

(Translation)

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# Quarterly Report

From April 1, 2022 to June 30, 2022

(First Quarter of the 154<sup>th</sup> Fiscal Year)

**KOMATSU LTD.**

First Quarter of the 154<sup>th</sup> Fiscal Year (from April 1, 2022 to June 30, 2022)

# 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 June 30, 2022 with the Director-General of the Kanto Local Finance Bureau on August 10, 2022. The Quarterly Securities Report contains, among other information, Quarterly Consolidated Financial Statements for the three months ended June 30, 2022. 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 July 29, 2022. Attached is an English translation of Quarterly Consolidated Financial Statements for the three months ended June 30, 2022.
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, 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 June 30, 2022 were reviewed by KPMG AZSA LLC.



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

Komatsu Ltd. and Consolidated Subsidiaries

Three months ended June 30, 2022 and 2021

Consolidated Statements of Income

	Three months ended June 30, 2022		Three months ended June 30, 2021	
	Millions of yen	Ratio(%)	Millions of yen	Ratio(%)
Net sales (Notes 9, 11 and 14)	¥ 763,808	100.0	¥ 648,266	100.0
Cost of sales (Notes 6, 7 and 14)	545,401	71.4	475,081	73.3
Selling, general and administrative expenses (Notes 6, 7 and 10)	124,039	16.2	112,273	17.3
Other operating income (expenses), net	(806)	(0.1)	838	0.1
<b>Operating income</b>	<b>93,562</b>	<b>12.2</b>	<b>61,750</b>	<b>9.5</b>
<b>Other income (expenses), net</b>				
Interest and dividend income	2,236	0.3	992	0.2
Interest expense	(4,672)	(0.6)	(2,967)	(0.5)
Other, net (Notes 5, 7, 8 and 14)	21,349	2.8	1,679	0.3
Total	18,913	2.5	(296)	(0.0)
<b>Income before income taxes and equity in earnings of affiliated companies</b>	<b>112,475</b>	<b>14.7</b>	<b>61,454</b>	<b>9.5</b>
<b>Income taxes</b> (Note 8)				
Current	24,297		15,720	
Deferred	5,218		2,310	
Total	29,515	3.9	18,030	2.8
<b>Income before equity in earnings of affiliated companies</b>	<b>82,960</b>	<b>10.9</b>	<b>43,424</b>	<b>6.7</b>
<b>Equity in earnings of affiliated companies</b>	<b>1,045</b>	<b>0.1</b>	<b>761</b>	<b>0.1</b>
<b>Net income</b>	<b>84,005</b>	<b>11.0</b>	<b>44,185</b>	<b>6.8</b>
<b>Less: Net income attributable to noncontrolling interests</b>	<b>3,551</b>	<b>0.5</b>	<b>3,293</b>	<b>0.5</b>
<b>Net income attributable to Komatsu Ltd.</b>	<b>¥ 80,454</b>	<b>10.5</b>	<b>¥ 40,892</b>	<b>6.3</b>

Yen

**Per share data** (Note 12):

**Net income attributable to Komatsu Ltd.:**

	2022	2021
Basic	¥ 85.11	¥ 43.27
Diluted	¥ 85.10	¥ 43.26

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

Consolidated Statements of Comprehensive Income

	Millions of yen	
	Three months ended June 30, 2022	Three months ended June 30, 2021
<b>Net income</b>	<b>¥ 84,005</b>	<b>¥ 44,185</b>
<b>Other comprehensive income (loss), for the period, net of tax</b>		
Foreign currency translation adjustments (Note 8)	197,525	12,230
Pension liability adjustments (Notes 7 and 8)	176	1,378
Net unrealized holding gains (losses) on derivative instruments (Notes 8 and 14)	(1,140)	861
Total	196,561	14,469
<b>Comprehensive income</b>	<b>280,566</b>	<b>58,654</b>
<b>Less: Comprehensive income attributable to noncontrolling interests</b>	<b>11,966</b>	<b>3,180</b>
<b>Comprehensive income attributable to Komatsu Ltd.</b>	<b>¥ 268,600</b>	<b>¥ 55,474</b>

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

Consolidated Statements of Equity (Unaudited)  
Komatsu Ltd. and Consolidated Subsidiaries  
Three months ended June 30, 2022

	Millions of yen								
	Common stock	Capital surplus	Retained earnings		Accumulated other comprehensive income (loss)	Treasury stock	Total Komatsu Ltd. shareholders' equity	Non-controlling interests	Total equity
			Appropriated for legal reserve	Un-appropriated					
<b>Balance at March 31, 2022</b>	¥ 69,393	¥ 139,572	¥ 47,903	¥ 1,902,501	¥ 122,414	¥ (49,272)	¥ 2,232,511	¥ 123,766	¥ 2,356,277
Cash dividends (Note 18)				(52,963)			(52,963)	(4,626)	(57,589)
Transfer to retained earnings appropriated for legal reserve			85	(85)			—		—
Other changes		(3,929)			1,476	(77)	(2,530)	(3,035)	(5,565)
Net income				80,454			80,454	3,551	84,005
Other comprehensive income (loss), for the period, net of tax (Note 8)					188,146		188,146	8,415	196,561
Issuance and exercise of stock acquisition rights (Note 10)		(34)					(34)		(34)
Purchase of treasury stock						(6)	(6)		(6)
Sales of treasury stock		8				26	34		34
Restricted stock compensation (Note 10)	(174)	(173)					(347)		(347)
<b>Balance at June 30, 2022</b>	<u>¥ 69,219</u>	<u>¥ 135,444</u>	<u>¥ 47,988</u>	<u>¥ 1,929,907</u>	<u>¥ 312,036</u>	<u>¥ (49,329)</u>	<u>¥ 2,445,265</u>	<u>¥ 128,071</u>	<u>¥ 2,573,336</u>

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

Three months ended June 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					
<b>Balance at March 31, 2021</b>	¥ 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)	(3,945)	(38,931)
Transfer to retained earnings appropriated for legal reserve			238	(238)			—		—
Other changes		(295)					(295)	295	—
Net income				40,892			40,892	3,293	44,185
Other comprehensive income (loss), for the period, net of tax (Note 8)					14,582		14,582	(113)	14,469
Issuance and exercise of stock acquisition rights (Note 10)		(118)					(118)		(118)
Purchase of treasury stock						(644)	(644)		(644)
Sales of treasury stock		17				101	118		118
Restricted stock compensation (Note 10)							—		—
<b>Balance at June 30, 2021</b>	<u>¥ 69,037</u>	<u>¥ 135,439</u>	<u>¥ 47,616</u>	<u>¥ 1,756,582</u>	<u>¥ (27,430)</u>	<u>¥ (49,398)</u>	<u>¥ 1,931,846</u>	<u>¥ 99,258</u>	<u>¥ 2,031,104</u>

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

Consolidated Statements of Cash Flows (Unaudited)

Komatsu Ltd. and Consolidated Subsidiaries

Three months ended June 30, 2022 and 2021

	Millions of yen	
	Three months ended June 30, 2022	Three months ended June 30, 2021
<b>Operating activities</b>		
Net income	¥ 84,005	¥ 44,185
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	36,177	34,250
Deferred income taxes	5,218	2,310
Impairment loss and net loss (gain) on valuation of investment securities	(272)	(110)
Net loss (gain) on sale of fixed assets	135	(317)
Loss on disposal of fixed assets	317	614
Pension and retirement benefits, net	(451)	(3,022)
Changes in assets and liabilities:		
Decrease (increase) in trade receivables	29,735	7,092
Decrease (increase) in inventories	(90,720)	(23,196)
Increase (decrease) in trade payables	(8,007)	1,227
Increase (decrease) in income taxes payable	(24,978)	(1,067)
Other, net	(33,506)	2,630
Net cash provided by (used in) operating activities	(2,347)	64,596
<b>Investing activities</b>		
Capital expenditures	(36,378)	(37,976)
Proceeds from sale of fixed assets	4,212	8,520
Proceeds from sale of investment securities	263	1
Purchases of investment securities	(1,365)	—
Acquisition of subsidiaries and equity investees, net of cash acquired	262	—
Other, net	(438)	(205)
Net cash provided by (used in) investing activities	(33,444)	(29,660)
<b>Financing activities</b>		
Proceeds from debt issued (Original maturities greater than three months)	165,907	133,088
Payment on debt (Original maturities greater than three months)	(126,026)	(142,798)
Short-term debt, net (Original maturities three months or less)	95,769	5,345
Dividends paid	(52,963)	(34,986)
Other, net	(9,561)	(4,244)
Net cash provided by (used in) financing activities	73,126	(43,595)
<b>Effect of exchange rate change on cash and cash equivalents</b>	30,848	1,412
<b>Net increase (decrease) in cash and cash equivalents</b>	68,183	(7,247)
<b>Cash and cash equivalents, beginning of year</b>	315,360	241,803
<b>Cash and cash equivalents, end of period</b>	¥ 383,543	¥ 234,556

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

**Komatsu Ltd. and Consolidated Subsidiaries**  
**Notes to Quarterly Consolidated Financial Statements (Unaudited)**

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

**Basis of Quarterly Consolidated 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, 2022.

Regarding the impact of the disruption and so forth in the supply chain, financial sector, and world economy caused by the COVID-19 pandemic and the Ukraine situation on Komatsu’s financial position and results of operations, there is uncertainty regarding when such conditions will improve, among other factors. Nevertheless, Komatsu has assumed that a certain level of impact from COVID-19 and the Ukraine situation 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 three months ended June 30, 2022 and 2021 is as follows:

	Millions of yen	
	Three months ended June 30, 2022	Three months ended June 30, 2021
<b>Additional cash flow information:</b>		
Interest paid	¥ 3,995	¥ 3,281
Income taxes paid, net	51,971	16,036

## 3. Allowance for Doubtful Receivables

At June 30, 2022 and at March 31, 2022, allowances for doubtful receivables deducted from trade notes and accounts receivable, net and long-term trade receivables, net are ¥23,531 million and ¥22,076 million, respectively.

## 4. Inventories

At June 30, 2022 and at March 31, 2022, inventories comprise the following:

	Millions of yen	
	June 30, 2022	March 31, 2022
Finished products, including finished parts held for sale	¥ 768,681	¥ 666,538
Work in process	275,047	206,481
Materials and supplies	130,912	114,992
Total	¥ 1,174,640	¥ 988,011

## 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 three months ended June 30, 2022 and 2021 are as follows:

	Millions of yen	
	Three months ended June 30, 2022	Three months ended June 30, 2021
Net gains and losses recognized during the period on equity securities	¥ 272	¥ 110
Less: net gains and losses recognized during the period on equity securities sold during the period	—	—
Unrealized gains and losses recognized during the period on equity securities still held as of June 30, 2022 and 2021	¥ 272	¥ 110

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 June 30, 2022 and as of March 31, 2022, the carrying amounts of these investments were ¥10,154 million and ¥8,377 million, respectively. Any impairment or any adjustment relating to observable price changes recorded until June 30, 2022 and until March 31, 2022 were not material.

## 6. Other Intangible Assets

Other intangible assets at June 30, 2022 and at March 31, 2022 are as follows:

	Millions of yen					
	June 30, 2022			March 31, 2022		
	Gross carrying amount	Accumulated amortization	Net carrying amount	Gross carrying amount	Accumulated amortization	Net carrying amount
Other intangible assets subject to amortization:						
Software	¥ 75,986	¥ (36,440)	¥ 39,546	¥ 72,173	¥ (33,265)	¥ 38,908
Leasehold	8,790	(2,440)	6,350	8,259	(2,256)	6,003
Trademarks	68,608	(24,268)	44,340	61,873	(20,856)	41,017
Customer relationships	89,713	(39,971)	49,742	82,195	(35,051)	47,144
Technology assets	43,865	(17,620)	26,245	41,435	(16,239)	25,196
Other	10,665	(7,833)	2,832	8,871	(6,347)	2,524
Total	297,627	(128,572)	169,055	274,806	(114,014)	160,792
Other intangible assets not subject to amortization			8,480			8,211
Total other intangible assets			¥ 177,535			¥ 169,003

The aggregate amortization expense of other intangible assets subject to amortization during the three months ended June 30, 2022 and 2021 were ¥6,746 million and ¥5,921 million, respectively.

## 7. Cost of Retirement Benefits

A part of the Company's retirement benefit plan (lump-sum severance payment plan and defined benefit cash balance pension plan) has been transferred to the defined contribution pension plan in the three months ended June 30, 2021.

Net periodic cost of Komatsu's defined benefit plans for the three months ended June 30, 2022 and 2021 consisted of the following components:

	Millions of yen	
	Three months ended June 30, 2022	Three months ended June 30, 2021
Service cost	¥ 2,187	¥ 2,260
Interest cost on projected benefit obligations	2,034	1,278
Expected return on plan assets	(2,749)	(2,531)
Amortization of actuarial loss or gain	73	123
Amortization of prior service cost	269	224
Gains recognized due to partial settlements	—	(2,053)
Net periodic cost	¥ 1,814	¥ (699)

Net periodic cost of the other postretirement benefit plans for the three months ended June 30, 2022 and 2021 included the following components:

	Millions of yen	
	Three months ended June 30, 2022	Three months ended June 30, 2021
Service cost	¥ 110	¥ 128
Interest cost on projected benefit obligations	100	87
Expected return on plan assets	(142)	(142)
Amortization of actuarial loss or gain	(18)	(9)
Amortization of prior service cost	(75)	(30)
Net periodic cost	¥ (25)	¥ 34

Net periodic cost components other than the service cost of Komatsu's defined benefit plans and the other 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 three months ended June 30, 2022 and 2021 are as follows:

	Millions of yen			
	Three months ended June 30, 2022			
	Foreign currency translation adjustments	Pension liability adjustments	Net unrealized holding gains (losses) on derivative instruments	Total
Balance, beginning of the year	¥ 148,629	¥ (24,171)	¥ (2,044)	¥ 122,414
Other comprehensive income (loss) before reclassifications	197,525	10	(9,144)	188,391
Amounts reclassified from accumulated other comprehensive income (loss)	—	166	8,004	8,170
Net other comprehensive income (loss)	197,525	176	(1,140)	196,561
Less: other comprehensive income (loss) attributable to noncontrolling interests	8,242	—	173	8,415
Other comprehensive income (loss) attributable to Komatsu Ltd.	189,283	176	(1,313)	188,146
Equity transactions with noncontrolling interests	1,476	—	—	1,476
Balance, end of the period	<u>¥ 339,388</u>	<u>¥ (23,995)</u>	<u>¥ (3,357)</u>	<u>¥ 312,036</u>

All amounts are net of tax.

	Millions of yen			
	Three months ended June 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	12,230	(20)	151	12,361
Amounts reclassified from accumulated other comprehensive income (loss)	—	1,398	710	2,108
Net other comprehensive income (loss)	12,230	1,378	861	14,469
Less: other comprehensive income (loss) attributable to noncontrolling interests	(159)	—	46	(113)
Other comprehensive income (loss) attributable to Komatsu Ltd.	12,389	1,378	815	14,582
Balance, end of the period	<u>¥ 5,203</u>	<u>¥ (32,912)</u>	<u>¥ 279</u>	<u>¥ (27,430)</u>

All amounts are net of tax.

Reclassification out of accumulated other comprehensive income (loss) for the three months ended June 30, 2022 and 2021 are as follows:

	Millions of yen	
	Three months ended June 30, 2022	Affected line items in consolidated statements of income
<b>Pension liability adjustments</b>		
Amortization of actuarial loss or gain and prior service cost	¥ (249)	Other income (expenses), net: Other, net
	(249)	Total before tax
	83	Income taxes
	(166)	Net of tax
<b>Net unrealized holding gains (losses) on derivative instruments</b>		
Forwards contracts, Interest rate swaps and cross-currency swap agreements	(5,046)	Net sales
	326	Cost of sales
	(6,875)	Other income (expenses), net: Other, net
	(11,595)	Total before tax
	3,591	Income taxes
	(8,004)	Net of tax
<b>Total reclassification for the period</b>	<b>¥ (8,170)</b>	<b>Net of tax</b>

	Millions of yen	
	Three months ended June 30, 2021	Affected line items in consolidated statements of income
<b>Pension liability adjustments</b>		
Amortization of actuarial loss or gain and prior service cost	¥ (2,028)	Other income (expenses), net: Other, net
	(2,028)	Total before tax
	630	Income taxes
	(1,398)	Net of tax
<b>Net unrealized holding gains (losses) on derivative instruments</b>		
Forwards contracts	(1,272)	Net sales
	(163)	Cost of sales
	418	Other income (expenses), net: Other, net
	(1,017)	Total before tax
	307	Income taxes
	(710)	Net of tax
<b>Total reclassification for the period</b>	<b>¥ (2,108)</b>	<b>Net of tax</b>

Tax effects allocated to each component of other comprehensive income (loss) for the three months ended June 30, 2022 and 2021 are as follows:

	Millions of yen		
	Three months ended June 30, 2022		
	Before tax amount	Tax (expense) or benefit	Net of tax amount
<b>Foreign currency translation adjustments</b>			
Foreign currency translation adjustments arising during the period	¥ 197,893	¥ (368)	¥ 197,525
Less: reclassification adjustment for gains included in net income	—	—	—
Net foreign currency translation adjustments	197,893	(368)	197,525
<b>Pension liability adjustments</b>			
Pension liability adjustments arising during the period	14	(4)	10
Less: reclassification adjustment for losses included in net income	249	(83)	166
Net pension liability adjustments	263	(87)	176
<b>Net unrealized holding gains (losses) on derivative instruments</b>			
Unrealized holding losses arising during the period	(13,208)	4,064	(9,144)
Less: reclassification adjustment for losses included in net income	11,595	(3,591)	8,004
Net unrealized holding losses	(1,613)	473	(1,140)
<b>Other comprehensive income (loss)</b>	<b>¥ 196,543</b>	<b>¥ 18</b>	<b>¥ 196,561</b>

	Millions of yen		
	Three months ended June 30, 2021		
	Before tax amount	Tax (expense) or benefit	Net of tax amount
<b>Foreign currency translation adjustments</b>			
Foreign currency translation adjustments arising during the period	¥ 12,264	¥ (34)	¥ 12,230
Less: reclassification adjustment for gains included in net income	—	—	—
Net foreign currency translation adjustments	12,264	(34)	12,230
<b>Pension liability adjustments</b>			
Pension liability adjustments arising during the period	(28)	8	(20)
Less: reclassification adjustment for losses included in net income	2,028	(630)	1,398
Net pension liability adjustments	2,000	(622)	1,378
<b>Net unrealized holding gains (losses) on derivative instruments</b>			
Unrealized holding gains arising during the period	398	(247)	151
Less: reclassification adjustment for losses included in net income	1,017	(307)	710
Net unrealized holding gains	1,415	(554)	861
<b>Other comprehensive income (loss)</b>	<b>¥ 15,679</b>	<b>¥ (1,210)</b>	<b>¥ 14,469</b>

## 9. Revenue

### (1) Disaggregation of revenue

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

### (2) Contract balances

Contract balances arising from contracts with customers at June 30, 2022 and at March 31, 2022 are as follows:

	Millions of yen	
	June 30, 2022	March 31, 2022
Receivables *1	¥ 1,318,341	¥ 1,220,566
Contract assets *2	3,596	2,699
Contract liabilities *3	161,819	132,649

\*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 allowances for doubtful receivables.

\*2 Contract assets are included in trade notes and accounts receivable, net in the accompanying consolidated balance sheets. These amounts are before deducting allowances for doubtful 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 three months ended June 30, 2022 that was included in the contract liability balance as of March 31, 2022 was ¥23,235 million. Revenue recognized for the three months ended June 30, 2021 that was included in the contract liability balance as of March 31, 2021 was ¥26,158 million.

In addition, the amounts of revenue recognized during the three months ended June 30, 2022 and 2021 from performance obligations satisfied or partially satisfied in previous periods were immaterial.

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

As of June 30, 2022, the aggregate amount of the transaction price allocated to the remaining performance obligations that have original expected durations greater than one year was ¥272,576 million, of which ¥134,579 million is expected to be recognized as revenue in the twelve months following June 30, 2022.

## 10. Stock-Based Remuneration

The Company had a stock option plan which transfers the Company's shares to directors, 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 advance in sharing value between the directors and shareholders of the Company. Compensation expenses during the three months ended June 30, 2022 and 2021 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 three months ended June 30, 2022 and 2021 are as follows:

	Millions of yen	
	Three months ended June 30, 2022	Three months ended June 30, 2021
Sales-type lease revenue		
Revenue recognized at the commencement date *	¥ 27,860	¥ 35,968
Interest income	2,373	2,398
Total sales-type lease revenue	30,233	38,366
Operating lease revenue	19,327	19,990
Total	¥ 49,560	¥ 58,356

\* 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	
	Three months ended June 30, 2022	Three months ended June 30, 2021
Net income attributable to Komatsu Ltd.	¥ 80,454	¥ 40,892
Net income attributable to participating securities (restricted stocks)	75	38
Net income attributable to common shareholders	¥ 80,379	¥ 40,854

  

	Number of shares	
	Three months ended June 30, 2022	Three months ended June 30, 2021
Weighted average number of common shares outstanding, less treasury stock	945,302,904	945,051,181
Weighted average number of participating securities (restricted stocks)	880,200	875,000
Weighted average number of common shares	944,422,704	944,176,181

  

	Yen	
	Three months ended June 30, 2022	Three months ended June 30, 2021
Basic net income attributable to Komatsu Ltd. per share	¥ 85.11	¥ 43.27

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	
	Three months ended June 30, 2022	Three months ended June 30, 2021
Net income attributable to Komatsu Ltd.	¥ 80,454	¥ 40,892
Net income attributable to participating securities (restricted stocks)	75	38
Net income attributable to common shareholders	¥ 80,379	¥ 40,854

  

	Number of shares	
	Three months ended June 30, 2022	Three months ended June 30, 2021
Weighted average number of common shares outstanding, less treasury stock	945,302,904	945,051,181
Dilutive effect of:		
Stock options	146,205	267,231
Weighted average number of participating securities (restricted stocks)	880,200	875,000
Weighted average number of diluted common shares	944,568,909	944,443,412

  

	Yen	
	Three months ended June 30, 2022	Three months ended June 30, 2021
Diluted net income attributable to Komatsu Ltd. per share	¥ 85.10	¥ 43.26



### 13. Contingent Liabilities

(1) 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 June 30, 2022 and at March 31, 2022 were ¥15,916 million and ¥12,293 million, respectively. The fair value of the liabilities recognized for Komatsu's obligations as guarantors under those guarantees at June 30, 2022 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 June 30, 2022 and at March 31, 2022 were ¥18,649 million and ¥17,330 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 June 30, 2022 and at March 31, 2022 are as follows:

	Millions of yen	
	June 30, 2022	March 31, 2022
Forwards contracts:		
Sale of foreign currencies	¥ 290,390	¥ 278,513
Purchase of foreign currencies	210,051	176,360
Interest rate swaps and cross-currency swap agreements	178,299	126,032

Fair value of derivative instruments at June 30, 2022 and at March 31, 2022 on the consolidated balance sheets are as follows:

	Millions of yen			
	June 30, 2022			
	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	¥ 796	Other current liabilities	¥11,231
	Deferred income taxes and other assets	—	Deferred income taxes and other liabilities	157
Interest rate swaps and cross-currency swap agreements	Other current assets	7	Other current liabilities	621
	Deferred income taxes and other assets	1,561	Deferred income taxes and other liabilities	—
<b>Total</b>		<b>¥ 2,364</b>		<b>¥12,009</b>
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	¥ 4,057	Other current liabilities	¥ 4,022
	Deferred income taxes and other assets	54	Deferred income taxes and other liabilities	53
Interest rate swaps and cross-currency swap agreements	Other current assets	2,927	Other current liabilities	38
	Deferred income taxes and other assets	80	Deferred income taxes and other liabilities	179
<b>Total</b>		<b>¥ 7,118</b>		<b>¥ 4,292</b>
<b>Total Derivative Instruments</b>		<b>¥ 9,482</b>		<b>¥16,301</b>

**Millions of yen**

**March 31, 2022**

	Derivative Assets		Derivative Liabilities	
	Location on the consolidated Balance Sheets	Estimated fair value	Location on the consolidated Balance Sheets	Estimated fair value
<b>Derivative instruments designated as hedging instruments</b>				
Forwards contracts	Other current assets	¥ 434	Other current liabilities	¥ 7,545
	Deferred income taxes and other assets	—	Deferred income taxes and other liabilities	33
Interest rate swaps and cross-currency swap agreements	Other current assets	—	Other current liabilities	158
	Deferred income taxes and other assets	944	Deferred income taxes and other liabilities	67
<b>Total</b>		<b>¥ 1,378</b>		<b>¥ 7,803</b>
	Derivative Assets		Derivative Liabilities	
	Location on the consolidated Balance Sheets	Estimated fair value	Location on the consolidated Balance Sheets	Estimated fair value
<b>Undesignated derivative instruments</b>				
Forwards contracts	Other current assets	¥ 2,457	Other current liabilities	¥ 7,839
	Deferred income taxes and other assets	25	Deferred income taxes and other liabilities	24
Interest rate swaps and cross-currency swap agreements	Other current assets	1,314	Other current liabilities	119
	Deferred income taxes and other assets	—	Deferred income taxes and other liabilities	299
<b>Total</b>		<b>¥ 3,796</b>		<b>¥ 8,281</b>
<b>Total Derivative Instruments</b>		<b>¥ 5,174</b>		<b>¥16,084</b>

The effects of derivative instruments on the consolidated statements of income and the consolidated statements of comprehensive income for the three months ended June 30, 2022 and 2021 are as follows:

### Derivative instruments designated as cash flow hedging relationships

Millions of yen			
Three months ended June 30, 2022			
	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	¥ (13,329)	Net sales	¥ (5,046)
		Cost of sales	330
		Other income (expenses), net: Other, net	(6,875)
Interest rate swaps and cross-currency swap agreements	121	Cost of sales	(4)
<b>Total</b>	<b>¥ (13,208)</b>		<b>¥ (11,595)</b>

Millions of yen			
Three months ended June 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	¥ 231	Net sales	¥ (1,272)
		Cost of sales	(163)
		Other income (expenses), net: Other, net	418
Interest rate swaps and cross-currency swap agreements	167	—	—
<b>Total</b>	<b>¥ 398</b>		<b>¥ (1,017)</b>

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

### Derivative instruments not designated as hedging instruments relationships

Millions of yen		
Three months ended June 30, 2022		
	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	¥ 4,293
Interest rate swaps and cross-currency swap agreements	Cost of sales	(37)
	Other income (expenses), net: Other, net	896
<b>Total</b>		<b>¥ 5,152</b>

Millions of yen		
Three months ended June 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	¥ (864)
Interest rate swaps and cross-currency swap agreements	Cost of sales	(37)
	Other income (expenses), net: Other, net	49
<b>Total</b>		<b>¥ (852)</b>

## 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 June 30, 2022 and as of March 31, 2022, and fair value levels are summarized as follows:

	Millions of yen				Fair Value Levels
	June 30, 2022		March 31, 2022		
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value	
Cash and cash equivalents	¥ 383,543	¥ 383,543	¥ 315,360	¥ 315,360	Level 1
Time deposits	1,083	1,083	1,310	1,310	Level 2
Long-term trade receivables, net, excluding lease receivables	430,151	430,151	362,720	362,720	Level 2
Short-term debt	409,851	409,851	241,746	241,746	Level 2
Long-term debt, including current portion	754,020	736,284	705,634	694,174	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 June 30, 2022 and at March 31, 2022 are as follows:

		Millions of yen			
<u>At June 30, 2022</u>		Level 1	Level 2	Level 3	Total
<b>Assets</b>					
Derivatives					
Forward contracts	¥	—	¥ 4,907	¥	¥ 4,907
Interest rate swaps and cross-currency swap agreements		—	4,575	—	4,575
<b>Total</b>	<b>¥</b>	<b>—</b>	<b>¥ 9,482</b>	<b>¥</b>	<b>¥ 9,482</b>
<b>Liabilities</b>					
Derivatives					
Forward contracts	¥	—	¥ 15,463	¥	¥ 15,463
Interest rate swaps and cross-currency swap agreements		—	838	—	838
<b>Total</b>	<b>¥</b>	<b>—</b>	<b>¥ 16,301</b>	<b>¥</b>	<b>¥ 16,301</b>
		Millions of yen			
<u>At March 31, 2022</u>		Level 1	Level 2	Level 3	Total
<b>Assets</b>					
Derivatives					
Forward contracts	¥	—	¥ 2,916	¥	¥ 2,916
Interest rate swaps and cross-currency swap agreements		—	2,258	—	2,258
<b>Total</b>	<b>¥</b>	<b>—</b>	<b>¥ 5,174</b>	<b>¥</b>	<b>¥ 5,174</b>
<b>Liabilities</b>					
Derivatives					
Forward contracts	¥	—	¥ 15,441	¥	¥ 15,441
Interest rate swaps and cross-currency swap agreements		—	643	—	643
<b>Total</b>	<b>¥</b>	<b>—</b>	<b>¥ 16,084</b>	<b>¥</b>	<b>¥ 16,084</b>

## 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 three months ended June 30, 2022 and 2021 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 June 30, 2022 and at March 31, 2022 were ¥307,686 million and ¥277,259 million, respectively. These total amounts of unused committed credit lines available for full and immediate borrowings at June 30, 2022 and at March 31, 2022 were ¥291,723 million and ¥261,619 million, respectively.

## 18. Dividends

Payment amount of dividends

Resolution	Type of stock	Three months ended June 30, 2022				
		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 21, 2022	Common stock	¥52,962	Retained earnings	¥56	March 31, 2022	June 22, 2022

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

Payment amount of dividends

Resolution	Type of stock	Three months ended June 30, 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

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 three months ended June 30, 2022 and 2021 is as follows:

	Millions of yen	
	Three months ended June 30, 2022	Three months ended June 30, 2021
<b>Net sales:</b>		
Construction, Mining and Utility Equipment –		
External customers	¥ 713,628	¥ 593,009
Intersegment	1,696	1,338
Total	715,324	594,347
Retail Finance –		
External customers	16,251	14,757
Intersegment	3,688	5,696
Total	19,939	20,453
Industrial Machinery and Others –		
External customers	33,929	40,500
Intersegment	611	343
Total	34,540	40,843
Elimination	(5,995)	(7,377)
Consolidated	¥ 763,808	¥ 648,266
<b>Segment profit:</b>		
Construction, Mining and Utility Equipment	¥ 83,326	¥ 53,650
Retail Finance	7,713	3,215
Industrial Machinery and Others	3,527	4,203
Total segment profit	94,566	61,068
Corporate expenses and elimination	(198)	(156)
Consolidated	¥ 94,368	¥ 60,912



The reconciliation of total segment profit to consolidated income before income taxes and equity in earnings of affiliated companies for the three months ended June 30, 2022 and 2021 are as follows:

	Millions of yen	
	Three months ended June 30, 2022	Three months ended June 30, 2021
Total segment profit	¥ 94,566	¥ 61,068
Corporate expenses and elimination	(198)	(156)
Total	94,368	60,912
Other operating income (expenses), net	(806)	838
Operating income	93,562	61,750
Interest and dividend income	2,236	992
Interest expense	(4,672)	(2,967)
Other, net	21,349	1,679
Consolidated income before income taxes and equity in earnings of affiliated companies	¥ 112,475	¥ 61,454

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 three months ended June 30, 2022 and 2021 are as follows:

	Millions of yen			
	Three months ended June 30, 2022			
	Construction, Mining and Utility Equipment	Retail Finance	Industrial Machinery and Others	Total
Japan	¥ 66,675	¥ 526	¥ 15,450	¥ 82,651
The Americas	304,107	11,381	3,541	319,029
Europe and CIS	104,230	1,819	3,185	109,234
China	19,185	597	3,339	23,121
Asia (excluding Japan and China) and Oceania	160,387	1,792	8,328	170,507
Middle East and Africa	59,044	136	86	59,266
<b>Total</b>	<b>¥ 713,628</b>	<b>¥ 16,251</b>	<b>¥ 33,929</b>	<b>¥ 763,808</b>

	Millions of yen			
	Three months ended June 30, 2021			
	Construction, Mining and Utility Equipment	Retail Finance	Industrial Machinery and Others	Total
Japan	¥ 63,940	¥ 420	¥ 15,833	¥ 80,193
The Americas	228,530	10,569	3,781	242,880
Europe and CIS	104,246	1,157	3,261	108,664
China	31,744	786	8,572	41,102
Asia (excluding Japan and China) and Oceania	122,464	1,754	8,876	133,094
Middle East and Africa	42,085	71	177	42,333
<b>Total</b>	<b>¥ 593,009</b>	<b>¥ 14,757</b>	<b>¥ 40,500</b>	<b>¥ 648,266</b>

Net sales determined by geographic origin for the three months ended June 30, 2022 and 2021 are as follows:

	Millions of yen	
	Three months ended June 30, 2022	Three months ended June 30, 2021
	Japan	¥ 137,124
The Americas	315,052	238,945
Europe and CIS	121,074	109,772
China	21,275	36,796
Others	169,283	139,605
<b>Total</b>	<b>¥ 763,808</b>	<b>¥ 648,266</b>

There were no sales to a single major external customer for the three months ended June 30, 2022 and 2021.

## **20. Material Subsequent Events**

Not applicable.

Komatsu evaluated subsequent events through August 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 as 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 are 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 or 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.