7,500	142,768
Other comprehensive income (loss), for the period, net of tax (Note 9)					(40,188)		(40,188)	(3,214)	(43,402)
Issuance and exercise of stock acquisition rights (Note 11)		(353)					(353)		(353)
Purchase of treasury stock						(33)	(33)		(33)
Sales of treasury stock		15				338	353		353
Restricted stock compensation (Note 11)	378	375					753		753
Balance at December 31, 2019	¥ 68,689	¥ 136,845	¥ 46,773	¥ 1,680,941	¥ (80,009)	¥ (49,563)	¥ 1,803,676	¥ 87,097	¥ 1,890,773

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

Nine months ended December 31, 2018

	Millions of yen								
	Common stock	Capital surplus	Retained earnings		Accumulated other comprehensive income (loss)	Treasury stock	Total Komatsu Ltd. shareholders' equity	Non-controlling interests	Total equity
			Appropriated for legal reserve	Un-appropriated					
Balance at March 31, 2018	¥ 67,870	¥ 138,450	¥ 45,828	¥ 1,491,965	¥ (29,150)	¥ (50,423)	¥ 1,664,540	¥ 79,050	¥ 1,743,590
Cumulative effects of Accounting Standards Update—adoption of ASU 2014-09, net of tax				(515)			(515)	(12)	(527)
Cumulative effects of Accounting Standards Update—adoption of ASU 2016-01, net of tax				681	(681)		—		—
Cumulative effects of Accounting Standards Update—adoption of ASU 2016-16, net of tax				(860)			(860)		(860)
Cash dividends (Note 19)				(93,457)			(93,457)	(4,669)	(98,126)
Transfer to retained earnings appropriated for legal reserve			324	(324)			—		—
Other changes		(1,497)			(2,046)		(3,543)	(3,349)	(6,892)
Net income				184,197			184,197	15,002	199,199
Other comprehensive income (loss), for the period, net of tax (Note 9)					(33,518)		(33,518)	(3,620)	(37,138)
Issuance and exercise of stock acquisition rights (Note 11)		(438)					(438)		(438)
Purchase of treasury stock						(35)	(35)		(35)
Sales of treasury stock		36				405	441		441
Restricted stock compensation (Note 11)	441	438					879		879
Balance at December 31, 2018	¥ 68,311	¥ 136,989	¥ 46,152	¥ 1,581,687	¥ (65,395)	¥ (50,053)	¥ 1,717,691	¥ 82,402	¥ 1,800,093

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

Consolidated Statements of Cash Flows (Unaudited)

Komatsu Ltd. and Consolidated Subsidiaries

Nine months ended December 31, 2019 and 2018

	Millions of yen	
	Nine months ended December 31, 2019	Nine months ended December 31, 2018
Operating activities		
Net income	¥ 142,768	¥ 199,199
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	97,221	98,114
Deferred income taxes	2,439	(5,399)
Impairment loss and net loss (gain) on valuation of investment securities	(236)	600
Net loss (gain) on sale of fixed assets	(3,759)	(486)
Loss on disposal of fixed assets	2,465	1,556
Pension and retirement benefits, net	(1,566)	(1,622)
Changes in assets and liabilities:		
Decrease (increase) in trade receivables	30,046	(22,445)
Decrease (increase) in inventories	(84,027)	(115,117)
Increase (decrease) in trade payables	(33,018)	(45,097)
Increase (decrease) in income taxes payable	(20,730)	(37,571)
Other, net	26,354	28,610
Net cash provided by (used in) operating activities	157,957	100,342
Investing activities		
Capital expenditures	(139,560)	(144,862)
Proceeds from sale of fixed assets	11,881	9,567
Proceeds from sale of investment securities	844	1,815
Purchases of investment securities	(492)	(342)
Acquisition of subsidiaries and equity investees, net of cash acquired	(21,646)	(8,025)
Other, net *1	(340)	(373)
Net cash provided by (used in) investing activities	(149,313)	(142,220)
Financing activities		
Proceeds from debt issued (Original maturities greater than three months)	363,503	272,607
Payment on debt (Original maturities greater than three months)	(310,560)	(203,315)
Short-term debt, net (Original maturities three months or less)	85,778	87,909
Dividends paid	(107,687)	(93,457)
Other, net *2	(4,786)	(13,022)
Net cash provided by (used in) financing activities	26,248	50,722
Effect of exchange rate change on cash and cash equivalents	275	(5,026)
Net increase (decrease) in cash and cash equivalents	35,167	3,818
Cash and cash equivalents, beginning of year	148,479	144,397
Cash and cash equivalents, end of period	¥ 183,646	¥ 148,215

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

*1 In the nine months ended December 31, 2019, Komatsu (the Company and its consolidated subsidiaries) has classified "Proceeds from sale of subsidiaries and equity investees, net of cash disposed", "Collection of loan receivables", "Disbursement of loan receivables" and "Decrease (increase) in time deposits, net" as "Other, net" in the investing activities. Accordingly, the figures for the nine months ended December 31, 2018 were reclassified to conform to the presentation for the nine months ended December 31, 2019.

*2 In the nine months ended December 31, 2019, Komatsu has classified "Repayments of finance lease obligations" and "Sale (purchase) of treasury stock, net" as "Other, net" in the financing activities. Accordingly, the figures for the nine months ended December 31, 2018 were reclassified to conform to the presentation for the nine months ended December 31, 2019.

Komatsu Ltd. and Consolidated Subsidiaries

Three months and nine months ended December 31, 2019 and 2018

Notes to Quarterly Consolidated Financial Statements (Unaudited)

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

Basis of Quarterly Financial Statement Presentation

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

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

Some adjustments without booked on each subsidiaries’ and affiliates’ quarterly financial statements are added to the accompanying quarterly consolidated financial statements. These adjustments are mainly due to the gaps of accounting principle between Japan and the United States of America. See Note 22 “Terminology, Forms and Preparation Methods of Quarterly Consolidated Financial Statements”.

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

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

Summary of Significant Accounting Policies

From the three months ended June 30, 2019, Komatsu has adopted the Accounting Standards Update (hereinafter “ASU”) 2016-02 “Leases”. This update requires lessees to recognize most leases as the right-of-use assets and the lease liabilities on their balance sheets. This update does not substantially change lessor accounting. The Financial Accounting Standards Board (hereinafter “FASB”) also modified the definition of lease. Additionally, the guidance expands qualitative and quantitative disclosures related to lease. Concerning accounting in relation to this update, Komatsu has adopted the rule in which an entity does not separate lease and non-lease components and regards all components as those of a single lease, and the exceptional rule in which an entity does not recognize short-term leases on the balance sheet. Concerning the transition methods in relation to this update, Komatsu has adopted a series of practical expedients in which an entity does not reassess whether any expired or existing lease contracts are or contain leases, the lease classification for them and initial direct costs for them. Komatsu has also adopted the additional transition methods in which an entity does not retrospectively restate presentation or disclosure of comparative years at the period of the application of the new accounting standards and an entity does not assess whether existing or expired land easements that were not previously accounted for as leases. The application of the provision has no significant impact on Komatsu’s financial position and results of operations.

From the three months ended June 30, 2019, Komatsu has adopted ASU 2017-12 “Targeted Improvements to Accounting for Hedging Activities”. This update improves the application of hedge accounting under certain circumstances to reflect the economic consequences of an entity's risk management activities in financial statements more appropriately. The update eliminates the requirement to separately measure and present effective portion and ineffective portion of hedging and requires an entity to record the full amount of change in fair value of the hedging instrument in the same income statement line as gain or loss arising from the hedged item. The application of the provision has no significant impact on Komatsu’s financial position and results of operations.

Excluding the above, there is no material change for summary of significant accounting policies stated in annual report for the fiscal year ended March 31, 2019.

2. Supplemental Cash Flow Information

Additional cash flow information for the nine months ended December 31, 2019 and 2018 are as follows:

	Millions of yen	
	Nine months ended December 31, 2019	Nine months ended December 31, 2018
Additional cash flow information:		
Interest paid	¥ 19,491	¥ 17,906
Income taxes paid	79,107	119,992

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 Financial Accounting Standards Board Accounting Standards Codification™ (hereinafter “ASC”) 805, “Business Combinations” was completed as of the issue date of the quarterly consolidated financial statements.

Following is a summary of the acquired assets and assumed liabilities after the allocation of acquisition cost on the acquisition date. Based on the completion of the allocation of acquisition cost for the three months ended December 31, 2019, the amounts of goodwill and part of acquired assets and assumed liabilities were adjusted. Although these adjustments were reflected to the quarterly consolidated financial statements for the period, the amount of adjustment was not material to the consolidated statements of income for the period.

	Millions of yen	
	As of the issue date of the third quarterly report of the 151 st fiscal year (Determined amount)	As of the issue date of the second quarterly report of the 151 st fiscal year (Provisional amount)
Consideration		
Cash and cash equivalents	¥ 15,755	¥ 15,715
Fair value of total consideration transferred	<u>15,755</u>	<u>15,715</u>
Recognized amounts of identifiable acquired assets and assumed liabilities		
Current assets	¥ 3,583	¥ 3,596
Property, plant and equipment	444	427
Intangible assets	8,158	8,166
Other non-current assets	84	82
Total acquired assets	<u>12,269</u>	<u>12,271</u>
Current liabilities	(1,571)	(1,553)
Long-term liabilities	(2,576)	(2,578)
Total assumed liabilities	<u>(4,147)</u>	<u>(4,131)</u>
Net acquired assets	<u>8,122</u>	<u>8,140</u>
Goodwill	7,633	7,575
	<u>¥ 15,755</u>	<u>¥ 15,715</u>

Intangible assets of ¥8,158 million are all intangible assets subject to amortization and main ones are as follows.

	Millions of yen	
	Gross carrying amount	Amortization period
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 nine months ended December 31, 2019 are ¥279 million (accumulated acquisition-related costs: ¥311 million) and included in selling, general and administrative expenses in the consolidated statements of income for the nine months ended December 31, 2019.

Immersive's results of operations included in the consolidated statements of income for the nine months ended December 31, 2019 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 nine months ended December 31, 2019 and 2018 would be immaterial.

4. Allowance for Doubtful Receivables

At December 31, 2019 and at March 31, 2019, allowances for doubtful receivables deducted from trade notes and accounts receivable, net and long-term trade receivables, net are ¥15,886 million and ¥12,758 million, respectively.

5. Inventories

At December 31, 2019 and at March 31, 2019, inventories comprise the following:

	Millions of yen	
	December 31, 2019	March 31, 2019
Finished products, including finished parts held for sale	¥ 649,488	¥ 594,880
Work in process	178,337	171,063
Materials and supplies	72,211	71,609
Total	¥ 900,036	¥ 837,552

6. Investment Securities

The realized gain and losses and gross unrealized holding gains and losses for such equity securities which are recorded in other income (expenses), net in the accompanying consolidated statements of income, respectively, for the nine months ended December 31, 2019 and 2018 are as follows:

	Millions of yen	
	Nine months ended December 31, 2019	Nine months ended December 31, 2018
Net gains and losses recognized during the period on equity securities	¥ 236	¥ (600)
Less: net gains and losses recognized during the period on equity securities sold during the period	(3)	(46)
Unrealized gains and losses recognized during the period on equity securities still held as of December 31	¥ 239	¥ (554)

The realized gain and losses and gross unrealized holding gains and losses for such equity securities which are recorded in other income (expenses), net in the accompanying consolidated statements of income, respectively, for the three months ended December 31, 2019 and 2018 are as follows:

	Millions of yen	
	Three months ended December 31, 2019	Three months ended December 31, 2018
Net gains and losses recognized during the period on equity securities	¥ 135	¥ (157)
Less: net gains and losses recognized during the period on equity securities sold during the period	6	—
Unrealized gains and losses recognized during the period on equity securities still held as of December 31	¥ 129	¥ (157)

Komatsu measures equity securities without readily determinable fair values by the method where changes in observable prices in orderly transactions for identical or similar investments issued by the same issuer are added to or subtracted from the carrying amount after the write-down due to impairment, except for investments which are measured at net asset value per share. As of December 31, 2019 and as of March 31, 2019, the carrying amounts of these investments were ¥7,151 million and ¥7,043 million, respectively. Any impairment or any adjustment relating to observable price changes recorded until December 31, 2019 and until March 31, 2019 were not material.

7. Other Intangible Assets

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

	Millions of yen					
	December 31, 2019			March 31, 2019		
	Gross carrying amount	Accumulated amortization	Net carrying amount	Gross carrying amount	Accumulated amortization	Net carrying amount
Other intangible assets subject to amortization:						
Software	¥ 50,937	¥ (22,168)	¥ 28,769	¥ 42,798	¥ (20,030)	¥ 22,768
Leasehold	7,067	(1,662)	5,405	8,363	(1,844)	6,519
Trademarks	54,701	(10,314)	44,387	55,913	(7,832)	48,081
Customer relationships	75,711	(23,470)	52,241	73,773	(20,752)	53,021
Technology assets	38,325	(10,816)	27,509	32,030	(9,177)	22,853
Other	7,262	(3,881)	3,381	7,359	(3,579)	3,780
Total	234,003	(72,311)	161,692	220,236	(63,214)	157,022
Other intangible assets not subject to amortization			9,260			9,384
Total other intangible assets			<u>¥ 170,952</u>			<u>¥ 166,406</u>

The aggregate amortization expense of other intangible assets subject to amortization during the nine months ended December 31, 2019 and 2018 were ¥13,829 million and ¥14,897 million, respectively. The aggregate amortization expense of other intangible assets subject to amortization during the three months ended December 31, 2019 and 2018 were ¥4,730 million and ¥4,490 million, respectively.

8. Cost of Retirement Benefits

Net periodic cost of Komatsu's defined benefit plans for the nine months ended December 31, 2019 and 2018, consisted of the following components:

	Millions of yen	
	Nine months ended December 31, 2019	Nine months ended December 31, 2018
Service cost	¥ 6,960	¥ 6,796
Interest cost on projected benefit obligations	5,083	5,513
Expected return on plan assets	(8,110)	(9,057)
Amortization of actuarial loss	878	978
Amortization of prior service cost	222	148
Net periodic cost	¥ 5,033	¥ 4,378

Net periodic cost of the postretirement benefit plans for the nine months ended December 31, 2019 and 2018 included the following components:

	Millions of yen	
	Nine months ended December 31, 2019	Nine months ended December 31, 2018
Service cost	¥ 418	¥ 405
Interest cost on projected benefit obligations	415	436
Expected return on plan assets	(438)	(453)
Amortization of actuarial loss	34	86
Amortization of prior service cost	3	4
Net periodic cost	¥ 432	¥ 478

Net periodic cost of Komatsu's defined benefit plans for the three months ended December 31, 2019 and 2018, consisted of the following components:

	Millions of yen	
	Three months ended December 31, 2019	Three months ended December 31, 2018
Service cost	¥ 2,404	¥ 2,291
Interest cost on projected benefit obligations	1,690	1,823
Expected return on plan assets	(2,715)	(3,013)
Amortization of actuarial loss	293	333
Amortization of prior service cost	80	80
Net periodic cost	¥ 1,752	¥ 1,514

Net periodic cost of the postretirement benefit plans for the three months ended December 31, 2019 and 2018 included the following components:

	Millions of yen	
	Three months ended December 31, 2019	Three months ended December 31, 2018
Service cost	¥ 139	¥ 138
Interest cost on projected benefit obligations	138	147
Expected return on plan assets	(145)	(153)
Amortization of actuarial loss	11	29
Amortization of prior service cost	1	1
Net periodic cost	¥ 144	¥ 162

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

9. Other Comprehensive Income (Loss)

Changes in accumulated other comprehensive income (loss) for the nine months ended December 31, 2019 and 2018 are as follows:

	Millions of yen				
	Nine months ended December 31, 2019				
	Foreign currency translation adjustments	Net unrealized holding gains (losses) on securities available for sale	Pension liability adjustments	Net unrealized holding gains (losses) on derivative instruments	Total
Balance, beginning of the year	¥ (15,438)	¥ —	¥ (25,890)	¥ 1,536	¥ (39,792)
Other comprehensive income (loss) before reclassifications	(43,371)	—	(388)	1,929	(41,830)
Amounts reclassified from accumulated other comprehensive income (loss)	—	—	787	(2,359)	(1,572)
Net other comprehensive income (loss)	(43,371)	—	399	(430)	(43,402)
Less: other comprehensive income (loss) attributable to noncontrolling interests	(3,150)	—	—	(64)	(3,214)
Other comprehensive income (loss) attributable to Komatsu Ltd.	(40,221)	—	399	(366)	(40,188)
Equity transactions with noncontrolling interests	(29)	—	—	—	(29)
Balance, end of the period	¥ (55,688)	¥ —	¥ (25,491)	¥ 1,170	¥ (80,009)

All amounts are net of tax.

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

All amounts are net of tax.

Changes in accumulated other comprehensive income (loss) for the three months ended December 31, 2019 and 2018 are as follows:

	Millions of yen				
	Three months ended December 31, 2019				
	Foreign currency translation adjustments	Net unrealized holding gains (losses) on securities available for sale	Pension liability adjustments	Net unrealized holding gains (losses) on derivative instruments	Total
Balance, beginning of the period	¥ (77,179)	¥ —	¥ (25,745)	¥ 426	¥(102,498)
Other comprehensive income (loss) before reclassifications	22,843	—	(20)	1,402	24,225
Amounts reclassified from accumulated other comprehensive income (loss)	—	—	274	(601)	(327)
Net other comprehensive income (loss)	22,843	—	254	801	23,898
Less: other comprehensive income (loss) attributable to noncontrolling interests	1,352	—	—	57	1,409
Other comprehensive income (loss) attributable to Komatsu Ltd.	21,491	—	254	744	22,489
Equity transactions with noncontrolling interests	—	—	—	—	—
Balance, end of the period	¥ (55,688)	¥ —	¥ (25,491)	¥ 1,170	¥ (80,009)

All amounts are net of tax.

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

All amounts are net of tax.

Reclassification out of accumulated other comprehensive income (loss) for the nine months ended December 31, 2019 and 2018 are as follows:

	Millions of yen		Affected line items in consolidated statements of income
	Nine months ended December 31, 2019		
Pension liability adjustments			
Amortization of actuarial loss and prior service cost	¥	(1,137)	Other income (expenses), net: Other, net
		(1,137)	Total before tax
		350	Income taxes
		(787)	Net of tax
Net unrealized holding gains (losses) on derivative instruments			
Forwards contracts		844	Net sales
		6	Cost of sales
		2,219	Other income (expenses), net: Other, net
		3,069	Total before tax
		(710)	Income taxes
		2,359	Net of tax
Total reclassification for the period	¥	1,572	Net of tax

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

Reclassification out of accumulated other comprehensive income (loss) for the three months ended December 31, 2019 and 2018 are as follows:

	Millions of yen		Affected line items in consolidated statements of income
	Three months ended December 31, 2019		
Pension liability adjustments			
Amortization of actuarial loss and prior service cost	¥	(385)	Other income (expenses), net: Other, net
		(385)	Total before tax
		111	Income taxes
		(274)	Net of tax
Net unrealized holding gains (losses) on derivative instruments			
Forwards contracts		(3)	Net sales
		17	Cost of sales
		248	Other income (expenses), net: Other, net
		262	Total before tax
		339	Income taxes
		601	Net of tax
Total reclassification for the period	¥	327	Net of tax

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

Tax effects allocated to each component of other comprehensive income (loss) for the nine months ended December 31, 2019 and 2018 are as follows:

	Millions of yen		
	Nine months ended December 31, 2019		
	Before tax amount	Tax (expense) or benefit	Net of tax amount
Foreign currency translation adjustments			
Foreign currency translation adjustments arising during the period	¥ (43,438)	¥ 67	¥ (43,371)
Less: reclassification adjustment for gains included in net income	—	—	—
Net foreign currency translation adjustments	(43,438)	67	(43,371)
Pension liability adjustments			
Pension liability adjustments arising during the period	(567)	179	(388)
Less: reclassification adjustment for losses included in net income	1,137	(350)	787
Net pension liability adjustments	570	(171)	399
Net unrealized holding gains (losses) on derivative instruments			
Unrealized holding gains arising during the period	2,761	(832)	1,929
Less: reclassification adjustment for gains included in net income	(3,069)	710	(2,359)
Net unrealized holding losses	(308)	(122)	(430)
Other comprehensive income (loss)	¥ (43,176)	¥ (226)	¥ (43,402)
	Millions of yen		
	Nine months ended December 31, 2018		
	Before tax amount	Tax (expense) or benefit	Net of tax amount
Foreign currency translation adjustments			
Foreign currency translation adjustments arising during the period	¥ (35,197)	¥ 18	¥ (35,179)
Less: reclassification adjustment for gains included in net income	—	—	—
Net foreign currency translation adjustments	(35,197)	18	(35,179)
Pension liability adjustments			
Pension liability adjustments arising during the period	(1,977)	204	(1,773)
Less: reclassification adjustment for losses included in net income	1,216	(621)	595
Net pension liability adjustments	(761)	(417)	(1,178)
Net unrealized holding gains (losses) on derivative instruments			
Unrealized holding losses arising during the period	(3,379)	475	(2,904)
Less: reclassification adjustment for losses included in net income	2,406	(283)	2,123
Net unrealized holding losses	(973)	192	(781)
Other comprehensive income (loss)	¥ (36,931)	¥ (207)	¥ (37,138)

Tax effects allocated to each component of other comprehensive income (loss) for the three months ended December 31, 2019 and 2018 are as follows:

	Millions of yen		
	Three months ended December 31, 2019		
	Before tax amount	Tax (expense) or benefit	Net of tax amount
Foreign currency translation adjustments			
Foreign currency translation adjustments arising during the period	¥ 22,853	¥ (10)	¥ 22,843
Less: reclassification adjustment for gains included in net income	—	—	—
Net foreign currency translation adjustments	22,853	(10)	22,843
Pension liability adjustments			
Pension liability adjustments arising during the period	(40)	20	(20)
Less: reclassification adjustment for losses included in net income	385	(111)	274
Net pension liability adjustments	345	(91)	254
Net unrealized holding gains (losses) on derivative instruments			
Unrealized holding gains arising during the period	1,557	(155)	1,402
Less: reclassification adjustment for gains included in net income	(262)	(339)	(601)
Net unrealized holding gains	1,295	(494)	801
Other comprehensive income (loss)	¥ 24,493	¥ (595)	¥ 23,898
	Millions of yen		
	Three months ended December 31, 2018		
	Before tax amount	Tax (expense) or benefit	Net of tax amount
Foreign currency translation adjustments			
Foreign currency translation adjustments arising during the period	¥ (77,008)	¥ 124	¥ (76,884)
Less: reclassification adjustment for gains included in net income	—	—	—
Net foreign currency translation adjustments	(77,008)	124	(76,884)
Pension liability adjustments			
Pension liability adjustments arising during the period	(2,056)	212	(1,844)
Less: reclassification adjustment for losses included in net income	443	(367)	76
Net pension liability adjustments	(1,613)	(155)	(1,768)
Net unrealized holding gains (losses) on derivative instruments			
Unrealized holding gains arising during the period	3,772	(1,560)	2,212
Less: reclassification adjustment for gains included in net income	(942)	639	(303)
Net unrealized holding gains	2,830	(921)	1,909
Other comprehensive income (loss)	¥ (75,791)	¥ (952)	¥ (76,743)

10. Revenue

(1) Disaggregation of revenue

The disaggregation of revenue by operating and geographic segment are described in Note 20.

(2) Contract balances

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

	Millions of yen	
	December 31, 2019	March 31, 2019
Receivables *1	¥ 1,006,886	¥ 1,067,025
Contract assets *2	5,046	7,443
Contract liabilities *3	107,428	94,720

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

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

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

Revenue recognized for the nine months ended December 31, 2019, that was included in the contract liability balance as of March 31, 2019 was ¥48,608 million. Revenue recognized for the three months ended December 31, 2019, that was included in the contract liability balance as of March 31, 2019 was ¥11,949 million.

The amount of revenue recognized during the nine months and three months ended December 31, 2019, from performance obligations satisfied or partially satisfied in previous periods was immaterial.

(3) Transaction price allocated to the remaining performance obligations

As of December 31, 2019, the aggregate amount of the transaction price allocated to the remaining performance obligations that have original expected durations greater than one year was ¥171,778 million, of which ¥86,895 million is expected to be recognized as revenue in the twelve months following December 31, 2019.

11. Stock-Based Remuneration

The Company had a stock option plan which transfers the Company's shares to directors and certain employees, and certain representative directors of major subsidiaries under an agreement granting the right for them to request such transfers at a predetermined price until the fiscal year ended March 31, 2018.

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

12. Leases

Revenues from finance and operating leases as lessor, included in net sales on the consolidated statement of income, for the nine months ended December 31, 2019 are as follows:

	<u>Millions of yen</u>
	<u>Nine months ended</u>
	<u>December 31, 2019</u>
Finance lease (sales-type lease) revenue	
Revenue recognized at the commencement date *1	¥ 73,794
Interest income	7,544
Total finance lease (sales-type lease) revenue	81,338
Operating lease revenue	70,232
Total	¥ 151,570

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

Revenues from finance and operating leases as lessor, included in net sales on the consolidated statement of income, for the three months ended December 31, 2019 are as follows:

	<u>Millions of yen</u>
	<u>Three months ended</u>
	<u>December 31, 2019</u>
Finance lease (sales-type lease) revenue	
Revenue recognized at the commencement date *2	¥ 20,877
Interest income	2,460
Total finance lease (sales-type lease) revenue	23,337
Operating lease revenue	24,524
Total	¥ 47,861

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

13. Net Income Attributable to Komatsu Ltd. per Share

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

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

	Millions of yen	
	Nine months ended December 31, 2019	Nine months ended December 31, 2018
Net income attributable to Komatsu Ltd.	¥ 135,268	¥ 184,197
Net income attributable to participating securities (restricted stocks)	60	24
Net income attributable to common shareholders	¥ 135,208	¥ 184,173

	Number of shares	
	Nine months ended December 31, 2019	Nine months ended December 31, 2018
Weighted average number of common shares outstanding, less treasury stock	944,147,127	943,542,648
Weighted average number of participating securities (restricted stocks)	416,408	124,276
Weighted average number of common shares	943,730,719	943,418,372

	Yen	
	Nine months ended December 31, 2019	Nine months ended December 31, 2018
Basic net income attributable to Komatsu Ltd. per share	¥ 143.27	¥ 195.22

	Millions of yen	
	Three months ended December 31, 2019	Three months ended December 31, 2018
Net income attributable to Komatsu Ltd.	¥ 45,206	¥ 58,812
Net income attributable to participating securities (restricted stocks)	28	18
Net income attributable to common shareholders	¥ 45,178	¥ 58,794

	Number of shares	
	Three months ended December 31, 2019	Three months ended December 31, 2018
Weighted average number of common shares outstanding, less treasury stock	944,389,520	943,776,570
Weighted average number of participating securities (restricted stocks)	588,450	284,800
Weighted average number of common shares	943,801,070	943,491,770

	Yen	
	Three months ended December 31, 2019	Three months ended December 31, 2018
Basic net income attributable to Komatsu Ltd. per share	¥ 47.87	¥ 62.32

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

	Millions of yen	
	Nine months ended December 31, 2019	Nine months ended December 31, 2018
Net income attributable to Komatsu Ltd.	¥ 135,268	¥ 184,197
Net income attributable to participating securities (restricted stocks)	60	24
Net income attributable to common shareholders	¥ 135,208	¥ 184,173

	Number of shares	
	Nine months ended December 31, 2019	Nine months ended December 31, 2018
Weighted average number of common shares outstanding, less treasury stock	944,147,127	943,542,648
Dilutive effect of:		
Stock options	783,112	1,108,906
Weighted average number of participating securities (restricted stocks)	416,408	124,276
Weighted average number of diluted common shares	944,513,831	944,527,278

	Yen	
	Nine months ended December 31, 2019	Nine months ended December 31, 2018
Diluted net income attributable to Komatsu Ltd. per share	¥ 143.15	¥ 194.99

	Millions of yen	
	Three months ended December 31, 2019	Three months ended December 31, 2018
Net income attributable to Komatsu Ltd.	¥ 45,206	¥ 58,812
Net income attributable to participating securities (restricted stocks)	28	18
Net income attributable to common shareholders	¥ 45,178	¥ 58,794

	Number of shares	
	Three months ended December 31, 2019	Three months ended December 31, 2018
Weighted average number of common shares outstanding, less treasury stock	944,389,520	943,776,570
Dilutive effect of:		
Stock options	708,273	1,031,828
Weighted average number of participating securities (restricted stocks)	588,450	284,800
Weighted average number of diluted common shares	944,509,343	944,523,598

	Yen	
	Three months ended December 31, 2019	Three months ended December 31, 2018
Diluted net income attributable to Komatsu Ltd. per share	¥ 47.83	¥ 62.25

14. Contingent Liabilities

At March 31, 2019, Komatsu was contingently liable for discounted and transferred receivables on a recourse basis with the financial institutions of ¥103 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 7 years in the case of loans relating to the affiliated companies, customers and other companies. The maximum amount of undiscounted payments Komatsu would have had to make in the event of default at December 31, 2019 and at March 31, 2019 were ¥13,074 million and ¥14,917 million, respectively. The fair value of the liabilities recognized for Komatsu's obligations as guarantors under those guarantees at December 31, 2019 were insignificant. Certain of those guarantees were secured by collateral and insurance issued to Komatsu.

Komatsu provides guarantees that subsidiaries of the Company perform the obligations of the terms and conditions of contracts by standby letters of credit issued by banks. Komatsu would have to pay the liabilities incurred to banks if the subsidiaries don't perform the obligations of the terms and conditions of contracts. The maximum amount of undiscounted payments Komatsu would have had to make in the event of defaults of the contracts at December 31, 2019 and at March 31, 2019 were ¥14,367 million and ¥16,850 million, respectively.

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

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

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

15. Derivative Financial Instruments

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

	Millions of yen	
	December 31, 2019	March 31, 2019
Forwards contracts:		
Sale of foreign currencies	¥ 150,577	¥ 209,878
Purchase of foreign currencies	101,244	145,476
Interest rate swaps and cross-currency swap agreements	85,231	108,606

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

	Millions of yen			
	December 31, 2019			
	Derivative Assets		Derivative Liabilities	
Derivative instruments designated as hedging instruments	Location on the consolidated Balance Sheets	Estimated fair value	Location on the consolidated Balance Sheets	Estimated fair value
Forwards contracts	Other current assets	¥ 1,216	Other current liabilities	¥ 778
	Deferred income taxes and other assets	—	Deferred income taxes and other liabilities	297
Interest rate swaps and cross-currency swap agreements	Other current assets	0	Other current liabilities	2
	Deferred income taxes and other assets	10	Deferred income taxes and other liabilities	713
Total		¥ 1,226		¥ 1,790
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	¥ 1,112	Other current liabilities
	Deferred income taxes and other assets	7	Deferred income taxes and other liabilities	6
Interest rate swaps and cross-currency swap agreements	Other current assets	264	Other current liabilities	192
	Deferred income taxes and other assets	35	Deferred income taxes and other liabilities	—
Total		¥ 1,418		¥ 3,162
Total Derivative Instruments		¥ 2,644		¥ 4,952

Millions of yen

March 31, 2019

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

The effects of derivative instruments on the consolidated statements of income and the consolidated statements of comprehensive income for the nine months ended December 31, 2019 and 2018 are as follows:

Derivative instruments designated as cash flow hedging relationships

Millions of yen				
Nine months ended December 31, 2019				
	Amount of gains (losses) recognized in OCI on derivatives	Gains (losses) reclassified from accumulated OCI on derivatives		
		Location of consolidated statements of income		Amount
Forwards contracts	¥ 2,993	Net sales	¥	844
		Cost of sales		6
		Other income (expenses), net: Other, net		2,219
Interest rate swaps and cross-currency swap agreements	(232)	—		—
Total	¥ 2,761		¥	3,069

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

* OCI stands for other comprehensive income (loss).

Derivative instruments not designated as hedging instruments relationships

Millions of yen		
Nine months ended December 31, 2019		
	Location of gains (losses) recognized in income on derivatives	Amount of gains (losses) recognized in income on derivatives
Forwards contracts	Other income (expenses), net: Other, net	¥ (2,223)
Interest rate swaps and cross-currency swap agreements	Cost of sales	(27)
	Other income (expenses), net: Other, net	5
Total		¥ (2,245)

Millions of yen		
Nine months ended December 31, 2018		
	Location of gains (losses) recognized in income on derivatives	Amount of gains (losses) recognized in income on derivatives
Forwards contracts	Other income (expenses), net: Other, net	¥ 1,073
Interest rate swaps and cross-currency swap agreements	Cost of sales	(87)
	Other income (expenses), net: Other, net	65
Total		¥ 1,051

The effects of derivative instruments on the consolidated statements of income and the consolidated statements of comprehensive income for the three months ended December 31, 2019 and 2018 are as follows:

Derivative instruments designated as cash flow hedging relationships

Millions of yen				
Three months ended December 31, 2019				
	Amount of gains (losses) recognized in OCI on derivatives	Gains (losses) reclassified from accumulated OCI on derivatives		
		Location of consolidated statements of income	Amount	
Forwards contracts	¥ 1,356	Net sales	¥	(3)
		Cost of sales		17
		Other income (expenses), net: Other, net		248
Interest rate swaps and cross-currency swap agreements	201	—		—
Total	¥ 1,557		¥	262

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

* OCI stands for other comprehensive income (loss).

Derivative instruments not designated as hedging instruments relationships

Millions of yen		
Three months ended December 31, 2019		
	Location of gains (losses) recognized in income on derivatives	Amount of gains (losses) recognized in income on derivatives
Forwards contracts	Other income (expenses), net: Other, net	¥ (2,263)
Interest rate swaps and cross-currency swap agreements	Cost of sales	(7)
	Other income (expenses), net: Other, net	169
Total		¥ (2,101)

Millions of yen		
Three months ended December 31, 2018		
	Location of gains (losses) recognized in income on derivatives	Amount of gains (losses) recognized in income on derivatives
Forwards contracts	Other income (expenses), net: Other, net	¥ (160)
Interest rate swaps and cross-currency swap agreements	Cost of sales	(29)
	Other income (expenses), net: Other, net	79
Total		¥ (110)

16. Fair Values of Financial Instruments

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

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

(2) Investment securities, marketable equity securities (Note 17)

The fair values of investment securities are stated in Note 17 and therefore are not included in the table below.

(3) Long-term trade receivables

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

(4) Long-term debt, including current portion

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

(5) Derivatives (Notes 15 and 17)

The fair values of derivative financial instruments are stated in Note 17 and therefore are not included in the table below.

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

	Millions of yen				Fair Value Levels
	December 31, 2019		March 31, 2019		
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value	
Cash and cash equivalents	¥ 183,646	¥ 183,646	¥ 148,479	¥ 148,479	Level 1
Time deposits	1,852	1,852	2,331	2,331	Level 2
Long-term trade receivables, net	426,378	426,378	416,363	416,363	Level 2
Short-term debt	529,406	529,406	404,659	404,659	Level 2
Long-term debt, including current portion	518,896	519,346	526,041	523,921	Level 2

Notes:

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

2) The fair value levels are stated in Note 17.

17. 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 December 31, 2019 and at March 31, 2019 are as follows:

		Millions of yen					
		Level 1	Level 2	Level 3	Total		
At December 31, 2019							
Assets							
Investment securities, marketable equity securities							
Manufacturing industry	¥	—	¥	—	¥	—	
Derivatives							
Forward contracts		—	2,335	—	2,335		
Interest rate swaps and cross-currency swap agreements		—	309	—	309		
Total	¥	—	¥ 2,644	¥	—	¥ 2,644	
Liabilities							
Derivatives							
Forward contracts	¥	—	¥ 4,045	¥	—	¥ 4,045	
Interest rate swaps and cross-currency swap agreements		—	907	—	907		
Total	¥	—	¥ 4,952	¥	—	¥ 4,952	
		Millions of yen					
		Level 1	Level 2	Level 3	Total		
At March 31, 2019							
Assets							
Investment securities, marketable equity securities							
Manufacturing industry	¥	430	¥	—	¥	—	¥ 430
Derivatives							
Forward contracts		—	2,876	—	2,876		
Interest rate swaps and cross-currency swap agreements		—	206	—	206		
Total	¥	430	¥ 3,082	¥	—	¥ 3,512	
Liabilities							
Derivatives							
Forward contracts	¥	—	¥ 2,632	¥	—	¥ 2,632	
Interest rate swaps and cross-currency swap agreements		—	723	—	723		
Total	¥	—	¥ 3,355	¥	—	¥ 3,355	

Investment securities

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

Derivatives (Notes 15 and 16)

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

The following table summarizes information about changes of Level 3 for the nine months ended December 31, 2019 and 2018:

	Millions of yen	
	Nine months ended December 31, 2019	Nine months ended December 31, 2018
Balance, beginning of year	¥ —	¥ (242)
Total gains or losses (realized / unrealized)	—	242
Included in earnings	—	257
Included in other comprehensive income (loss)	—	(15)
Balance, end of period	¥ —	¥ —

The following table summarizes information about changes of Level 3 for the three months ended December 31, 2019 and 2018:

	Millions of yen	
	Three months ended December 31, 2019	Three months ended December 31, 2018
Balance, beginning of period	¥ —	¥ (206)
Total gains or losses (realized / unrealized)	—	206
Included in earnings	—	206
Included in other comprehensive income (loss)	—	—
Balance, end of period	¥ —	¥ —

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

During nine months ended December 31, 2019 and 2018 assets and liabilities that were measured at fair value on a non-recurring basis were not material.

18. Committed Credit Lines

Certain consolidated subsidiaries have entered into contracts with certain financial institutions for committed credit lines. These total amounts of committed credit lines at December 31, 2019 and at March 31, 2019 were ¥119,387 million and ¥136,014 million, respectively. These total amounts of unused committed credit lines available for full and immediate borrowings at December 31, 2019 and at March 31, 2019 were ¥114,876 million and ¥124,150 million, respectively.

19. Dividends

Payment amount of dividends

Resolution	Type of stock	Nine months ended December 31, 2019				
		Aggregate amount of dividends (Millions of yen)	Resource of dividends	Dividend per share (Yen)	Record date	Effective date
Ordinary general meeting of shareholders held on June 18, 2019	Common stock	¥55,718	Retained earnings	¥59	March 31, 2019	June 19, 2019
Board of Directors held on October 30, 2019	Common stock	¥51,967	Retained earnings	¥55	September 30, 2019	December 2, 2019

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

Payment amount of dividends

Resolution	Type of stock	Nine months ended December 31, 2018				
		Aggregate amount of dividends (Millions of yen)	Resource of dividends	Dividend per share (Yen)	Record date	Effective date
Ordinary general meeting of shareholders held on June 19, 2018	Common stock	¥45,301	Retained earnings	¥48	March 31, 2018	June 20, 2018
Board of Directors held on October 29, 2018	Common stock	¥48,155	Retained earnings	¥51	September 30, 2018	November 29, 2018

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

20. Business Segment and Geographic Information

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

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

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

Operating segments:

Information about operating segments for the nine months ended December 31, 2019 and 2018 is as follows:

	Millions of yen	
	Nine months ended December 31, 2019	Nine months ended December 31, 2018
Net sales:		
Construction, Mining and Utility Equipment –		
External customers	¥ 1,654,437	¥ 1,835,559
Intersegment	3,656	10,339
Total	1,658,093	1,845,898
Retail Finance –		
External customers	47,210	41,764
Intersegment	5,704	4,408
Total	52,914	46,172
Industrial Machinery and Others –		
External customers	125,795	141,286
Intersegment	1,205	1,459
Total	127,000	142,745
Elimination	(10,565)	(16,206)
Consolidated	¥ 1,827,442	¥ 2,018,609
Segment profit:		
Construction, Mining and Utility Equipment	¥ 182,853	¥ 272,545
Retail Finance	10,899	13,120
Industrial Machinery and Others	9,633	12,678
Total segment profit	203,385	298,343
Corporate expenses and elimination	868	(2,055)
Consolidated	¥ 204,253	¥ 296,288

Information about operating segments for the three months ended December 31, 2019 and 2018 is as follows:

	Millions of yen	
	Three months ended December 31, 2019	Three months ended December 31, 2018
Net sales:		
Construction, Mining and Utility Equipment –		
External customers	¥ 545,124	¥ 640,373
Intersegment	1,295	4,929
Total	546,419	645,302
Retail Finance –		
External customers	16,066	15,139
Intersegment	2,065	1,596
Total	18,131	16,735
Industrial Machinery and Others –		
External customers	52,767	45,056
Intersegment	504	647
Total	53,271	45,703
Elimination	(3,864)	(7,172)
Consolidated	¥ 613,957	¥ 700,568
Segment profit:		
Construction, Mining and Utility Equipment	¥ 53,020	¥ 88,607
Retail Finance	4,089	3,538
Industrial Machinery and Others	5,594	5,164
Total segment profit	62,703	97,309
Corporate expenses and elimination	861	(154)
Consolidated	¥ 63,564	¥ 97,155

Reconciliation of total segment profit to consolidated income before income taxes and equity in earnings of affiliated companies for the nine months ended December 31, 2019 and 2018 is as follows:

	Millions of yen	
	Nine months ended December 31, 2019	Nine months ended December 31, 2018
Total segment profit	¥ 203,385	¥ 298,343
Corporate expenses and elimination	868	(2,055)
Total	204,253	296,288
Other operating income (expenses), net	3,575	(453)
Operating income	207,828	295,835
Interest and dividend income	5,403	5,470
Interest expense	(18,892)	(17,755)
Other, net	(4,417)	(5,570)
Consolidated income before income taxes and equity in earnings of affiliated companies	¥ 189,922	¥ 277,980

Reconciliation of total segment profit to consolidated income before income taxes and equity in earnings of affiliated companies for the three months ended December 31, 2019 and 2018 is as follows:

	Millions of yen	
	Three months ended December 31, 2019	Three months ended December 31, 2018
Total segment profit	¥ 62,703	¥ 97,309
Corporate expenses and elimination	861	(154)
Total	63,564	97,155
Other operating income (expenses), net	2,282	(1,627)
Operating income	65,846	95,528
Interest and dividend income	1,671	1,787
Interest expense	(5,784)	(6,345)
Other, net	(23)	(5,499)
Consolidated income before income taxes and equity in earnings of affiliated companies	¥ 61,710	¥ 85,471

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

a) Construction, Mining and Utility Equipment operating segment:

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

b) Retail Finance:

Financing

c) Industrial Machinery and Others operating segment:

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

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

Geographic information:

Net sales determined by customer location for the nine months ended December 31, 2019 and 2018 are as follows:

	Millions of yen			
	Nine months ended December 31, 2019			
	Construction, Mining and Utility Equipment	Retail Finance	Industrial Machinery and Others	Total
Japan	¥ 226,232	¥ 1,537	¥ 57,604	¥ 285,373
The Americas	667,257	36,753	14,271	718,281
Europe and CIS	260,455	2,035	6,583	269,073
China	94,153	2,425	19,298	115,876
Asia (excluding Japan and China) and Oceania	312,194	4,410	27,819	344,423
Middle East and Africa	94,146	50	220	94,416
Total	¥ 1,654,437	¥ 47,210	¥ 125,795	¥ 1,827,442

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

Net sales determined by customer location for the three months ended December 31, 2019 and 2018 are as follows:

Millions of yen				
Three months ended December 31, 2019				
	Construction, Mining and Utility Equipment	Retail Finance	Industrial Machinery and Others	Total
Japan	¥ 77,494	¥ 534	¥ 23,510	¥ 101,538
The Americas	227,192	12,613	6,833	246,638
Europe and CIS	81,875	671	3,154	85,700
China	32,709	781	8,241	41,731
Asia (excluding Japan and China) and Oceania	93,669	1,450	10,999	106,118
Middle East and Africa	32,185	17	30	32,232
Total	¥ 545,124	¥ 16,066	¥ 52,767	¥ 613,957

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

Net sales determined by geographic origin for the nine months ended December 31, 2019 and 2018 are as follows:

Millions of yen		
	Nine months ended December 31, 2019	Nine months ended December 31, 2018
Japan	¥ 390,712	¥ 466,756
The Americas	674,242	685,789
Europe and CIS	267,524	270,158
China	103,160	127,763
Others	391,804	468,143
Total	¥ 1,827,442	¥ 2,018,609

Net sales determined by geographic origin for the three months ended December 31, 2019 and 2018 are as follows:

	Millions of yen	
	Three months ended December 31, 2019	Three months ended December 31, 2018
Japan	¥ 137,637	¥ 165,534
The Americas	233,137	249,091
Europe and CIS	80,463	89,930
China	36,734	41,238
Others	125,986	154,775
Total	¥ 613,957	¥ 700,568

There were no sales to a single major external customer for the nine months and three months ended December 31, 2019 and 2018.

21. Material Subsequent Events

Not applicable.

Komatsu evaluated subsequent events through February 13, 2020, the issue date of its quarterly consolidated financial statements.

22. Terminology, Forms and Preparation Methods of Quarterly Consolidated Financial Statements

The terminology, forms and preparation methods of the Company's quarterly consolidated financial statements are in accordance with U.S. GAAP.

The main differences between quarterly consolidated financial statements prepared in accordance with U.S. GAAP and those prepared in accordance with the Accounting Standards for Quarterly Consolidated Financial Statements and the Ordinance on Terminology, Forms and Preparation Methods of Quarterly Consolidated Financial Statements of Japan (hereinafter "J. GAAP") are as follows.

(1) Scope of consolidation

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

(2) Accounting policies

a. Deferred income on installment sales

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

b. Share issuance cost

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

c. Accounting for retirement benefits

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

d. Business combination and goodwill

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

(3) Presentation methods and other matters

a. Presentation of legal retained earnings

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

b. Extraordinary income and loss

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