

(Translation)

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Quarterly Report

From July 1, 2021 to September 30, 2021

(Second Quarter of the 153rd Fiscal Year)

KOMATSU LTD.

Second Quarter of the 153rd Fiscal Year (from July 1, 2021 to September 30, 2021)

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, 2021 with the Director-General of the Kanto Local Finance Bureau on November 11, 2021. The Quarterly Securities Report contains, among other information, Quarterly Consolidated Financial Statements for the three months and six months ended September 30, 2021. 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, 2021. Attached is an English translation of Quarterly Consolidated Financial Statements for the three months and six months ended September 30, 2021.
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 (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, 2021 and for the six months ended September 30, 2021 were reviewed by KPMG AZSA LLC.

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

Komatsu Ltd. and Consolidated Subsidiaries

Six months ended September 30, 2021 and 2020

Consolidated Statements of Income

	Six months ended September 30, 2021		Six months ended September 30, 2020	
	Millions of yen	Ratio(%)	Millions of yen	Ratio(%)
Net sales (Notes 9, 11 and 14)	¥ 1,291,400	100.0	¥ 957,717	100.0
Cost of sales (Notes 6, 7 and 14)	932,561	72.2	699,812	73.1
Selling, general and administrative expenses (Notes 6, 7 and 10)	224,019	17.3	197,148	20.6
Other operating income (expenses), net	1,464	0.1	(415)	(0.0)
Operating income	136,284	10.6	60,342	6.3
Other income (expenses), net				
Interest and dividend income	2,135	0.2	2,414	0.3
Interest expense	(5,749)	(0.4)	(7,406)	(0.8)
Other, net (Notes 5, 7, 8 and 14)	3,839	0.3	3,180	0.3
Total	225	0.0	(1,812)	(0.2)
Income before income taxes and equity in earnings of affiliated companies	136,509	10.6	58,530	6.1
Income taxes (Note 8)				
Current	45,238		19,787	
Deferred	(6,541)		(2,689)	
Total	38,697	3.0	17,098	1.8
Income before equity in earnings of affiliated companies	97,812	7.6	41,432	4.3
Equity in earnings of affiliated companies	1,485	0.1	1,189	0.1
Net income	99,297	7.7	42,621	4.5
Less: Net income attributable to noncontrolling interests	6,156	0.5	5,327	0.6
Net income attributable to Komatsu Ltd.	¥ 93,141	7.2	¥ 37,294	3.9

Yen

Per share data (Note 12):

Net income attributable to Komatsu Ltd.:

Basic	¥ 98.56	¥ 39.48
Diluted	¥ 98.53	¥ 39.46

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, 2021	Six months ended September 30, 2020
Net income	¥ 99,297	¥ 42,621
Other comprehensive income (loss), for the period, net of tax		
Foreign currency translation adjustments (Note 8)	10,658	6,506
Pension liability adjustments (Notes 7 and 8)	1,787	487
Net unrealized holding gains (losses) on derivative instruments (Notes 8 and 14)	942	252
Total	13,387	7,245
Comprehensive income	112,684	49,866
Less: Comprehensive income attributable to noncontrolling interests	5,459	7,315
Comprehensive income attributable to Komatsu Ltd.	¥ 107,225	¥ 42,551

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, 2021 and 2020

Consolidated Statements of Income

	Three months ended September 30, 2021		Three months ended September 30, 2020	
	Millions of yen	Ratio(%)	Millions of yen	Ratio(%)
Net sales (Notes 9, 11 and 14)	¥ 643,134	100.0	¥ 498,986	100.0
Cost of sales (Notes 6, 7 and 14)	457,480	71.1	365,092	73.2
Selling, general and administrative expenses (Notes 6, 7 and 10)	111,746	17.4	99,775	20.0
Other operating income (expenses), net	626	0.1	(696)	(0.1)
Operating income	74,534	11.6	33,423	6.7
Other income (expenses), net				
Interest and dividend income	1,143	0.2	1,229	0.2
Interest expense	(2,782)	(0.4)	(3,565)	(0.7)
Other, net (Notes 5, 7, 8 and 14)	2,160	0.3	(1,054)	(0.2)
Total	521	0.1	(3,390)	(0.7)
Income before income taxes and equity in earnings of affiliated companies	75,055	11.7	30,033	6.0
Income taxes (Note 8)				
Current	29,518		9,711	
Deferred	(8,851)		(2,431)	
Total	20,667	3.2	7,280	1.5
Income before equity in earnings of affiliated companies	54,388	8.5	22,753	4.6
Equity in earnings of affiliated companies	724	0.1	638	0.1
Net income	55,112	8.6	23,391	4.7
Less: Net income attributable to noncontrolling interests	2,863	0.4	2,348	0.5
Net income attributable to Komatsu Ltd.	¥ 52,249	8.1	¥ 21,043	4.2

Yen

Per share data (Note 12):

Net income attributable to Komatsu Ltd.:

	Yen	
Basic	¥ 55.29	¥ 22.27
Diluted	¥ 55.27	¥ 22.26

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, 2021	Three months ended September 30, 2020
Net income	¥ 55,112	¥ 23,391
Other comprehensive income (loss), for the period, net of tax		
Foreign currency translation adjustments (Note 8)	(1,572)	(8,148)
Pension liability adjustments (Notes 7 and 8)	409	223
Net unrealized holding gains (losses) on derivative instruments (Notes 8 and 14)	81	489
Total	(1,082)	(7,436)
Comprehensive income	54,030	15,955
Less: Comprehensive income attributable to noncontrolling interests	2,279	2,180
Comprehensive income attributable to Komatsu Ltd.	¥ 51,751	¥ 13,775

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, 2021

	Millions of yen								
	Common stock	Capital surplus	Retained earnings		Accumulated other comprehensive income (loss)	Treasury stock	Total Komatsu Ltd. shareholders' equity	Non-controlling interests	Total equity
			Appropriated for legal reserve	Un-appropriated					
Balance at March 31, 2021	¥ 69,037	¥ 135,835	¥ 47,378	¥ 1,750,914	¥ (42,012)	¥ (48,855)	¥ 1,912,297	¥ 99,728	¥ 2,012,025
Cash dividends (Note 18)				(34,986)			(34,986)	(5,983)	(40,969)
Transfer to retained earnings appropriated for legal reserve			255	(255)			—		—
Other changes		13,123			13		13,136	16,929	30,065
Net income				93,141			93,141	6,156	99,297
Other comprehensive income (loss), for the period, net of tax (Note 8)					14,084		14,084	(697)	13,387
Issuance and exercise of stock acquisition rights (Note 10)		(183)					(183)		(183)
Purchase of treasury stock						(652)	(652)		(652)
Sales of treasury stock		27				156	183		183
Restricted stock compensation (Note 10)	356	352					708		708
Balance at September 30, 2021	¥ 69,393	¥ 149,154	¥ 47,633	¥ 1,808,814	¥ (27,915)	¥ (49,351)	¥ 1,997,728	¥ 116,133	¥ 2,113,861

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

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.

Consolidated Statements of Cash Flows (Unaudited)
 Komatsu Ltd. and Consolidated Subsidiaries
 Six months ended September 30, 2021 and 2020

	Millions of yen	
	Six months ended September 30, 2021	Six months ended September 30, 2020
Operating activities		
Net income	¥ 99,297	¥ 42,621
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	67,761	64,713
Deferred income taxes	(6,541)	(2,689)
Impairment loss and net loss (gain) on valuation of investment securities	(171)	63
Net loss (gain) on sale of fixed assets	(1,151)	(99)
Loss on disposal of fixed assets	1,221	1,099
Pension and retirement benefits, net	(3,852)	(237)
Changes in assets and liabilities:		
Decrease (increase) in trade receivables	16,450	72,882
Decrease (increase) in inventories	(53,182)	(32,499)
Increase (decrease) in trade payables	10,196	(25,801)
Increase (decrease) in income taxes payable	10,466	(1,406)
Other, net	16,938	33,889
Net cash provided by (used in) operating activities	<u>157,432</u>	<u>152,536</u>
Investing activities		
Capital expenditures	(82,283)	(85,278)
Proceeds from sale of fixed assets	13,237	6,010
Proceeds from sale of investment securities	2	21
Purchases of investment securities	(221)	(537)
Acquisition of subsidiaries and equity investees, net of cash acquired	—	(1,717)
Other, net	(37)	1,477
Net cash provided by (used in) investing activities	<u>(69,302)</u>	<u>(80,024)</u>
Financing activities		
Proceeds from debt issued (Original maturities greater than three months)	211,873	407,541
Payment on debt (Original maturities greater than three months)	(259,517)	(418,930)
Short-term debt, net (Original maturities three months or less)	(328)	(33,828)
Dividends paid	(34,986)	(36,859)
Proceeds from issuance of subsidiary's shares	30,440	—
Other, net	(6,571)	(4,938)
Net cash provided by (used in) financing activities	<u>(59,089)</u>	<u>(87,014)</u>
Effect of exchange rate change on cash and cash equivalents	<u>1,984</u>	<u>1,340</u>
Net increase (decrease) in cash and cash equivalents	31,025	(13,162)
Cash and cash equivalents, beginning of year	241,803	247,616
Cash and cash equivalents, end of period	<u>¥ 272,828</u>	<u>¥ 234,454</u>

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, 2021 and 2020
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 subsidiary’s and affiliate’s 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, 2021.

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

2. Supplemental Cash Flow Information

Additional cash flow information for the six months ended September 30, 2021 and 2020 are as follows:

	Millions of yen	
	Six months ended September 30, 2021	Six months ended September 30, 2020
Additional cash flow information:		
Interest paid	¥ 5,900	¥ 7,533
Income taxes paid, net	33,796	9,906

3. Allowance for Doubtful Receivables

At September 30, 2021 and at March 31, 2021, allowances for doubtful receivables deducted from trade notes and accounts receivable, net and long-term trade receivables, net are ¥18,867 million and ¥17,149 million, respectively.

4. Inventories

At September 30, 2021 and at March 31, 2021, inventories comprise the following:

	Millions of yen	
	September 30, 2021	March 31, 2021
Finished products, including finished parts held for sale	¥ 577,641	¥ 571,103
Work in process	185,833	159,515
Materials and supplies	85,761	63,234
Total	¥ 849,235	¥ 793,852

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, 2021 and 2020 are as follows:

	Millions of yen	
	Six months ended September 30, 2021	Six months Ended September 30, 2020
Net gains and losses recognized during the period on equity securities	¥ 171	¥ (63)
Less: net gains and losses recognized during the period on equity securities sold during the period	0	6
Unrealized gains and losses recognized during the period on equity securities still held as of September 30, 2021 and 2020	¥ 171	¥ (69)

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, 2021 and 2020 are as follows:

	Millions of yen	
	Three months ended September 30, 2021	Three months ended September 30, 2020
Net gains and losses recognized during the period on equity securities	¥ 61	¥ 25
Less: net gains and losses recognized during the period on equity securities sold during the period	0	7
Unrealized gains and losses recognized during the period on equity securities still held as of September 30, 2021 and 2020	¥ 61	¥ 18

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, 2021 and as of March 31, 2021, the carrying amounts of these investments were ¥8,659 million and ¥8,236 million, respectively. Any impairment or any adjustment relating to observable price changes recorded until September 30, 2021 and until March 31, 2021 were not material.

6. Other Intangible Assets

Intangible assets at September 30, 2021 and at March 31, 2021 are as follows:

	Millions of yen					
	September 30, 2021			March 31, 2021		
	Gross carrying amount	Accumulated amortization	Net carrying amount	Gross carrying amount	Accumulated amortization	Net carrying amount
Other intangible assets subject to amortization:						
Software	¥ 65,084	¥ (27,426)	¥ 37,658	¥ 63,605	¥ (25,376)	¥ 38,229
Leasehold	7,345	(1,954)	5,391	7,146	(1,842)	5,304
Trademarks	56,487	(17,170)	39,317	56,262	(15,241)	41,021
Customer relationships	77,395	(31,767)	45,628	77,204	(29,170)	48,034
Technology assets	39,261	(14,943)	24,318	39,278	(13,415)	25,863
Other	8,173	(5,812)	2,361	7,278	(4,757)	2,521
Total	253,745	(99,072)	154,673	250,773	(89,801)	160,972
Other intangible assets not subject to amortization			8,138			8,009
Total other intangible assets			<u>¥ 162,811</u>			<u>¥ 168,981</u>

The aggregate amortization expense of other intangible assets subject to amortization during the six months ended September 30, 2021 and 2020 were ¥11,809 million and ¥9,793 million, respectively. The aggregate amortization expense of other intangible assets subject to amortization during the three months ended September 30, 2021 and 2020 were ¥5,888 million and ¥5,094 million, respectively.

7. Cost of Retirement Benefits

The Company and certain subsidiaries in Japan have transferred part of the retirement benefit plans (lump-sum severance payment plans and defined benefit cash balance pension plans) to the defined contribution pension plans in the six months ended September 30, 2021.

Net periodic cost of Komatsu's defined benefit plans for the six months ended September 30, 2021 and 2020 consisted of the following components:

	Millions of yen	
	Six months ended September 30, 2021	Six months ended September 30, 2020
Service cost	¥ 4,459	¥ 4,755
Interest cost on projected benefit obligations	2,553	2,949
Expected return on plan assets	(5,049)	(4,892)
Amortization of actuarial loss or gain	243	673
Amortization of prior service cost	449	163
Gains recognized due to partial settlements	(2,486)	—
Net periodic cost	¥ 169	¥ 3,648

Net periodic cost of the postretirement benefit plans for the six months ended September 30, 2021 and 2020 included the following components:

	Millions of yen	
	Six months ended September 30, 2021	Six months ended September 30, 2020
Service cost	¥ 253	¥ 259
Interest cost on projected benefit obligations	171	207
Expected return on plan assets	(281)	(249)
Amortization of actuarial loss or gain	(13)	38
Amortization of prior service cost	(67)	(60)
Gains recognized due to partial settlements	(355)	—
Net periodic cost	¥ (292)	¥ 195

Net periodic cost of Komatsu's defined benefit plans for the three months ended September 30, 2021 and 2020 consisted of the following components:

	Millions of yen	
	Three months ended September 30, 2021	Three months ended September 30, 2020
Service cost	¥ 2,199	¥ 2,336
Interest cost on projected benefit obligations	1,275	1,478
Expected return on plan assets	(2,518)	(2,450)
Amortization of actuarial loss or gain	120	336
Amortization of prior service cost	225	74
Gains recognized due to partial settlements	(433)	—
Net periodic cost	¥ 868	¥ 1,774

Net periodic cost of the postretirement benefit plans for the three months ended September 30, 2021 and 2020 included the following components:

	Millions of yen	
	Three months ended September 30, 2021	Three months ended September 30, 2020
Service cost	¥ 125	¥ 129
Interest cost on projected benefit obligations	84	103
Expected return on plan assets	(139)	(124)
Amortization of actuarial loss or gain	(4)	19
Amortization of prior service cost	(37)	(30)
Gains recognized due to partial settlements	(355)	—
Net periodic cost	¥ (326)	¥ 97

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, 2021 and 2020 are as follows:

	Millions of yen			
	Six months ended September 30, 2021			
	Foreign currency translation adjustments	Pension liability adjustments	Net unrealized holding gains (losses) on derivative instruments	Total
Balance, beginning of the year	¥ (7,186)	¥ (34,290)	¥ (536)	¥ (42,012)
Other comprehensive income (loss) before reclassifications	10,658	262	147	11,067
Amounts reclassified from accumulated other comprehensive income (loss)	—	1,525	795	2,320
Net other comprehensive income (loss)	10,658	1,787	942	13,387
Less: other comprehensive income (loss) attributable to noncontrolling interests	(800)	—	103	(697)
Other comprehensive income (loss) attributable to Komatsu Ltd.	11,458	1,787	839	14,084
Equity transactions with noncontrolling interests	23	—	(10)	13
Balance, end of the period	¥ 4,295	¥ (32,503)	¥ 293	¥ (27,915)

All amounts are net of tax.

	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.

Changes in accumulated other comprehensive income (loss) for the three months ended September 30, 2021 and 2020 are as follows:

	Millions of yen			
	Three months ended September 30, 2021			
	Foreign currency translation adjustments	Pension liability adjustments	Net unrealized holding gains (losses) on derivative instruments	Total
Balance, beginning of the period	¥ 5,203	¥ (32,912)	¥ 279	¥ (27,430)
Other comprehensive income (loss) before reclassifications	(1,572)	282	(4)	(1,294)
Amounts reclassified from accumulated other comprehensive income (loss)	—	127	85	212
Net other comprehensive income (loss)	(1,572)	409	81	(1,082)
Less: other comprehensive income (loss) attributable to noncontrolling interests	(641)	—	57	(584)
Other comprehensive income (loss) attributable to Komatsu Ltd.	(931)	409	24	(498)
Equity transactions with noncontrolling interests	23	—	(10)	13
Balance, end of the period	¥ 4,295	¥ (32,503)	¥ 293	¥ (27,915)

All amounts are net of tax.

	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.

Reclassification out of accumulated other comprehensive income (loss) for the six months ended September 30, 2021 and 2020 are as follows:

	Millions of yen		Affected line items in consolidated statements of income
	Six months ended September 30, 2021		
Pension liability adjustments			
Amortization of actuarial loss or gain and prior service cost	¥	(2,187)	Other income (expenses), net: Other, net
		(2,187)	Total before tax
		662	Income taxes
		(1,525)	Net of tax
Net unrealized holding gains (losses) on derivative instruments			
Forwards contracts		(1,272)	Net sales
		44	Cost of sales
		83	Other income (expenses), net: Other, net
		(1,145)	Total before tax
		350	Income taxes
		(795)	Net of tax
Total reclassification for the period	¥	(2,320)	Net of tax

	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

Reclassification out of accumulated other comprehensive income (loss) for the three months ended September 30, 2021 and 2020 are as follows:

	Millions of yen		Affected line items in consolidated statements of income
	Three months ended September 30, 2021		
Pension liability adjustments			
Amortization of actuarial loss or gain and prior service cost	¥	(159)	Other income (expenses), net: Other, net
		(159)	Total before tax
		32	Income taxes
		(127)	Net of tax
Net unrealized holding gains (losses) on derivative instruments			
Forwards contracts		0	Net sales
		207	Cost of sales
		(335)	Other income (expenses), net: Other, net
		(128)	Total before tax
		43	Income taxes
		(85)	Net of tax
Total reclassification for the period	¥	(212)	Net of tax

	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

Tax effects allocated to each component of other comprehensive income (loss) for the six months ended September 30, 2021 and 2020 are as follows:

	Millions of yen		
	Six months ended September 30, 2021		
	Before tax amount	Tax (expense) or benefit	Net of tax amount
Foreign currency translation adjustments			
Foreign currency translation adjustments arising during the period	¥ 10,669	¥ (11)	¥ 10,658
Less: reclassification adjustment for gains included in net income	—	—	—
Net foreign currency translation adjustments	10,669	(11)	10,658
Pension liability adjustments			
Pension liability adjustments arising during the period	774	(512)	262
Less: reclassification adjustment for losses included in net income	2,187	(662)	1,525
Net pension liability adjustments	2,961	(1,174)	1,787
Net unrealized holding gains (losses) on derivative instruments			
Unrealized holding gains arising during the period	170	(23)	147
Less: reclassification adjustment for losses included in net income	1,145	(350)	795
Net unrealized holding gains	1,315	(373)	942
Other comprehensive income (loss)	¥ 14,945	¥ (1,558)	¥ 13,387
	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

Tax effects allocated to each component of other comprehensive income (loss) for the three months ended September 30, 2021 and 2020 are as follows:

	Millions of yen		
	Three months ended September 30, 2021		
	Before tax amount	Tax (expense) or benefit	Net of tax amount
Foreign currency translation adjustments			
Foreign currency translation adjustments arising during the period	¥ (1,595)	¥ 23	¥ (1,572)
Less: reclassification adjustment for gains included in net income	—	—	—
Net foreign currency translation adjustments	(1,595)	23	(1,572)
Pension liability adjustments			
Pension liability adjustments arising during the period	802	(520)	282
Less: reclassification adjustment for losses included in net income	159	(32)	127
Net pension liability adjustments	961	(552)	409
Net unrealized holding gains (losses) on derivative instruments			
Unrealized holding losses arising during the period	(228)	224	(4)
Less: reclassification adjustment for losses included in net income	128	(43)	85
Net unrealized holding gains	(100)	181	81
Other comprehensive income (loss)	¥ (734)	¥ (348)	¥ (1,082)

	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)

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, 2021 and at March 31, 2021 are as follows:

	Millions of yen	
	September 30, 2021	March 31, 2021
Receivables *1	¥ 1,036,616	¥ 1,036,127
Contract assets *2	1,266	2,886
Contract liabilities *3	114,312	106,990

*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 six months ended September 30, 2021 that was included in the contract liability balance as of March 31, 2021 was ¥46,371 million. 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 three months ended September 30, 2021 that was included in the contract liability balance as of March 31, 2021 was ¥20,213 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.

The amount of revenue recognized during the six months and three months ended September 30, 2021 and 2020 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, 2021, the aggregate amount of the transaction price allocated to the remaining performance obligations that have original expected durations greater than one year was ¥185,669 million, of which ¥81,084 million is expected to be recognized as revenue in the twelve months following September 30, 2021.

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, 2021 and 2020 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, 2021 and 2020 were recorded in selling, general and administrative expenses, and were not material to Komatsu's financial position and results of operations. The 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, 2021 and 2020 are as follows:

	Millions of yen	
	Six months ended September 30, 2021	Six months ended September 30, 2020
Sales-type lease revenue		
Revenue recognized at the commencement date *1	¥ 64,973	¥ 54,521
Interest income	4,321	4,135
Total sales-type lease revenue	69,294	58,656
Operating lease revenue	40,611	38,835
Total	¥ 109,905	¥ 97,491

*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, 2021 and 2020 are as follows:

	Millions of yen	
	Three months ended September 30, 2021	Three months ended September 30, 2020
Sales-type lease revenue		
Revenue recognized at the commencement date *2	¥ 29,005	¥ 24,381
Interest income	1,923	2,292
Total sales-type lease revenue	30,928	26,673
Operating lease revenue	20,621	20,053
Total	¥ 51,549	¥ 46,726

*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, 2021	Six months ended September 30, 2020
Net income attributable to Komatsu Ltd.	¥ 93,141	¥ 37,294
Net income attributable to participating securities (restricted stocks)	90	25
Net income attributable to common shareholders	¥ 93,051	¥ 37,269

	Number of shares	
	Six months ended September 30, 2021	Six months ended September 30, 2020
Weighted average number of common shares outstanding, less treasury stock	945,065,179	944,719,831
Weighted average number of participating securities (restricted stocks)	917,326	635,174
Weighted average number of common shares	944,147,853	944,084,657

	Yen	
	Six months ended September 30, 2021	Six months ended September 30, 2020
Basic net income attributable to Komatsu Ltd. per share	¥ 98.56	¥ 39.48

	Millions of yen	
	Three months ended September 30, 2021	Three months ended September 30, 2020
Net income attributable to Komatsu Ltd.	¥ 52,249	¥ 21,043
Net income attributable to participating securities (restricted stocks)	53	15
Net income attributable to common shareholders	¥ 52,196	¥ 21,028

	Number of shares	
	Three months ended September 30, 2021	Three months ended September 30, 2020
Weighted average number of common shares outstanding, less treasury stock	945,079,384	944,793,459
Weighted average number of participating securities (restricted stocks)	960,118	682,914
Weighted average number of common shares	944,119,266	944,110,545

	Yen	
	Three months ended September 30, 2021	Three months ended September 30, 2020
Basic net income attributable to Komatsu Ltd. per share	¥ 55.29	¥ 22.27

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, 2021	Six months ended September 30, 2020
Net income attributable to Komatsu Ltd.	¥ 93,141	¥ 37,294
Net income attributable to participating securities (restricted stocks)	90	25
Net income attributable to common shareholders	¥ 93,051	¥ 37,269

	Number of shares	
	Six months ended September 30, 2021	Six months ended September 30, 2020
Weighted average number of common shares outstanding, less treasury stock	945,065,179	944,719,831
Dilutive effect of:		
Stock options	241,689	422,423
Weighted average number of participating securities (restricted stocks)	917,326	635,174
Weighted average number of diluted common shares	944,389,542	944,507,080

	Yen	
	Six months ended September 30, 2021	Six months ended September 30, 2020
Diluted net income attributable to Komatsu Ltd. per share	¥ 98.53	¥ 39.46

	Millions of yen	
	Three months ended September 30, 2021	Three months ended September 30, 2020
Net income attributable to Komatsu Ltd.	¥ 52,249	¥ 21,043
Net income attributable to participating securities (restricted stocks)	53	15
Net income attributable to common shareholders	¥ 52,196	¥ 21,028

	Number of shares	
	Three months ended September 30, 2021	Three months ended September 30, 2020
Weighted average number of common shares outstanding, less treasury stock	945,079,384	944,793,459
Dilutive effect of:		
Stock options	216,427	392,975
Weighted average number of participating securities (restricted stocks)	960,118	682,914
Weighted average number of diluted common shares	944,335,693	944,503,520

	Yen	
	Three months ended September 30, 2021	Three months ended September 30, 2020
Diluted net income attributable to Komatsu Ltd. per share	¥ 55.27	¥ 22.26

13. Contingent Liabilities

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

Komatsu provides guarantees to third parties of loans of the employees, affiliated companies, customers and other companies. The guarantees of loans relating to the employees are mainly made for their housing loans. The guarantees of loans relating to the affiliated companies, customers and other companies are made to enhance the credit of those companies. For each guarantee provided, Komatsu would have to perform under a guarantee if the borrower defaults on a payment within the contract terms. The contract terms are from 10 years to 30 years in the case of employees with housing loans, and from 1 year to 6 years in the case of loans relating to the affiliated companies, customers and other companies. The maximum amount of undiscounted payments Komatsu would have had to make in the event of default at September 30, 2021 and at March 31, 2021 were ¥10,461 million and ¥9,769 million, respectively. The fair value of the liabilities recognized for Komatsu's obligations as guarantors under those guarantees at September 30, 2021 were insignificant. Certain of those guarantees were secured by collateral and insurance issued to Komatsu.

Komatsu provides guarantees that subsidiaries of the Company perform the obligations of the terms and conditions of contracts by standby letters of credit issued by banks. Komatsu would have to pay the liabilities incurred to banks if the subsidiaries don't perform the obligations of the terms and conditions of contracts. The maximum amount of undiscounted payments Komatsu would have had to make in the event of defaults of the contracts at September 30, 2021 and at March 31, 2021 were ¥19,573 million and ¥18,618 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.

(2) 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.

(3) 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, 2021 and at March 31, 2021 are as follows:

	Millions of yen	
	September 30, 2021	March 31, 2021
Forwards contracts:		
Sale of foreign currencies	¥ 188,234	¥ 185,798
Purchase of foreign currencies	159,758	138,820
Interest rate swaps and cross-currency swap agreements	111,590	105,380

Fair value of derivative instruments at September 30, 2021 and at March 31, 2021 on the consolidated balance sheets are as follows:

	Millions of yen			
	September 30, 2021			
	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	¥ 552	Other current liabilities	¥ 1,353
			Deferred income taxes and other liabilities	—
Interest rate swaps and cross-currency swap agreements	Deferred income taxes and other assets	86	Other current liabilities	83
			Deferred income taxes and other liabilities	220
Total		¥ 638		¥ 1,656
Undesignated derivative instruments	Location on the consolidated Balance Sheets	Estimated fair value	Location on the consolidated Balance Sheets	Estimated fair value
Forwards contracts	Other current assets	¥ 1,831	Other current liabilities	¥ 1,417
	Deferred income taxes and other assets	4	Deferred income taxes and other liabilities	4
Interest rate swaps and cross-currency swap agreements	Other current assets	652	Other current liabilities	132
			Deferred income taxes and other liabilities	33
Total		¥ 2,487		¥ 1,586
Total Derivative Instruments		¥ 3,125		¥ 3,242

Millions of yen

March 31, 2021

	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	¥ 738	Other current liabilities Deferred income taxes and other liabilities	¥ 3,057 11
Interest rate swaps and cross-currency swap agreements	Deferred income taxes and other assets	42	Other current liabilities Deferred income taxes and other liabilities	28 615
Total		¥ 780		¥ 3,711

	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 Deferred income taxes and other assets	¥ 1,459 —	Other current liabilities Deferred income taxes and other liabilities	¥ 2,182 5
Interest rate swaps and cross-currency swap agreements	Other current assets	181	Other current liabilities Deferred income taxes and other liabilities	282 —
Total		¥ 1,640		¥ 2,469
Total Derivative Instruments		¥ 2,420		¥ 6,180

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, 2021 and 2020 are as follows:

Derivative instruments designated as cash flow hedging relationships

Millions of yen			
Six months ended September 30, 2021			
	Amount of gains (losses) recognized in OCI on derivatives	Gains (losses) reclassified from accumulated OCI on derivatives	Amount
		Location of consolidated statements of income	
Forwards contracts	¥ (198)	Net sales	¥ (1,272)
		Cost of sales	44
		Other income (expenses), net: Other, net	83
Interest rate swaps and cross-currency swap agreements	368	—	—
Total	¥ 170		¥ (1,145)

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	Amount
		Location of consolidated statements of income	
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

* OCI stands for other comprehensive income (loss).

Derivative instruments not designated as hedging instruments relationships

Millions of yen		
Six months ended September 30, 2021		
	Location of gains (losses) recognized in income on derivatives	Amount of gains (losses) recognized in income on derivatives
Forwards contracts	Other income (expenses), net: Other, net	¥ 28
Interest rate swaps and cross-currency swap agreements	Cost of sales	(75)
	Other income (expenses), net: Other, net	114
Total		¥ 67

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)

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, 2021 and 2020 are as follows:

Derivative instruments designated as cash flow hedging relationships

Millions of yen			
Three months ended September 30, 2021			
	Amount of gains (losses) recognized in OCI on derivatives	Gains (losses) reclassified from accumulated OCI on derivatives	
		Location of consolidated statements of income	Amount
Forwards contracts	¥ (429)	Net sales	¥ 0
		Cost of sales	207
		Other income (expenses), net: Other, net	(335)
Interest rate swaps and cross-currency swap agreements	201	—	—
Total	¥ (228)		¥ (128)

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

* OCI stands for other comprehensive income (loss).

Derivative instruments not designated as hedging instruments relationships

Millions of yen		
Three months ended September 30, 2021		
	Location of gains (losses) recognized in income on derivatives	Amount of gains (losses) recognized in income on derivatives
Forwards contracts	Other income (expenses), net: Other, net	¥ 892
Interest rate swaps and cross-currency swap agreements	Cost of sales	(38)
	Other income (expenses), net: Other, net	65
Total		¥ 919

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	¥ 484
Interest rate swaps and cross-currency swap agreements	Cost of sales	(6)
	Other income (expenses), net: Other, net	(20)
Total		¥ 458

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. The carrying amounts approximate the fair values computed on such a basis.

(3) Long-term debt, including current portion

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

(4) Derivatives (Notes 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, 2021 and as of March 31, 2021, and fair value levels are summarized as follows:

	Millions of yen				Fair Value Levels
	September 30, 2021		March 31, 2021		
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value	
Cash and cash equivalents	¥ 272,828	¥ 272,828	¥ 241,803	¥ 241,803	Level 1
Time deposits	1,174	1,174	1,324	1,324	Level 2
Long-term trade receivables, net, excluding lease receivables	326,612	326,612	316,111	316,111	Level 2
Short-term debt	204,826	204,826	271,462	271,462	Level 2
Long-term debt, including current portion	659,735	658,406	638,521	639,139	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, 2021 and at March 31, 2021 are as follows:

		Millions of yen				
<u>At September 30, 2021</u>		Level 1	Level 2	Level 3	Total	
Assets						
Derivatives						
Forward contracts	¥	—	¥ 2,387	¥	—	¥ 2,387
Interest rate swaps and cross-currency swap agreements		—	738	—		738
Total	¥	—	¥ 3,125	¥	—	¥ 3,125
Liabilities						
Derivatives						
Forward contracts	¥	—	¥ 2,774	¥	—	¥ 2,774
Interest rate swaps and cross-currency swap agreements		—	468	—		468
Total	¥	—	¥ 3,242	¥	—	¥ 3,242
		Millions of yen				
<u>At March 31, 2021</u>		Level 1	Level 2	Level 3	Total	
Assets						
Derivatives						
Forward contracts	¥	—	¥ 2,197	¥	—	¥ 2,197
Interest rate swaps and cross-currency swap agreements		—	223	—		223
Total	¥	—	¥ 2,420	¥	—	¥ 2,420
Liabilities						
Derivatives						
Forward contracts	¥	—	¥ 5,255	¥	—	¥ 5,255
Interest rate swaps and cross-currency swap agreements		—	925	—		925
Total	¥	—	¥ 6,180	¥	—	¥ 6,180

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, 2021 and 2020, 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, 2021 and at March 31, 2021 were ¥252,733 million and ¥458,330 million, respectively. These total amounts of unused committed credit lines available for full and immediate borrowings at September 30, 2021 and at March 31, 2021 were ¥239,055 million and ¥443,989 million, respectively.

18. Dividends

Six months ended September 30, 2021

(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, 2021	Common stock	¥34,986	Retained earnings	¥37	March 31, 2021	June 21, 2021

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

(2) Dividends to be paid for the six months ended September 30, 2021, of which effective date is after September 30, 2021

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, 2021	Common stock	¥37,828	Retained earnings	¥40	September 30, 2021	December 1, 2021

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

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.

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, 2021 and 2020 is as follows:

	Millions of yen	
	Six months ended September 30, 2021	Six months ended September 30, 2020
Net sales:		
Construction, Mining and Utility Equipment –		
External customers	¥ 1,181,633	¥ 864,314
Intersegment	3,730	12,236
Total	1,185,363	876,550
Retail Finance –		
External customers	28,906	28,928
Intersegment	8,073	3,824
Total	36,979	32,752
Industrial Machinery and Others –		
External customers	80,861	64,475
Intersegment	834	463
Total	81,695	64,938
Elimination	(12,637)	(16,523)
Consolidated	¥ 1,291,400	¥ 957,717
Segment profit:		
Construction, Mining and Utility Equipment	¥ 118,620	¥ 52,217
Retail Finance	7,845	4,682
Industrial Machinery and Others	8,598	4,102
Total segment profit	135,063	61,001
Corporate expenses and elimination	(243)	(244)
Consolidated	¥ 134,820	¥ 60,757

Information about operating segments for the three months ended September 30, 2021 and 2020 is as follows:

	Millions of yen	
	Three months ended September 30, 2021	Three months ended September 30, 2020
Net sales:		
Construction, Mining and Utility Equipment –		
External customers	¥ 588,624	¥ 444,309
Intersegment	2,392	6,430
Total	591,016	450,739
Retail Finance –		
External customers	14,149	14,980
Intersegment	2,377	1,851
Total	16,526	16,831
Industrial Machinery and Others –		
External customers	40,361	39,697
Intersegment	491	219
Total	40,852	39,916
Elimination	(5,260)	(8,500)
Consolidated	¥ 643,134	¥ 498,986
Segment profit:		
Construction, Mining and Utility Equipment	¥ 64,970	¥ 29,017
Retail Finance	4,630	2,787
Industrial Machinery and Others	4,395	2,395
Total segment profit	73,995	34,199
Corporate expenses and elimination	(87)	(80)
Consolidated	¥ 73,908	¥ 34,119

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, 2021 and 2020 is as follows:

	Millions of yen	
	Six months ended September 30, 2021	Six months ended September 30, 2020
Total segment profit	¥ 135,063	¥ 61,001
Corporate expenses and elimination	(243)	(244)
Total	134,820	60,757
Other operating income (expenses), net	1,464	(415)
Operating income	136,284	60,342
Interest and dividend income	2,135	2,414
Interest expense	(5,749)	(7,406)
Other, net	3,839	3,180
Consolidated income before income taxes and equity in earnings of affiliated companies	¥ 136,509	¥ 58,530

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, 2021 and 2020 is as follows:

	Millions of yen	
	Three months ended September 30, 2021	Three months ended September 30, 2020
Total segment profit	¥ 73,995	¥ 34,199
Corporate expenses and elimination	(87)	(80)
Total	73,908	34,119
Other operating income (expenses), net	626	(696)
Operating income	74,534	33,423
Interest and dividend income	1,143	1,229
Interest expense	(2,782)	(3,565)
Other, net	2,160	(1,054)
Consolidated income before income taxes and equity in earnings of affiliated companies	¥ 75,055	¥ 30,033

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

a) Construction, Mining and Utility Equipment operating segment:

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

b) Retail Finance operating segment:

Financing

c) Industrial Machinery and Others operating segment:

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

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

Geographic information:

Net sales determined by customer location for the six months ended September 30, 2021 and 2020 are as follows:

Millions of yen				
Six months ended September 30, 2021				
	Construction, Mining and Utility Equipment	Retail Finance	Industrial Machinery and Others	Total
Japan	¥ 136,123	¥ 790	¥ 33,131	¥ 170,044
The Americas	453,749	20,411	10,749	484,909
Europe and CIS	209,006	2,426	5,414	216,846
China	50,179	1,544	14,833	66,556
Asia (excluding Japan and China) and Oceania	243,754	3,554	16,495	263,803
Middle East and Africa	88,822	181	239	89,242
Total	¥ 1,181,633	¥ 28,906	¥ 80,861	¥ 1,291,400

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

Net sales determined by customer location for the three months ended September 30, 2021 and 2020 are as follows:

Millions of yen				
Three months ended September 30, 2021				
	Construction, Mining and Utility Equipment	Retail Finance	Industrial Machinery and Others	Total
Japan	¥ 72,183	¥ 370	¥ 17,298	¥ 89,851
The Americas	225,219	9,842	6,968	242,029
Europe and CIS	104,760	1,269	2,153	108,182
China	18,435	758	6,261	25,454
Asia (excluding Japan and China) and Oceania	121,290	1,800	7,619	130,709
Middle East and Africa	46,737	110	62	46,909
Total	¥ 588,624	¥ 14,149	¥ 40,361	¥ 643,134

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

Net sales determined by geographic origin for the six months ended September 30, 2021 and 2020 are as follows:

	Millions of yen	
	Six months ended September 30, 2021	Six months ended September 30, 2020
Japan	¥ 258,628	¥ 207,249
The Americas	475,440	329,658
Europe and CIS	218,386	135,153
China	59,832	75,964
Others	279,114	209,693
Total	¥ 1,291,400	¥ 957,717

Net sales determined by geographic origin for the three months ended September 30, 2021 and 2020 are as follows:

	Millions of yen	
	Three months ended September 30, 2021	Three months ended September 30, 2020
Japan	¥ 135,480	¥ 116,291
The Americas	236,495	167,785
Europe and CIS	108,614	72,420
China	23,036	31,341
Others	139,509	111,149
Total	¥ 643,134	¥ 498,986

There were no sales to a single major external customer for the six months and three months ended September 30, 2021 and 2020.

20. Material Subsequent Events

Not applicable.

Komatsu evaluated subsequent events through November 11, 2021, 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. 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.

b. 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.

c. 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.