

(Translation)

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Quarterly Report

From October 1, 2021 to December 31, 2021

(Third Quarter of the 153rd Fiscal Year)

KOMATSU LTD.

Third Quarter of the 153rd Fiscal Year (from October 1, 2021 to December 31, 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 December 31, 2021 with the Director-General of the Kanto Local Finance Bureau on February 10, 2022. The Quarterly Securities Report contains, among other information, Quarterly Consolidated Financial Statements for the three months and nine months ended December 31, 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 January 31, 2022. Attached is an English translation of Quarterly Consolidated Financial Statements for the three months and nine months ended December 31, 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 December 31, 2021 and for the nine months ended December 31, 2021 were reviewed by KPMG AZSA LLC.

Quarterly Consolidated Financial Statements, etc.
Quarterly Consolidated Financial Statements
Consolidated Balance Sheets (Unaudited)

Komatsu Ltd. and Consolidated Subsidiaries as of December 31, 2021 and March 31, 2021

Assets	December 31, 2021		March 31, 2021	
	Millions of yen	Ratio (%)	Millions of yen	Ratio (%)
Current assets				
Cash and cash equivalents (Note 15)	¥ 271,035		¥ 241,803	
Time deposits (Note 15)	2,274		1,324	
Trade notes and accounts receivable, net (Notes 3 and 9)	852,307		820,698	
Inventories (Note 4)	901,348		793,852	
Other current assets (Notes 14, 15 and 16)	163,658		131,615	
Total current assets	2,190,622	54.4	1,989,292	52.6
Long-term trade receivables, net (Notes 3, 9 and 15)	480,015	11.9	446,860	11.8
Investments				
Investments in and advances to affiliated companies	40,080		39,286	
Investment securities (Note 5)	8,709		8,236	
Other	3,291		2,511	
Total investments	52,080	1.3	50,033	1.3
Property, plant and equipment				
– less accumulated depreciation and amortization of ¥971,570 million at December 31, 2021 and ¥944,080 million at March 31, 2021	792,257	19.6	787,373	20.8
Operating lease right-of-use assets	57,337	1.4	57,930	1.5
Goodwill	175,695	4.4	170,687	4.5
Other intangible assets				
– less accumulated amortization (Note 6)	163,571	4.1	168,981	4.5
Deferred income taxes and other assets (Notes 14, 15 and 16)	115,800	2.9	113,685	3.0
Total assets	¥ 4,027,377	100.0	¥ 3,784,841	100.0

Liabilities and Equity	December 31, 2021		March 31, 2021	
	Millions of yen	Ratio (%)	Millions of yen	Ratio (%)
Current liabilities				
Short-term debt (Note 15)	¥ 238,782		¥ 271,462	
Current maturities of long-term debt (Note 15)	285,175		98,004	
Trade notes, bills and accounts payable	286,998		258,316	
Income taxes payable	42,480		26,858	
Current operating lease liabilities	15,361		15,882	
Other current liabilities (Notes 9, 14, 15 and 16)	337,467		322,347	
Total current liabilities	1,206,263	30.0	992,869	26.2
Long-term liabilities				
Long-term debt (Note 15)	400,007		540,517	
Liability for pension and retirement benefits	98,584		104,083	
Long-term operating lease liabilities	40,623		39,982	
Deferred income taxes and other liabilities (Notes 9, 14, 15 and 16)	95,412		95,365	
Total long-term liabilities	634,626	15.7	779,947	20.6
Total liabilities	1,840,889	45.7	1,772,816	46.8
Commitments and contingent liabilities (Note 13)				

Equity

Komatsu Ltd. shareholders' equity

Common stock:

Authorized 3,955,000,000 shares

Issued 973,145,800 shares

Outstanding 945,291,882 shares at December 31, 2021 and 945,121,166 shares at March 31, 2021

69,393
 69,037 || Capital surplus | 149,098 | 135,835 |
Retained earnings:				
Appropriated for legal reserve	47,720	47,378		
Unappropriated	1,833,259	1,750,914		
Accumulated other comprehensive income (loss) (Notes 8 and 14)	13,612	(42,012)		
Treasury stock at cost, 27,853,918 shares at December 31, 2021 and 27,766,444 shares at March 31, 2021	(49,306)	(48,855)		
Total Komatsu Ltd. shareholders' equity	**2,063,776**	**51.2**	**1,912,297**	**50.5**
Noncontrolling interests	**122,712**	**3.1**	**99,728**	**2.7**
Total equity	**2,186,488**	**54.3**	**2,012,025**	**53.2**
Total liabilities and equity	**¥ 4,027,377**	**100.0**	**¥ 3,784,841**	**100.0**

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

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

Komatsu Ltd. and Consolidated Subsidiaries

Nine months ended December 31, 2021 and 2020

Consolidated Statements of Income

	Nine months ended December 31, 2021		Nine months ended December 31, 2020	
	Millions of yen	Ratio(%)	Millions of yen	Ratio(%)
Net sales (Notes 9, 11 and 14)	¥ 2,014,677	100.0	¥ 1,513,310	100.0
Cost of sales (Notes 6, 7 and 14)	1,455,007	72.2	1,109,060	73.3
Selling, general and administrative expenses (Notes 6, 7 and 10)	339,116	16.8	296,044	19.6
Other operating income (expenses), net	3,209	0.2	(670)	(0.0)
Operating income	223,763	11.1	107,536	7.1
Other income (expenses), net				
Interest and dividend income	3,416	0.2	3,476	0.2
Interest expense	(9,113)	(0.5)	(10,566)	(0.7)
Other, net (Notes 5, 7, 8 and 14)	6,249	0.3	2,913	0.2
Total	552	0.0	(4,177)	(0.3)
Income before income taxes and equity in earnings of affiliated companies	224,315	11.1	103,359	6.8
Income taxes (Note 8)				
Current	67,239		33,416	
Deferred	(5,450)		(2,470)	
Total	61,789	3.1	30,946	2.0
Income before equity in earnings of affiliated companies	162,526	8.1	72,413	4.8
Equity in earnings of affiliated companies	2,406	0.1	2,174	0.1
Net income	164,932	8.2	74,587	4.9
Less: Net income attributable to noncontrolling interests	9,430	0.5	8,611	0.6
Net income attributable to Komatsu Ltd.	¥ 155,502	7.7	¥ 65,976	4.4

Yen

Per share data (Note 12):

Net income attributable to Komatsu Ltd.:

Basic	¥ 164.53	¥ 69.83
Diluted	¥ 164.49	¥ 69.80

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

Consolidated Statements of Comprehensive Income

	Millions of yen	
	Nine months ended December 31, 2021	Nine months ended December 31, 2020
Net income	¥ 164,932	¥ 74,587
Other comprehensive income (loss), for the period, net of tax		
Foreign currency translation adjustments (Note 8)	54,861	17,626
Pension liability adjustments (Notes 7 and 8)	2,241	827
Net unrealized holding gains (losses) on derivative instruments (Notes 8 and 14)	1,117	390
Total	58,219	18,843
Comprehensive income	223,151	93,430
Less: Comprehensive income attributable to noncontrolling interests	12,038	11,684
Comprehensive income attributable to Komatsu Ltd.	¥ 211,113	¥ 81,746

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

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

Komatsu Ltd. and Consolidated Subsidiaries

Three months ended December 31, 2021 and 2020

Consolidated Statements of Income

	Three months ended December 31, 2021		Three months ended December 31, 2020	
	Millions of yen	Ratio(%)	Millions of yen	Ratio(%)
Net sales (Notes 9, 11 and 14)	¥ 723,277	100.0	¥ 555,593	100.0
Cost of sales (Notes 6, 7 and 14)	522,446	72.2	409,248	73.7
Selling, general and administrative expenses (Notes 6, 7 and 10)	115,097	15.9	98,896	17.8
Other operating income (expenses), net	1,745	0.2	(255)	(0.0)
Operating income	87,479	12.1	47,194	8.5
Other income (expenses), net				
Interest and dividend income	1,281	0.2	1,062	0.2
Interest expense	(3,364)	(0.5)	(3,160)	(0.6)
Other, net (Notes 5, 7, 8 and 14)	2,410	0.3	(267)	(0.0)
Total	327	0.0	(2,365)	(0.4)
Income before income taxes and equity in earnings of affiliated companies	87,806	12.1	44,829	8.1
Income taxes (Note 8)				
Current	22,001		13,629	
Deferred	1,091		219	
Total	23,092	3.2	13,848	2.5
Income before equity in earnings of affiliated companies	64,714	8.9	30,981	5.6
Equity in earnings of affiliated companies	921	0.1	985	0.2
Net income	65,635	9.1	31,966	5.8
Less: Net income attributable to noncontrolling interests	3,274	0.5	3,284	0.6
Net income attributable to Komatsu Ltd.	¥ 62,361	8.6	¥ 28,682	5.2

Yen

Per share data (Note 12):

Net income attributable to Komatsu Ltd.:

Basic	¥ 65.97	¥ 30.35
Diluted	¥ 65.96	¥ 30.34

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

Consolidated Statements of Comprehensive Income

	Millions of yen	
	Three months ended December 31, 2021	Three months ended December 31, 2020
Net income	¥ 65,635	¥ 31,966
Other comprehensive income (loss), for the period, net of tax		
Foreign currency translation adjustments (Note 8)	44,203	11,120
Pension liability adjustments (Notes 7 and 8)	454	340
Net unrealized holding gains (losses) on derivative instruments (Notes 8 and 14)	175	138
Total	44,832	11,598
Comprehensive income	110,467	43,564
Less: Comprehensive income attributable to noncontrolling interests	6,579	4,369
Comprehensive income attributable to Komatsu Ltd.	¥ 103,888	¥ 39,195

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

Consolidated Statements of Equity (Unaudited)

Komatsu Ltd. and Consolidated Subsidiaries

Nine months ended December 31, 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)				(72,815)			(72,815)	(5,983)	(78,798)
Transfer to retained earnings appropriated for legal reserve			342	(342)			—		—
Other changes		13,123			13		13,136	16,929	30,065
Net income				155,502			155,502	9,430	164,932
Other comprehensive income (loss), for the period, net of tax (Note 8)					55,611		55,611	2,608	58,219
Issuance and exercise of stock acquisition rights (Note 10)		(251)					(251)		(251)
Purchase of treasury stock						(663)	(663)		(663)
Sales of treasury stock		39				212	251		251
Restricted stock compensation (Note 10)	356	352					708		708
Balance at December 31, 2021	¥ 69,393	¥ 149,098	¥ 47,720	¥ 1,833,259	¥ 13,612	¥ (49,306)	¥ 2,063,776	¥ 122,712	¥ 2,186,488

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

Nine months ended December 31, 2020

	Millions of yen								
	Common stock	Capital surplus	Retained earnings		Accumulated other comprehensive income (loss)	Treasury stock	Total Komatsu Ltd. shareholders' equity	Non-controlling interests	Total equity
			Appropriated for legal reserve	Un-appropriated					
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)				(53,878)			(53,878)	(5,153)	(59,031)
Transfer to retained earnings appropriated for legal reserve			565	(565)			—		—
Other changes		(296)		(357)			(653)	1,475	822
Net income				65,976			65,976	8,611	74,587
Other comprehensive income (loss), for the period, net of tax (Note 8)					15,770		15,770	3,073	18,843
Issuance and exercise of stock acquisition rights (Note 10)		(311)					(311)		(311)
Purchase of treasury stock						(48)	(48)		(48)
Sales of treasury stock		64				280	344		344
Restricted stock compensation (Note 10)	348	346					694		694
Balance at December 31, 2020	¥ 69,037	¥ 136,262	¥ 47,378	¥ 1,710,653	¥ (114,896)	¥ (48,934)	¥ 1,799,500	¥ 92,625	¥ 1,892,125

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

Consolidated Statements of Cash Flows (Unaudited)
 Komatsu Ltd. and Consolidated Subsidiaries
 Nine months ended December 31, 2021 and 2020

	Millions of yen	
	Nine months ended December 31, 2021	Nine months ended December 31, 2020
Operating activities		
Net income	¥ 164,932	¥ 74,587
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	99,054	98,266
Deferred income taxes	(5,450)	(2,470)
Impairment loss and net loss (gain) on valuation of investment securities	(245)	16
Net loss (gain) on sale of fixed assets	(2,942)	(239)
Loss on disposal of fixed assets	1,944	1,730
Pension and retirement benefits, net	(4,778)	(1,650)
Changes in assets and liabilities:		
Decrease (increase) in trade receivables	(28,094)	39,646
Decrease (increase) in inventories	(84,392)	(15,889)
Increase (decrease) in trade payables	22,990	(3,212)
Increase (decrease) in income taxes payable	15,653	887
Other, net	6,194	47,710
Net cash provided by (used in) operating activities	184,866	239,382
Investing activities		
Capital expenditures	(123,821)	(137,239)
Proceeds from sale of fixed assets	21,754	10,520
Proceeds from sale of investment securities	242	21
Purchases of investment securities	(613)	(601)
Acquisition of subsidiaries and equity investees, net of cash acquired	—	(1,717)
Other, net	(1,667)	2,461
Net cash provided by (used in) investing activities	(104,105)	(126,555)
Financing activities		
Proceeds from debt issued (Original maturities greater than three months)	338,977	564,126
Payment on debt (Original maturities greater than three months)	(370,555)	(576,116)
Short-term debt, net (Original maturities three months or less)	22,669	(76,556)
Dividends paid	(72,815)	(53,878)
Proceeds from issuance of subsidiary's shares	30,440	—
Other, net	(5,301)	(4,900)
Net cash provided by (used in) financing activities	(56,585)	(147,324)
Effect of exchange rate change on cash and cash equivalents	5,056	3,938
Net increase (decrease) in cash and cash equivalents	29,232	(30,559)
Cash and cash equivalents, beginning of year	241,803	247,616
Cash and cash equivalents, end of period	¥ 271,035	¥ 217,057

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

Komatsu Ltd. and Consolidated Subsidiaries
Three months and nine months ended December 31, 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 nine months ended December 31, 2021 and 2020 are as follows:

	Millions of yen	
	Nine months ended December 31, 2021	Nine months ended December 31, 2020
Additional cash flow information:		
Interest paid	¥ 9,380	¥ 10,749
Income taxes paid, net	53,892	20,646

3. Allowance for Doubtful Receivables

At December 31, 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 ¥19,460 million and ¥17,149 million, respectively.

4. Inventories

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

	Millions of yen	
	December 31, 2021	March 31, 2021
Finished products, including finished parts held for sale	¥ 600,108	¥ 571,103
Work in process	199,231	159,515
Materials and supplies	102,009	63,234
Total	¥ 901,348	¥ 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 nine months ended December 31, 2021 and 2020 are as follows:

	Millions of yen	
	Nine months ended December 31, 2021	Nine months ended December 31, 2020
Net gains and losses recognized during the period on equity securities	¥ 245	¥ (16)
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 December 31, 2021 and 2020	¥ 245	¥ (22)

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 December 31, 2021 and 2020 are as follows:

	Millions of yen	
	Three months ended December 31, 2021	Three months ended December 31, 2020
Net gains and losses recognized during the period on equity securities	¥ 74	¥ 47
Less: net gains and losses recognized during the period on equity securities sold during the period	(0)	—
Unrealized gains and losses recognized during the period on equity securities still held as of December 31, 2021 and 2020	¥ 74	¥ 47

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 December 31, 2021 and as of March 31, 2021, the carrying amounts of these investments were ¥8,709 million and ¥8,236 million, respectively. Any impairment or any adjustment relating to observable price changes recorded until December 31, 2021 and until March 31, 2021 were not material.

6. Other Intangible Assets

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

	Millions of yen					
	December 31, 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	¥ 68,492	¥ (30,599)	¥ 37,893	¥ 63,605	¥ (25,376)	¥ 38,229
Leasehold	7,723	(2,083)	5,640	7,146	(1,842)	5,304
Trademarks	58,147	(18,639)	39,508	56,262	(15,241)	41,021
Customer relationships	78,571	(32,977)	45,594	77,204	(29,170)	48,034
Technology assets	39,924	(15,631)	24,293	39,278	(13,415)	25,863
Other	8,441	(6,045)	2,396	7,278	(4,757)	2,521
Total	261,298	(105,974)	155,324	250,773	(89,801)	160,972
Other intangible assets not subject to amortization			8,247			8,009
Total other intangible assets			<u>¥ 163,571</u>			<u>¥ 168,981</u>

The aggregate amortization expense of other intangible assets subject to amortization during the nine months ended December 31, 2021 and 2020 were ¥17,844 million and ¥15,131 million, respectively. The aggregate amortization expense of other intangible assets subject to amortization during the three months ended December 31, 2021 and 2020 were ¥6,035 million and ¥5,338 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 nine months ended December 31, 2021.

Net periodic cost of Komatsu's defined benefit plans for the nine months ended December 31, 2021 and 2020 consisted of the following components:

	Millions of yen	
	Nine months ended December 31, 2021	Nine months ended December 31, 2020
Service cost	¥ 6,760	¥ 7,152
Interest cost on projected benefit obligations	3,845	4,419
Expected return on plan assets	(7,598)	(7,312)
Amortization of actuarial loss or gain	362	1,040
Amortization of prior service cost	676	221
Gains recognized due to partial settlements	(2,486)	—
Net periodic cost	¥ 1,559	¥ 5,520

Net periodic cost of the postretirement benefit plans for the nine months ended December 31, 2021 and 2020 included the following components:

	Millions of yen	
	Nine months ended December 31, 2021	Nine months ended December 31, 2020
Service cost	¥ 364	¥ 385
Interest cost on projected benefit obligations	239	309
Expected return on plan assets	(407)	(371)
Amortization of actuarial loss or gain	4	57
Amortization of prior service cost	(138)	(89)
Gains recognized due to partial settlements	(355)	—
Net periodic cost	¥ (293)	¥ 291

Net periodic cost of Komatsu's defined benefit plans for the three months ended December 31, 2021 and 2020 consisted of the following components:

	Millions of yen	
	Three months ended December 31, 2021	Three months ended December 31, 2020
Service cost	¥ 2,301	¥ 2,397
Interest cost on projected benefit obligations	1,292	1,470
Expected return on plan assets	(2,549)	(2,420)
Amortization of actuarial loss or gain	119	367
Amortization of prior service cost	227	58
Gains recognized due to partial settlements	—	—
Net periodic cost	¥ 1,390	¥ 1,872

Net periodic cost of the postretirement benefit plans for the three months ended December 31, 2021 and 2020 included the following components:

	Millions of yen	
	Three months ended December 31, 2021	Three months ended December 31, 2020
Service cost	¥ 111	¥ 126
Interest cost on projected benefit obligations	68	102
Expected return on plan assets	(126)	(122)
Amortization of actuarial loss or gain	17	19
Amortization of prior service cost	(71)	(29)
Gains recognized due to partial settlements	—	—
Net periodic cost	¥ (1)	¥ 96

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 nine months ended December 31, 2021 and 2020 are as follows:

	Millions of yen			
	Nine months ended December 31, 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	54,861	504	(1,590)	53,775
Amounts reclassified from accumulated other comprehensive income (loss)	—	1,737	2,707	4,444
Net other comprehensive income (loss)	54,861	2,241	1,117	58,219
Less: other comprehensive income (loss) attributable to noncontrolling interests	2,409	—	199	2,608
Other comprehensive income (loss) attributable to Komatsu Ltd.	52,452	2,241	918	55,611
Equity transactions with noncontrolling interests	23	—	(10)	13
Balance, end of the period	¥ 45,289	¥ (32,049)	¥ 372	¥ 13,612

All amounts are net of tax.

	Millions of yen			
	Nine months ended December 31, 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	17,626	(27)	1,804	19,403
Amounts reclassified from accumulated other comprehensive income (loss)	—	854	(1,414)	(560)
Net other comprehensive income (loss)	17,626	827	390	18,843
Less: other comprehensive income (loss) attributable to noncontrolling interests	3,008	—	65	3,073
Other comprehensive income (loss) attributable to Komatsu Ltd.	14,618	827	325	15,770
Balance, end of the period	¥ (89,357)	¥ (26,149)	¥ 610	¥ (114,896)

All amounts are net of tax.

Changes in accumulated other comprehensive income (loss) for the three months ended December 31, 2021 and 2020 are as follows:

	Millions of yen			
	Three months ended December 31, 2021			
	Foreign currency translation adjustments	Pension liability adjustments	Net unrealized holding gains (losses) on derivative instruments	Total
Balance, beginning of the period	¥ 4,295	¥ (32,503)	¥ 293	¥ (27,915)
Other comprehensive income (loss) before reclassifications	44,203	242	(1,737)	42,708
Amounts reclassified from accumulated other comprehensive income (loss)	—	212	1,912	2,124
Net other comprehensive income (loss)	44,203	454	175	44,832
Less: other comprehensive income (loss) attributable to noncontrolling interests	3,209	—	96	3,305
Other comprehensive income (loss) attributable to Komatsu Ltd.	40,994	454	79	41,527
Equity transactions with noncontrolling interests	—	—	—	—
Balance, end of the period	¥ 45,289	¥ (32,049)	¥ 372	¥ 13,612

All amounts are net of tax.

	Millions of yen			
	Three months ended December 31, 2020			
	Foreign currency translation adjustments	Pension liability adjustments	Net unrealized holding gains (losses) on derivative instruments	Total
Balance, beginning of the period	¥ (99,432)	¥ (26,489)	¥ 512	¥ (125,409)
Other comprehensive income (loss) before reclassifications	11,120	12	383	11,515
Amounts reclassified from accumulated other comprehensive income (loss)	—	328	(245)	83
Net other comprehensive income (loss)	11,120	340	138	11,598
Less: other comprehensive income (loss) attributable to noncontrolling interests	1,045	—	40	1,085
Other comprehensive income (loss) attributable to Komatsu Ltd.	10,075	340	98	10,513
Balance, end of the period	¥ (89,357)	¥ (26,149)	¥ 610	¥ (114,896)

All amounts are net of tax.

Reclassification out of accumulated other comprehensive income (loss) for the nine months ended December 31, 2021 and 2020 are as follows:

	Millions of yen		Affected line items in consolidated statements of income
	Nine months ended December 31, 2021		
Pension liability adjustments			
Amortization of actuarial loss or gain and prior service cost	¥	(2,479)	Other income (expenses), net: Other, net
		(2,479)	Total before tax
		742	Income taxes
		(1,737)	Net of tax
Net unrealized holding gains (losses) on derivative instruments			
Forwards contracts		(1,796)	Net sales
		(226)	Cost of sales
		(1,924)	Other income (expenses), net: Other, net
		(3,946)	Total before tax
		1,239	Income taxes
		(2,707)	Net of tax
Total reclassification for the period	¥	(4,444)	Net of tax

	Millions of yen		Affected line items in consolidated statements of income
	Nine months ended December 31, 2020		
Pension liability adjustments			
Amortization of actuarial loss or gain and prior service cost	¥	(1,229)	Other income (expenses), net: Other, net
		(1,229)	Total before tax
		375	Income taxes
		(854)	Net of tax
Net unrealized holding gains (losses) on derivative instruments			
Forwards contracts		2,158	Net sales
		(661)	Cost of sales
		550	Other income (expenses), net: Other, net
		2,047	Total before tax
		(633)	Income taxes
		1,414	Net of tax
Total reclassification for the period	¥	560	Net of tax

Reclassification out of accumulated other comprehensive income (loss) for the three months ended December 31, 2021 and 2020 are as follows:

	Millions of yen	
	Three months ended December 31, 2021	Affected line items in consolidated statements of income
Pension liability adjustments		
Amortization of actuarial loss or gain and prior service cost	¥ (292)	Other income (expenses), net: Other, net
	(292)	Total before tax
	80	Income taxes
	(212)	Net of tax
Net unrealized holding gains (losses) on derivative instruments		
Forwards contracts	(524)	Net sales
	(270)	Cost of sales
	(2,007)	Other income (expenses), net: Other, net
	(2,801)	Total before tax
	889	Income taxes
	(1,912)	Net of tax
Total reclassification for the period	¥ (2,124)	Net of tax

	Millions of yen	
	Three months ended December 31, 2020	Affected line items in consolidated statements of income
Pension liability adjustments		
Amortization of actuarial loss or gain and prior service cost	¥ (415)	Other income (expenses), net: Other, net
	(415)	Total before tax
	87	Income taxes
	(328)	Net of tax
Net unrealized holding gains (losses) on derivative instruments		
Forwards contracts	876	Net sales
	(372)	Cost of sales
	(157)	Other income (expenses), net: Other, net
	347	Total before tax
	(102)	Income taxes
	245	Net of tax
Total reclassification for the period	¥ (83)	Net of tax

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

	Millions of yen		
	Nine months ended December 31, 2021		
	Before tax amount	Tax (expense) or benefit	Net of tax amount
Foreign currency translation adjustments			
Foreign currency translation adjustments arising during the period	¥ 54,937	¥ (76)	¥ 54,861
Less: reclassification adjustment for gains included in net income	—	—	—
Net foreign currency translation adjustments	54,937	(76)	54,861
Pension liability adjustments			
Pension liability adjustments arising during the period	680	(176)	504
Less: reclassification adjustment for losses included in net income	2,479	(742)	1,737
Net pension liability adjustments	3,159	(918)	2,241
Net unrealized holding gains (losses) on derivative instruments			
Unrealized holding losses arising during the period	(2,377)	787	(1,590)
Less: reclassification adjustment for losses included in net income	3,946	(1,239)	2,707
Net unrealized holding gains	1,569	(452)	1,117
Other comprehensive income (loss)	¥ 59,665	¥ (1,446)	¥ 58,219

	Millions of yen		
	Nine months ended December 31, 2020		
	Before tax amount	Tax (expense) or benefit	Net of tax amount
Foreign currency translation adjustments			
Foreign currency translation adjustments arising during the period	¥ 17,513	¥ 113	¥ 17,626
Less: reclassification adjustment for gains included in net income	—	—	—
Net foreign currency translation adjustments	17,513	113	17,626
Pension liability adjustments			
Pension liability adjustments arising during the period	(37)	10	(27)
Less: reclassification adjustment for losses included in net income	1,229	(375)	854
Net pension liability adjustments	1,192	(365)	827
Net unrealized holding gains (losses) on derivative instruments			
Unrealized holding gains arising during the period	2,633	(829)	1,804
Less: reclassification adjustment for gains included in net income	(2,047)	633	(1,414)
Net unrealized holding gains	586	(196)	390
Other comprehensive income (loss)	¥ 19,291	¥ (448)	¥ 18,843

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

	Millions of yen		
	Three months ended December 31, 2021		
	Before tax amount	Tax (expense) or benefit	Net of tax amount
Foreign currency translation adjustments			
Foreign currency translation adjustments arising during the period	¥ 44,268	¥ (65)	¥ 44,203
Less: reclassification adjustment for gains included in net income	—	—	—
Net foreign currency translation adjustments	44,268	(65)	44,203
Pension liability adjustments			
Pension liability adjustments arising during the period	(94)	336	242
Less: reclassification adjustment for losses included in net income	292	(80)	212
Net pension liability adjustments	198	256	454
Net unrealized holding gains (losses) on derivative instruments			
Unrealized holding losses arising during the period	(2,547)	810	(1,737)
Less: reclassification adjustment for losses included in net income	2,801	(889)	1,912
Net unrealized holding gains	254	(79)	175
Other comprehensive income (loss)	¥ 44,720	¥ 112	¥ 44,832

	Millions of yen		
	Three months ended December 31, 2020		
	Before tax amount	Tax (expense) or benefit	Net of tax amount
Foreign currency translation adjustments			
Foreign currency translation adjustments arising during the period	¥ 11,102	¥ 18	¥ 11,120
Less: reclassification adjustment for gains included in net income	—	—	—
Net foreign currency translation adjustments	11,102	18	11,120
Pension liability adjustments			
Pension liability adjustments arising during the period	18	(6)	12
Less: reclassification adjustment for losses included in net income	415	(87)	328
Net pension liability adjustments	433	(93)	340
Net unrealized holding gains (losses) on derivative instruments			
Unrealized holding gains arising during the period	600	(217)	383
Less: reclassification adjustment for gains included in net income	(347)	102	(245)
Net unrealized holding gains	253	(115)	138
Other comprehensive income (loss)	¥ 11,788	¥ (190)	¥ 11,598

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

	Millions of yen	
	December 31, 2021	March 31, 2021
Receivables *1	¥ 1,102,983	¥ 1,036,127
Contract assets *2	1,870	2,886
Contract liabilities *3	119,884	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 nine months ended December 31, 2021, that was included in the contract liability balance as of March 31, 2021 was ¥65,032 million. Revenue recognized for the nine months ended December 31, 2020, that was included in the contract liability balance as of March 31, 2020 was ¥41,902 million.

Revenue recognized for the three months ended December 31, 2021, that was included in the contract liability balance as of March 31, 2021 was ¥18,661 million. Revenue recognized for the three months ended December 31, 2020, that was included in the contract liability balance as of March 31, 2020 was ¥10,688 million.

The amount of revenue recognized during the nine months and three months ended December 31, 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 December 31, 2021, the aggregate amount of the transaction price allocated to the remaining performance obligations that have original expected durations greater than one year was ¥192,444 million, of which ¥77,747 million is expected to be recognized as revenue in the twelve months following December 31, 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 nine months ended December 31, 2021 and 2020 were recorded in selling, general and administrative expenses, and were not material to Komatsu's financial position and results of operations. Compensation expenses during the three months ended December 31, 2021 and 2020 were recorded in selling, general and administrative expenses, and were not material to Komatsu's financial position and results of operations. The 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 nine months ended December 31, 2021 and 2020 are as follows:

	Millions of yen	
	Nine months ended December 31, 2021	Nine months ended December 31, 2020
Sales-type lease revenue		
Revenue recognized at the commencement date *1	¥ 97,195	¥ 86,611
Interest income	6,539	6,490
Total sales-type lease revenue	103,734	93,101
Operating lease revenue	62,518	59,930
Total	¥ 166,252	¥ 153,031

*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 December 31, 2021 and 2020 are as follows:

	Millions of yen	
	Three months ended December 31, 2021	Three months ended December 31, 2020
Sales-type lease revenue		
Revenue recognized at the commencement date *2	¥ 32,222	¥ 32,090
Interest income	2,218	2,355
Total sales-type lease revenue	34,440	34,445
Operating lease revenue	21,907	21,095
Total	¥ 56,347	¥ 55,540

*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	
	Nine months ended December 31, 2021	Nine months ended December 31, 2020
Net income attributable to Komatsu Ltd.	¥ 155,502	¥ 65,976
Net income attributable to participating securities (restricted stocks)	163	50
Net income attributable to common shareholders	¥ 155,339	¥ 65,926

	Number of shares	
	Nine months ended December 31, 2021	Nine months ended December 31, 2020
Weighted average number of common shares outstanding, less treasury stock	945,137,570	944,840,928
Weighted average number of participating securities (restricted stocks)	989,542	719,853
Weighted average number of common shares	944,148,028	944,121,075

	Yen	
	Nine months ended December 31, 2021	Nine months ended December 31, 2020
Basic net income attributable to Komatsu Ltd. per share	¥ 164.53	¥ 69.83

	Millions of yen	
	Three months ended December 31, 2021	Three months ended December 31, 2020
Net income attributable to Komatsu Ltd.	¥ 62,361	¥ 28,682
Net income attributable to participating securities (restricted stocks)	75	27
Net income attributable to common shareholders	¥ 62,286	¥ 28,655

	Number of shares	
	Three months ended December 31, 2021	Three months ended December 31, 2020
Weighted average number of common shares outstanding, less treasury stock	945,281,634	945,068,098
Weighted average number of participating securities (restricted stocks)	1,133,190	888,290
Weighted average number of common shares	944,148,444	944,179,808

	Yen	
	Three months ended December 31, 2021	Three months ended December 31, 2020
Basic net income attributable to Komatsu Ltd. per share	¥ 65.97	¥ 30.35

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

	Millions of yen	
	Nine months ended December 31, 2021	Nine months ended December 31, 2020
Net income attributable to Komatsu Ltd.	¥ 155,502	¥ 65,976
Net income attributable to participating securities (restricted stocks)	163	50
Net income attributable to common shareholders	¥ 155,339	¥ 65,926

	Number of shares	
	Nine months ended December 31, 2021	Nine months ended December 31, 2020
Weighted average number of common shares outstanding, less treasury stock	945,137,570	944,840,928
Dilutive effect of:		
Stock options	222,449	395,862
Weighted average number of participating securities (restricted stocks)	989,542	719,853
Weighted average number of diluted common shares	944,370,477	944,516,937

	Yen	
	Nine months ended December 31, 2021	Nine months ended December 31, 2020
Diluted net income attributable to Komatsu Ltd. per share	¥ 164.49	¥ 69.80

	Millions of yen	
	Three months ended December 31, 2021	Three months ended December 31, 2020
Net income attributable to Komatsu Ltd.	¥ 62,361	¥ 28,682
Net income attributable to participating securities (restricted stocks)	75	27
Net income attributable to common shareholders	¥ 62,286	¥ 28,655

	Number of shares	
	Three months ended December 31, 2021	Three months ended December 31, 2020
Weighted average number of common shares outstanding, less treasury stock	945,281,634	945,068,098
Dilutive effect of:		
Stock options	184,179	343,030
Weighted average number of participating securities (restricted stocks)	1,133,190	888,290
Weighted average number of diluted common shares	944,332,623	944,522,838

	Yen	
	Three months ended December 31, 2021	Three months ended December 31, 2020
Diluted net income attributable to Komatsu Ltd. per share	¥ 65.96	¥ 30.34

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 5 years in the case of loans relating to the affiliated companies, customers and other companies. The maximum amount of undiscounted payments Komatsu would have had to make in the event of default at December 31, 2021 and at March 31, 2021 were ¥11,159 million and ¥9,769 million, respectively. The fair value of the liabilities recognized for Komatsu's obligations as guarantors under those guarantees at December 31, 2021 were insignificant. Certain of those guarantees were secured by collateral and insurance issued to Komatsu.

Komatsu provides guarantees that subsidiaries of the Company perform the obligations of the terms and conditions of contracts by standby letters of credit issued by banks. Komatsu would have to pay the liabilities incurred to banks if the subsidiaries do not perform the obligations of the terms and conditions of contracts. The maximum amount of undiscounted payments Komatsu would have had to make in the event of defaults of the contracts at December 31, 2021 and at March 31, 2021 were ¥17,011 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 December 31, 2021 and at March 31, 2021 are as follows:

	Millions of yen	
	December 31, 2021	March 31, 2021
Forwards contracts:		
Sale of foreign currencies	¥ 231,434	¥ 185,798
Purchase of foreign currencies	168,948	138,820
Interest rate swaps and cross-currency swap agreements	115,535	105,380

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

	Millions of yen			
	December 31, 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	¥ 541	Other current liabilities	¥ 1,727
			Deferred income taxes and other liabilities	9
Interest rate swaps and cross-currency swap agreements	Other current assets	219	Other current liabilities	74
	Deferred income taxes and other assets	325	Deferred income taxes and other liabilities	111
Total		¥ 1,085		¥ 1,921

	Millions of yen			
	December 31, 2021			
	Derivative Assets		Derivative Liabilities	
Undesignated derivative instruments	Location on the consolidated Balance Sheets	Estimated fair value	Location on the consolidated Balance Sheets	Estimated fair value
Forwards contracts	Other current assets	¥ 2,105	Other current liabilities	¥ 1,320
	Deferred income taxes and other assets	14	Deferred income taxes and other liabilities	13
Interest rate swaps and cross-currency swap agreements	Other current assets	646	Other current liabilities	85
	Deferred income taxes and other assets	47	Deferred income taxes and other liabilities	24
Total		¥ 2,812		¥ 1,442
Total Derivative Instruments		¥ 3,897		¥ 3,363

Millions of yen

March 31, 2021

Derivative instruments designated as hedging instruments	Derivative Assets		Derivative Liabilities	
	Location on the consolidated Balance Sheets	Estimated fair value	Location on the consolidated Balance Sheets	Estimated fair value
Forwards contracts	Other current assets	¥ 738	Other current liabilities 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

Undesignated derivative instruments	Derivative Assets		Derivative Liabilities	
	Location on the consolidated Balance Sheets	Estimated fair value	Location on the consolidated Balance Sheets	Estimated fair value
Forwards contracts	Other current assets 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 nine months ended December 31, 2021 and 2020 are as follows:

Derivative instruments designated as cash flow hedging relationships

Millions of yen			
Nine months ended December 31, 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	¥ (3,107)	Net sales	¥ (1,796)
		Cost of sales	(226)
		Other income (expenses), net: Other, net	(1,924)
Interest rate swaps and cross-currency swap agreements	730	—	—
Total	¥ (2,377)		¥ (3,946)

Millions of yen			
Nine months ended December 31, 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	¥ 2,403	Net sales	¥ 2,158
		Cost of sales	(661)
		Other income (expenses), net: Other, net	550
Interest rate swaps and cross-currency swap agreements	230	—	—
Total	¥ 2,633		¥ 2,047

* OCI stands for other comprehensive income (loss).

Derivative instruments not designated as hedging instruments relationships

Millions of yen		
Nine months ended December 31, 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	¥ 2,608
Interest rate swaps and cross-currency swap agreements	Cost of sales	(113)
	Other income (expenses), net: Other, net	293
Total		¥ 2,788

Millions of yen		
Nine months ended December 31, 2020		
	Location of gains (losses) recognized in income on derivatives	Amount of gains (losses) recognized in income on derivatives
Forwards contracts	Other income (expenses), net: Other, net	¥ (4,078)
Interest rate swaps and cross-currency swap agreements	Cost of sales	(71)
	Other income (expenses), net: Other, net	(49)
Total		¥ (4,198)

The effects of derivative instruments on the consolidated statements of income and the consolidated statements of comprehensive income for the three months ended December 31, 2021 and 2020 are as follows:

Derivative instruments designated as cash flow hedging relationships

Millions of yen			
Three months ended December 31, 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	¥ (2,909)	Net sales	¥ (524)
		Cost of sales	(270)
		Other income (expenses), net: Other, net	(2,007)
Interest rate swaps and cross-currency swap agreements	362	—	—
Total	¥ (2,547)		¥ (2,801)

Millions of yen			
Three months ended December 31, 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	¥ 458	Net sales	¥ 876
		Cost of sales	(372)
		Other income (expenses), net: Other, net	(157)
Interest rate swaps and cross-currency swap agreements	142	—	—
Total	¥ 600		¥ 347

* OCI stands for other comprehensive income (loss).

Derivative instruments not designated as hedging instruments relationships

Millions of yen		
Three months ended December 31, 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	¥ 2,580
Interest rate swaps and cross-currency swap agreements	Cost of sales	(38)
	Other income (expenses), net: Other, net	179
Total		¥ 2,721

Millions of yen		
Three months ended December 31, 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	¥ (2,040)
Interest rate swaps and cross-currency swap agreements	Cost of sales	(60)
	Other income (expenses), net: Other, net	(8)
Total		¥ (2,108)

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 December 31, 2021 and as of March 31, 2021, and fair value levels are summarized as follows:

	Millions of yen				Fair Value Levels
	December 31, 2021		March 31, 2021		
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value	
Cash and cash equivalents	¥ 271,035	¥ 271,035	¥ 241,803	¥ 241,803	Level 1
Time deposits	2,274	2,274	1,324	1,324	Level 2
Long-term trade receivables, net, excluding lease receivables	336,706	336,706	316,111	316,111	Level 2
Short-term debt	238,782	238,782	271,462	271,462	Level 2
Long-term debt, including current portion	685,182	685,036	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 December 31, 2021 and March 31, 2021 are as follows:

		Millions of yen				
<u>At December 31, 2021</u>		Level 1	Level 2	Level 3	Total	
Assets						
Derivatives						
Forward contracts	¥	—	¥ 2,660	¥	—	¥ 2,660
Interest rate swaps and cross-currency swap agreements		—	1,237		—	1,237
Total	¥	—	¥ 3,897	¥	—	¥ 3,897
Liabilities						
Derivatives						
Forward contracts	¥	—	¥ 3,069	¥	—	¥ 3,069
Interest rate swaps and cross-currency swap agreements		—	294		—	294
Total	¥	—	¥ 3,363	¥	—	¥ 3,363
		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 nine months ended December 31, 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 December 31, 2021 and at March 31, 2021 were ¥260,696 million and ¥458,330 million, respectively. These total amounts of unused committed credit lines available for full and immediate borrowings at December 31, 2021 and at March 31, 2021 were ¥246,577 million and ¥443,989 million, respectively.

18. Dividends

Payment amount of dividends

Resolution	Type of stock	Nine months ended December 31, 2021				
		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
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.

Payment amount of dividends

Resolution	Type of stock	Nine months ended December 31, 2020				
		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
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 nine months ended December 31, 2021 and 2020 is as follows:

	Millions of yen	
	Nine months ended December 31, 2021	Nine months ended December 31, 2020
Net sales:		
Construction, Mining and Utility Equipment –		
External customers	¥ 1,840,668	¥ 1,368,409
Intersegment	4,852	13,356
Total	1,845,520	1,381,765
Retail Finance –		
External customers	43,565	43,688
Intersegment	11,017	5,823
Total	54,582	49,511
Industrial Machinery and Others –		
External customers	130,444	101,213
Intersegment	1,424	794
Total	131,868	102,007
Elimination	(17,293)	(19,973)
Consolidated	¥ 2,014,677	¥ 1,513,310
Segment profit:		
Construction, Mining and Utility Equipment	¥ 191,886	¥ 89,947
Retail Finance	13,284	8,176
Industrial Machinery and Others	15,075	8,984
Total segment profit	220,245	107,107
Corporate expenses and elimination	309	1,099
Consolidated	¥ 220,554	¥ 108,206

Information about operating segments for the three months ended December 31, 2021 and 2020 is as follows:

	Millions of yen	
	Three months ended December 31, 2021	Three months ended December 31, 2020
Net sales:		
Construction, Mining and Utility Equipment –		
External customers	¥ 659,035	¥ 504,095
Intersegment	1,122	1,120
Total	660,157	505,215
Retail Finance –		
External customers	14,659	14,760
Intersegment	2,944	1,999
Total	17,603	16,759
Industrial Machinery and Others –		
External customers	49,583	36,738
Intersegment	590	331
Total	50,173	37,069
Elimination	(4,656)	(3,450)
Consolidated	¥ 723,277	¥ 555,593
Segment profit:		
Construction, Mining and Utility Equipment	¥ 73,266	¥ 37,730
Retail Finance	5,439	3,494
Industrial Machinery and Others	6,477	4,882
Total segment profit	85,182	46,106
Corporate expenses and elimination	552	1,343
Consolidated	¥ 85,734	¥ 47,449

Reconciliation of total segment profit to consolidated income before income taxes and equity in earnings of affiliated companies for the nine months ended December 31, 2021 and 2020 is as follows:

	Millions of yen	
	Nine months ended December 31, 2021	Nine months ended December 31, 2020
Total segment profit	¥ 220,245	¥ 107,107
Corporate expenses and elimination	309	1,099
Total	220,554	108,206
Other operating income (expenses), net	3,209	(670)
Operating income	223,763	107,536
Interest and dividend income	3,416	3,476
Interest expense	(9,113)	(10,566)
Other, net	6,249	2,913
Consolidated income before income taxes and equity in earnings of affiliated companies	¥ 224,315	¥ 103,359

Reconciliation of total segment profit to consolidated income before income taxes and equity in earnings of affiliated companies for the three months ended December 31, 2021 and 2020 is as follows:

	Millions of yen	
	Three months ended December 31, 2021	Three months ended December 31, 2020
Total segment profit	¥ 85,182	¥ 46,106
Corporate expenses and elimination	552	1,343
Total	85,734	47,449
Other operating income (expenses), net	1,745	(255)
Operating income	87,479	47,194
Interest and dividend income	1,281	1,062
Interest expense	(3,364)	(3,160)
Other, net	2,410	(267)
Consolidated income before income taxes and equity in earnings of affiliated companies	¥ 87,806	¥ 44,829

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 nine months ended December 31, 2021 and 2020 are as follows:

Millions of yen				
Nine months ended December 31, 2021				
	Construction, Mining and Utility Equipment	Retail Finance	Industrial Machinery and Others	Total
Japan	¥ 222,716	¥ 1,549	¥ 54,603	¥ 278,868
The Americas	711,198	30,242	15,928	757,368
Europe and CIS	310,959	4,014	9,343	324,316
China	71,192	2,251	25,348	98,791
Asia (excluding Japan and China) and Oceania	392,113	5,152	24,966	422,231
Middle East and Africa	132,490	357	256	133,103
Total	¥ 1,840,668	¥ 43,565	¥ 130,444	¥ 2,014,677

Millions of yen				
Nine months ended December 31, 2020				
	Construction, Mining and Utility Equipment	Retail Finance	Industrial Machinery and Others	Total
Japan	¥ 212,695	¥ 1,393	¥ 49,256	¥ 263,344
The Americas	520,411	32,393	13,994	566,798
Europe and CIS	201,970	2,917	5,750	210,637
China	106,106	2,295	11,379	119,780
Asia (excluding Japan and China) and Oceania	245,493	4,545	20,720	270,758
Middle East and Africa	81,734	145	114	81,993
Total	¥ 1,368,409	¥ 43,688	¥ 101,213	¥ 1,513,310

Net sales determined by customer location for the three months ended December 31, 2021 and 2020 are as follows:

Millions of yen				
Three months ended December 31, 2021				
	Construction, Mining and Utility Equipment	Retail Finance	Industrial Machinery and Others	Total
Japan	¥ 86,593	¥ 759	¥ 21,472	¥ 108,824
The Americas	257,449	9,831	5,179	272,459
Europe and CIS	101,953	1,588	3,929	107,470
China	21,013	707	10,515	32,235
Asia (excluding Japan and China) and Oceania	148,359	1,598	8,471	158,428
Middle East and Africa	43,668	176	17	43,861
Total	¥ 659,035	¥ 14,659	¥ 49,583	¥ 723,277

Millions of yen				
Three months ended December 31, 2020				
	Construction, Mining and Utility Equipment	Retail Finance	Industrial Machinery and Others	Total
Japan	¥ 80,487	¥ 499	¥ 13,646	¥ 94,632
The Americas	190,975	10,601	6,942	208,518
Europe and CIS	74,414	1,159	2,839	78,412
China	34,219	761	5,796	40,776
Asia (excluding Japan and China) and Oceania	90,914	1,678	7,446	100,038
Middle East and Africa	33,086	62	69	33,217
Total	¥ 504,095	¥ 14,760	¥ 36,738	¥ 555,593

Net sales determined by geographic origin for the nine months ended December 31, 2021 and 2020 are as follows:

	Millions of yen	
	Nine months ended December 31, 2021	Nine months ended December 31, 2020
Japan	¥ 423,056	¥ 331,761
The Americas	743,507	518,745
Europe and CIS	325,464	214,998
China	88,275	114,217
Others	434,375	333,589
Total	¥ 2,014,677	¥ 1,513,310

Net sales determined by geographic origin for the three months ended December 31, 2021 and 2020 are as follows:

	Millions of yen	
	Three months ended December 31, 2021	Three months ended December 31, 2020
Japan	¥ 164,428	¥ 124,512
The Americas	268,067	189,087
Europe and CIS	107,078	79,845
China	28,443	38,253
Others	155,261	123,896
Total	¥ 723,277	¥ 555,593

There were no sales to a single major external customer for the nine months and three months ended December 31, 2021 and 2020.

20. Material Subsequent Events

Not applicable.

Komatsu evaluated subsequent events through February 10, 2022, 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.