

(Translation)

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Quarterly Report

From April 1, 2023 to June 30, 2023

(First Quarter of the 155th Fiscal Year)

KOMATSU LTD.

First Quarter of the 155th Fiscal Year (from April 1, 2023 to June 30, 2023)

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, 2023 with the Director-General of the Kanto Local Finance Bureau on August 10, 2023. The Quarterly Securities Report contains, among other information, Quarterly Consolidated Financial Statements for the three months ended June 30, 2023. 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 28, 2023. Attached is an English translation of Quarterly Consolidated Financial Statements for the three months ended June 30, 2023.
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, 2023 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, 2023 and 2022

Consolidated Statements of Income

	Three months ended June 30, 2023		Three months ended June 30, 2022	
	Millions of yen	Ratio(%)	Millions of yen	Ratio(%)
Net sales (Notes 9, 10, 12 and 15)	¥ 899,551	100.0	¥ 763,808	100.0
Cost of sales (Notes 6, 8, 9 and 15)	611,241	67.9	545,401	71.4
Selling, general and administrative expenses (Notes 6, 8 and 11)	141,502	15.7	124,039	16.2
Other operating income (expenses), net	213	0.0	(806)	(0.1)
Operating income	147,021	16.3	93,562	12.2
Other income (expenses), net				
Interest and dividend income	4,487	0.5	2,236	0.3
Interest expense	(11,960)	(1.3)	(4,672)	(0.6)
Other, net (Notes 5, 8, 9 and 15)	8,620	1.0	21,349	2.8
Total	1,147	0.1	18,913	2.5
Income before income taxes and equity in earnings of affiliated companies	148,168	16.5	112,475	14.7
Income taxes (Note 9)				
Current	35,149		24,297	
Deferred	3,534		5,218	
Total	38,683	4.3	29,515	3.9
Income before equity in earnings of affiliated companies	109,485	12.2	82,960	10.9
Equity in earnings of affiliated companies	2,186	0.2	1,045	0.1
Net income	111,671	12.4	84,005	11.0
Less: Net income attributable to noncontrolling interests	6,244	0.7	3,551	0.5
Net income attributable to Komatsu Ltd.	¥ 105,427	11.7	¥ 80,454	10.5

Yen

Per share data (Note 13):

Net income attributable to Komatsu Ltd.:

	Yen	
Basic	¥ 111.49	¥ 85.11
Diluted	¥ 111.48	¥ 85.10

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, 2023	Three months ended June 30, 2022
Net income	¥ 111,671	¥ 84,005
Other comprehensive income (loss), for the period, net of tax		
Foreign currency translation adjustments (Note 9)	156,778	197,525
Pension liability adjustments (Notes 8 and 9)	251	176
Net unrealized holding losses on derivative instruments (Notes 9 and 15)	(1,317)	(1,140)
Total	155,712	196,561
Comprehensive income	267,383	280,566
Less: Comprehensive income attributable to noncontrolling interests	15,537	11,966
Comprehensive income attributable to Komatsu Ltd.	¥ 251,846	¥ 268,600

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, 2023

	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, 2023	¥ 69,660	¥ 135,886	¥ 48,508	¥ 2,114,789	¥ 219,951	¥ (49,153)	¥ 2,539,641	¥ 138,314	¥ 2,677,955
Cumulative effects of Accounting Standards Update—adoption of ASU 2016-13, net of tax (Notes 1 and 3)				(1,634)			(1,634)	(126)	(1,760)
Cash dividends (Note 19)				(70,950)			(70,950)	(5,792)	(76,742)
Transfer to retained earnings appropriated for legal reserve			2	(2)			—		—
Other changes		2					2	(3)	(1)
Net income				105,427			105,427	6,244	111,671
Other comprehensive income (loss), for the period, net of tax (Note 9)					146,419		146,419	9,293	155,712
Exercise of stock acquisition rights (Note 11)		(25)					(25)		(25)
Purchase of treasury stock						(7)	(7)		(7)
Sales of treasury stock		3				22	25		25
Restricted stock compensation (Note 11)							—		—
Balance at June 30, 2023	<u>¥ 69,660</u>	<u>¥ 135,866</u>	<u>¥ 48,510</u>	<u>¥ 2,147,630</u>	<u>¥ 366,370</u>	<u>¥ (49,138)</u>	<u>¥ 2,718,898</u>	<u>¥ 147,930</u>	<u>¥ 2,866,828</u>

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

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					
Balance at March 31, 2022	¥ 69,393	¥ 139,572	¥ 47,903	¥ 1,902,501	¥ 122,414	¥ (49,272)	¥ 2,232,511	¥ 123,766	¥ 2,356,277
Cash dividends (Note 19)				(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 9)					188,146		188,146	8,415	196,561
Exercise of stock acquisition rights (Note 11)		(34)					(34)		(34)
Purchase of treasury stock						(6)	(6)		(6)
Sales of treasury stock		8				26	34		34
Restricted stock compensation (Note 11)	(174)	(173)					(347)		(347)
Balance at June 30, 2022	<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.

Consolidated Statements of Cash Flows (Unaudited)

Komatsu Ltd. and Consolidated Subsidiaries

Three months ended June 30, 2023 and 2022

	Millions of yen	
	Three months ended June 30, 2023	Three months ended June 30, 2022
Operating activities		
Net income	¥ 111,671	¥ 84,005
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	37,486	36,177
Deferred income taxes	3,534	5,218
Impairment loss and net gain on valuation of investment securities, net	(283)	(272)
Net loss (gain) on sale of fixed assets	(206)	135
Loss on disposal of fixed assets	440	317
Pension and retirement benefits, net	(179)	(451)
Changes in assets and liabilities:		
Decrease in trade receivables	13,340	29,735
Increase in inventories	(76,652)	(90,720)
Decrease in trade payables	(11,001)	(8,007)
Decrease in income taxes payable	(5,356)	(24,978)
Other, net	12,637	(33,506)
Net cash provided by (used in) operating activities	85,431	(2,347)
Investing activities		
Capital expenditures	(40,522)	(36,378)
Proceeds from sale of fixed assets	3,164	4,212
Purchases of investment securities	(50)	(1,365)
Acquisition of subsidiaries and equity investees, net of cash acquired	—	262
Other, net	(1,942)	(175)
Net cash used in investing activities	(39,350)	(33,444)
Financing activities		
Proceeds from debt issued (Original maturities greater than three months)	138,861	165,907
Payment on debt (Original maturities greater than three months)	(53,388)	(126,026)
Short-term debt, net (Original maturities three months or less)	(2,871)	95,769
Dividends paid	(70,950)	(52,963)
Other, net	(5,448)	(9,561)
Net cash provided by financing activities	6,204	73,126
Effect of exchange rate change on cash and cash equivalents	1,211	30,848
Net increase in cash and cash equivalents	53,496	68,183
Cash and cash equivalents, beginning of year	289,975	315,360
Cash and cash equivalents, end of period	¥ 343,471	¥ 383,543

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

The figure for the three months ended June 30, 2022 was reclassified to conform to the presentation for the three months ended June 30, 2023.

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 22 “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

Recently Adopted Accounting Standards

In June 2016, Financial Accounting Standards Board (hereinafter “FASB”) issued Accounting Standards Update (hereinafter “ASU”) 2016-13 “Financial Instruments — Credit Losses: Measurement of Credit Losses on Financial Instruments”. This update requires an entity to recognize credit losses for many financial assets based on current expected credit loss model instead of incurred loss model. The current expected credit loss model requires an entity to immediately recognize estimated credit losses expected to occur over the remaining life of the financial assets which are within the scope of this update. Komatsu has adopted this update from the fiscal year beginning on April 1, 2023, including interim periods within those reporting periods. This update has been adopted under the modified retrospective approach through a cumulative effect adjustment to retained earnings at the beginning of the initial application period. Consequently, Komatsu reduced JPY 1,634 million as an adjustment of cumulative effect from retained earnings as of April 1, 2023. Details are as described in “Note 3 Receivables and Allowance for Credit Losses”.

In September 2022, FASB issued ASU 2022-04 “Disclosure of Supplier Finance Program Obligations”. This update requires an entity that uses a supplier finance program in connection with the purchase of goods and services to disclose the key terms of the program, information about obligations outstanding at the end of the reporting period and a rollforward of those obligations during the reporting period. Komatsu has adopted the amendments in this update to disclose the key terms of the program and information about obligations outstanding from the fiscal year beginning on April 1, 2023, including interim periods within those reporting periods. The amendment to disclose a rollforward of obligations is effective for annual reporting periods beginning after December 15, 2023. The adoption of this update had no impact on Komatsu’s financial position and results of operations. Details are as described in “Note 7 Trade Payables”.

Excluding the above, there is no material change for summary of significant accounting policies stated in annual report for the fiscal year ended March 31, 2023.

Regarding the impact of the disruption and so forth in the supply chain, financial sector, and world economy caused by 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 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 taking in 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, 2023 and 2022 is as follows:

	Millions of yen	
	Three months ended June 30, 2023	Three months ended June 30, 2022
Additional cash flow information:		
Interest paid	¥ 13,254	¥ 3,995
Income taxes paid, net	43,525	51,971

3. Receivables and Allowance for Credit Losses

(1) Portfolio segments

Since Komatsu manages its receivables and allowance for credit losses by operating segments, the portfolio segments are classified in the same way as the operating segments: 1) Construction, Mining and Utility Equipment, 2) Retail Finance, and 3) Industrial Machinery and Others.

In the Construction, Mining and Utility Equipment segment and the Industrial Machinery and Others segment, Komatsu mainly holds accounts receivables and notes receivables recorded as consideration for sales of products, parts, services, and others to customers. Komatsu believes that the possibility of losses due to uncollectible is low as these receivables are generally collected within one year.

In the Retail Finance segment, Komatsu provides installment sales and sales-type leases as a lessor for leveling cash payments of its customers when customers purchase primarily Komatsu's construction and mining equipment. Receivables of retail finance business (hereinafter "retail finance receivables") are secured by collateral, in the form of financed equipment. If Komatsu's collection efforts fail to recover the defaulted situation, Komatsu generally can repossess the financed equipment, after satisfying local legal requirements, and sell it to a third party through Komatsu's dealer network. The collection spans an extended period of time and there is a degree of uncertainty that accompanies the calculation of the estimated credit losses and the calculation of an expected amount recoverable from the collateral. Komatsu estimates the allowance for credit losses on retail finance receivables utilizing the expected credit loss rates that are calculated by adding relevant economic indicators such as housing starts to the average historical loss rates. For periods beyond which Komatsu is able to make or obtain reasonable and supportable forecasts of future economic indicators of the entire life of the retail finance receivables, expected credit losses are estimated for the remaining life mainly using an appropriate approach that immediately revert to historical credit loss experiences. For doubtful retail finance receivables with the possibility of default due to deterioration of customer's financial condition or prolonged payment delays, Komatsu individually records the allowance for credit losses based on the available information at hand such as credit status, status of outstanding receivables, and current market price of assets held as collateral. There were no significant changes in methodologies used to estimate the allowance for credit losses during the three months ended June 30, 2023.

Changes in the allowance for credit losses by segments for the three months ended June 30, 2023 are as follows:

	Millions of yen					
	Three months ended June 30, 2023					
	Construction, Mining and Utility Equipment		Retail Finance		Industrial Machinery and Others	
Allowance for Credit Losses:						
Balance at beginning of year	¥	7,325	¥	15,160	¥	170
Adjustments to adopt new accounting standards		562		1,676		—
Provision		1,126		696		4
Write-offs		(27)		(354)		(110)
Other		1,822		1,472		145
Balance at end of period	¥	<u>10,808</u>	¥	<u>18,650</u>	¥	<u>209</u>
Receivables:						
Balance at end of period	¥	651,273	¥	1,112,491	¥	45,086

Since the risk of uncollectible is low for receivables in the Construction, Mining and Utility Equipment segment and the Industrial Machinery and Others segment due to collection in a short term, the disclosure of these segments is omitted for subsequent items.

(2) Credit quality of receivables

Komatsu considers that retail finance receivables are past due, if unpaid for more than 30 days after its due date. Komatsu classifies retail finance receivables by geographic region since credit risk assessment and measurement methods are similar in each region.

The retail finance receivables by the aging category and by origination fiscal year at June 30, 2023 are as follows:

Region	Millions of yen						
	June 30, 2023						
	Origination fiscal year						
Past due date	2023	2022	2021	2020	2019	Prior	Total
Japan							
Within due and 30 days or less past due	¥ 3,983	¥ 12,657	¥ 9,001	¥ 7,566	¥ 4,066	¥ 1,761	¥ 39,034
31-90 days past due	—	1	—	—	—	—	1
Over 90 days past due	—	—	—	5	—	—	5
Total	3,983	12,658	9,001	7,571	4,066	1,761	39,040
North America							
Within due and 30 days or less past due	169,425	312,981	169,237	86,799	29,671	3,566	771,679
31-90 days past due	16	176	211	177	113	70	763
Over 90 days past due	—	465	366	242	251	367	1,691
Total	169,441	313,622	169,814	87,218	30,035	4,003	774,133
Latin America							
Within due and 30 days or less past due	6,669	22,554	14,197	4,940	1,780	2,765	52,905
31-90 days past due	—	231	325	55	33	175	819
Over 90 days past due	—	252	101	13	590	4,410	5,366
Total	6,669	23,037	14,623	5,008	2,403	7,350	59,090
Europe							
Within due and 30 days or less past due	18,670	50,610	28,936	10,469	3,310	2,005	114,000
31-90 days past due	9	3	3	1	7	4	27
Over 90 days past due	—	2	1	3	1	10	17
Total	18,679	50,615	28,940	10,473	3,318	2,019	114,044
Oceania							
Within due and 30 days or less past due	11,587	36,095	16,981	8,121	5,311	1,838	79,933
31-90 days past due	—	—	—	—	—	—	—
Over 90 days past due	—	—	—	—	—	—	—
Total	11,587	36,095	16,981	8,121	5,311	1,838	79,933
Others							
Within due and 30 days or less past due	5,128	12,017	19,392	7,330	1,133	256	45,256
31-90 days past due	—	29	96	125	38	6	294
Over 90 days past due	—	3	125	84	84	405	701
Total	5,128	12,049	19,613	7,539	1,255	667	46,251
Totals by Aging Category							
Within due and 30 days or less past due	¥ 215,462	¥ 446,914	¥ 257,744	¥ 125,225	¥ 45,271	¥ 12,191	¥ 1,102,807
31-90 days past due	25	440	635	358	191	255	1,904
Over 90 days past due	—	722	593	347	926	5,192	7,780
Total	¥ 215,487	¥ 448,076	¥ 258,972	¥ 125,930	¥ 46,388	¥ 17,638	¥ 1,112,491

Gross write-offs by origination fiscal year during the three months ended June 30, 2023 are as follows:

	Millions of yen	
	Three months ended June 30, 2023	
2023	¥	—
2022		115
2021		94
2020		34
2019		89
Prior		22
Total	¥	354

(3) Non-accrual receivables

Recognition of income is suspended and the retail finance receivable is placed on non-accrual status when Komatsu determines that collection of future income is not probable. Retail finance receivables on non-accrual status are generally more than 90 days past due. Payments received while the retail finance receivable is on non-accrual status are applied to interest and principal in accordance with the contractual terms. Recognition of income is resumed when collection is considered probable as evidenced by continual payments from the debtor. Interest earned but uncollected prior to the retail finance receivable being placed on non-accrual status is written off through provision for credit losses when it is considered uncollectible.

Interest income recognized for retail finance receivables on non-accrual status were not material during the three months ended June 30, 2023.

Retail finance receivables which are on non-accrual status and retail finance receivables over 90 days past due and still accruing income at June 30, 2023 are as follows:

	Millions of yen					
	June 30, 2023					
	Non-accrual with an allowance		Non-accrual without an allowance		Over 90 days past due still accruing	
Japan	¥	7	¥	—	¥	—
North America		—		—		1,691
Latin America		4,001		—		1,365
Europe		—		—		17
Oceania		—		—		—
Others		542		—		159
Total	¥	4,550	¥	—	¥	3,232

(4) Modifications

Komatsu may modify loan terms such as reduction of interest payments, extension of the maturity period, or revision of the repayment schedule in response to the debtor's financial difficulties.

Loan modifications granted to debtors experiencing financial difficulty were not material during the three months ended June 30, 2023. The effect of most modifications made to debtors experiencing financial difficulty is already included in the allowance for credit losses based on the methodologies used to estimate the allowance; therefore, a change to the allowance for credit losses is generally not recorded upon modification.

The amount of defaulted retail finance receivables was not material during the three months ended June 30, 2023.

4. Inventories

At June 30, 2023 and at March 31, 2023, inventories comprise the following:

	Millions of yen	
	June 30, 2023	March 31, 2023
Finished products, including finished parts held for sale	¥ 958,217	¥ 829,085
Work in process	296,012	261,960
Materials and supplies	140,426	136,163
Total	¥ 1,394,655	¥ 1,227,208

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, 2023 and 2022 are as follows:

	Millions of yen	
	Three months ended June 30, 2023	Three months ended June 30, 2022
Net gains and losses recognized during the period on equity securities	¥ 283	¥ 272
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, 2023 and 2022	¥ 283	¥ 272

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, 2023 and as of March 31, 2023, the carrying amounts of these investments were ¥11,194 million and ¥10,556 million, respectively. Any impairment or any adjustment relating to observable price changes recorded until June 30, 2023 and until March 31, 2023 were not material.

6. Other Intangible Assets

Other intangible assets at June 30, 2023 and at March 31, 2023 are as follows:

	Millions of yen					
	June 30, 2023			March 31, 2023		
	Gross carrying amount	Accumulated amortization	Net carrying amount	Gross carrying amount	Accumulated amortization	Net carrying amount
Other intangible assets subject to amortization:						
Software	¥ 93,406	¥ (47,712)	¥ 45,694	¥ 86,296	¥ (41,912)	¥ 44,384
Leasehold	8,688	(2,603)	6,085	8,576	(2,685)	5,891
Trademarks	70,042	(29,425)	40,617	65,149	(26,288)	38,861
Customer relationships	93,130	(47,992)	45,138	88,497	(45,024)	43,473
Technology assets	43,879	(19,863)	24,016	43,858	(19,745)	24,113
Other	11,692	(8,683)	3,009	10,857	(8,037)	2,820
Total	320,837	(156,278)	164,559	303,233	(143,691)	159,542
Other intangible assets not subject to amortization			8,333			7,750
Total other intangible assets			¥ 172,892			¥ 167,292

The aggregate amortization expense of other intangible assets subject to amortization during the three months ended June 30, 2023 and 2022 were ¥7,377 million and ¥6,746 million, respectively.

7. Trade Payables

The Company and certain consolidated subsidiaries have entered into agreements with third-party financial institutions for supplier finance program. Komatsu makes payments to third-party financial institutions after 60 to 120 days based on the transaction agreements entered into with each supplier. The financial institutions offer earlier payment of the invoices at the sole discretion of the supplier for a discounted amount based on the tripartite agreements between Komatsu, the suppliers, and the financial institutions. Komatsu does not provide pledged assets or any other forms of guarantees from third parties for this program. The amounts of liabilities under the supplier finance program at June 30, 2023 and at March 31, 2023 are ¥41,892 million and ¥48,519 million, respectively, and are included in trade notes, bills and accounts payable in the accompanying consolidated balance sheets.

8. Cost of Retirement Benefits

Net periodic cost of Komatsu's defined benefit plans for the three months ended June 30, 2023 and 2022 consisted of the following components:

	Millions of yen	
	Three months ended June 30, 2023	Three months ended June 30, 2022
Service cost	¥ 2,261	¥ 2,187
Interest cost on projected benefit obligations	2,658	2,034
Expected return on plan assets	(3,002)	(2,749)
Amortization of actuarial loss or gain	90	73
Amortization of prior service cost	279	269
Gains recognized due to partial settlements	(59)	—
Net periodic cost	¥ 2,227	¥ 1,814

Net periodic cost of the other postretirement benefit plans for the three months ended June 30, 2023 and 2022 included the following components:

	Millions of yen	
	Three months ended June 30, 2023	Three months ended June 30, 2022
Service cost	¥ 96	¥ 110
Interest cost on projected benefit obligations	146	100
Expected return on plan assets	(158)	(142)
Amortization of actuarial loss or gain	(37)	(18)
Amortization of prior service cost	(80)	(75)
Net periodic cost	¥ (33)	¥ (25)

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.

9. Other Comprehensive Income (Loss)

Changes in accumulated other comprehensive income (loss) for the three months ended June 30, 2023 and 2022 are as follows:

	Millions of yen			
	Three months ended June 30, 2023			
	Foreign currency translation adjustments	Pension liability adjustments	Net unrealized holding gains (losses) on derivative instruments	Total
Balance, beginning of the year	¥ 242,738	¥ (22,731)	¥ (56)	¥ 219,951
Other comprehensive income (loss) before reclassifications	156,778	45	(7,195)	149,628
Amounts reclassified from accumulated other comprehensive income (loss)	—	206	5,878	6,084
Net other comprehensive income (loss)	156,778	251	(1,317)	155,712
Less: other comprehensive income (loss) attributable to noncontrolling interests	9,103	—	190	9,293
Other comprehensive income (loss) attributable to Komatsu Ltd.	147,675	251	(1,507)	146,419
Equity transactions with noncontrolling interests	—	—	—	—
Balance, end of the period	<u>¥ 390,413</u>	<u>¥ (22,480)</u>	<u>¥ (1,563)</u>	<u>¥ 366,370</u>

All amounts are net of tax.

	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.

Reclassification out of accumulated other comprehensive income (loss) for the three months ended June 30, 2023 and 2022 are as follows:

	Millions of yen	
	Three months ended June 30, 2023	Affected line items in consolidated statements of income
Pension liability adjustments		
Amortization of actuarial loss or gain and prior service cost	¥ (277)	Other income (expenses), net: Other, net
	(277)	Total before tax
	71	Income taxes
	(206)	Net of tax
Net unrealized holding gains (losses) on derivative instruments		
Foreign exchange forward contracts, Interest rate swaps and cross-currency swap agreements	(2,204)	Net sales
	(177)	Cost of sales
	(6,166)	Other income (expenses), net: Other, net
	(8,547)	Total before tax
	2,669	Income taxes
	(5,878)	Net of tax
Total reclassification for the period	¥ (6,084)	Net of tax

	Millions of yen	
	Three months ended June 30, 2022	Affected line items in consolidated statements of income
Pension liability adjustments		
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
Net unrealized holding gains (losses) on derivative instruments		
Foreign exchange forward 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
Total reclassification for the period	¥ (8,170)	Net of tax

Tax effects allocated to each component of other comprehensive income (loss) for the three months ended June 30, 2023 and 2022 are as follows:

	Millions of yen		
	Three months ended June 30, 2023		
	Before tax amount	Tax (expense) or benefit	Net of tax amount
Foreign currency translation adjustments			
Foreign currency translation adjustments arising during the period	¥ 157,049	¥ (271)	¥ 156,778
Less: reclassification adjustment for gains included in net income	—	—	—
Net foreign currency translation adjustments	157,049	(271)	156,778
Pension liability adjustments			
Pension liability adjustments arising during the period	63	(18)	45
Less: reclassification adjustment for losses included in net income	277	(71)	206
Net pension liability adjustments	340	(89)	251
Net unrealized holding gains (losses) on derivative instruments			
Unrealized holding losses arising during the period	(10,475)	3,280	(7,195)
Less: reclassification adjustment for losses included in net income	8,547	(2,669)	5,878
Net unrealized holding losses	(1,928)	611	(1,317)
Other comprehensive income (loss)	¥ 155,461	¥ 251	¥ 155,712
	Millions of yen		
	Three months ended June 30, 2022		
	Before tax amount	Tax (expense) or benefit	Net of tax amount
Foreign currency translation adjustments			
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
Pension liability adjustments			
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
Net unrealized holding gains (losses) on derivative instruments			
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)
Other comprehensive income (loss)	¥ 196,543	¥ 18	¥ 196,561

10. Revenue

(1) Disaggregation of revenue

The disaggregation of revenue by operating segment and geographic region are described in Note 20.

(2) Contract balances

Contract balances arising from contracts with customers at June 30, 2023 and at March 31, 2023 are as follows:

	Millions of yen	
	June 30, 2023	March 31, 2023
Receivables *1	¥ 1,527,208	¥ 1,444,683
Contract assets *2	2,404	2,516
Contract liabilities *3	194,901	164,220

*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 credit losses or 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 credit losses or 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, 2023 that was included in the contract liability balance as of March 31, 2023 was ¥28,733 million. 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.

The amounts of revenue recognized during the three months ended June 30, 2023 and 2022 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, 2023, the aggregate amount of the transaction price allocated to the remaining performance obligations that have original expected durations greater than one year is ¥375,687 million, of which ¥184,299 million is expected to be recognized as revenue in the twelve months following June 30, 2023.

11. 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, 2023 and 2022 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.

12. 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, 2023 and 2022 are as follows:

	Millions of yen	
	Three months ended June 30, 2023	Three months ended June 30, 2022
Sales-type lease revenue		
Revenue recognized at the commencement date *	¥ 28,624	¥ 27,860
Interest income	2,460	2,373
Total sales-type lease revenue	31,084	30,233
Operating lease revenue	20,054	19,327
Total	¥ 51,138	¥ 49,560

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

13. 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, 2023	Three months ended June 30, 2022
Net income attributable to Komatsu Ltd.	¥ 105,427	¥ 80,454
Net income attributable to participating securities (restricted stocks)	88	75
Net income attributable to common shareholders	¥ 105,339	¥ 80,379

	Number of shares	
	Three months ended June 30, 2023	Three months ended June 30, 2022
Weighted average number of common shares outstanding, less treasury stock	945,597,250	945,302,904
Weighted average number of participating securities (restricted stocks)	784,940	880,200
Weighted average number of common shares	944,812,310	944,422,704

	Yen	
	Three months ended June 30, 2023	Three months ended June 30, 2022
Basic net income attributable to Komatsu Ltd. per share	¥ 111.49	¥ 85.11

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

	Millions of yen	
	Three months ended June 30, 2023	Three months ended June 30, 2022
Net income attributable to Komatsu Ltd.	¥ 105,427	¥ 80,454
Net income attributable to participating securities (restricted stocks)	88	75
Net income attributable to common shareholders	¥ 105,339	¥ 80,379

	Number of shares	
	Three months ended June 30, 2023	Three months ended June 30, 2022
Weighted average number of common shares outstanding, less treasury stock	945,597,250	945,302,904
Dilutive effect of:		
Stock options	92,991	146,205
Weighted average number of participating securities (restricted stocks)	784,940	880,200
Weighted average number of diluted common shares	944,905,301	944,568,909

	Yen	
	Three months ended June 30, 2023	Three months ended June 30, 2022
Diluted net income attributable to Komatsu Ltd. per share	¥ 111.48	¥ 85.10

14. 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, 2023 and at March 31, 2023 were ¥14,743 million and ¥14,966 million, respectively. The fair value of the liabilities recognized for Komatsu's obligations as guarantors under those guarantees at June 30, 2023 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, 2023 and at March 31, 2023 were ¥16,161 million and ¥14,683 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.

15. Derivative Financial Instruments

Notional principal amounts of derivative financial instruments outstanding at June 30, 2023 and at March 31, 2023 are as follows:

	Millions of yen	
	June 30, 2023	March 31, 2023
Foreign exchange forward contracts:		
Sale of foreign currencies	¥ 368,295	¥ 351,525
Purchase of foreign currencies	233,665	211,015
Interest rate swaps and cross-currency swap agreements	200,767	174,303

Fair value of derivative instruments at June 30, 2023 and at March 31, 2023 on the consolidated balance sheets are as follows:

	Millions of yen			
	June 30, 2023			
	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
Foreign exchange forward contracts	Other current assets	¥ 911	Other current liabilities	¥ 7,890
	Deferred income taxes and other assets	—	Deferred income taxes and other liabilities	122
Interest rate swaps and cross-currency swap agreements	Other current assets	184	Other current liabilities	2,731
	Deferred income taxes and other assets	1,502	Deferred income taxes and other liabilities	929
Total		¥ 2,597		¥ 11,672
Undesignated derivative instruments	Derivative Assets		Derivative Liabilities	
	Location on the consolidated Balance Sheets	Estimated fair value	Location on the consolidated Balance Sheets	Estimated fair value
	Other current assets	¥ 1,918	Other current liabilities	¥ 5,902
Foreign exchange forward contracts	Deferred income taxes and other assets	151	Deferred income taxes and other liabilities	366
Interest rate swaps and cross-currency swap agreements	Other current assets	5,107	Other current liabilities	195
	Deferred income taxes and other assets	—	Deferred income taxes and other liabilities	—
Total		¥ 7,176		¥ 6,463
Total Derivative Instruments		¥ 9,773		¥ 18,135

Millions of yen

March 31, 2023

	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				
Foreign exchange forward contracts	Other current assets	¥ 915	Other current liabilities	¥ 1,530
	Deferred income taxes and other assets	11	Deferred income taxes and other liabilities	28
Interest rate swaps and cross-currency swap agreements	Other current assets	74	Other current liabilities	1,154
	Deferred income taxes and other assets	959	Deferred income taxes and other liabilities	507
Total		¥ 1,959		¥ 3,219
	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				
Foreign exchange forward contracts	Other current assets	¥ 3,875	Other current liabilities	¥ 6,461
	Deferred income taxes and other assets	91	Deferred income taxes and other liabilities	100
Interest rate swaps and cross-currency swap agreements	Other current assets	4,415	Other current liabilities	317
	Deferred income taxes and other assets	—	Deferred income taxes and other liabilities	—
Total		¥ 8,381		¥ 6,878
Total Derivative Instruments		¥ 10,340		¥ 10,097

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, 2023 and 2022 are as follows:

Derivative instruments designated as cash flow hedging relationships

Millions of yen			
Three months ended June 30, 2023			
	Amount of gains (losses) recognized in OCI on derivatives	Gains (losses) reclassified from accumulated OCI on derivatives	
		Location of consolidated statements of income	Amount
Foreign exchange forward contracts	¥ (11,071)	Net sales	¥ (2,204)
		Cost of sales	(177)
		Other income (expenses), net: Other, net	(6,166)
Interest rate swaps and cross-currency swap agreements	596	Cost of sales	0
Total	¥ (10,475)		¥ (8,547)

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
Foreign exchange forward 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)
Total	¥ (13,208)		¥ (11,595)

* OCI stands for other comprehensive income (loss).

Derivative instruments not designated as hedging instruments relationships

Millions of yen		
Three months ended June 30, 2023		
	Location of gains (losses) recognized in income on derivatives	Amount of gains (losses) recognized in income on derivatives
Foreign exchange forward contracts	Other income (expenses), net: Other, net	¥ (737)
Interest rate swaps and cross-currency swap agreements	Cost of sales	581
	Other income (expenses), net: Other, net	369
Total		¥ 213

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
Foreign exchange forward 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
Total		¥ 5,152

16. Fair Values of Financial Instruments

(1) Cash and cash equivalents, 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 15 and 17)

The fair values of derivative financial instruments are stated in Note 17 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, 2023 and as of March 31, 2023, and fair value levels are summarized as follows:

	Millions of yen				Fair Value Levels
	June 30, 2023		March 31, 2023		
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value	
Cash and cash equivalents	¥ 343,471	¥ 343,471	¥ 289,975	¥ 289,975	Level 1
Long-term trade receivables, net, excluding lease receivables	478,387	463,187	430,178	411,766	Level 2
Short-term debt	419,793	419,793	310,738	310,738	Level 2
Long-term debt, including current portion	786,340	757,590	743,024	719,514	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 17.

17. 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, 2023 and at March 31, 2023 are as follows:

		Millions of yen			
<u>At June 30, 2023</u>		Level 1	Level 2	Level 3	Total
Assets					
Derivatives					
Foreign exchange forward contracts	¥	—	¥ 2,980	¥	— ¥ 2,980
Interest rate swaps and cross-currency swap agreements		—	6,793	—	6,793
Total	¥	—	¥ 9,773	¥	— ¥ 9,773
Liabilities					
Derivatives					
Foreign exchange forward contracts	¥	—	¥ 14,280	¥	— ¥ 14,280
Interest rate swaps and cross-currency swap agreements		—	3,855	—	3,855
Total	¥	—	¥ 18,135	¥	— ¥ 18,135
		Millions of yen			
<u>At March 31, 2023</u>		Level 1	Level 2	Level 3	Total
Assets					
Derivatives					
Foreign exchange forward contracts	¥	—	¥ 4,892	¥	— ¥ 4,892
Interest rate swaps and cross-currency swap agreements		—	5,448	—	5,448
Total	¥	—	¥ 10,340	¥	— ¥ 10,340
Liabilities					
Derivatives					
Foreign exchange forward contracts	¥	—	¥ 8,119	¥	— ¥ 8,119
Interest rate swaps and cross-currency swap agreements		—	1,978	—	1,978
Total	¥	—	¥ 10,097	¥	— ¥ 10,097

Derivatives (Notes 15 and 16)

Derivatives primarily represent foreign exchange forward contracts and interest rate swap agreements. The fair value of foreign exchange forward 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, 2023 and 2022 assets and liabilities that were measured at fair value on a non-recurring basis were not material.

18. 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, 2023 and at March 31, 2023 were ¥330,337 million and ¥304,630 million, respectively. These total amounts of unused committed credit lines available for full and immediate borrowings at June 30, 2023 and at March 31, 2023 were ¥309,268 million and ¥284,898 million, respectively.

19. Dividends

Payment amount of dividends

Resolution	Type of stock	Three months ended June 30, 2023				
		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, 2023	Common stock	¥70,950	Retained earnings	¥75	March 31, 2023	June 22, 2023

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

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.

20. 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, 2023 and 2022 is as follows:

	Millions of yen	
	Three months ended June 30, 2023	Three months ended June 30, 2022
Net sales:		
Construction, Mining and Utility Equipment –		
External customers	¥ 842,239	¥ 713,628
Intersegment	4,622	1,696
Total	846,861	715,324
Retail Finance –		
External customers	17,703	16,251
Intersegment	5,190	3,688
Total	22,893	19,939
Industrial Machinery and Others –		
External customers	39,609	33,929
Intersegment	843	611
Total	40,452	34,540
Elimination	(10,655)	(5,995)
Consolidated	¥ 899,551	¥ 763,808
Segment profit:		
Construction, Mining and Utility Equipment	¥ 138,430	¥ 83,326
Retail Finance	6,348	7,713
Industrial Machinery and Others	1,924	3,527
Total segment profit	146,702	94,566
Corporate expenses and elimination	106	(198)
Consolidated	¥ 146,808	¥ 94,368

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, 2023 and 2022 are as follows:

	Millions of yen	
	Three months ended June 30, 2023	Three months ended June 30, 2022
Total segment profit	¥ 146,702	¥ 94,566
Corporate expenses and elimination	106	(198)
Total	146,808	94,368
Other operating income (expenses), net	213	(806)
Operating income	147,021	93,562
Interest and dividend income	4,487	2,236
Interest expense	(11,960)	(4,672)
Other, net	8,620	21,349
Consolidated income before income taxes and equity in earnings of affiliated companies	¥ 148,168	¥ 112,475

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 , logistics, and solution business

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, 2023 and 2022 are as follows:

	Millions of yen			
	Three months ended June 30, 2023			
	Construction, Mining and Utility Equipment	Retail Finance	Industrial Machinery and Others	Total
Japan	¥ 73,036	¥ 289	¥ 20,264	¥ 93,589
The Americas	379,368	12,829	5,032	397,229
Europe and CIS	106,121	1,961	4,155	112,237
China	15,411	358	2,863	18,632
Asia (excluding Japan and China) and Oceania	201,621	2,076	7,253	210,950
Middle East and Africa	66,682	190	42	66,914
Total	¥ 842,239	¥ 17,703	¥ 39,609	¥ 899,551

	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
Total	¥ 713,628	¥ 16,251	¥ 33,929	¥ 763,808

Net sales determined by geographic origin for the three months ended June 30, 2023 and 2022 are as follows:

	Millions of yen	
	Three months ended June 30, 2023	Three months ended June 30, 2022
	Japan	¥ 156,190
The Americas	391,500	315,052
Europe and CIS	121,331	121,074
China	16,607	21,275
Others	213,923	169,283
Total	¥ 899,551	¥ 763,808

There were no sales to a single major external customer for the three months ended June 30, 2023 and 2022.

21. Subsequent Events

Not applicable.

Komatsu evaluated subsequent events through August 10, 2023, the issue date of its quarterly consolidated financial statements.

22. 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.