

(Translation)

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Quarterly Report

From July 1, 2022 to September 30, 2022

(Second Quarter of the 154th Fiscal Year)

KOMATSU LTD.

Second Quarter of the 154th Fiscal Year (from July 1, 2022 to September 30, 2022)

Quarterly Report

Certain References and Information:

1. This is an English translation of the Quarterly Securities Report (“Shihanki Hokokusho”) filed via the Electronic Disclosure for Investors’ Network (“EDINET”) system as set forth in Article 27-30-2 of the Financial Instruments and Exchange Act of Japan. Komatsu Ltd. filed its Quarterly Securities Report for the three months ended September 30, 2022 with the Director-General of the Kanto Local Finance Bureau on November 11, 2022. The Quarterly Securities Report contains, among other information, Quarterly Consolidated Financial Statements for the three months and six months ended September 30, 2022. Material information in the Quarterly Securities Report, other than the Quarterly Consolidated Financial Statements, has already been reported by Komatsu Ltd. in its press release dated October 31, 2022. Attached is an English translation of Quarterly Consolidated Financial Statements for the three months and six months ended September 30, 2022.
2. In this report, Komatsu Ltd. is hereinafter referred to as the “Company” and together with its consolidated subsidiaries as “Komatsu.”

Cautionary Statement with respect to forward-looking statements:

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

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

Financial Information

1. Basis of preparation of the quarterly consolidated financial statements

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

2. Audit certification

Pursuant to Article 193-2, paragraph 1 of the Financial Instruments and Exchange Act of Japan, the quarterly consolidated financial statements for the three months ended September 30, 2022 and for the six months ended September 30, 2022 were reviewed by KPMG AZSA LLC.

Quarterly Consolidated Financial Statements

Consolidated Balance Sheets (Unaudited)

Komatsu Ltd. and Consolidated Subsidiaries as of September 30, 2022 and March 31, 2022

Assets	September 30, 2022		March 31, 2022	
	Millions of yen	Ratio (%)	Millions of yen	Ratio (%)
Current assets				
Cash and cash equivalents (Note 16)	¥ 320,824		¥ 315,360	
Time deposits (Note 16)	766		1,310	
Trade notes and accounts receivable, net (Notes 4 and 10)	1,036,061		954,580	
Inventories (Note 5)	1,275,024		988,011	
Other current assets (Notes 15, 16 and 17)	200,090		162,020	
Total current assets	2,832,765	56.6	2,421,281	55.7
Long-term trade receivables, net (Notes 4, 10 and 16)	624,102	12.5	501,868	11.5
Investments				
Investments in and advances to affiliated companies	50,404		45,913	
Investment securities (Note 6)	10,510		8,377	
Other	3,538		3,493	
Total investments	64,452	1.3	57,783	1.3
Property, plant and equipment				
– less accumulated depreciation and amortization of ¥1,031,539 million at September 30, 2022 and ¥997,069 million at March 31, 2022	868,219	17.3	819,749	18.9
Operating lease right-of-use assets	63,192	1.3	61,516	1.4
Goodwill (Note 3)	226,313	4.5	187,615	4.3
Other intangible assets				
– less accumulated amortization (Notes 3 and 7)	180,388	3.6	169,003	3.9
Deferred income taxes and other assets (Notes 15, 16 and 17)	143,114	2.9	128,707	3.0
Total assets	¥ 5,002,545	100.0	¥ 4,347,522	100.0

Liabilities and Equity	September 30, 2022		March 31, 2022	
	Millions of yen	Ratio (%)	Millions of yen	Ratio (%)
Current liabilities				
Short-term debt (Note 16)	¥ 471,588		¥ 241,746	
Current maturities of long-term debt (Note 16)	255,488		276,623	
Trade notes, bills and accounts payable	356,110		338,974	
Income taxes payable	53,724		68,337	
Current operating lease liabilities	17,762		16,981	
Other current liabilities (Notes 10, 15, 16 and 17)	425,792		381,360	
Total current liabilities	1,580,464	31.6	1,324,021	30.5
Long-term liabilities				
Long-term debt (Note 16)	443,485		429,011	
Liability for pension and retirement benefits	98,929		93,407	
Long-term operating lease liabilities	46,585		43,458	
Deferred income taxes and other liabilities (Notes 10, 15, 16 and 17)	120,803		101,348	
Total long-term liabilities	709,802	14.2	667,224	15.3
Total liabilities	2,290,266	45.8	1,991,245	45.8
Commitments and contingent liabilities (Note 14)				

Equity

Komatsu Ltd. shareholders' equity

Common stock:

Authorized 3,955,000,000 shares

Issued 973,450,930 shares

Outstanding 945,570,024 shares at September 30, 2022 and

945,312,564 shares at March 31, 2022

	69,660		69,393	
Capital surplus	135,936		139,572	
Retained earnings:				
– Appropriated for legal reserve	48,081		47,903	
– Unappropriated	2,011,928		1,902,501	
Accumulated other comprehensive income (loss) (Notes 9 and 15)	360,731		122,414	
Treasury stock at cost, 27,880,906 shares at September 30, 2022 and 27,833,236 shares at March 31, 2022	(49,186)		(49,272)	
Total Komatsu Ltd. shareholders' equity	2,577,150	51.5	2,232,511	51.4
Noncontrolling interests	135,129	2.7	123,766	2.8
Total equity	2,712,279	54.2	2,356,277	54.2
Total liabilities and equity	¥ 5,002,545	100.0	¥ 4,347,522	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

Six months ended September 30, 2022 and 2021

Consolidated Statements of Income

	Six months ended September 30, 2022		Six months ended September 30, 2021	
	Millions of yen	Ratio(%)	Millions of yen	Ratio(%)
Net sales (Notes 10, 12 and 15)	¥ 1,618,735	100.0	¥ 1,291,400	100.0
Cost of sales (Notes 7, 8 and 15)	1,147,450	70.9	932,561	72.2
Selling, general and administrative expenses (Notes 3, 7, 8 and 11)	258,534	16.0	224,019	17.3
Other operating income (expenses), net (Note 9)	(1,117)	(0.1)	1,464	0.1
Operating income	211,634	13.1	136,284	10.6
Other income (expenses), net				
Interest and dividend income	5,012	0.3	2,135	0.2
Interest expense	(10,892)	(0.7)	(5,749)	(0.4)
Other, net (Notes 6, 8, 9 and 15)	22,005	1.4	3,839	0.3
Total	16,125	1.0	225	0.0
Income before income taxes and equity in earnings of affiliated companies	227,759	14.1	136,509	10.6
Income taxes (Note 9)				
Current	63,806		45,238	
Deferred	(4,939)		(6,541)	
Total	58,867	3.6	38,697	3.0
Income before equity in earnings of affiliated companies	168,892	10.4	97,812	7.6
Equity in earnings of affiliated companies	2,072	0.1	1,485	0.1
Net income	170,964	10.6	99,297	7.7
Less: Net income attributable to noncontrolling interests	8,396	0.5	6,156	0.5
Net income attributable to Komatsu Ltd.	¥ 162,568	10.0	¥ 93,141	7.2

Yen

Per share data (Note 13):

Net income attributable to Komatsu Ltd.:

Basic	¥ 171.96	¥ 98.56
Diluted	¥ 171.94	¥ 98.53

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

Consolidated Statements of Comprehensive Income

	Millions of yen	
	Six months ended September 30, 2022	Six months ended September 30, 2021
Net income	¥ 170,964	¥ 99,297
Other comprehensive income (loss), for the period, net of tax		
Foreign currency translation adjustments (Note 9)	247,983	10,658
Pension liability adjustments (Notes 8 and 9)	279	1,787
Net unrealized holding gains (losses) on derivative instruments (Notes 9 and 15)	(38)	942
Total	248,224	13,387
Comprehensive income	419,188	112,684
Less: Comprehensive income attributable to noncontrolling interests	19,779	5,459
Comprehensive income attributable to Komatsu Ltd.	¥ 399,409	¥ 107,225

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

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

Komatsu Ltd. and Consolidated Subsidiaries

Three months ended September 30, 2022 and 2021

Consolidated Statements of Income

	Three months ended September 30, 2022		Three months ended September 30, 2021	
	Millions of yen	Ratio(%)	Millions of yen	Ratio(%)
Net sales (Notes 10, 12 and 15)	¥ 854,927	100.0	¥ 643,134	100.0
Cost of sales (Notes 7, 8 and 15)	602,049	70.4	457,480	71.1
Selling, general and administrative expenses (Notes 3, 7, 8 and 11)	134,495	15.7	111,746	17.4
Other operating income (expenses), net (Note 9)	(311)	(0.0)	626	0.1
Operating income	118,072	13.8	74,534	11.6
Other income (expenses), net				
Interest and dividend income	2,776	0.3	1,143	0.2
Interest expense	(6,220)	(0.7)	(2,782)	(0.4)
Other, net (Notes 6, 8, 9 and 15)	656	0.1	2,160	0.3
Total	(2,788)	(0.3)	521	0.1
Income before income taxes and equity in earnings of affiliated companies	115,284	13.5	75,055	11.7
Income taxes (Note 9)				
Current	39,509		29,518	
Deferred	(10,157)		(8,851)	
Total	29,352	3.4	20,667	3.2
Income before equity in earnings of affiliated companies	85,932	10.1	54,388	8.5
Equity in earnings of affiliated companies	1,027	0.1	724	0.1
Net income	86,959	10.2	55,112	8.6
Less: Net income attributable to noncontrolling interests	4,845	0.6	2,863	0.4
Net income attributable to Komatsu Ltd.	¥ 82,114	9.6	¥ 52,249	8.1

Yen

Per share data (Note 13):

Net income attributable to Komatsu Ltd.:

	Yen	
Basic	¥ 86.85	¥ 55.29
Diluted	¥ 86.84	¥ 55.27

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

Consolidated Statements of Comprehensive Income

	Millions of yen	
	Three months ended September 30, 2022	Three months ended September 30, 2021
Net income	¥ 86,959	¥ 55,112
Other comprehensive income (loss), for the period, net of tax		
Foreign currency translation adjustments (Note 9)	50,458	(1,572)
Pension liability adjustments (Notes 8 and 9)	103	409
Net unrealized holding gains (losses) on derivative instruments (Notes 9 and 15)	1,102	81
Total	51,663	(1,082)
Comprehensive income	138,622	54,030
Less: Comprehensive income attributable to noncontrolling interests	7,813	2,279
Comprehensive income attributable to Komatsu Ltd.	¥ 130,809	¥ 51,751

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

Consolidated Statements of Equity (Unaudited)
Komatsu Ltd. and Consolidated Subsidiaries
Six months ended September 30, 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)	(7,458)	(60,421)
Transfer to retained earnings appropriated for legal reserve			178	(178)			—		—
Other changes		(3,903)			1,476	(77)	(2,504)	(1,061)	(3,565)
Net income				162,568			162,568	8,396	170,964
Other comprehensive income (loss), for the period, net of tax (Note 9)					236,841		236,841	11,383	248,224
Exercise of stock acquisition rights (Note 11)		(49)					(49)		(49)
Purchase of treasury stock						(17)	(17)		(17)
Sales of treasury stock		51				180	231	103	334
Restricted stock compensation (Note 11)	267	265					532		532
Balance at September 30, 2022	¥ 69,660	¥ 135,936	¥ 48,081	¥ 2,011,928	¥ 360,731	¥ (49,186)	¥ 2,577,150	¥ 135,129	¥ 2,712,279

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

Six months ended September 30, 2021

	Millions of yen								
	Common stock	Capital surplus	Retained earnings		Accumulated other comprehensive income (loss)	Treasury stock	Total Komatsu Ltd. shareholders' equity	Non-controlling interests	Total equity
			Appropriated for legal reserve	Un-appropriated					
Balance at March 31, 2021	¥ 69,037	¥ 135,835	¥ 47,378	¥ 1,750,914	¥ (42,012)	¥ (48,855)	¥ 1,912,297	¥ 99,728	¥ 2,012,025
Cash dividends (Note 19)				(34,986)			(34,986)	(5,983)	(40,969)
Transfer to retained earnings appropriated for legal reserve			255	(255)			—		—
Other changes		13,123			13		13,136	16,929	30,065
Net income				93,141			93,141	6,156	99,297
Other comprehensive income (loss), for the period, net of tax (Note 9)					14,084		14,084	(697)	13,387
Exercise of stock acquisition rights (Note 11)		(183)					(183)		(183)
Purchase of treasury stock						(652)	(652)		(652)
Sales of treasury stock		27				156	183		183
Restricted stock compensation (Note 11)	356	352					708		708
Balance at September 30, 2021	¥ 69,393	¥ 149,154	¥ 47,633	¥ 1,808,814	¥ (27,915)	¥ (49,351)	¥ 1,997,728	¥ 116,133	¥ 2,113,861

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

Consolidated Statements of Cash Flows (Unaudited)

Komatsu Ltd. and Consolidated Subsidiaries

Six months ended September 30, 2022 and 2021

	Millions of yen	
	Six months ended September 30, 2022	Six months ended September 30, 2021
Operating activities		
Net income	¥ 170,964	¥ 99,297
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	73,075	67,761
Deferred income taxes	(4,939)	(6,541)
Impairment loss and net loss (gain) on valuation of investment securities	(358)	(171)
Net loss (gain) on sale of fixed assets	(251)	(1,151)
Loss on disposal of fixed assets	1,094	1,221
Pension and retirement benefits, net	812	(3,852)
Changes in assets and liabilities:		
Decrease (increase) in trade receivables	(378)	16,450
Decrease (increase) in inventories	(168,312)	(53,182)
Increase (decrease) in trade payables	(3,432)	10,196
Increase (decrease) in income taxes payable	(15,609)	10,466
Other, net	(27,131)	16,938
Net cash provided by (used in) operating activities	25,535	157,432
Investing activities		
Capital expenditures	(86,257)	(82,283)
Proceeds from sale of fixed assets	8,958	13,237
Proceeds from sale of investment securities	285	2
Purchases of investment securities	(1,406)	(221)
Proceeds from sale of subsidiaries and businesses, net of cash disposed *1	12,295	55
Acquisition of subsidiaries and equity investees, net of cash acquired	(18,000)	—
Other, net *1	(1,196)	(92)
Net cash provided by (used in) investing activities	(85,321)	(69,302)
Financing activities		
Proceeds from debt issued (Original maturities greater than three months)	301,968	211,873
Payment on debt (Original maturities greater than three months)	(338,515)	(259,517)
Short-term debt, net (Original maturities three months or less)	145,087	(328)
Dividends paid	(52,963)	(34,986)
Proceeds from issuance of subsidiary's shares	2,012	30,440
Other, net	(11,975)	(6,571)
Net cash provided by (used in) financing activities	45,614	(59,089)
Effect of exchange rate change on cash and cash equivalents	19,636	1,984
Net increase (decrease) in cash and cash equivalents	5,464	31,025
Cash and cash equivalents, beginning of year	315,360	241,803
Cash and cash equivalents, end of period	¥ 320,824	¥ 272,828

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

*1 In the six months ended September 30, 2022, Komatsu (the Company and its consolidated subsidiaries) has presented separately "Proceeds from sale of subsidiaries and businesses, net of cash disposed" which was included in "Other, net" under the investing activities. Accordingly, the figure for the six months ended September 30, 2021 was reclassified to conform to the presentation for the six months ended September 30, 2022.

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

There is no material change for summary of significant accounting policies stated in annual report for the fiscal year ended March 31, 2022.

Regarding the impact of the disruption and so forth in the supply chain, financial sector, and world economy caused by the COVID-19 pandemic and the Ukraine situation on Komatsu’s financial position and results of operations, there is uncertainty regarding when such conditions will improve, among other factors. Nevertheless, Komatsu has assumed that a certain level of impact from COVID-19 and the Ukraine situation will continue in the future, based on the information which is available at present and our predictions. Komatsu is making its best estimates based on the assumption to assess the calculation of the estimated credit losses, the likelihood of recovery of deferred tax assets and the impairment losses on long-lived assets and goodwill given these items are relatively material among the accounting estimates. However, if actual future trends deviate from the assumption, Komatsu’s financial position and results of operations may be adversely affected.

2. Supplemental Cash Flow Information

Additional cash flow information for the six months ended September 30, 2022 and 2021 is as follows:

	Millions of yen	
	Six months ended September 30, 2022	Six months ended September 30, 2021
Additional cash flow information:		
Interest paid	¥ 11,105	¥ 5,900
Income taxes paid, net	89,319	33,796

3. Business Combination

Mine Site Technologies Pty Ltd

On July 1, 2022, the Company acquired Mine Site Technologies Pty Ltd (hereafter “MST Global”), a provider of operational optimization platforms for underground mining that leverage communication devices and position tracking systems. The acquisition was done through Komatsu Australia Holdings Pty Ltd, a wholly owned subsidiary of the Company in Australia, by purchasing all of its outstanding shares of Mining Technologies Holding Pty Ltd, a parent company of MST Global.

MST Global develops, manufactures, and sells solutions that enable communication between operators and mining equipment, as well as position tracking for operators and equipment, leveraging communication devices for underground mining based on optical fiber broadband communication systems. MST Global’s solutions contribute to the digitization and automation of underground mining operations and have achieved sufficient results in mine sites around the world including global mining customers. MST Global also develops and sells a platform to visualize and monitor the underground mining environment and enable control from a remote operations center above ground.

By adding MST Global's experience and expertise in the introduction of communication devices and optimization platforms, Komatsu aims to enhance the speed at which it offers advanced technology solutions, including the automation and teleoperation of mining equipment underground. Komatsu is working to expand offerings for underground hard rock mining, developing safe, highly productive, smart and clean workplaces of the future, together with customers by digitalization of workplaces around the world with “products” (automation and autonomous operation of equipment) and “solutions” (optimization of workplace’s entire operation processes).

The fair value measurement of the acquired assets and assumed liabilities under Financial Accounting Standards Board Accounting Standards Codification™ (hereinafter “ASC”) 805, “Business Combinations” was completed as of the issue date of the quarterly consolidated financial statements.

Following is a summary of the acquired assets and assumed liabilities after the allocation of acquisition cost on the acquisition date.

	Millions of yen	
Consideration		
Cash and cash equivalents	¥	15,668
Fair value of total consideration transferred		15,668
Recognized amounts of identifiable acquired assets and assumed liabilities		
Current assets	¥	2,259
Property, plant and equipment		71
Intangible assets		2,896
Total acquired assets		5,226
Current liabilities		(821)
Long-term liabilities		(932)
Total assumed liabilities		(1,753)
Net acquired assets		3,473
Goodwill		12,195
	¥	15,668

Intangible assets of ¥2,896 million are all intangible assets subject to amortization and primarily consist of the following.

	Millions of yen	
	Gross carrying amount	Amortization period
Customer relationships	¥ 2,127	12 years
Technology assets	384	5 years

The goodwill of ¥12,195 million was assigned to the Construction, Mining and Utility Equipment operating segment. The goodwill is not deductible for tax purpose.

Acquisition-related costs for the six months ended September 30, 2022 are ¥635 million (accumulated acquisition-related costs: ¥639 million) and included in selling, general and administrative expenses in the consolidated statements of income for the six months ended September 30, 2022.

MST Global's results of operations included in the consolidated statements of income for the six months ended September 30, 2022 since the date of acquisition were immaterial.

Assuming this acquisition had been made on April 1, 2021, the impact on Net Sales and Net income attributable to Komatsu Ltd. for the six months ended September 30, 2022 and 2021 would be immaterial.

4. Allowance for Doubtful Receivables

At September 30, 2022 and at March 31, 2022, allowances for doubtful receivables deducted from trade notes and accounts receivable, net and long-term trade receivables, net are ¥24,790 million and ¥22,076 million, respectively.

5. Inventories

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

	Millions of yen	
	September 30, 2022	March 31, 2022
Finished products, including finished parts held for sale	¥ 855,577	¥ 666,538
Work in process	278,822	206,481
Materials and supplies	140,625	114,992
Total	¥ 1,275,024	¥ 988,011

6. Investment Securities

The realized gains and losses and gross unrealized holding gains and losses for such equity securities which are recorded in other income (expenses), net in the accompanying consolidated statements of income, respectively, for the six months ended September 30, 2022 and 2021 are as follows:

	Millions of yen	
	Six months ended September 30, 2022	Six months Ended September 30, 2021
Net gains and losses recognized during the period on equity securities	¥ 358	¥ 171
Less: net gains and losses recognized during the period on equity securities sold during the period	(0)	0
Unrealized gains and losses recognized during the period on equity securities still held as of September 30, 2022 and 2021	¥ 358	¥ 171

The realized gains and losses and gross unrealized holding gains and losses for such equity securities which are recorded in other income (expenses), net in the accompanying consolidated statements of income, respectively, for the three months ended September 30, 2022 and 2021 are as follows:

	Millions of yen	
	Three months ended September 30, 2022	Three months ended September 30, 2021
Net gains and losses recognized during the period on equity securities	¥ 86	¥ 61
Less: net gains and losses recognized during the period on equity securities sold during the period	(0)	0
Unrealized gains and losses recognized during the period on equity securities still held as of September 30, 2022 and 2021	¥ 86	¥ 61

Komatsu measures equity securities without readily determinable fair values at the carrying amount after the write-down due to impairment, except for investments which are measured at net asset value per share. If Komatsu identifies observable price changes in orderly transactions for identical or similar investments issued by the same issuer, Komatsu measures the equity security at fair value as of the date that the observable transaction occurred. As of September 30, 2022 and as of March 31, 2022, the carrying amounts of these investments were ¥10,510 million and ¥8,377 million, respectively. Any impairment or any adjustment relating to observable price changes recorded until September 30, 2022 and until March 31, 2022 were not material.

7. Other Intangible Assets

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

	Millions of yen					
	September 30, 2022			March 31, 2022		
	Gross carrying amount	Accumulated amortization	Net carrying amount	Gross carrying amount	Accumulated amortization	Net carrying amount
Other intangible assets subject to amortization:						
Software	¥ 79,449	¥ (37,977)	¥ 41,472	¥ 72,173	¥ (33,265)	¥ 38,908
Leasehold	9,054	(2,739)	6,315	8,259	(2,256)	6,003
Trademarks	70,805	(26,225)	44,580	61,873	(20,856)	41,017
Customer relationships	93,873	(42,431)	51,442	82,195	(35,051)	47,144
Technology assets	44,912	(18,667)	26,245	41,435	(16,239)	25,196
Other	11,107	(8,212)	2,895	8,871	(6,347)	2,524
Total	309,200	(136,251)	172,949	274,806	(114,014)	160,792
Other intangible assets not subject to amortization			7,439			8,211
Total other intangible assets			¥ 180,388			¥ 169,003

The aggregate amortization expense of other intangible assets subject to amortization during the six months ended September 30, 2022 and 2021 were ¥14,134 million and ¥11,809 million, respectively. The aggregate amortization expense of other intangible assets subject to amortization during the three months ended September 30, 2022 and 2021 were ¥7,388 million and ¥5,888 million, respectively.

8. Cost of Retirement Benefits

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

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

	Millions of yen	
	Six months ended September 30, 2022	Six months ended September 30, 2021
Service cost	¥ 4,371	¥ 4,459
Interest cost on projected benefit obligations	4,157	2,553
Expected return on plan assets	(5,606)	(5,049)
Amortization of actuarial loss or gain	163	243
Amortization of prior service cost	542	449
Gains recognized due to partial settlements	—	(2,486)
Net periodic cost	¥ 3,627	¥ 169

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

	Millions of yen	
	Six months ended September 30, 2022	Six months ended September 30, 2021
Service cost	¥ 228	¥ 253
Interest cost on projected benefit obligations	213	171
Expected return on plan assets	(294)	(281)
Amortization of actuarial loss or gain	(37)	(13)
Amortization of prior service cost	(155)	(67)
Gains recognized due to partial settlements	—	(355)
Net periodic cost	¥ (45)	¥ (292)

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

	Millions of yen	
	Three months ended September 30, 2022	Three months ended September 30, 2021
Service cost	¥ 2,184	¥ 2,199
Interest cost on projected benefit obligations	2,123	1,275
Expected return on plan assets	(2,857)	(2,518)
Amortization of actuarial loss or gain	90	120
Amortization of prior service cost	273	225
Gains recognized due to partial settlements	—	(433)
Net periodic cost	¥ 1,813	¥ 868

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

	Millions of yen	
	Three months ended September 30, 2022	Three months ended September 30, 2021
Service cost	¥ 118	¥ 125
Interest cost on projected benefit obligations	113	84
Expected return on plan assets	(152)	(139)
Amortization of actuarial loss or gain	(19)	(4)
Amortization of prior service cost	(80)	(37)
Gains recognized due to partial settlements	—	(355)
Net periodic cost	¥ (20)	¥ (326)

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 six months ended September 30, 2022 and 2021 are as follows:

	Millions of yen			
	Six months ended September 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	249,931	(77)	(13,625)	236,229
Amounts reclassified from accumulated other comprehensive income (loss)	(1,948)	356	13,587	11,995
Net other comprehensive income (loss)	247,983	279	(38)	248,224
Less: other comprehensive income (loss) attributable to noncontrolling interests	11,119	—	264	11,383
Other comprehensive income (loss) attributable to Komatsu Ltd.	236,864	279	(302)	236,841
Equity transactions with noncontrolling interests	1,476	—	—	1,476
Balance, end of the period	¥ 386,969	¥ (23,892)	¥ (2,346)	¥ 360,731

All amounts are net of tax.

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

All amounts are net of tax.

Changes in accumulated other comprehensive income (loss) for the three months ended September 30, 2022 and 2021 are as follows:

	Millions of yen			
	Three months ended September 30, 2022			
	Foreign currency translation adjustments	Pension liability adjustments	Net unrealized holding gains (losses) on derivative instruments	Total
Balance, beginning of the period	¥ 339,388	¥ (23,995)	¥ (3,357)	¥ 312,036
Other comprehensive income (loss) before reclassifications	52,406	(87)	(4,481)	47,838
Amounts reclassified from accumulated other comprehensive income (loss)	(1,948)	190	5,583	3,825
Net other comprehensive income (loss)	50,458	103	1,102	51,663
Less: other comprehensive income (loss) attributable to noncontrolling interests	2,877	—	91	2,968
Other comprehensive income (loss) attributable to Komatsu Ltd.	47,581	103	1,011	48,695
Equity transactions with noncontrolling interests	—	—	—	—
Balance, end of the period	<u>¥ 386,969</u>	<u>¥ (23,892)</u>	<u>¥ (2,346)</u>	<u>¥ 360,731</u>

All amounts are net of tax.

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

All amounts are net of tax.

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

	Millions of yen	
	Six months ended September 30, 2022	Affected line items in consolidated statements of income
Foreign currency translation adjustments		
Sale	¥ 1,948	Other operating income (expenses), net
	1,948	Total before tax
	—	Income taxes
	1,948	Net of tax
Pension liability adjustments		
Amortization of actuarial loss or gain and prior service cost	¥ (513)	Other income (expenses), net: Other, net
	(513)	Total before tax
	157	Income taxes
	(356)	Net of tax
Net unrealized holding gains (losses) on derivative instruments		
Forward contracts, Interest rate swaps and cross-currency swap agreements	(9,972)	Net sales
	179	Cost of sales
	(9,980)	Other income (expenses), net: Other, net
	(19,773)	Total before tax
	6,186	Income taxes
	(13,587)	Net of tax
Total reclassification for the period	¥ (11,995)	Net of tax

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

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

	Millions of yen	
	Three months ended September 30, 2022	Affected line items in consolidated statements of income
Foreign currency translation adjustments		
Sale	¥ 1,948	Other operating income (expenses), net
	1,948	Total before tax
	—	Income taxes
	1,948	Net of tax
Pension liability adjustments		
Amortization of actuarial loss or gain and prior service cost	¥ (264)	Other income (expenses), net: Other, net
	(264)	Total before tax
	74	Income taxes
	(190)	Net of tax
Net unrealized holding gains (losses) on derivative instruments		
Forward contracts, Interest rate swaps and cross-currency swap agreements	(4,926)	Net sales
	(147)	Cost of sales
	(3,105)	Other income (expenses), net: Other, net
	(8,178)	Total before tax
	2,595	Income taxes
	(5,583)	Net of tax
Total reclassification for the period	¥ (3,825)	Net of tax

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

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

	Millions of yen		
	Six months ended September 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	¥ 250,512	¥ (581)	¥ 249,931
Less: reclassification adjustment for gains included in net income	(1,948)	—	(1,948)
Net foreign currency translation adjustments	248,564	(581)	247,983
Pension liability adjustments			
Pension liability adjustments arising during the period	(106)	29	(77)
Less: reclassification adjustment for losses included in net income	513	(157)	356
Net pension liability adjustments	407	(128)	279
Net unrealized holding gains (losses) on derivative instruments			
Unrealized holding losses arising during the period	(19,927)	6,302	(13,625)
Less: reclassification adjustment for losses included in net income	19,773	(6,186)	13,587
Net unrealized holding losses	(154)	116	(38)
Other comprehensive income (loss)	¥ 248,817	¥ (593)	¥ 248,224

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

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

	Millions of yen		
	Three months ended September 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	¥ 52,619	¥ (213)	¥ 52,406
Less: reclassification adjustment for gains included in net income	(1,948)	—	(1,948)
Net foreign currency translation adjustments	50,671	(213)	50,458
Pension liability adjustments			
Pension liability adjustments arising during the period	(120)	33	(87)
Less: reclassification adjustment for losses included in net income	264	(74)	190
Net pension liability adjustments	144	(41)	103
Net unrealized holding gains (losses) on derivative instruments			
Unrealized holding losses arising during the period	(6,719)	2,238	(4,481)
Less: reclassification adjustment for losses included in net income	8,178	(2,595)	5,583
Net unrealized holding gains	1,459	(357)	1,102
Other comprehensive income (loss)	¥ 52,274	¥ (611)	¥ 51,663

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

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 September 30, 2022 and at March 31, 2022 are as follows:

	Millions of yen	
	September 30, 2022	March 31, 2022
Receivables *1	¥ 1,413,870	¥ 1,220,566
Contract assets *2	4,099	2,699
Contract liabilities *3	163,950	132,649

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

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

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

Revenue recognized for the six months ended September 30, 2022 that was included in the contract liability balance as of March 31, 2022 was ¥43,323 million. Revenue recognized for the six months ended September 30, 2021 that was included in the contract liability balance as of March 31, 2021 was ¥38,850 million.

Revenue recognized for the three months ended September 30, 2022 that was included in the contract liability balance as of March 31, 2022 was ¥20,088 million. Revenue recognized for the three months ended September 30, 2021 that was included in the contract liability balance as of March 31, 2021 was ¥12,692 million.

The amount of revenue recognized during the six months and three months ended September 30, 2022 and 2021 from performance obligations satisfied or partially satisfied in previous periods was immaterial.

(3) Transaction price allocated to the remaining performance obligations

As of September 30, 2022, the aggregate amount of the transaction price allocated to the remaining performance obligations that have original expected durations greater than one year was ¥274,358 million, of which ¥128,181 million is expected to be recognized as revenue in the twelve months following September 30, 2022.

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 six months ended September 30, 2022 and 2021 were recorded in selling, general and administrative expenses, and were not material to Komatsu's financial position and results of operations. Compensation expenses during the three months ended September 30, 2022 and 2021 were recorded in selling, general and administrative expenses, and were not material to Komatsu's financial position and results of operations. The Company recognizes compensation expense using the fair value method.

12. Leases

Revenues from sales-type and operating leases as a lessor, included in net sales on the consolidated statement of income, for the six months ended September 30, 2022 and 2021 are as follows:

	Millions of yen	
	Six months ended September 30, 2022	Six months ended September 30, 2021
Sales-type lease revenue		
Revenue recognized at the commencement date *1	¥ 47,231	¥ 64,973
Interest income	4,917	4,321
Total sales-type lease revenue	52,148	69,294
Operating lease revenue	39,179	40,611
Total	¥ 91,327	¥ 109,905

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

Revenues from sales-type and operating leases as a lessor, included in net sales on the consolidated statement of income, for the three months ended September 30, 2022 and 2021 are as follows:

	Millions of yen	
	Three months ended September 30, 2022	Three months ended September 30, 2021
Sales-type lease revenue		
Revenue recognized at the commencement date *2	¥ 19,371	¥ 29,005
Interest income	2,544	1,923
Total sales-type lease revenue	21,915	30,928
Operating lease revenue	19,852	20,621
Total	¥ 41,767	¥ 51,549

*2 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	
	Six months ended September 30, 2022	Six months ended September 30, 2021
Net income attributable to Komatsu Ltd.	¥ 162,568	¥ 93,141
Net income attributable to participating securities (restricted stocks)	149	90
Net income attributable to common shareholders	¥ 162,419	¥ 93,051

	Number of shares	
	Six months ended September 30, 2022	Six months ended September 30, 2021
Weighted average number of common shares outstanding, less treasury stock	945,361,721	945,065,179
Weighted average number of participating securities (restricted stocks)	866,772	917,326
Weighted average number of common shares	944,494,949	944,147,853

	Yen	
	Six months ended September 30, 2022	Six months ended September 30, 2021
Basic net income attributable to Komatsu Ltd. per share	¥ 171.96	¥ 98.56

	Millions of yen	
	Three months ended September 30, 2022	Three months ended September 30, 2021
Net income attributable to Komatsu Ltd.	¥ 82,114	¥ 52,249
Net income attributable to participating securities (restricted stocks)	74	53
Net income attributable to common shareholders	¥ 82,040	¥ 52,196

	Number of shares	
	Three months ended September 30, 2022	Three months ended September 30, 2021
Weighted average number of common shares outstanding, less treasury stock	945,416,571	945,079,384
Weighted average number of participating securities (restricted stocks)	853,489	960,118
Weighted average number of common shares	944,563,082	944,119,266

	Yen	
	Three months ended September 30, 2022	Three months ended September 30, 2021
Basic net income attributable to Komatsu Ltd. per share	¥ 86.85	¥ 55.29

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

	Millions of yen	
	Six months ended September 30, 2022	Six months ended September 30, 2021
Net income attributable to Komatsu Ltd.	¥ 162,568	¥ 93,141
Net income attributable to participating securities (restricted stocks)	149	90
Net income attributable to common shareholders	¥ 162,419	¥ 93,051

	Number of shares	
	Six months ended September 30, 2022	Six months ended September 30, 2021
Weighted average number of common shares outstanding, less treasury stock	945,361,721	945,065,179
Dilutive effect of:		
Stock options	138,415	241,689
Weighted average number of participating securities (restricted stocks)	866,772	917,326
Weighted average number of diluted common shares	944,633,364	944,389,542

	Yen	
	Six months ended September 30, 2022	Six months ended September 30, 2021
Diluted net income attributable to Komatsu Ltd. per share	¥ 171.94	¥ 98.53

	Millions of yen	
	Three months ended September 30, 2022	Three months ended September 30, 2021
Net income attributable to Komatsu Ltd.	¥ 82,114	¥ 52,249
Net income attributable to participating securities (restricted stocks)	74	53
Net income attributable to common shareholders	¥ 82,040	¥ 52,196

	Number of shares	
	Three months ended September 30, 2022	Three months ended September 30, 2021
Weighted average number of common shares outstanding, less treasury stock	945,416,571	945,079,384
Dilutive effect of:		
Stock options	130,706	216,427
Weighted average number of participating securities (restricted stocks)	853,489	960,118
Weighted average number of diluted common shares	944,693,788	944,335,693

	Yen	
	Three months ended September 30, 2022	Three months ended September 30, 2021
Diluted net income attributable to Komatsu Ltd. per share	¥ 86.84	¥ 55.27

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 September 30, 2022 and at March 31, 2022 were ¥17,928 million and ¥12,293 million, respectively. The fair value of the liabilities recognized for Komatsu's obligations as guarantors under those guarantees at September 30, 2022 were insignificant. Certain of those guarantees were secured by collateral and insurance issued to Komatsu.

Komatsu provides guarantees that subsidiaries of the Company perform the obligations of the terms and conditions of contracts by standby letters of credit issued by banks. Komatsu would have to pay the liabilities incurred to banks if the subsidiaries do not perform the obligations of the terms and conditions of contracts. The maximum amount of undiscounted payments Komatsu would have had to make in the event of defaults of the contracts at September 30, 2022 and at March 31, 2022 were ¥19,742 million and ¥17,330 million, respectively.

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

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

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

15. Derivative Financial Instruments

Notional principal amounts of derivative financial instruments outstanding at September 30, 2022 and at March 31, 2022 are as follows:

	Millions of yen	
	September 30, 2022	March 31, 2022
Forward contracts:		
Sale of foreign currencies	¥ 296,675	¥ 278,513
Purchase of foreign currencies	225,372	176,360
Interest rate swaps and cross-currency swap agreements	149,944	126,032

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

	Millions of yen			
	September 30, 2022			
	Derivative Assets		Derivative Liabilities	
Derivative instruments designated as hedging instruments	Location on the consolidated Balance Sheets	Estimated fair value	Location on the consolidated Balance Sheets	Estimated fair value
Forward contracts	Other current assets	¥ 893	Other current liabilities	¥ 10,116
	Deferred income taxes and other assets	2	Deferred income taxes and other liabilities	100
Interest rate swaps and cross-currency swap agreements	Other current assets	44	Other current liabilities	71
	Deferred income taxes and other assets	1,860	Deferred income taxes and other liabilities	1
Total		¥ 2,799		¥ 10,288
	Derivative Assets		Derivative Liabilities	
Undesignated derivative instruments	Location on the consolidated Balance Sheets	Estimated fair value	Location on the consolidated Balance Sheets	Estimated fair value
Forward contracts	Other current assets	¥ 7,524	Other current liabilities	¥ 5,012
	Deferred income taxes and other assets	110	Deferred income taxes and other liabilities	86
Interest rate swaps and cross-currency swap agreements	Other current assets	4,860	Other current liabilities	77
	Deferred income taxes and other assets	60	Deferred income taxes and other liabilities	246
Total		¥ 12,554		¥ 5,421
Total Derivative Instruments		¥ 15,353		¥ 15,709

Millions of yen

March 31, 2022

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

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

Derivative instruments designated as cash flow hedging relationships

Millions of yen			
Six months ended September 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
Forward contracts	¥ (20,929)	Net sales	¥ (9,972)
		Cost of sales	176
		Other income (expenses), net: Other, net	(9,980)
Interest rate swaps and cross-currency swap agreements	1,002	Cost of sales	3
Total	¥ (19,927)		¥ (19,773)

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

* OCI stands for other comprehensive income (loss).

Derivative instruments not designated as hedging instruments relationships

Millions of yen		
Six months ended September 30, 2022		
	Location of gains (losses) recognized in income on derivatives	Amount of gains (losses) recognized in income on derivatives
Forward contracts	Other income (expenses), net: Other, net	¥ 4,541
Interest rate swaps and cross-currency swap agreements	Cost of sales	(15)
	Other income (expenses), net: Other, net	2,747
Total		¥ 7,273

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

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

Derivative instruments designated as cash flow hedging relationships

Millions of yen			
Three months ended September 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
Forward contracts	¥ (7,600)	Net sales	¥ (4,926)
		Cost of sales	(154)
		Other income (expenses), net: Other, net	(3,105)
Interest rate swaps and cross-currency swap agreements	881	Cost of sales	7
Total	¥ (6,719)		¥ (8,178)

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

* OCI stands for other comprehensive income (loss).

Derivative instruments not designated as hedging instruments relationships

Millions of yen		
Three months ended September 30, 2022		
	Location of gains (losses) recognized in income on derivatives	Amount of gains (losses) recognized in income on derivatives
Forward contracts	Other income (expenses), net: Other, net	¥ 248
Interest rate swaps and cross-currency swap agreements	Cost of sales	22
	Other income (expenses), net: Other, net	1,851
Total		¥ 2,121

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

16. 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 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 September 30, 2022 and as of March 31, 2022, and fair value levels are summarized as follows:

	Millions of yen				Fair Value Levels
	September 30, 2022		March 31, 2022		
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value	
Cash and cash equivalents	¥ 320,824	¥ 320,824	¥ 315,360	¥ 315,360	Level 1
Time deposits	766	766	1,310	1,310	Level 2
Long-term trade receivables, net, excluding lease receivables	471,050	457,477	362,720	362,720	Level 2
Short-term debt	471,588	471,588	241,746	241,746	Level 2
Long-term debt, including current portion	698,973	678,393	705,634	694,174	Level 2

Notes:

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

2) The fair value levels are stated in Note 17.

17. Fair Value Measurements

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

- Level 1** – Quoted prices in active markets for identical assets or liabilities
- Level 2** – Inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly or indirectly
- Level 3** – Unobservable inputs for the assets or liabilities

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

The fair value hierarchy levels of assets and liabilities that are measured at fair value on a recurring basis at September 30, 2022 and at March 31, 2022 are as follows:

		Millions of yen				
<u>At September 30, 2022</u>		Level 1	Level 2	Level 3	Total	
Assets						
Derivatives						
Forward contracts	¥	—	¥ 8,529	¥	—	¥ 8,529
Interest rate swaps and cross-currency swap agreements		—	6,824		—	6,824
Total	¥	—	¥ 15,353	¥	—	¥ 15,353
Liabilities						
Derivatives						
Forward contracts	¥	—	¥ 15,314	¥	—	¥ 15,314
Interest rate swaps and cross-currency swap agreements		—	395		—	395
Total	¥	—	¥ 15,709	¥	—	¥ 15,709
		Millions of yen				
<u>At March 31, 2022</u>		Level 1	Level 2	Level 3	Total	
Assets						
Derivatives						
Forward contracts	¥	—	¥ 2,916	¥	—	¥ 2,916
Interest rate swaps and cross-currency swap agreements		—	2,258		—	2,258
Total	¥	—	¥ 5,174	¥	—	¥ 5,174
Liabilities						
Derivatives						
Forward contracts	¥	—	¥ 15,441	¥	—	¥ 15,441
Interest rate swaps and cross-currency swap agreements		—	643		—	643
Total	¥	—	¥ 16,084	¥	—	¥ 16,084

Derivatives (Notes 15 and 16)

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

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

During six months ended September 30, 2022 and 2021, 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 September 30, 2022 and at March 31, 2022 were ¥324,819 million and ¥277,259 million, respectively. These total amounts of unused committed credit lines available for full and immediate borrowings at September 30, 2022 and at March 31, 2022 were ¥308,810 million and ¥261,619 million, respectively.

19. Dividends

Six months ended September 30, 2022

(1) Payment amount of dividends

Resolution	Type of stock	Aggregate amount of dividends (Millions of yen)	Resource of dividends	Dividend per share (Yen)	Record date	Effective date
Ordinary general meeting of shareholders held on June 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.

(2) Dividends to be paid for the six months ended September 30, 2022, of which effective date is after September 30, 2022

Resolution	Type of stock	Aggregate amount of dividends (Millions of yen)	Resource of dividends	Dividend per share (Yen)	Record date	Effective date
Board of Directors held on October 31, 2022	Common stock	¥60,542	Retained earnings	¥64	September 30, 2022	December 2, 2022

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

Six months ended September 30, 2021

(1) Payment amount of dividends

Resolution	Type of stock	Aggregate amount of dividends (Millions of yen)	Resource of dividends	Dividend per share (Yen)	Record date	Effective date
Ordinary general meeting of shareholders held on June 18, 2021	Common stock	¥34,986	Retained earnings	¥37	March 31, 2021	June 21, 2021

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

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

Resolution	Type of stock	Aggregate amount of dividends (Millions of yen)	Resource of dividends	Dividend per share (Yen)	Record date	Effective date
Board of Directors held on October 28, 2021	Common stock	¥37,828	Retained earnings	¥40	September 30, 2021	December 1, 2021

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

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 six months ended September 30, 2022 and 2021 is as follows:

	Millions of yen	
	Six months ended September 30, 2022	Six months ended September 30, 2021
Net sales:		
Construction, Mining and Utility Equipment –		
External customers	¥ 1,502,489	¥ 1,181,633
Intersegment	3,720	3,730
Total	1,506,209	1,185,363
Retail Finance –		
External customers	33,451	28,906
Intersegment	8,044	8,073
Total	41,495	36,979
Industrial Machinery and Others –		
External customers	82,795	80,861
Intersegment	916	834
Total	83,711	81,695
Elimination	(12,680)	(12,637)
Consolidated	¥ 1,618,735	¥ 1,291,400
Segment profit:		
Construction, Mining and Utility Equipment	¥ 187,521	¥ 118,620
Retail Finance	14,852	7,845
Industrial Machinery and Others	10,980	8,598
Total segment profit	213,353	135,063
Corporate expenses and elimination	(602)	(243)
Consolidated	¥ 212,751	¥ 134,820

Information about operating segments for the three months ended September 30, 2022 and 2021 is as follows:

	Millions of yen	
	Three months ended September 30, 2022	Three months ended September 30, 2021
Net sales:		
Construction, Mining and Utility Equipment –		
External customers	¥ 788,861	¥ 588,624
Intersegment	2,024	2,392
Total	<u>790,885</u>	<u>591,016</u>
Retail Finance –		
External customers	17,200	14,149
Intersegment	4,356	2,377
Total	<u>21,556</u>	<u>16,526</u>
Industrial Machinery and Others –		
External customers	48,866	40,361
Intersegment	305	491
Total	<u>49,171</u>	<u>40,852</u>
Elimination	(6,685)	(5,260)
Consolidated	<u>¥ 854,927</u>	<u>¥ 643,134</u>
Segment profit:		
Construction, Mining and Utility Equipment	¥ 104,195	¥ 64,970
Retail Finance	7,139	4,630
Industrial Machinery and Others	7,453	4,395
Total segment profit	<u>118,787</u>	<u>73,995</u>
Corporate expenses and elimination	(404)	(87)
Consolidated	<u>¥ 118,383</u>	<u>¥ 73,908</u>

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

	Millions of yen	
	Six months ended September 30, 2022	Six months ended September 30, 2021
Total segment profit	¥ 213,353	¥ 135,063
Corporate expenses and elimination	(602)	(243)
Total	212,751	134,820
Other operating income (expenses), net	(1,117)	1,464
Operating income	211,634	136,284
Interest and dividend income	5,012	2,135
Interest expense	(10,892)	(5,749)
Other, net	22,005	3,839
Consolidated income before income taxes and equity in earnings of affiliated companies	¥ 227,759	¥ 136,509

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

	Millions of yen	
	Three months ended September 30, 2022	Three months ended September 30, 2021
Total segment profit	¥ 118,787	¥ 73,995
Corporate expenses and elimination	(404)	(87)
Total	118,383	73,908
Other operating income (expenses), net	(311)	626
Operating income	118,072	74,534
Interest and dividend income	2,776	1,143
Interest expense	(6,220)	(2,782)
Other, net	656	2,160
Consolidated income before income taxes and equity in earnings of affiliated companies	¥ 115,284	¥ 75,055

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

a) Construction, Mining and Utility Equipment operating segment:

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

b) Retail Finance operating segment:

Financing

c) Industrial Machinery and Others operating segment:

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

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

Geographic information:

Net sales determined by customer location for the six months ended September 30, 2022 and 2021 are as follows:

Millions of yen				
Six months ended September 30, 2022				
	Construction, Mining and Utility Equipment	Retail Finance	Industrial Machinery and Others	Total
Japan	¥ 140,591	¥ 1,617	¥ 39,470	¥ 181,678
The Americas	638,044	23,057	11,883	672,984
Europe and CIS	205,466	3,646	6,318	215,430
China	39,216	1,140	7,603	47,959
Asia (excluding Japan and China) and Oceania	359,630	3,709	17,335	380,674
Middle East and Africa	119,542	282	186	120,010
Total	¥ 1,502,489	¥ 33,451	¥ 82,795	¥ 1,618,735

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

Net sales determined by customer location for the three months ended September 30, 2022 and 2021 are as follows:

Millions of yen				
Three months ended September 30, 2022				
	Construction, Mining and Utility Equipment	Retail Finance	Industrial Machinery and Others	Total
Japan	¥ 73,916	¥ 1,091	¥ 24,020	¥ 99,027
The Americas	333,937	11,676	8,342	353,955
Europe and CIS	101,236	1,827	3,133	106,196
China	20,031	543	4,264	24,838
Asia (excluding Japan and China) and Oceania	199,243	1,917	9,007	210,167
Middle East and Africa	60,498	146	100	60,744
Total	¥ 788,861	¥ 17,200	¥ 48,866	¥ 854,927

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

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

	Millions of yen	
	Six months ended September 30, 2022	Six months ended September 30, 2021
Japan	¥ 305,326	¥ 258,628
The Americas	659,121	475,440
Europe and CIS	238,269	218,386
China	43,776	59,832
Others	372,243	279,114
Total	¥ 1,618,735	¥ 1,291,400

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

	Millions of yen	
	Three months ended September 30, 2022	Three months ended September 30, 2021
Japan	¥ 168,202	¥ 135,480
The Americas	344,069	236,495
Europe and CIS	117,195	108,614
China	22,501	23,036
Others	202,960	139,509
Total	¥ 854,927	¥ 643,134

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

21. Material Subsequent Events

Komatsu evaluated subsequent events through November 11, 2022, the issue date of its quarterly consolidated financial statements.

[Issuance of bonds]

The Company issued bonds (Sustainability-Linked Bonds) through Komatsu Finance America Inc., a wholly owned subsidiary of the Company in U.S.A., on October 6, 2022 in accordance with the resolution of the board of directors on May 18, 2022. Sustainability-Linked Bonds are bonds the terms and condition of which are subject to changes depending on the achievement status of the KPIs (Key Performance Indicators) predetermined by the issuer.

Outline of the Bonds

	USD Denominated Senior Unsecured Straight Bonds (Sustainability-Linked Bonds)
1. Issuer	Komatsu Finance America Inc.
2. Guarantor	Komatsu Ltd.
3. Issuance amount	USD 600 million
4. KPI/SPT*	SPT1.1: 45% reduction of the Scope 1+2 CO2 emissions (Intensity) (KPI1) from production by March 31, 2025 from 2010 baseline SPT2.1: 24% reduction of the Scope 3 CO2 emissions (Intensity) (KPI2) from use of products by March 31, 2025 from 2010 baseline
5. Interest rate	5.499% per year during the period from and including October 6, 2022 until October 5, 2025 On or after October 6, 2025, the interest rate shall be increased by 10 bps if SPT 1.1 has not been satisfied and increased by 15 bps if SPT 2.1 has not been satisfied as of March 31, 2025
6. Interest payment date	April 6 and October 6 every year on or after April 6, 2023
7. Maturity date	October 6, 2027
8. Payment date	October 6, 2022
9. Use of proceeds	To be allocated for the redemption of outstanding bonds and general business purposes

*SPT: Sustainability performance targets, which are measurable target figures of KPIs over the specific time period as stated by the issuer

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.