

(Translation)

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Quarterly Report

From July 1, 2020 to September 30, 2020

(Second Quarter of the 152nd Fiscal Year)

KOMATSU LTD.

Quarterly Report

Certain References and Information:

1. This is an English translation of the Quarterly Securities Report (“Shihanki Hokokusho”) filed via the Electronic Disclosure for Investors’ Network (“EDINET”) system as set forth in Article 27-30-2 of the Financial Instruments and Exchange Act of Japan. Komatsu Ltd. filed its Quarterly Securities Report for the three months ended September 30, 2020 with the Director-General of the Kanto Local Finance Bureau on November 11, 2020. The Quarterly Securities Report contains, among other information, Quarterly Consolidated Financial Statements for the three months and six months ended September 30, 2020. 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 October 28, 2020. Attached is an English translation of Quarterly Consolidated Financial Statements for the three months and six months ended September 30, 2020.
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 September 30, 2020 and for the six months ended September 30, 2020 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 September 30, 2020 and March 31, 2020

Assets	September 30, 2020		March 31, 2020	
	Millions of yen	Ratio (%)	Millions of yen	Ratio (%)
Current assets				
Cash and cash equivalents (Note 15)	¥ 234,454		¥ 247,616	
Time deposits (Note 15)	1,399		2,057	
Trade notes and accounts receivable, net (Notes 3 and 9)	669,907		744,395	
Inventories (Note 4)	838,901		805,309	
Other current assets (Notes 14, 15 and 16)	131,429		147,413	
Total current assets	1,876,090	52.2	1,946,790	53.3
Long-term trade receivables, net (Notes 3, 9 and 15)	426,638	11.9	420,918	11.5
Investments				
Investments in and advances to affiliated companies	38,014		38,210	
Investment securities (Note 5)	7,698		7,328	
Other	2,538		2,436	
Total investments	48,250	1.3	47,974	1.3
Property, plant and equipment				
– less accumulated depreciation and amortization of ¥914,739 million at September 30, 2020 and ¥894,328 million at March 31, 2020	757,463	21.1	757,679	20.8
Operating lease right-of-use assets	54,487	1.5	53,454	1.5
Goodwill	158,834	4.4	157,521	4.3
Other intangible assets				
– less accumulated amortization (Note 6)	162,840	4.5	162,062	4.4
Deferred income taxes and other assets (Notes 14, 15 and 16)	109,874	3.1	107,288	2.9
Total assets	¥ 3,594,476	100.0	¥ 3,653,686	100.0

Liabilities and Equity	September 30, 2020		March 31, 2020	
	Millions of yen	Ratio (%)	Millions of yen	Ratio (%)
Current liabilities				
Short-term debt (Note 15)	¥ 380,289		¥ 483,658	
Current maturities of long-term debt (Note 15)	57,339		118,880	
Trade notes, bills and accounts payable	194,054		220,160	
Income taxes payable	22,317		23,169	
Current operating lease liabilities	14,662		14,933	
Other current liabilities (Notes 9, 14, 15 and 16)	301,336		297,825	
Total current liabilities	969,997	27.0	1,158,625	31.7
Long-term liabilities				
Long-term debt (Note 15)	528,427		409,840	
Liability for pension and retirement benefits	95,476		96,392	
Long-term operating lease liabilities	39,752		38,624	
Deferred income taxes and other liabilities (Notes 9, 14, 15 and 16)	94,114		93,980	
Total long-term liabilities	757,769	21.1	638,836	17.5
Total liabilities	1,727,766	48.1	1,797,461	49.2
Commitments and contingent liabilities (Note 13)				

Equity

Komatsu Ltd. shareholders' equity

Common stock:

Authorized 3,955,000,000 shares

Issued 972,887,610 shares

Outstanding 945,032,303 shares at September 30, 2020 and

944,621,957 shares at March 31, 2020

Capital surplus	69,037		68,689	
Retained earnings:	136,587		136,459	
Appropriated for legal reserve	47,258		46,813	
Unappropriated	1,699,110		1,699,477	
Accumulated other comprehensive income (loss) (Notes 8 and 14)	(125,409)		(130,666)	
Treasury stock at cost,				
27,855,307 shares at September 30, 2020 and 27,959,273 shares at March 31, 2020	(48,985)		(49,166)	
Total Komatsu Ltd. shareholders' equity	1,777,598	49.5	1,771,606	48.5
Noncontrolling interests	89,112	2.4	84,619	2.3
Total equity	1,866,710	51.9	1,856,225	50.8
Total liabilities and equity	¥ 3,594,476	100.0	¥ 3,653,686	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

Six months ended September 30, 2020 and 2019

Consolidated Statements of Income

	Six months ended September 30, 2020		Six months ended September 30, 2019	
	Millions of yen	Ratio(%)	Millions of yen	Ratio(%)
Net sales (Notes 9, 11 and 14)	¥ 957,717	100.0	¥ 1,213,485	100.0
Cost of sales (Notes 6, 7 and 14)	699,812	73.1	855,318	70.5
Selling, general and administrative expenses (Notes 6, 7 and 10)	197,148	20.6	217,478	17.9
Other operating income (expenses), net	(415)	(0.0)	1,293	0.1
Operating income	60,342	6.3	141,982	11.7
Other income (expenses), net				
Interest and dividend income	2,414	0.3	3,732	0.3
Interest expense	(7,406)	(0.8)	(13,108)	(1.1)
Other, net (Notes 5, 7, 8 and 14)	3,180	0.3	(4,394)	(0.4)
Total	(1,812)	(0.2)	(13,770)	(1.1)
Income before income taxes and equity in earnings of affiliated companies	58,530	6.1	128,212	10.6
Income taxes (Note 8)				
Current	19,787		35,948	
Deferred	(2,689)		(330)	
Total	17,098	1.8	35,618	2.9
Income before equity in earnings of affiliated companies	41,432	4.3	92,594	7.6
Equity in earnings of affiliated companies	1,189	0.1	1,730	0.1
Net income	42,621	4.5	94,324	7.8
Less: Net income attributable to noncontrolling interests	5,327	0.6	4,262	0.4
Net income attributable to Komatsu Ltd.	¥ 37,294	3.9	¥ 90,062	7.4

Yen

Per share data (Note 12):

Net income attributable to Komatsu Ltd.:

Basic	¥ 39.48	¥ 95.40
Diluted	¥ 39.46	¥ 95.32

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

Consolidated Statements of Comprehensive Income

	Millions of yen	
	Six months ended September 30, 2020	Six months ended September 30, 2019
Net income	¥ 42,621	¥ 94,324
Other comprehensive income (loss), for the period, net of tax		
Foreign currency translation adjustments (Note 8)	6,506	(66,214)
Pension liability adjustments (Notes 7 and 8)	487	145
Net unrealized holding gains (losses) on derivative instruments (Notes 8 and 14)	252	(1,231)
Total	7,245	(67,300)
Comprehensive income	49,866	27,024
Less: Comprehensive income (loss) attributable to noncontrolling interests	7,315	(361)
Comprehensive income attributable to Komatsu Ltd.	¥ 42,551	¥ 27,385

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 September 30, 2020 and 2019

Consolidated Statements of Income

	Three months ended September 30, 2020		Three months ended September 30, 2019	
	Millions of yen	Ratio(%)	Millions of yen	Ratio(%)
Net sales (Notes 9, 11 and 14)	¥ 498,986	100.0	¥ 603,718	100.0
Cost of sales (Notes 6, 7 and 14)	365,092	73.2	427,961	70.9
Selling, general and administrative expenses (Notes 6, 7 and 10)	99,775	20.0	107,811	17.9
Other operating income (expenses), net	(696)	(0.1)	(724)	(0.1)
Operating income	33,423	6.7	67,222	11.1
Other income (expenses), net				
Interest and dividend income	1,229	0.2	1,986	0.3
Interest expense	(3,565)	(0.7)	(6,458)	(1.1)
Other, net (Notes 5, 7, 8 and 14)	(1,054)	(0.2)	(1,448)	(0.2)
Total	(3,390)	(0.7)	(5,920)	(1.0)
Income before income taxes and equity in earnings of affiliated companies	30,033	6.0	61,302	10.2
Income taxes (Note 8)				
Current	9,711		22,866	
Deferred	(2,431)		(5,079)	
Total	7,280	1.5	17,787	2.9
Income before equity in earnings of affiliated companies	22,753	4.6	43,515	7.2
Equity in earnings of affiliated companies	638	0.1	1,062	0.2
Net income	23,391	4.7	44,577	7.4
Less: Net income attributable to noncontrolling interests	2,348	0.5	1,991	0.3
Net income attributable to Komatsu Ltd.	¥ 21,043	4.2	¥ 42,586	7.1

Yen

Per share data (Note 12):

Net income attributable to Komatsu Ltd.:

Basic	¥ 22.27	¥ 45.11
Diluted	¥ 22.26	¥ 45.07

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

Consolidated Statements of Comprehensive Income

	Millions of yen	
	Three months ended September 30, 2020	Three months ended September 30, 2019
Net income	¥ 23,391	¥ 44,577
Other comprehensive income (loss), for the period, net of tax		
Foreign currency translation adjustments (Note 8)	(8,148)	(32,903)
Pension liability adjustments (Notes 7 and 8)	223	(183)
Net unrealized holding gains (losses) on derivative instruments (Notes 8 and 14)	489	(517)
Total	(7,436)	(33,603)
Comprehensive income	15,955	10,974
Less: Comprehensive income attributable to noncontrolling interests	2,180	86
Comprehensive income attributable to Komatsu Ltd.	¥ 13,775	¥ 10,888

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

Consolidated Statements of Equity (Unaudited)

Komatsu Ltd. and Consolidated Subsidiaries

Six months ended September 30, 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					
Balance at March 31, 2020	¥ 68,689	¥ 136,459	¥ 46,813	¥ 1,699,477	¥ (130,666)	¥ (49,166)	¥ 1,771,606	¥ 84,619	¥ 1,856,225
Cash dividends (Note 18)				(36,859)			(36,859)	(4,498)	(41,357)
Transfer to retained earnings appropriated for legal reserve			445	(445)			—		—
Other changes				(357)			(357)	1,676	1,319
Net income				37,294			37,294	5,327	42,621
Other comprehensive income (loss), for the period, net of tax (Note 8)					5,257		5,257	1,988	7,245
Issuance and exercise of stock acquisition rights (Note 10)		(275)					(275)		(275)
Purchase of treasury stock						(38)	(38)		(38)
Sales of treasury stock		57				219	276		276
Restricted stock compensation (Note 10)	348	346					694		694
Balance at September 30, 2020	¥ 69,037	¥ 136,587	¥ 47,258	¥ 1,699,110	¥ (125,409)	¥ (48,985)	¥ 1,777,598	¥ 89,112	¥ 1,866,710

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

Six months ended September 30, 2019

	Millions of yen								
	Common stock	Capital surplus	Retained earnings		Accumulated other comprehensive income (loss)	Treasury stock	Total Komatsu Ltd. shareholders' equity	Non-controlling interests	Total equity
			Appropriated for legal reserve	Un-appropriated					
Balance at March 31, 2019	¥ 68,311	¥ 136,798	¥ 46,028	¥ 1,654,105	¥ (39,792)	¥ (49,868)	¥ 1,815,582	¥ 87,286	¥ 1,902,868
Cash dividends (Note 18)				(55,719)			(55,719)	(4,614)	(60,333)
Transfer to retained earnings appropriated for legal reserve			552	(552)			—		—
Other changes		10			(29)		(19)	106	87
Net income				90,062			90,062	4,262	94,324
Other comprehensive income (loss), for the period, net of tax (Note 8)					(62,677)		(62,677)	(4,623)	(67,300)
Issuance and exercise of stock acquisition rights (Note 10)		(325)					(325)		(325)
Purchase of treasury stock						(22)	(22)		(22)
Sales of treasury stock		14				312	326		326
Restricted stock compensation (Note 10)	378	375					753		753
Balance at September 30, 2019	¥ 68,689	¥ 136,872	¥ 46,580	¥ 1,687,896	¥ (102,498)	¥ (49,578)	¥ 1,787,961	¥ 82,417	¥ 1,870,378

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

Consolidated Statements of Cash Flows (Unaudited)

Komatsu Ltd. and Consolidated Subsidiaries

Six months ended September 30, 2020 and 2019

	Millions of yen			
	Six months ended September 30, 2020		Six months ended September 30, 2019	
Operating activities				
Net income	¥	42,621	¥	94,324
Adjustments to reconcile net income to net cash provided by (used in) operating activities:				
Depreciation and amortization		64,713		64,683
Deferred income taxes		(2,689)		(330)
Impairment loss and net loss (gain) on valuation of investment securities		63		(101)
Net loss (gain) on sale of fixed assets		(99)		(620)
Loss on disposal of fixed assets		1,099		1,618
Pension and retirement benefits, net		(237)		(796)
Changes in assets and liabilities:				
Decrease (increase) in trade receivables		72,882		56,322
Decrease (increase) in inventories		(32,499)		(88,414)
Increase (decrease) in trade payables		(25,801)		(12,440)
Increase (decrease) in income taxes payable		(1,406)		(17,030)
Other, net		33,889		38,540
Net cash provided by (used in) operating activities		152,536		135,756
Investing activities				
Capital expenditures		(85,278)		(91,837)
Proceeds from sale of fixed assets		6,010		6,979
Proceeds from sale of investment securities		21		525
Purchases of investment securities		(537)		(492)
Acquisition of subsidiaries and equity investees, net of cash acquired		(1,717)		(21,606)
Other, net		1,477		(267)
Net cash provided by (used in) investing activities		(80,024)		(106,698)
Financing activities				
Proceeds from debt issued (Original maturities greater than three months)		407,541		230,299
Payment on debt (Original maturities greater than three months)		(418,930)		(228,337)
Short-term debt, net (Original maturities three months or less)		(33,828)		45,511
Dividends paid		(36,859)		(55,719)
Other, net		(4,938)		(5,417)
Net cash provided by (used in) financing activities		(87,014)		(13,663)
Effect of exchange rate change on cash and cash equivalents		1,340		(872)
Net increase (decrease) in cash and cash equivalents		(13,162)		14,523
Cash and cash equivalents, beginning of year		247,616		148,479
Cash and cash equivalents, end of period	¥	234,454	¥	163,002

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

Komatsu Ltd. and Consolidated Subsidiaries
Three months and six months ended September 30, 2020 and 2019
Notes to Quarterly Consolidated Financial Statements (Unaudited)

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

Basis of Quarterly Financial Statement Presentation

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

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

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

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

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

Summary of Significant Accounting Policies

There is no material change for summary of significant accounting policies stated in annual report for the fiscal year ended March 31, 2020.

Regarding the impact of the novel coronavirus (COVID-19) pandemic on the financial position and results of operations of Komatsu (the Company and its consolidated subsidiaries), just how COVID-19 will spread from this point forward, or when it will be contained, is still unclear. Nevertheless, under the assumptions that the COVID-19-related impacts will continue for a length of time in the fiscal year ending March 31, 2021, Komatsu has calculated the projections for this fiscal year based on the information which is available at present and our predictions. Komatsu is making its best estimates based on the projections to assess 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 those assumptions included in the projections, Komatsu’s financial position and results of operations may be adversely affected.

2. Supplemental Cash Flow Information

Additional cash flow information for the six months ended September 30, 2020 and 2019 are as follows:

	Millions of yen	
	Six months ended September 30, 2020	Six months ended September 30, 2019
Additional cash flow information:		
Interest paid	¥ 7,533	¥ 12,963
Income taxes paid, net	9,906	48,217

3. Allowance for Doubtful Receivables

At September 30, 2020 and at March 31, 2020, allowances for doubtful receivables deducted from trade notes and accounts receivable, net and long-term trade receivables, net are ¥16,663 million and ¥16,822 million, respectively.

4. Inventories

At September 30, 2020 and at March 31, 2020, inventories comprise the following:

	Millions of yen	
	September 30, 2020	March 31, 2020
Finished products, including finished parts held for sale	¥ 613,894	¥ 586,468
Work in process	159,814	153,082
Materials and supplies	65,193	65,759
Total	¥ 838,901	¥ 805,309

5. Investment Securities

The realized gains and losses and gross unrealized holding gains and losses for such equity securities which are recorded in other income (expenses), net in the accompanying consolidated statements of income, respectively, for the six months ended September 30, 2020 and 2019 are as follows:

	Millions of yen	
	Six months ended September 30, 2020	Six months Ended September 30, 2019
Net gains and losses recognized during the period on equity securities	¥ (63)	¥ 101
Less: net gains and losses recognized during the period on equity securities sold during the period	6	(9)
Unrealized gains and losses recognized during the period on equity securities still held as of September 30, 2020 and 2019	¥ (69)	¥ 110

The realized gains and losses and gross unrealized holding gains and losses for such equity securities which are recorded in other income (expenses), net in the accompanying consolidated statements of income, respectively, for the three months ended September 30, 2020 and 2019 are as follows:

	Millions of yen	
	Three months ended September 30, 2020	Three months ended September 30, 2019
Net gains and losses recognized during the period on equity securities	¥ 25	¥ 83
Less: net gains and losses recognized during the period on equity securities sold during the period	7	(25)
Unrealized gains and losses recognized during the period on equity securities still held as of September 30, 2020 and 2019	¥ 18	¥ 108

Komatsu measures equity securities without readily determinable fair values at the carrying amount after the write-down 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 September 30, 2020 and as of March 31, 2020, the carrying amounts of these investments were ¥7,698 million and ¥7,328 million, respectively. Any impairment or any adjustment relating to observable price changes recorded until September 30, 2020 and until March 31, 2020 were not material.

6. Other Intangible Assets

Intangible assets at September 30, 2020 and at March 31, 2020 are as follows:

	Millions of yen					
	September 30, 2020			March 31, 2020		
	Gross carrying amount	Accumulated amortization	Net carrying amount	Gross carrying amount	Accumulated amortization	Net carrying amount
Other intangible assets subject to amortization:						
Software	¥ 57,173	¥ (22,443)	¥ 34,730	¥ 52,813	¥ (21,678)	¥ 31,135
Leasehold	7,059	(1,758)	5,301	6,959	(1,675)	5,284
Trademarks	52,489	(12,496)	39,993	52,444	(10,866)	41,578
Customer relationships	73,061	(26,063)	46,998	73,505	(25,197)	48,308
Technology assets	37,725	(12,378)	25,347	37,423	(11,950)	25,473
Other	6,877	(4,390)	2,487	7,292	(4,635)	2,657
Total	234,384	(79,528)	154,856	230,436	(76,001)	154,435
Other intangible assets not subject to amortization			7,984			7,627
Total other intangible assets			<u>¥ 162,840</u>			<u>¥ 162,062</u>

The aggregate amortization expense of other intangible assets subject to amortization during the six months ended September 30, 2020 and 2019 were ¥9,793 million and ¥9,099 million, respectively. The aggregate amortization expense of other intangible assets subject to amortization during the three months ended September 30, 2020 and 2019 were ¥5,094 million and ¥4,616 million, respectively.

7. Cost of Retirement Benefits

Net periodic cost of Komatsu's defined benefit plans for the six months ended September 30, 2020 and 2019, consisted of the following components:

	Millions of yen	
	Six months ended September 30, 2020	Six months ended September 30, 2019
Service cost	¥ 4,755	¥ 4,556
Interest cost on projected benefit obligations	2,949	3,393
Expected return on plan assets	(4,892)	(5,395)
Amortization of actuarial loss or gain	673	585
Amortization of prior service cost	163	142
Net periodic cost	¥ 3,648	¥ 3,281

Net periodic cost of the postretirement benefit plans for the six months ended September 30, 2020 and 2019 included the following components:

	Millions of yen	
	Six months ended September 30, 2020	Six months ended September 30, 2019
Service cost	¥ 259	¥ 279
Interest cost on projected benefit obligations	207	277
Expected return on plan assets	(249)	(293)
Amortization of actuarial loss or gain	38	23
Amortization of prior service cost	(60)	2
Net periodic cost	¥ 195	¥ 288

Net periodic cost of Komatsu's defined benefit plans for the three months ended September 30, 2020 and 2019, consisted of the following components:

	Millions of yen	
	Three months ended September 30, 2020	Three months ended September 30, 2019
Service cost	¥ 2,336	¥ 2,241
Interest cost on projected benefit obligations	1,478	1,661
Expected return on plan assets	(2,450)	(2,642)
Amortization of actuarial loss or gain	336	292
Amortization of prior service cost	74	70
Net periodic cost	¥ 1,774	¥ 1,622

Net periodic cost of the postretirement benefit plans for the three months ended September 30, 2020 and 2019 included the following components:

	Millions of yen	
	Three months ended September 30, 2020	Three months ended September 30, 2019
Service cost	¥ 129	¥ 138
Interest cost on projected benefit obligations	103	137
Expected return on plan assets	(124)	(145)
Amortization of actuarial loss or gain	19	11
Amortization of prior service cost	(30)	1
Net periodic cost	¥ 97	¥ 142

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

8. Other Comprehensive Income (Loss)

Changes in accumulated other comprehensive income (loss) for the six months ended September 30, 2020 and 2019 are as follows:

	Millions of yen			
	Six months ended September 30, 2020			
	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	6,506	(39)	1,421	7,888
Amounts reclassified from accumulated other comprehensive income (loss)	—	526	(1,169)	(643)
Net other comprehensive income (loss)	6,506	487	252	7,245
Less: other comprehensive income (loss) attributable to noncontrolling interests	1,963	—	25	1,988
Other comprehensive income (loss) attributable to Komatsu Ltd.	4,543	487	227	5,257
Balance, end of the period	¥ (99,432)	¥ (26,489)	¥ 512	¥ (125,409)

All amounts are net of tax.

	Millions of yen			
	Six months ended September 30, 2019			
	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	(66,214)	(368)	527	(66,055)
Amounts reclassified from accumulated other comprehensive income (loss)	—	513	(1,758)	(1,245)
Net other comprehensive income (loss)	(66,214)	145	(1,231)	(67,300)
Less: other comprehensive income (loss) attributable to noncontrolling interests	(4,502)	—	(121)	(4,623)
Other comprehensive income (loss) attributable to Komatsu Ltd.	(61,712)	145	(1,110)	(62,677)
Equity transactions with noncontrolling interests	(29)	—	—	(29)
Balance, end of the period	¥ (77,179)	¥ (25,745)	¥ 426	¥ (102,498)

All amounts are net of tax.

Changes in accumulated other comprehensive income (loss) for the three months ended September 30, 2020 and 2019 are as follows:

	Millions of yen			
	Three months ended September 30, 2020			
	Foreign currency translation adjustments	Pension liability adjustments	Net unrealized holding gains (losses) on derivative instruments	Total
Balance, beginning of the period	¥ (91,472)	¥ (26,712)	¥ 43	¥ (118,141)
Other comprehensive income (loss) before reclassifications	(8,148)	(23)	1,062	(7,109)
Amounts reclassified from accumulated other comprehensive income (loss)	—	246	(573)	(327)
Net other comprehensive income (loss)	(8,148)	223	489	(7,436)
Less: other comprehensive income (loss) attributable to noncontrolling interests	(188)	—	20	(168)
Other comprehensive income (loss) attributable to Komatsu Ltd.	(7,960)	223	469	(7,268)
Balance, end of the period	¥ (99,432)	¥ (26,489)	¥ 512	¥ (125,409)

All amounts are net of tax.

	Millions of yen			
	Three months ended September 30, 2019			
	Foreign currency translation adjustments	Pension liability adjustments	Net unrealized holding gains (losses) on derivative instruments	Total
Balance, beginning of the period	¥ (46,124)	¥ (25,562)	¥ 915	¥ (70,771)
Other comprehensive income (loss) before reclassifications	(32,903)	(440)	455	(32,888)
Amounts reclassified from accumulated other comprehensive income (loss)	—	257	(972)	(715)
Net other comprehensive income (loss)	(32,903)	(183)	(517)	(33,603)
Less: other comprehensive income (loss) attributable to noncontrolling interests	(1,877)	—	(28)	(1,905)
Other comprehensive income (loss) attributable to Komatsu Ltd.	(31,026)	(183)	(489)	(31,698)
Equity transactions with noncontrolling interests	(29)	—	—	(29)
Balance, end of the period	¥ (77,179)	¥ (25,745)	¥ 426	¥ (102,498)

All amounts are net of tax.

Reclassification out of accumulated other comprehensive income (loss) for the six months ended September 30, 2020 and 2019 are as follows:

	Millions of yen		Affected line items in consolidated statements of income
	Six months ended September 30, 2020		
Pension liability adjustments			
Amortization of actuarial loss or gain and prior service cost	¥	(814)	Other income (expenses), net: Other, net
		(814)	Total before tax
		288	Income taxes
		(526)	Net of tax
Net unrealized holding gains (losses) on derivative instruments			
Forwards contracts		1,282	Net sales
		(289)	Cost of sales
		707	Other income (expenses), net: Other, net
		1,700	Total before tax
		(531)	Income taxes
		1,169	Net of tax
Total reclassification for the period	¥	643	Net of tax

	Millions of yen		Affected line items in consolidated statements of income
	Six months ended September 30, 2019		
Pension liability adjustments			
Amortization of actuarial loss or gain and prior service cost	¥	(752)	Other income (expenses), net: Other, net
		(752)	Total before tax
		239	Income taxes
		(513)	Net of tax
Net unrealized holding gains (losses) on derivative instruments			
Forwards contracts		847	Net sales
		(11)	Cost of sales
		1,971	Other income (expenses), net: Other, net
		2,807	Total before tax
		(1,049)	Income taxes
		1,758	Net of tax
Total reclassification for the period	¥	1,245	Net of tax

Reclassification out of accumulated other comprehensive income (loss) for the three months ended September 30, 2020 and 2019 are as follows:

	Millions of yen		Affected line items in consolidated statements of income
	Three months ended September 30, 2020		
Pension liability adjustments			
Amortization of actuarial loss or gain and prior service cost	¥	(399)	Other income (expenses), net: Other, net
		(399)	Total before tax
		153	Income taxes
		(246)	Net of tax
Net unrealized holding gains (losses) on derivative instruments			
Forwards contracts		571	Net sales
		(40)	Cost of sales
		357	Other income (expenses), net: Other, net
		888	Total before tax
		(315)	Income taxes
		573	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 September 30, 2019		
Pension liability adjustments			
Amortization of actuarial loss or gain and prior service cost	¥	(374)	Other income (expenses), net: Other, net
		(374)	Total before tax
		117	Income taxes
		(257)	Net of tax
Net unrealized holding gains (losses) on derivative instruments			
Forwards contracts		655	Net sales
		(132)	Cost of sales
		704	Other income (expenses), net: Other, net
		1,227	Total before tax
		(255)	Income taxes
		972	Net of tax
Total reclassification for the period	¥	715	Net of tax

Tax effects allocated to each component of other comprehensive income (loss) for the six months ended September 30, 2020 and 2019 are as follows:

	Millions of yen					
	Six months ended September 30, 2020					
	Before tax amount		Tax (expense) or benefit		Net of tax amount	
Foreign currency translation adjustments						
Foreign currency translation adjustments arising during the period	¥	6,411	¥	95	¥	6,506
Less: reclassification adjustment for gains included in net income		—		—		—
Net foreign currency translation adjustments		6,411		95		6,506
Pension liability adjustments						
Pension liability adjustments arising during the period		(55)		16		(39)
Less: reclassification adjustment for losses included in net income		814		(288)		526
Net pension liability adjustments		759		(272)		487
Net unrealized holding gains (losses) on derivative instruments						
Unrealized holding gains arising during the period		2,033		(612)		1,421
Less: reclassification adjustment for gains included in net income		(1,700)		531		(1,169)
Net unrealized holding gains		333		(81)		252
Other comprehensive income (loss)	¥	7,503	¥	(258)	¥	7,245
Millions of yen						
Six months ended September 30, 2019						
Before tax amount		Tax (expense) or benefit		Net of tax amount		
Foreign currency translation adjustments						
Foreign currency translation adjustments arising during the period	¥	(66,291)	¥	77	¥	(66,214)
Less: reclassification adjustment for gains included in net income		—		—		—
Net foreign currency translation adjustments		(66,291)		77		(66,214)
Pension liability adjustments						
Pension liability adjustments arising during the period		(527)		159		(368)
Less: reclassification adjustment for losses included in net income		752		(239)		513
Net pension liability adjustments		225		(80)		145
Net unrealized holding gains (losses) on derivative instruments						
Unrealized holding gains arising during the period		1,204		(677)		527
Less: reclassification adjustment for gains included in net income		(2,807)		1,049		(1,758)
Net unrealized holding losses		(1,603)		372		(1,231)
Other comprehensive income (loss)	¥	(67,669)	¥	369	¥	(67,300)

Tax effects allocated to each component of other comprehensive income (loss) for the three months ended September 30, 2020 and 2019 are as follows:

	Millions of yen		
	Three months ended September 30, 2020		
	Before tax amount	Tax (expense) or benefit	Net of tax amount
Foreign currency translation adjustments			
Foreign currency translation adjustments arising during the period	¥ (8,202)	¥ 54	¥ (8,148)
Less: reclassification adjustment for gains included in net income	—	—	—
Net foreign currency translation adjustments	(8,202)	54	(8,148)
Pension liability adjustments			
Pension liability adjustments arising during the period	(21)	(2)	(23)
Less: reclassification adjustment for losses included in net income	399	(153)	246
Net pension liability adjustments	378	(155)	223
Net unrealized holding gains (losses) on derivative instruments			
Unrealized holding gains arising during the period	1,364	(302)	1,062
Less: reclassification adjustment for gains included in net income	(888)	315	(573)
Net unrealized holding gains	476	13	489
Other comprehensive income (loss)	¥ (7,348)	¥ (88)	¥ (7,436)
	Millions of yen		
	Three months ended September 30, 2019		
	Before tax amount	Tax (expense) or benefit	Net of tax amount
Foreign currency translation adjustments			
Foreign currency translation adjustments arising during the period	¥ (32,973)	¥ 70	¥ (32,903)
Less: reclassification adjustment for gains included in net income	—	—	—
Net foreign currency translation adjustments	(32,973)	70	(32,903)
Pension liability adjustments			
Pension liability adjustments arising during the period	(636)	196	(440)
Less: reclassification adjustment for losses included in net income	374	(117)	257
Net pension liability adjustments	(262)	79	(183)
Net unrealized holding gains (losses) on derivative instruments			
Unrealized holding gains arising during the period	479	(24)	455
Less: reclassification adjustment for gains included in net income	(1,227)	255	(972)
Net unrealized holding losses	(748)	231	(517)
Other comprehensive income (loss)	¥ (33,983)	¥ 380	¥ (33,603)

9. Revenue

(1) Disaggregation of revenue

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

(2) Contract balances

Contract balances arising from contracts with customers at September 30, 2020 and at March 31, 2020 are as follows:

	Millions of yen	
	September 30, 2020	March 31, 2020
Receivables *1	¥ 889,458	¥ 980,371
Contract assets *2	2,141	3,483
Contract liabilities *3	114,017	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.

Revenue recognized for the six months ended September 30, 2020, that was included in the contract liability balance as of March 31, 2020 was ¥31,214 million. Revenue recognized for the six months ended September 30, 2019, that was included in the contract liability balance as of March 31, 2019 was ¥36,659 million.

Revenue recognized for the three months ended September 30, 2020, that was included in the contract liability balance as of March 31, 2020 was ¥11,922 million. Revenue recognized for the three months ended September 30, 2019, that was included in the contract liability balance as of March 31, 2019 was ¥12,236 million.

The amount of revenue recognized during the six months and three months ended September 30, 2020 and 2019, from performance obligations satisfied or partially satisfied in previous periods was immaterial.

(3) Transaction price allocated to the remaining performance obligations

As of September 30, 2020, the aggregate amount of the transaction price allocated to the remaining performance obligations that have original expected durations greater than one year was ¥159,894 million, of which ¥72,752 million is expected to be recognized as revenue in the twelve months following September 30, 2020.

10. Stock-Based Remuneration

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

From the fiscal year ended March 31, 2019, the Company has introduced a new compensation plan, i.e., the restricted stock compensation system for the purpose of providing directors (other than outside directors) and employees of the Company and directors and employees of major subsidiaries with medium- to long-term incentives and advancing the sharing of value between the directors and shareholders of the company. Compensation expenses during the six months ended September 30, 2020 and 2019 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 September 30, 2020 and 2019 were recorded in selling, general and administrative expenses, and were not material to Komatsu's financial position and results of operations. The Company recognizes compensation expense using the fair value method.

11. Leases

Revenues from sales-type and operating leases as a lessor, included in net sales on the consolidated statement of income, for the six months ended September 30, 2020 and 2019 are as follows:

	Millions of yen	
	Six months ended September 30, 2020	Six months ended September 30, 2019
Sales-type lease revenue		
Revenue recognized at the commencement date *1	¥ 54,521	¥ 52,917
Interest income	4,135	5,084
Total sales-type lease revenue	58,656	58,001
Operating lease revenue	38,835	45,708
Total	¥ 97,491	¥ 103,709

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

Revenues from sales-type and operating leases as a lessor, included in net sales on the consolidated statement of income, for the three months ended September 30, 2020 and 2019 are as follows:

	Millions of yen	
	Three months ended September 30, 2020	Three months ended September 30, 2019
Sales-type lease revenue		
Revenue recognized at the commencement date *2	¥ 24,381	¥ 21,816
Interest income	2,292	2,495
Total sales-type lease revenue	26,673	24,311
Operating lease revenue	20,053	23,615
Total	¥ 46,726	¥ 47,926

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

12. Net Income Attributable to Komatsu Ltd. per Share

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

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

	Millions of yen	
	Six months ended September 30, 2020	Six months ended September 30, 2019
Net income attributable to Komatsu Ltd.	¥ 37,294	¥ 90,062
Net income attributable to participating securities (restricted stocks)	25	31
Net income attributable to common shareholders	¥ 37,269	¥ 90,031

	Number of shares	
	Six months ended September 30, 2020	Six months ended September 30, 2019
Weighted average number of common shares outstanding, less treasury stock	944,719,831	944,025,303
Weighted average number of participating securities (restricted stocks)	635,174	329,917
Weighted average number of common shares	944,084,657	943,695,386

	Yen	
	Six months ended September 30, 2020	Six months ended September 30, 2019
Basic net income attributable to Komatsu Ltd. per share	¥ 39.48	¥ 95.40

	Millions of yen	
	Three months ended September 30, 2020	Three months ended September 30, 2019
Net income attributable to Komatsu Ltd.	¥ 21,043	¥ 42,586
Net income attributable to participating securities (restricted stocks)	15	17
Net income attributable to common shareholders	¥ 21,028	¥ 42,569

	Number of shares	
	Three months ended September 30, 2020	Three months ended September 30, 2019
Weighted average number of common shares outstanding, less treasury stock	944,793,459	944,114,481
Weighted average number of participating securities (restricted stocks)	682,914	377,649
Weighted average number of common shares	944,110,545	943,736,832

	Yen	
	Three months ended September 30, 2020	Three months ended September 30, 2019
Basic net income attributable to Komatsu Ltd. per share	¥ 22.27	¥ 45.11

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	
	Six months ended September 30, 2020	Six months ended September 30, 2019
Net income attributable to Komatsu Ltd.	¥ 37,294	¥ 90,062
Net income attributable to participating securities (restricted stocks)	25	31
Net income attributable to common shareholders	¥ 37,269	¥ 90,031

	Number of shares	
	Six months ended September 30, 2020	Six months ended September 30, 2019
Weighted average number of common shares outstanding, less treasury stock	944,719,831	944,025,303
Dilutive effect of:		
Stock options	422,423	820,742
Weighted average number of participating securities (restricted stocks)	635,174	329,917
Weighted average number of diluted common shares	944,507,080	944,516,128

	Yen	
	Six months ended September 30, 2020	Six months ended September 30, 2019
Diluted net income attributable to Komatsu Ltd. per share	¥ 39.46	¥ 95.32

	Millions of yen	
	Three months ended September 30, 2020	Three months ended September 30, 2019
Net income attributable to Komatsu Ltd.	¥ 21,043	¥ 42,586
Net income attributable to participating securities (restricted stocks)	15	17
Net income attributable to common shareholders	¥ 21,028	¥ 42,569

	Number of shares	
	Three months ended September 30, 2020	Three months ended September 30, 2019
Weighted average number of common shares outstanding, less treasury stock	944,793,459	944,114,481
Dilutive effect of:		
Stock options	392,975	777,632
Weighted average number of participating securities (restricted stocks)	682,914	377,649
Weighted average number of diluted common shares	944,503,520	944,514,464

	Yen	
	Three months ended September 30, 2020	Three months ended September 30, 2019
Diluted net income attributable to Komatsu Ltd. per share	¥ 22.26	¥ 45.07

13. Contingent Liabilities

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 September 30, 2020 and at March 31, 2020 were ¥11,313 million and ¥12,142 million, respectively. The fair value of the liabilities recognized for Komatsu's obligations as guarantors under those guarantees at September 30, 2020 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 September 30, 2020 and at March 31, 2020 were ¥13,110 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 quarterly consolidated financial statements.

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

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

14. Derivative Financial Instruments

Notional principal amounts of derivative financial instruments outstanding at September 30, 2020 and at March 31, 2020 are as follows:

	Millions of yen	
	September 30, 2020	March 31, 2020
Forwards contracts:		
Sale of foreign currencies	¥ 128,954	¥ 147,655
Purchase of foreign currencies	107,848	101,835
Interest rate swaps and cross-currency swap agreements	90,675	83,088

Fair value of derivative instruments at September 30, 2020 and at March 31, 2020 on the consolidated balance sheets are as follows:

	Millions of yen			
	September 30, 2020			
	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	¥ 709	Other current liabilities	¥ 685
	Deferred income taxes and other assets	3	Deferred income taxes and other liabilities	191
Interest rate swaps and cross-currency swap agreements	Other current assets	—	Other current liabilities	13
	Deferred income taxes and other assets	—	Deferred income taxes and other liabilities	891
Total		<u>¥ 712</u>		<u>¥ 1,780</u>
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	¥ 2,541	Other current liabilities	¥ 905
	Deferred income taxes and other assets	18	Deferred income taxes and other assets	2
Interest rate swaps and cross-currency swap agreements	Other current assets	180	Other current liabilities	234
	Deferred income taxes and other assets	132	Deferred income taxes and other liabilities	—
Total		<u>¥ 2,871</u>		<u>¥ 1,141</u>
Total Derivative Instruments		<u>¥ 3,583</u>		<u>¥ 2,921</u>

Millions of yen				
March 31, 2020				
	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	¥ 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
Total		<u>¥ 1,576</u>		<u>¥ 3,024</u>
	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	¥ 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	—
Total		<u>¥ 8,266</u>		<u>¥ 1,871</u>
Total Derivative Instruments		<u>¥ 9,842</u>		<u>¥ 4,895</u>

The effects of derivative instruments on the consolidated statements of income and the consolidated statements of comprehensive income for the six months ended September 30, 2020 and 2019 are as follows:

Derivative instruments designated as cash flow hedging relationships

Millions of yen				
Six months ended September 30, 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	¥ 1,945	Net sales	¥	1,282
		Cost of sales		(289)
		Other income (expenses), net: Other, net		707
Interest rate swaps and cross-currency swap agreements	88			—
Total	¥ 2,033		¥	1,700

Millions of yen				
Six months ended September 30, 2019				
	Amount of gains (losses) recognized in OCI on derivatives	Gains (losses) reclassified from accumulated OCI on derivatives		
		Location of consolidated statements of income		Amount
Forwards contracts	¥ 1,637	Net sales	¥	847
		Cost of sales		(11)
		Other income (expenses), net: Other, net		1,971
Interest rate swaps and cross-currency swap agreements	(433)			—
Total	¥ 1,204		¥	2,807

* OCI stands for other comprehensive income (loss).

Derivative instruments not designated as hedging instruments relationships

Millions of yen		
Six months ended September 30, 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	¥ (2,038)
Interest rate swaps and cross-currency swap agreements	Cost of sales	(11)
	Other income (expenses), net: Other, net	(41)
Total		¥ (2,090)

Millions of yen		
Six months ended September 30, 2019		
	Location of gains (losses) recognized in income on derivatives	Amount of gains (losses) recognized in income on derivatives
Forwards contracts	Other income (expenses), net: Other, net	¥ 40
Interest rate swaps and cross-currency swap agreements	Cost of sales	(20)
	Other income (expenses), net: Other, net	(164)
Total		¥ (144)

The effects of derivative instruments on the consolidated statements of income and the consolidated statements of comprehensive income for the three months ended September 30, 2020 and 2019 are as follows:

Derivative instruments designated as cash flow hedging relationships

Millions of yen				
Three months ended September 30, 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	¥ 1,293	Net sales	¥	571
		Cost of sales		(40)
		Other income (expenses), net: Other, net		357
Interest rate swaps and cross-currency swap agreements	71			—
Total	¥ 1,364		¥	888

Millions of yen				
Three months ended September 30, 2019				
	Amount of gains (losses) recognized in OCI on derivatives	Gains (losses) reclassified from accumulated OCI on derivatives		
		Location of consolidated statements of income		Amount
Forwards contracts	¥ 579	Net sales	¥	655
		Cost of sales		(132)
		Other income (expenses), net: Other, net		704
Interest rate swaps and cross-currency swap agreements	(100)			—
Total	¥ 479		¥	1,227

* OCI stands for other comprehensive income (loss).

Derivative instruments not designated as hedging instruments relationships

Millions of yen			
Three months ended September 30, 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	¥
Interest rate swaps and cross-currency swap agreements	Cost of sales		(6)
	Other income (expenses), net: Other, net		(20)
Total		¥	458

Millions of yen			
Three months ended September 30, 2019			
	Location of gains (losses) recognized in income on derivatives	Amount of gains (losses) recognized in income on derivatives	
	Forwards contracts	Other income (expenses), net: Other, net	¥
Interest rate swaps and cross-currency swap agreements	Cost of sales		103
	Other income (expenses), net: Other, net		(156)
Total		¥	165

15. Fair Values of Financial Instruments

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

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

(2) Long-term trade receivables, net, excluding lease 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.

(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 14 and 16)

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

The carrying amounts and the estimated fair values of the financial instruments as of September 30, 2020 and as of March 31, 2020, and fair value levels are summarized as follows:

	Millions of yen				Fair Value Levels
	September 30, 2020		March 31, 2020		
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value	
Cash and cash equivalents	¥ 234,454	¥ 234,454	¥ 247,616	¥ 247,616	Level 1
Time deposits	1,399	1,399	2,057	2,057	Level 2
Long-term trade receivables, net, excluding lease receivables	307,761	307,761	314,592	314,592	Level 2
Short-term debt	380,289	380,289	483,658	483,658	Level 2
Long-term debt, including current portion	585,766	588,368	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 16.

16. Fair value measurements

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

Level 1 – Quoted prices in active markets for identical assets or liabilities

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly or indirectly

Level 3 – Unobservable inputs for the assets or liabilities

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

The fair value hierarchy levels of assets and liabilities that are measured at fair value on a recurring basis at September 30, 2020 and at March 31, 2020 are as follows:

		Millions of yen				
<u>At September 30, 2020</u>		Level 1	Level 2	Level 3	Total	
Assets						
Derivatives						
Forward contracts	¥	—	¥ 3,271	¥	—	¥ 3,271
Interest rate swaps and cross-currency swap agreements		—	312	—		312
Total	¥	—	¥ 3,583	¥	—	¥ 3,583
Liabilities						
Derivatives						
Forward contracts	¥	—	¥ 1,783	¥	—	¥ 1,783
Interest rate swaps and cross-currency swap agreements		—	1,138	—		1,138
Total	¥	—	¥ 2,921	¥	—	¥ 2,921
		Millions of yen				
<u>At March 31, 2020</u>		Level 1	Level 2	Level 3	Total	
Assets						
Derivatives						
Forward contracts	¥	—	¥ 9,089	¥	—	¥ 9,089
Interest rate swaps and cross-currency swap agreements		—	753	—		753
Total	¥	—	¥ 9,842	¥	—	¥ 9,842
Liabilities						
Derivatives						
Forward contracts	¥	—	¥ 3,829	¥	—	¥ 3,829
Interest rate swaps and cross-currency swap agreements		—	1,066	—		1,066
Total	¥	—	¥ 4,895	¥	—	¥ 4,895

Derivatives (Notes 14 and 15)

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

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

During six months ended September 30, 2020 and 2019, assets and liabilities that were measured at fair value on a non-recurring basis were not material.

17. Committed Credit Lines

The Company and certain consolidated subsidiaries have entered into contracts with certain financial institutions for committed credit lines. These total amounts of committed credit lines at September 30, 2020 and at March 31, 2020 were ¥563,530 million and ¥133,945 million, respectively. These total amounts of unused committed credit lines available for full and immediate borrowings at September 30, 2020 and at March 31, 2020 were ¥543,148 million and ¥112,135 million, respectively.

18. Dividends

Six months ended September 30, 2020

(1) Payment amount of dividends

Resolution	Type of stock	Aggregate amount of dividends (Millions of yen)	Resource of dividends	Dividend per share (Yen)	Record date	Effective date
Ordinary general meeting of shareholders held on June 18, 2020	Common stock	36,858	Retained earnings	39	March 31, 2020	June 19, 2020

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

(2) Dividends to be paid for the six months ended September 30, 2020, of which effective date is after September 30, 2020

Resolution	Type of stock	Aggregate amount of dividends (Millions of yen)	Resource of dividends	Dividend per share (Yen)	Record date	Effective date
Board of Directors held on October 28, 2020	Common stock	17,019	Retained earnings	18	September 30, 2020	December 1, 2020

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

Six months ended September 30, 2019

(1) Payment amount of dividends

Resolution	Type of stock	Aggregate amount of dividends (Millions of yen)	Resource of dividends	Dividend per share (Yen)	Record date	Effective date
Ordinary general meeting of shareholders held on June 18, 2019	Common stock	55,718	Retained earnings	59	March 31, 2019	June 19, 2019

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

(2) Dividends to be paid for the six months ended September 30, 2019, of which effective date is after September 30, 2019

Resolution	Type of stock	Aggregate amount of dividends (Millions of yen)	Resource of dividends	Dividend per share (Yen)	Record date	Effective date
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.

19. Business Segment and Geographic Information

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

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

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

Operating segments:

Information about operating segments for the six months ended September 30, 2020 and 2019 is as follows:

	Millions of yen	
	Six months ended September 30, 2020	Six months ended September 30, 2019
Net sales:		
Construction, Mining and Utility Equipment –		
External customers	¥ 864,314	¥ 1,109,313
Intersegment	12,236	2,361
Total	876,550	1,111,674
Retail Finance –		
External customers	28,928	31,144
Intersegment	3,824	3,639
Total	32,752	34,783
Industrial Machinery and Others –		
External customers	64,475	73,028
Intersegment	463	701
Total	64,938	73,729
Elimination	(16,523)	(6,701)
Consolidated	¥ 957,717	¥ 1,213,485
Segment profit:		
Construction, Mining and Utility Equipment	¥ 52,217	¥ 129,833
Retail Finance	4,682	6,810
Industrial Machinery and Others	4,102	4,039
Total segment profit	61,001	140,682
Corporate expenses and elimination	(244)	7
Consolidated	¥ 60,757	¥ 140,689

Information about operating segments for the three months ended September 30, 2020 and 2019 is as follows:

	Millions of yen	
	Three months ended September 30, 2020	Three months ended September 30, 2019
Net sales:		
Construction, Mining and Utility Equipment –		
External customers	¥ 444,309	¥ 548,715
Intersegment	6,430	1,482
Total	450,739	550,197
Retail Finance –		
External customers	14,980	15,678
Intersegment	1,851	1,826
Total	16,831	17,504
Industrial Machinery and Others –		
External customers	39,697	39,325
Intersegment	219	383
Total	39,916	39,708
Elimination	(8,500)	(3,691)
Consolidated	¥ 498,986	¥ 603,718
Segment profit:		
Construction, Mining and Utility Equipment	¥ 29,017	¥ 61,144
Retail Finance	2,787	3,406
Industrial Machinery and Others	2,395	3,485
Total segment profit	34,199	68,035
Corporate expenses and elimination	(80)	(89)
Consolidated	¥ 34,119	¥ 67,946

Reconciliation of total segment profit to consolidated income before income taxes and equity in earnings of affiliated companies for the six months ended September 30, 2020 and 2019 is as follows:

	Millions of yen	
	Six months ended September 30, 2020	Six months ended September 30, 2019
Total segment profit	¥ 61,001	¥ 140,682
Corporate expenses and elimination	(244)	7
Total	60,757	140,689
Other operating income (expenses), net	(415)	1,293
Operating income	60,342	141,982
Interest and dividend income	2,414	3,732
Interest expense	(7,406)	(13,108)
Other, net	3,180	(4,394)
Consolidated income before income taxes and equity in earnings of affiliated companies	¥ 58,530	¥ 128,212

Reconciliation of total segment profit to consolidated income before income taxes and equity in earnings of affiliated companies for the three months ended September 30, 2020 and 2019 is as follows:

	Millions of yen	
	Three months ended September 30, 2020	Three months ended September 30, 2019
Total segment profit	¥ 34,199	¥ 68,035
Corporate expenses and elimination	(80)	(89)
Total	34,119	67,946
Other operating income (expenses), net	(696)	(724)
Operating income	33,423	67,222
Interest and dividend income	1,229	1,986
Interest expense	(3,565)	(6,458)
Other, net	(1,054)	(1,448)
Consolidated income before income taxes and equity in earnings of affiliated companies	¥ 30,033	¥ 61,302

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 optical machinery

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

Geographic information:

Net sales determined by customer location for the six months ended September 30, 2020 and 2019 are as follows:

	Millions of yen			
	Six months ended September 30, 2020			
	Construction, Mining and Utility Equipment	Retail Finance	Industrial Machinery and Others	Total
Japan	¥ 132,208	¥ 894	¥ 35,610	¥ 168,712
The Americas	329,436	21,792	7,052	358,280
Europe and CIS	127,556	1,758	2,911	132,225
China	71,887	1,534	5,583	79,004
Asia (excluding Japan and China) and Oceania	154,579	2,867	13,274	170,720
Middle East and Africa	48,648	83	45	48,776
Total	¥ 864,314	¥ 28,928	¥ 64,475	¥ 957,717

	Millions of yen			
	Six months ended September 30, 2019			
	Construction, Mining and Utility Equipment	Retail Finance	Industrial Machinery and Others	Total
Japan	¥ 148,738	¥ 1,003	¥ 34,094	¥ 183,835
The Americas	440,065	24,140	7,438	471,643
Europe and CIS	178,580	1,364	3,429	183,373
China	61,444	1,644	11,057	74,145
Asia (excluding Japan and China) and Oceania	218,525	2,960	16,820	238,305
Middle East and Africa	61,961	33	190	62,184
Total	¥ 1,109,313	¥ 31,144	¥ 73,028	¥ 1,213,485

Net sales determined by customer location for the three months ended September 30, 2020 and 2019 are as follows:

	Millions of yen			
	Three months ended September 30, 2020			
	Construction, Mining and Utility Equipment	Retail Finance	Industrial Machinery and Others	Total
Japan	¥ 70,801	¥ 453	¥ 23,215	¥ 94,469
The Americas	168,793	10,958	5,380	185,131
Europe and CIS	67,410	1,096	1,437	69,943
China	28,715	774	2,815	32,304
Asia (excluding Japan and China) and Oceania	80,646	1,654	6,827	89,127
Middle East and Africa	27,944	45	23	28,012
Total	¥ 444,309	¥ 14,980	¥ 39,697	¥ 498,986

	Millions of yen			
	Three months ended September 30, 2019			
	Construction, Mining and Utility Equipment	Retail Finance	Industrial Machinery and Others	Total
Japan	¥ 84,961	¥ 558	¥ 20,240	¥ 105,759
The Americas	222,103	12,149	4,209	238,461
Europe and CIS	85,383	689	2,330	88,402
China	25,207	808	4,840	30,855
Asia (excluding Japan and China) and Oceania	100,007	1,459	7,531	108,997
Middle East and Africa	31,054	15	175	31,244
Total	¥ 548,715	¥ 15,678	¥ 39,325	¥ 603,718

Net sales determined by geographic origin for the six months ended September 30, 2020 and 2019 are as follows:

	Millions of yen	
	Six months ended September 30, 2020	Six months ended September 30, 2019
	Japan	¥ 207,249
The Americas	329,658	441,105
Europe and CIS	135,153	187,061
China	75,964	66,426
Others	209,693	265,818
Total	¥ 957,717	¥ 1,213,485

Net sales determined by geographic origin for the three months ended September 30, 2020 and 2019 are as follows:

	Millions of yen	
	Three months ended September 30, 2020	Three months ended September 30, 2019
Japan	¥ 116,291	¥ 137,842
The Americas	167,785	223,727
Europe and CIS	72,420	89,091
China	31,341	27,263
Others	111,149	125,795
Total	¥ 498,986	¥ 603,718

There were no sales to a single major external customer for the six months and three months ended September 30, 2020 and 2019.

20. Material Subsequent Events

Not applicable.

Komatsu evaluated subsequent events through November 11, 2020, the issue date of its quarterly consolidated financial statements.

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

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

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

(1) Scope of consolidation

For quarterly consolidated financial statements in accordance with J. GAAP, the scope of consolidation is determined on an effective control and influence basis. For quarterly consolidated financial 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 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 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 quarterly consolidated financial statements.