

(Translation)

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Quarterly Report

From October 1, 2020 to December 31, 2020

(Third Quarter of the 152nd Fiscal Year)

KOMATSU LTD.

Third Quarter of the 152nd Fiscal Year (from October 1, 2020 to December 31, 2020)

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, 2020 with the Director-General of the Kanto Local Finance Bureau on February 12, 2021. The Quarterly Securities Report contains, among other information, Quarterly Consolidated Financial Statements for the three months and nine months ended December 31, 2020. Material information in the Quarterly Securities Report, other than the Quarterly Consolidated Financial Statements, has already been reported by Komatsu Ltd. in its press release dated January 29, 2021. Attached is an English translation of Quarterly Consolidated Financial Statements for the three months and nine months ended December 31, 2020.
2. In this report, Komatsu Ltd. is hereinafter referred to as the “Company” and together with its consolidated subsidiaries as “Komatsu.”

Cautionary Statement with respect to forward-looking statements:

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

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

Financial Information

1. Basis of preparation of the quarterly consolidated financial statements

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

2. Audit certification

Pursuant to Article 193-2, paragraph 1 of the Financial Instruments and Exchange Act of Japan, the quarterly consolidated financial statements for the three months ended December 31, 2020 and for the nine months ended December 31, 2020 were reviewed by KPMG AZSA LLC.

Quarterly Consolidated Financial Statements, etc.

Quarterly Consolidated Financial Statements

Consolidated Balance Sheets (Unaudited)

Komatsu Ltd. and Consolidated Subsidiaries as of December 31, 2020 and March 31, 2020

Assets	December 31, 2020		March 31, 2020	
	Millions of yen	Ratio (%)	Millions of yen	Ratio (%)
Current assets				
Cash and cash equivalents (Note 15)	¥ 217,057		¥ 247,616	
Time deposits (Note 15)	1,436		2,057	
Trade notes and accounts receivable, net (Notes 3 and 9)	688,849		744,395	
Inventories (Note 4)	821,963		805,309	
Other current assets (Notes 14, 15 and 16)	131,325		147,413	
Total current assets	1,860,630	51.8	1,946,790	53.3
Long-term trade receivables, net (Notes 3, 9 and 15)	433,709	12.1	420,918	11.5
Investments				
Investments in and advances to affiliated companies	37,853		38,210	
Investment securities (Note 5)	7,750		7,328	
Other	2,522		2,436	
Total investments	48,125	1.3	47,974	1.3
Property, plant and equipment				
– less accumulated depreciation and amortization of ¥924,886 million at December 31, 2020 and ¥894,328 million at March 31, 2020	765,092	21.3	757,679	20.8
Operating lease right-of-use assets	54,483	1.5	53,454	1.5
Goodwill	160,069	4.5	157,521	4.3
Other intangible assets				
– less accumulated amortization (Note 6)	163,284	4.5	162,062	4.4
Deferred income taxes and other assets (Notes 14, 15 and 16)	107,602	3.0	107,288	2.9
Total assets	¥ 3,592,994	100.0	¥ 3,653,686	100.0

Liabilities and Equity	December 31, 2020		March 31, 2020	
	Millions of yen	Ratio (%)	Millions of yen	Ratio (%)
Current liabilities				
Short-term debt (Note 15)	¥ 307,336		¥ 483,658	
Current maturities of long-term debt (Note 15)	92,187		118,880	
Trade notes, bills and accounts payable	217,914		220,160	
Income taxes payable	25,075		23,169	
Current operating lease liabilities	14,777		14,933	
Other current liabilities (Notes 9, 14, 15 and 16)	304,600		297,825	
Total current liabilities	961,889	26.8	1,158,625	31.7
Long-term liabilities				
Long-term debt (Note 15)	516,862		409,840	
Liability for pension and retirement benefits	93,589		96,392	
Long-term operating lease liabilities	39,918		38,624	
Deferred income taxes and other liabilities (Notes 9, 14, 15 and 16)	88,611		93,980	
Total long-term liabilities	738,980	20.5	638,836	17.5
Total liabilities	1,700,869	47.3	1,797,461	49.2
Commitments and contingent liabilities (Note 13)				

Equity

Komatsu Ltd. shareholders' equity

Common stock:

Authorized 3,955,000,000 shares

Issued 972,887,610 shares

Outstanding 945,095,472 shares at December 31, 2020 and

944,621,957 shares at March 31, 2020

Capital surplus	69,037		68,689	
Retained earnings:	136,262		136,459	
Appropriated for legal reserve	47,378		46,813	
Unappropriated	1,710,653		1,699,477	
Accumulated other comprehensive income (loss) (Notes 8 and 14)	(114,896)		(130,666)	
Treasury stock at cost, 27,792,138 shares at December 31, 2020 and 27,959,273 shares at March 31, 2020	(48,934)		(49,166)	
Total Komatsu Ltd. shareholders' equity	1,799,500	50.1	1,771,606	48.5
Noncontrolling interests	92,625	2.6	84,619	2.3
Total equity	1,892,125	52.7	1,856,225	50.8
Total liabilities and equity	¥ 3,592,994	100.0	¥ 3,653,686	100.0

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

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

Komatsu Ltd. and Consolidated Subsidiaries

Nine months ended December 31, 2020 and 2019

Consolidated Statements of Income

	Nine months ended December 31, 2020		Nine months ended December 31, 2019	
	Millions of yen	Ratio(%)	Millions of yen	Ratio(%)
Net sales (Notes 9, 11 and 14)	¥ 1,513,310	100.0	¥ 1,827,442	100.0
Cost of sales (Notes 6, 7 and 14)	1,109,060	73.3	1,296,944	71.0
Selling, general and administrative expenses (Notes 6, 7 and 10)	296,044	19.6	326,245	17.9
Other operating income (expenses), net	(670)	(0.0)	3,575	0.2
Operating income	107,536	7.1	207,828	11.4
Other income (expenses), net				
Interest and dividend income	3,476	0.2	5,403	0.3
Interest expense	(10,566)	(0.7)	(18,892)	(1.0)
Other, net (Notes 5, 7, 8 and 14)	2,913	0.2	(4,417)	(0.2)
Total	(4,177)	(0.3)	(17,906)	(1.0)
Income before income taxes and equity in earnings of affiliated companies	103,359	6.8	189,922	10.4
Income taxes (Note 8)				
Current	33,416		47,432	
Deferred	(2,470)		2,439	
Total	30,946	2.0	49,871	2.7
Income before equity in earnings of affiliated companies	72,413	4.8	140,051	7.7
Equity in earnings of affiliated companies	2,174	0.1	2,717	0.1
Net income	74,587	4.9	142,768	7.8
Less: Net income attributable to noncontrolling interests	8,611	0.6	7,500	0.4
Net income attributable to Komatsu Ltd.	¥ 65,976	4.4	¥ 135,268	7.4

Yen

Per share data (Note 12):

Net income attributable to Komatsu Ltd.:

Basic	¥ 69.83	¥ 143.27
Diluted	¥ 69.80	¥ 143.15

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, 2020	Nine months ended December 31, 2019
Net income	¥ 74,587	¥ 142,768
Other comprehensive income (loss), for the period, net of tax		
Foreign currency translation adjustments (Note 8)	17,626	(43,371)
Pension liability adjustments (Notes 7 and 8)	827	399
Net unrealized holding gains (losses) on derivative instruments (Notes 8 and 14)	390	(430)
Total	18,843	(43,402)
Comprehensive income	93,430	99,366
Less: Comprehensive income attributable to noncontrolling interests	11,684	4,286
Comprehensive income attributable to Komatsu Ltd.	¥ 81,746	¥ 95,080

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, 2020 and 2019

Consolidated Statements of Income

	Three months ended December 31, 2020		Three months ended December 31, 2019	
	Millions of yen	Ratio(%)	Millions of yen	Ratio(%)
Net sales (Notes 9, 11 and 14)	¥ 555,593	100.0	¥ 613,957	100.0
Cost of sales (Notes 6, 7 and 14)	409,248	73.7	441,626	71.9
Selling, general and administrative expenses (Notes 6, 7 and 10)	98,896	17.8	108,767	17.7
Other operating income (expenses), net	(255)	(0.0)	2,282	0.4
Operating income	47,194	8.5	65,846	10.7
Other income (expenses), net				
Interest and dividend income	1,062	0.2	1,671	0.3
Interest expense	(3,160)	(0.6)	(5,784)	(0.9)
Other, net (Notes 5, 7, 8 and 14)	(267)	(0.0)	(23)	(0.0)
Total	(2,365)	(0.4)	(4,136)	(0.7)
Income before income taxes and equity in earnings of affiliated companies	44,829	8.1	61,710	10.1
Income taxes (Note 8)				
Current	13,629		11,484	
Deferred	219		2,769	
Total	13,848	2.5	14,253	2.3
Income before equity in earnings of affiliated companies	30,981	5.6	47,457	7.7
Equity in earnings of affiliated companies	985	0.2	987	0.2
Net income	31,966	5.8	48,444	7.9
Less: Net income attributable to noncontrolling interests	3,284	0.6	3,238	0.5
Net income attributable to Komatsu Ltd.	¥ 28,682	5.2	¥ 45,206	7.4

Yen

Per share data (Note 12):

Net income attributable to Komatsu Ltd.:

Basic	¥ 30.35	¥ 47.87
Diluted	¥ 30.34	¥ 47.83

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, 2020	Three months ended December 31, 2019
Net income	¥ 31,966	¥ 48,444
Other comprehensive income (loss), for the period, net of tax		
Foreign currency translation adjustments (Note 8)	11,120	22,843
Pension liability adjustments (Notes 7 and 8)	340	254
Net unrealized holding gains (losses) on derivative instruments (Notes 8 and 14)	138	801
Total	11,598	23,898
Comprehensive income	43,564	72,342
Less: Comprehensive income attributable to noncontrolling interests	4,369	4,647
Comprehensive income attributable to Komatsu Ltd.	¥ 39,195	¥ 67,695

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, 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.

Nine months ended December 31, 2019

	Millions of yen								
	Common stock	Capital surplus	Retained earnings		Accumulated other comprehensive income (loss)	Treasury stock	Total Komatsu Ltd. shareholders' equity	Non-controlling interests	Total equity
			Appropriated for legal reserve	Un-appropriated					
Balance at March 31, 2019	¥ 68,311	¥ 136,798	¥ 46,028	¥ 1,654,105	¥ (39,792)	¥ (49,868)	¥ 1,815,582	¥ 87,286	¥ 1,902,868
Cash dividends (Note 18)				(107,687)			(107,687)	(4,614)	(112,301)
Transfer to retained earnings appropriated for legal reserve			745	(745)			—		—
Other changes		10			(29)		(19)	139	120
Net income				135,268			135,268	7,500	142,768
Other comprehensive income (loss), for the period, net of tax (Note 8)					(40,188)		(40,188)	(3,214)	(43,402)
Issuance and exercise of stock acquisition rights (Note 10)		(353)					(353)		(353)
Purchase of treasury stock						(33)	(33)		(33)
Sales of treasury stock		15				338	353		353
Restricted stock compensation (Note 10)	378	375					753		753
Balance at December 31, 2019	¥ 68,689	¥ 136,845	¥ 46,773	¥ 1,680,941	¥ (80,009)	¥ (49,563)	¥ 1,803,676	¥ 87,097	¥ 1,890,773

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

Consolidated Statements of Cash Flows (Unaudited)

Komatsu Ltd. and Consolidated Subsidiaries

Nine months ended December 31, 2020 and 2019

	Millions of yen	
	Nine months ended December 31, 2020	Nine months ended December 31, 2019
Operating activities		
Net income	¥ 74,587	¥ 142,768
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	98,266	97,221
Deferred income taxes	(2,470)	2,439
Impairment loss and net loss (gain) on valuation of investment securities	16	(236)
Net loss (gain) on sale of fixed assets	(239)	(3,759)
Loss on disposal of fixed assets	1,730	2,465
Pension and retirement benefits, net	(1,650)	(1,566)
Changes in assets and liabilities:		
Decrease (increase) in trade receivables	39,646	30,046
Decrease (increase) in inventories	(15,889)	(84,027)
Increase (decrease) in trade payables	(3,212)	(33,018)
Increase (decrease) in income taxes payable	887	(20,730)
Other, net	47,710	26,354
Net cash provided by (used in) operating activities	239,382	157,957
Investing activities		
Capital expenditures	(137,239)	(139,560)
Proceeds from sale of fixed assets	10,520	11,881
Proceeds from sale of investment securities	21	844
Purchases of investment securities	(601)	(492)
Acquisition of subsidiaries and equity investees, net of cash acquired	(1,717)	(21,646)
Other, net	2,461	(340)
Net cash provided by (used in) investing activities	(126,555)	(149,313)
Financing activities		
Proceeds from debt issued (Original maturities greater than three months)	564,126	363,503
Payment on debt (Original maturities greater than three months)	(576,116)	(310,560)
Short-term debt, net (Original maturities three months or less)	(76,556)	85,778
Dividends paid	(53,878)	(107,687)
Other, net	(4,900)	(4,786)
Net cash provided by (used in) financing activities	(147,324)	26,248
Effect of exchange rate change on cash and cash equivalents	3,938	275
Net increase (decrease) in cash and cash equivalents	(30,559)	35,167
Cash and cash equivalents, beginning of year	247,616	148,479
Cash and cash equivalents, end of period	¥ 217,057	¥ 183,646

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, 2020 and 2019

Notes to Quarterly Consolidated Financial Statements (Unaudited)

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

Basis of Quarterly Financial Statement Presentation

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

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

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

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

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

Summary of Significant Accounting Policies

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

Regarding the impact of the novel coronavirus (COVID-19) pandemic on the financial position and results of operations of Komatsu (the Company and its consolidated subsidiaries), just 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 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, 2020 and 2019 are as follows:

	Millions of yen	
	Nine months ended December 31, 2020	Nine months ended December 31, 2019
Additional cash flow information:		
Interest paid	¥ 10,749	¥ 19,491
Income taxes paid, net	20,646	79,107

3. Allowance for Doubtful Receivables

At December 31, 2020 and at March 31, 2020, allowances for doubtful receivables deducted from trade notes and accounts receivable, net and long-term trade receivables, net are ¥17,292 million and ¥16,822 million, respectively.

4. Inventories

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

	Millions of yen	
	December 31, 2020	March 31, 2020
Finished products, including finished parts held for sale	¥ 590,607	¥ 586,468
Work in process	169,363	153,082
Materials and supplies	61,993	65,759
Total	¥ 821,963	¥ 805,309

5. Investment Securities

The realized gains and losses and gross unrealized holding gains and losses for such equity securities which are recorded in other income (expenses), net in the accompanying consolidated statements of income, respectively, for the nine months ended December 31, 2020 and 2019 are as follows:

	Millions of yen	
	Nine months ended December 31, 2020	Nine months ended December 31, 2019
Net gains and losses recognized during the period on equity securities	¥ (16)	¥ 236
Less: net gains and losses recognized during the period on equity securities sold during the period	6	(3)
Unrealized gains and losses recognized during the period on equity securities still held as of December 31, 2020 and 2019	¥ (22)	¥ 239

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, 2020 and 2019 are as follows:

	Millions of yen	
	Three months ended December 31, 2020	Three months ended December 31, 2019
Net gains and losses recognized during the period on equity securities	¥ 47	¥ 135
Less: net gains and losses recognized during the period on equity securities sold during the period	—	6
Unrealized gains and losses recognized during the period on equity securities still held as of December 31, 2020 and 2019	¥ 47	¥ 129

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, 2020 and as of March 31, 2020, the carrying amounts of these investments were ¥7,750 million and ¥7,328 million, respectively. Any impairment or any adjustment relating to observable price changes recorded until December 31, 2020 and until March 31, 2020 were not material.

6. Other Intangible Assets

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

	Millions of yen					
	December 31, 2020			March 31, 2020		
	Gross carrying amount	Accumulated amortization	Net carrying amount	Gross carrying amount	Accumulated amortization	Net carrying amount
Other intangible assets subject to amortization:						
Software	¥ 62,372	¥ (25,651)	¥ 36,721	¥ 52,813	¥ (21,678)	¥ 31,135
Leasehold	7,218	(1,824)	5,394	6,959	(1,675)	5,284
Trademarks	52,524	(13,366)	39,158	52,444	(10,866)	41,578
Customer relationships	73,309	(27,017)	46,292	73,505	(25,197)	48,308
Technology assets	37,870	(12,733)	25,137	37,423	(11,950)	25,473
Other	6,866	(4,461)	2,405	7,292	(4,635)	2,657
Total	240,159	(85,052)	155,107	230,436	(76,001)	154,435
Other intangible assets not subject to amortization			8,177			7,627
Total other intangible assets			<u>¥ 163,284</u>			<u>¥ 162,062</u>

The aggregate amortization expense of other intangible assets subject to amortization during the nine months ended December 31, 2020 and 2019 were ¥15,131 million and ¥13,829 million, respectively. The aggregate amortization expense of other intangible assets subject to amortization during the three months ended December 31, 2020 and 2019 were ¥5,338 million and ¥4,730 million, respectively.

7. Cost of Retirement Benefits

Net periodic cost of Komatsu's defined benefit plans for the nine months ended December 31, 2020 and 2019, consisted of the following components:

	Millions of yen	
	Nine months ended December 31, 2020	Nine months ended December 31, 2019
Service cost	¥ 7,152	¥ 6,960
Interest cost on projected benefit obligations	4,419	5,083
Expected return on plan assets	(7,312)	(8,110)
Amortization of actuarial loss or gain	1,040	878
Amortization of prior service cost	221	222
Net periodic cost	¥ 5,520	¥ 5,033

Net periodic cost of the postretirement benefit plans for the nine months ended December 31, 2020 and 2019 included the following components:

	Millions of yen	
	Nine months ended December 31, 2020	Nine months ended December 31, 2019
Service cost	¥ 385	¥ 418
Interest cost on projected benefit obligations	309	415
Expected return on plan assets	(371)	(438)
Amortization of actuarial loss or gain	57	34
Amortization of prior service cost	(89)	3
Net periodic cost	¥ 291	¥ 432

Net periodic cost of Komatsu's defined benefit plans for the three months ended December 31, 2020 and 2019, consisted of the following components:

	Millions of yen	
	Three months ended December 31, 2020	Three months ended December 31, 2019
Service cost	¥ 2,397	¥ 2,404
Interest cost on projected benefit obligations	1,470	1,690
Expected return on plan assets	(2,420)	(2,715)
Amortization of actuarial loss or gain	367	293
Amortization of prior service cost	58	80
Net periodic cost	¥ 1,872	¥ 1,752

Net periodic cost of the postretirement benefit plans for the three months ended December 31, 2020 and 2019 included the following components:

	Millions of yen	
	Three months ended December 31, 2020	Three months ended December 31, 2019
Service cost	¥ 126	¥ 139
Interest cost on projected benefit obligations	102	138
Expected return on plan assets	(122)	(145)
Amortization of actuarial loss or gain	19	11
Amortization of prior service cost	(29)	1
Net periodic cost	¥ 96	¥ 144

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, 2020 and 2019 are as follows:

	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.

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

All amounts are net of tax.

Changes in accumulated other comprehensive income (loss) for the three months ended December 31, 2020 and 2019 are as follows:

	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.

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

All amounts are net of tax.

Reclassification out of accumulated other comprehensive income (loss) for the nine months ended December 31, 2020 and 2019 are as follows:

	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

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

Reclassification out of accumulated other comprehensive income (loss) for the three months ended December 31, 2020 and 2019 are as follows:

	Millions of yen		Affected line items in consolidated statements of income
	Three months ended December 31, 2020		
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

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

Tax effects allocated to each component of other comprehensive income (loss) for the nine months ended December 31, 2020 and 2019 are as follows:

	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
	Millions of yen		
	Nine months ended December 31, 2019		
	Before tax amount	Tax (expense) or benefit	Net of tax amount
Foreign currency translation adjustments			
Foreign currency translation adjustments arising during the period	¥ (43,438)	¥ 67	¥ (43,371)
Less: reclassification adjustment for gains included in net income	—	—	—
Net foreign currency translation adjustments	(43,438)	67	(43,371)
Pension liability adjustments			
Pension liability adjustments arising during the period	(567)	179	(388)
Less: reclassification adjustment for losses included in net income	1,137	(350)	787
Net pension liability adjustments	570	(171)	399
Net unrealized holding gains (losses) on derivative instruments			
Unrealized holding gains arising during the period	2,761	(832)	1,929
Less: reclassification adjustment for gains included in net income	(3,069)	710	(2,359)
Net unrealized holding losses	(308)	(122)	(430)
Other comprehensive income (loss)	¥ (43,176)	¥ (226)	¥ (43,402)

Tax effects allocated to each component of other comprehensive income (loss) for the three months ended December 31, 2020 and 2019 are as follows:

	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
	Millions of yen		
	Three months ended December 31, 2019		
	Before tax amount	Tax (expense) or benefit	Net of tax amount
Foreign currency translation adjustments			
Foreign currency translation adjustments arising during the period	¥ 22,853	¥ (10)	¥ 22,843
Less: reclassification adjustment for gains included in net income	—	—	—
Net foreign currency translation adjustments	22,853	(10)	22,843
Pension liability adjustments			
Pension liability adjustments arising during the period	(40)	20	(20)
Less: reclassification adjustment for losses included in net income	385	(111)	274
Net pension liability adjustments	345	(91)	254
Net unrealized holding gains (losses) on derivative instruments			
Unrealized holding gains arising during the period	1,557	(155)	1,402
Less: reclassification adjustment for gains included in net income	(262)	(339)	(601)
Net unrealized holding gains	1,295	(494)	801
Other comprehensive income (loss)	¥ 24,493	¥ (595)	¥ 23,898

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, 2020 and at March 31, 2020 are as follows:

	Millions of yen	
	December 31, 2020	March 31, 2020
Receivables *1	¥ 903,611	¥ 980,371
Contract assets *2	2,218	3,483
Contract liabilities *3	112,628	100,472

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

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

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

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

Revenue recognized for the three months ended December 31, 2020, that was included in the contract liability balance as of March 31, 2020 was ¥10,688 million. Revenue recognized for the three months ended December 31, 2019, that was included in the contract liability balance as of March 31, 2019 was ¥11,949 million.

The amount of revenue recognized during the nine months and three months ended December 31, 2020 and 2019, from performance obligations satisfied or partially satisfied in previous periods was immaterial.

(3) Transaction price allocated to the remaining performance obligations

As of December 31, 2020, the aggregate amount of the transaction price allocated to the remaining performance obligations that have original expected durations greater than one year was ¥154,486 million, of which ¥72,809 million is expected to be recognized as revenue in the twelve months following December 31, 2020.

10. Stock-Based Remuneration

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

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

11. Leases

Revenues from sales-type and operating leases as a lessor, included in net sales on the consolidated statement of income, for the nine months ended December 31, 2020 and 2019 are as follows:

	Millions of yen	
	Nine months ended December 31, 2020	Nine months ended December 31, 2019
Sales-type lease revenue		
Revenue recognized at the commencement date *1	¥ 86,611	¥ 73,794
Interest income	6,490	7,544
Total sales-type lease revenue	93,101	81,338
Operating lease revenue	59,930	70,232
Total	¥ 153,031	¥ 151,570

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

Revenues from 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, 2020 and 2019 are as follows:

	Millions of yen	
	Three months ended December 31, 2020	Three months ended December 31, 2019
Sales-type lease revenue		
Revenue recognized at the commencement date *2	¥ 32,090	¥ 20,877
Interest income	2,355	2,460
Total sales-type lease revenue	34,445	23,337
Operating lease revenue	21,095	24,524
Total	¥ 55,540	¥ 47,861

*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, 2020	Nine months ended December 31, 2019
Net income attributable to Komatsu Ltd.	¥ 65,976	¥ 135,268
Net income attributable to participating securities (restricted stocks)	50	60
Net income attributable to common shareholders	¥ 65,926	¥ 135,208

	Number of shares	
	Nine months ended December 31, 2020	Nine months ended December 31, 2019
Weighted average number of common shares outstanding, less treasury stock	944,840,928	944,147,127
Weighted average number of participating securities (restricted stocks)	719,853	416,408
Weighted average number of common shares	944,121,075	943,730,719

	Yen	
	Nine months ended December 31, 2020	Nine months ended December 31, 2019
Basic net income attributable to Komatsu Ltd. per share	¥ 69.83	¥ 143.27

	Millions of yen	
	Three months ended December 31, 2020	Three months ended December 31, 2019
Net income attributable to Komatsu Ltd.	¥ 28,682	¥ 45,206
Net income attributable to participating securities (restricted stocks)	27	28
Net income attributable to common shareholders	¥ 28,655	¥ 45,178

	Number of shares	
	Three months ended December 31, 2020	Three months ended December 31, 2019
Weighted average number of common shares outstanding, less treasury stock	945,068,098	944,389,520
Weighted average number of participating securities (restricted stocks)	888,290	588,450
Weighted average number of common shares	944,179,808	943,801,070

	Yen	
	Three months ended December 31, 2020	Three months ended December 31, 2019
Basic net income attributable to Komatsu Ltd. per share	¥ 30.35	¥ 47.87

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, 2020	Nine months ended December 31, 2019
Net income attributable to Komatsu Ltd.	¥ 65,976	¥ 135,268
Net income attributable to participating securities (restricted stocks)	50	60
Net income attributable to common shareholders	¥ 65,926	¥ 135,208

	Number of shares	
	Nine months ended December 31, 2020	Nine months ended December 31, 2019
Weighted average number of common shares outstanding, less treasury stock	944,840,928	944,147,127
Dilutive effect of:		
Stock options	395,862	783,112
Weighted average number of participating securities (restricted stocks)	719,853	416,408
Weighted average number of diluted common shares	944,516,937	944,513,831

	Yen	
	Nine months ended December 31, 2020	Nine months ended December 31, 2019
Diluted net income attributable to Komatsu Ltd. per share	¥ 69.80	¥ 143.15

	Millions of yen	
	Three months ended December 31, 2020	Three months ended December 31, 2019
Net income attributable to Komatsu Ltd.	¥ 28,682	¥ 45,206
Net income attributable to participating securities (restricted stocks)	27	28
Net income attributable to common shareholders	¥ 28,655	¥ 45,178

	Number of shares	
	Three months ended December 31, 2020	Three months ended December 31, 2019
Weighted average number of common shares outstanding, less treasury stock	945,068,098	944,389,520
Dilutive effect of:		
Stock options	343,030	708,273
Weighted average number of participating securities (restricted stocks)	888,290	588,450
Weighted average number of diluted common shares	944,522,838	944,509,343

	Yen	
	Three months ended December 31, 2020	Three months ended December 31, 2019
Diluted net income attributable to Komatsu Ltd. per share	¥ 30.34	¥ 47.83

13. Contingent Liabilities

Komatsu provides guarantees to third parties of loans of the employees, affiliated companies, customers and other companies. The guarantees of loans relating to the employees are mainly made for their housing loans. The guarantees of loans relating to the affiliated companies, customers and other companies are made to enhance the credit of those companies. For each guarantee provided, Komatsu would have to perform under a guarantee if the borrower defaults on a payment within the contract terms. The contract terms are from 10 years to 30 years in the case of employees with housing loans, and from 1 year to 7 years in the case of loans relating to the affiliated companies, customers and other companies. The maximum amount of undiscounted payments Komatsu would have had to make in the event of default at December 31, 2020 and at March 31, 2020 were ¥9,845 million and ¥12,142 million, respectively. The fair value of the liabilities recognized for Komatsu's obligations as guarantors under those guarantees at December 31, 2020 were insignificant. Certain of those guarantees were secured by collateral and insurance issued to Komatsu.

Komatsu provides guarantees that subsidiaries of the Company perform the obligations of the terms and conditions of contracts by standby letters of credit issued by banks. Komatsu would have to pay the liabilities incurred to banks if the subsidiaries don't perform the obligations of the terms and conditions of contracts. The maximum amount of undiscounted payments Komatsu would have had to make in the event of defaults of the contracts at December 31, 2020 and at March 31, 2020 were ¥14,561 million and ¥15,590 million, respectively.

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

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

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

14. Derivative Financial Instruments

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

	Millions of yen	
	December 31, 2020	March 31, 2020
Forwards contracts:		
Sale of foreign currencies	¥ 141,008	¥ 147,655
Purchase of foreign currencies	114,447	101,835
Interest rate swaps and cross-currency swap agreements	117,137	83,088

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

	Millions of yen			
	December 31, 2020			
	Derivative Assets		Derivative Liabilities	
Derivative instruments designated as hedging instruments	Location on the consolidated Balance Sheets	Estimated fair value	Location on the consolidated Balance Sheets	Estimated fair value
Forwards contracts	Other current assets	¥ 1,813	Other current liabilities	¥ 914
	Deferred income taxes and other assets	2	Deferred income taxes and other liabilities	—
Interest rate swaps and cross-currency swap agreements	Other current assets	—	Other current liabilities	31
	Deferred income taxes and other assets	2	Deferred income taxes and other liabilities	768
Total		<u>¥ 1,817</u>		<u>¥ 1,713</u>
Undesignated derivative instruments	Location on the consolidated Balance Sheets	Estimated fair value	Location on the consolidated Balance Sheets	Estimated fair value
Forwards contracts	Other current assets	¥ 1,245	Other current liabilities	¥ 3,780
	Deferred income taxes and other assets	—	Deferred income taxes and other assets	51
Interest rate swaps and cross-currency swap agreements	Other current assets	114	Other current liabilities	352
	Deferred income taxes and other assets	73	Deferred income taxes and other liabilities	—
Total		<u>¥ 1,432</u>		<u>¥ 4,183</u>
Total Derivative Instruments		<u>¥ 3,249</u>		<u>¥ 5,896</u>

Millions of yen				
March 31, 2020				
	Derivative Assets		Derivative Liabilities	
	Location on the consolidated Balance Sheets	Estimated fair value	Location on the consolidated Balance Sheets	Estimated fair value
Derivative instruments designated as hedging instruments				
Forwards contracts	Other current assets	¥ 1,567	Other current liabilities	¥ 1,836
	Deferred income taxes and other assets	9	Deferred income taxes and other liabilities	318
Interest rate swaps and cross-currency swap agreements	Other current assets	—	Other current liabilities	4
	Deferred income taxes and other assets	—	Deferred income taxes and other liabilities	866
Total		<u>¥ 1,576</u>		<u>¥ 3,024</u>
	Derivative Assets		Derivative Liabilities	
	Location on the consolidated Balance Sheets	Estimated fair value	Location on the consolidated Balance Sheets	Estimated fair value
Undesignated derivative instruments				
Forwards contracts	Other current assets	¥ 7,511	Other current liabilities	¥ 1,673
	Deferred income taxes and other assets	2	Deferred income taxes and other liabilities	2
Interest rate swaps and cross-currency swap agreements	Other current assets	546	Other current liabilities	196
	Deferred income taxes and other assets	207	Deferred income taxes and other liabilities	—
Total		<u>¥ 8,266</u>		<u>¥ 1,871</u>
Total Derivative Instruments		<u>¥ 9,842</u>		<u>¥ 4,895</u>

The effects of derivative instruments on the consolidated statements of income and the consolidated statements of comprehensive income for the nine months ended December 31, 2020 and 2019 are as follows:

Derivative instruments designated as cash flow hedging relationships

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

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

* OCI stands for other comprehensive income (loss).

Derivative instruments not designated as hedging instruments relationships

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)

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

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, 2020 and 2019 are as follows:

Derivative instruments designated as cash flow hedging relationships

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	
		Location of consolidated statements of income	Amount
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

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

* OCI stands for other comprehensive income (loss).

Derivative instruments not designated as hedging instruments relationships

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)

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

15. Fair Values of Financial Instruments

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

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

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

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

(3) Long-term debt, including current portion

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

(4) Derivatives (Notes 14 and 16)

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

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

	Millions of yen				Fair Value Levels
	December 31, 2020		March 31, 2020		
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value	
Cash and cash equivalents	¥ 217,057	¥ 217,057	¥ 247,616	¥ 247,616	Level 1
Time deposits	1,436	1,436	2,057	2,057	Level 2
Long-term trade receivables, net, excluding lease receivables	307,668	307,668	314,592	314,592	Level 2
Short-term debt	307,336	307,336	483,658	483,658	Level 2
Long-term debt, including current portion	609,049	610,533	528,720	528,460	Level 2

Notes:

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

2) The fair value levels are stated in Note 16.

16. Fair value measurements

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

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

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

Level 3 – Unobservable inputs for the assets or liabilities

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

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

		Millions of yen			
<u>At December 31, 2020</u>		Level 1	Level 2	Level 3	Total
Assets					
Derivatives					
Forward contracts	¥	—	¥ 3,060	¥	¥ 3,060
Interest rate swaps and cross-currency swap agreements		—	189	—	189
Total	¥	—	¥ 3,249	¥	¥ 3,249
Liabilities					
Derivatives					
Forward contracts	¥	—	¥ 4,745	¥	¥ 4,745
Interest rate swaps and cross-currency swap agreements		—	1,151	—	1,151
Total	¥	—	¥ 5,896	¥	¥ 5,896
		Millions of yen			
<u>At March 31, 2020</u>		Level 1	Level 2	Level 3	Total
Assets					
Derivatives					
Forward contracts	¥	—	¥ 9,089	¥	¥ 9,089
Interest rate swaps and cross-currency swap agreements		—	753	—	753
Total	¥	—	¥ 9,842	¥	¥ 9,842
Liabilities					
Derivatives					
Forward contracts	¥	—	¥ 3,829	¥	¥ 3,829
Interest rate swaps and cross-currency swap agreements		—	1,066	—	1,066
Total	¥	—	¥ 4,895	¥	¥ 4,895

Derivatives (Notes 14 and 15)

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

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

During nine months ended December 31, 2020 and 2019 assets and liabilities that were measured at fair value on a non-recurring basis were not material.

17. Committed Credit Lines

The Company and certain consolidated subsidiaries have entered into contracts with certain financial institutions for committed credit lines. These total amounts of committed credit lines at December 31, 2020 and at March 31, 2020 were ¥558,582 million and ¥133,945 million, respectively. These total amounts of unused committed credit lines available for full and immediate borrowings at December 31, 2020 and at March 31, 2020 were ¥537,182 million and ¥112,135 million, respectively.

18. Dividends

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.

Payment amount of dividends

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

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

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, 2020 and 2019 is as follows:

	Millions of yen	
	Nine months ended December 31, 2020	Nine months ended December 31, 2019
Net sales:		
Construction, Mining and Utility Equipment –		
External customers	¥ 1,368,409	¥ 1,654,437
Intersegment	13,356	3,656
Total	1,381,765	1,658,093
Retail Finance –		
External customers	43,688	47,210
Intersegment	5,823	5,704
Total	49,511	52,914
Industrial Machinery and Others –		
External customers	101,213	125,795
Intersegment	794	1,205
Total	102,007	127,000
Elimination	(19,973)	(10,565)
Consolidated	¥ 1,513,310	¥ 1,827,442
Segment profit:		
Construction, Mining and Utility Equipment	¥ 89,947	¥ 182,853
Retail Finance	8,176	10,899
Industrial Machinery and Others	8,984	9,633
Total segment profit	107,107	203,385
Corporate expenses and elimination	1,099	868
Consolidated	¥ 108,206	¥ 204,253

Information about operating segments for the three months ended December 31, 2020 and 2019 is as follows:

	Millions of yen	
	Three months ended December 31, 2020	Three months ended December 31, 2019
Net sales:		
Construction, Mining and Utility Equipment –		
External customers	¥ 504,095	¥ 545,124
Intersegment	1,120	1,295
Total	505,215	546,419
Retail Finance –		
External customers	14,760	16,066
Intersegment	1,999	2,065
Total	16,759	18,131
Industrial Machinery and Others –		
External customers	36,738	52,767
Intersegment	331	504
Total	37,069	53,271
Elimination	(3,450)	(3,864)
Consolidated	¥ 555,593	¥ 613,957
Segment profit:		
Construction, Mining and Utility Equipment	¥ 37,730	¥ 53,020
Retail Finance	3,494	4,089
Industrial Machinery and Others	4,882	5,594
Total segment profit	46,106	62,703
Corporate expenses and elimination	1,343	861
Consolidated	¥ 47,449	¥ 63,564

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, 2020 and 2019 is as follows:

	Millions of yen	
	Nine months ended December 31, 2020	Nine months ended December 31, 2019
Total segment profit	¥ 107,107	¥ 203,385
Corporate expenses and elimination	1,099	868
Total	108,206	204,253
Other operating income (expenses), net	(670)	3,575
Operating income	107,536	207,828
Interest and dividend income	3,476	5,403
Interest expense	(10,566)	(18,892)
Other, net	2,913	(4,417)
Consolidated income before income taxes and equity in earnings of affiliated companies	¥ 103,359	¥ 189,922

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, 2020 and 2019 is as follows:

	Millions of yen	
	Three months ended December 31, 2020	Three months ended December 31, 2019
Total segment profit	¥ 46,106	¥ 62,703
Corporate expenses and elimination	1,343	861
Total	47,449	63,564
Other operating income (expenses), net	(255)	2,282
Operating income	47,194	65,846
Interest and dividend income	1,062	1,671
Interest expense	(3,160)	(5,784)
Other, net	(267)	(23)
Consolidated income before income taxes and equity in earnings of affiliated companies	¥ 44,829	¥ 61,710

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

a) Construction, Mining and Utility Equipment operating segment:

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

b) Retail Finance:

Financing

c) Industrial Machinery and Others operating segment:

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

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

Geographic information:

Net sales determined by customer location for the nine months ended December 31, 2020 and 2019 are as follows:

	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

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

Net sales determined by customer location for the three months ended December 31, 2020 and 2019 are as follows:

	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

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

Net sales determined by geographic origin for the nine months ended December 31, 2020 and 2019 are as follows:

	Millions of yen	
	Nine months ended December 31, 2020	Nine months ended December 31, 2019
Japan	¥ 331,761	¥ 390,712
The Americas	518,745	674,242
Europe and CIS	214,998	267,524
China	114,217	103,160
Others	333,589	391,804
Total	¥ 1,513,310	¥ 1,827,442

Net sales determined by geographic origin for the three months ended December 31, 2020 and 2019 are as follows:

	Millions of yen	
	Three months ended December 31, 2020	Three months ended December 31, 2019
Japan	¥ 124,512	¥ 137,637
The Americas	189,087	233,137
Europe and CIS	79,845	80,463
China	38,253	36,734
Others	123,896	125,986
Total	¥ 555,593	¥ 613,957

There were no sales to a single major external customer for the nine months and three months ended December 31, 2020 and 2019.

20. Material Subsequent Events

Not applicable.

Komatsu evaluated subsequent events through February 12, 2021, the issue date of its quarterly consolidated financial statements.

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

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

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

(1) Scope of consolidation

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

(2) Accounting policies

a. Deferred income on installment sales

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

b. Share issuance cost

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

c. Accounting for retirement benefits

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

d. Business combination and goodwill

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

(3) Presentation methods and other matters

a. Presentation of legal retained earnings

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

b. Extraordinary income and loss

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