



## Independent Auditor's Report

To the Board of Directors of Komatsu Ltd.:

### **Opinion**

We have audited the accompanying consolidated financial statements of Komatsu Ltd. ("the Company") and its consolidated subsidiaries (collectively referred to as "the Group"), which comprise the consolidated balance sheets as at March 31, 2020 and 2019, the consolidated statements of income, the consolidated statements of comprehensive income, the consolidated statements of equity and the consolidated statements of cash flows for the fiscal years then ended, and notes to the consolidated financial statements and supplementary schedules.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2020 and 2019, and its consolidated financial performance and cash flows for the fiscal years then ended in accordance with accounting principles generally accepted in the United States of America, pursuant to Paragraph 3 of the Supplementary Provisions of the Cabinet Office Ordinance for Partial Amendment of the Regulations for Terminology, Forms and Preparation Methods of Consolidated Financial Statements (the Cabinet Office Ordinance No.11 of 2002).

### **Basis for Opinion**

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Responsibilities of Management and Corporate auditors and the board of corporate auditors for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in the United States of America.

Corporate auditors and the board of corporate auditors are responsible for overseeing the directors' performance of their duties including the design, implementation and maintenance of the Group's financial reporting process.

### **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of our audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.






- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the objective of the audit is not to express an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the presentation and disclosures in the consolidated financial statements are in accordance with accounting standards generally accepted in the United States of America, the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with corporate auditors and the board of corporate auditors regarding, among other matters, the planned scope and timing of the audit, significant audit findings, including any significant deficiencies in internal control that we identify during our audit.


We also provide corporate auditors and the board of corporate auditors with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

#### **Interest required to be disclosed by the Certified Public Accountants Act of Japan**

We do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

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Masafumi Tanabu  
Designated Engagement Partner  
Certified Public Accountant

錦織 倫生 

Tomoo Nishigori  
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外山 大祐 

Daisuke Toyama  
Designated Engagement Partner  
Certified Public Accountant

# 1. Consolidated Financial Statements, etc.

## (1) Consolidated Financial Statements

### Consolidated Balance Sheets

Komatsu Ltd. and Consolidated Subsidiaries as of March 31, 2020 and 2019

Assets	2020		2019	
	Millions of yen	Ratio (%)	Millions of yen	Ratio (%)
<b>Current assets</b>				
Cash and cash equivalents (Note 21)	¥ 247,616		¥ 148,479	
Time deposits (Note 21)	2,057		2,331	
Trade notes and accounts receivable, net (Notes 4, 7, 15, 17 and 24)	744,395		842,183	
Inventories (Note 5)	805,309		837,552	
Other current assets (Notes 7, 9, 20, 21, 22 and 24)	147,413		138,415	
<b>Total current assets</b>	<b>1,946,790</b>	<b>53.3</b>	<b>1,968,960</b>	<b>54.1</b>
<b>Long-term trade receivables, net</b> (Notes 4, 15, 17, 21 and 24)	<b>420,918</b>	<b>11.5</b>	<b>416,363</b>	<b>11.4</b>
<b>Investments</b>				
Investments in and advances to affiliated companies (Note 7)	38,210		37,321	
Investment securities (Notes 6, 21 and 22)	7,328		7,473	
Other	2,436		2,528	
<b>Total investments</b>	<b>47,974</b>	<b>1.3</b>	<b>47,322</b>	<b>1.3</b>
<b>Property, plant and equipment</b>				
- less accumulated depreciation and amortization (Notes 8 and 17)	757,679	20.8	776,422	21.3
<b>Operating lease right-of-use assets</b> (Notes 1 and 17)	<b>53,454</b>	<b>1.5</b>	<b>—</b>	<b>—</b>
<b>Goodwill</b> (Notes 3 and 10)	<b>157,521</b>	<b>4.3</b>	<b>161,921</b>	<b>4.5</b>
<b>Other intangible assets</b>				
- less accumulated amortization (Notes 3 and 10)	162,062	4.4	166,406	4.6
<b>Deferred income taxes and other assets</b> (Notes 12, 16, 20, 21, 22 and 24)	<b>107,288</b>	<b>2.9</b>	<b>100,825</b>	<b>2.8</b>
<b>Total assets</b>	<b>¥ 3,653,686</b>	<b>100.0</b>	<b>¥ 3,638,219</b>	<b>100.0</b>
Liabilities and Equity	2020		2019	
	Millions of yen	Ratio (%)	Millions of yen	Ratio (%)
<b>Current liabilities</b>				
Short-term debt (Notes 11 and 21)	¥ 483,658		¥ 404,659	
Current maturities of long-term debt (Notes 11 and 21)	118,880		53,556	
Trade notes, bills and accounts payable (Note 7)	220,160		266,951	
Income taxes payable (Note 16)	23,169		43,022	
Current operating lease liabilities (Notes 1 and 17)	14,933		—	
Other current liabilities (Notes 12, 15, 19, 20, 21, 22 and 24)	297,825		313,951	
<b>Total current liabilities</b>	<b>1,158,625</b>	<b>31.7</b>	<b>1,082,139</b>	<b>29.7</b>
<b>Long-term liabilities</b>				
Long-term debt (Notes 11 and 21)	409,840		472,485	
Liability for pension and retirement benefits (Note 12)	96,392		90,187	
Long-term operating lease liabilities (Notes 1 and 17)	38,624		—	
Deferred income taxes and other liabilities (Notes 15, 16, 19, 20, 21 and 22)	93,980		90,540	
<b>Total long-term liabilities</b>	<b>638,836</b>	<b>17.5</b>	<b>653,212</b>	<b>18.0</b>
<b>Total liabilities</b>	<b>1,797,461</b>	<b>49.2</b>	<b>1,735,351</b>	<b>47.7</b>
<b>Commitments and contingent liabilities</b> (Note 19)				
<b>Equity</b>				
<b>Komatsu Ltd. shareholders' equity</b> (Note 13)				
Common stock:				
Authorized 3,955,000,000 shares				
Issued 972,581,230 shares				
Outstanding 944,621,957 shares in 2020 and 943,908,946 shares in 2019	68,689		68,311	
Capital surplus	136,459		136,798	
Retained earnings:				
Appropriated for legal reserve	46,813		46,028	
Unappropriated	1,699,477		1,654,105	
Accumulated other comprehensive income (loss) (Notes 12, 14, 20 and 22)	(130,666)		(39,792)	
Treasury stock at cost, 27,959,273 shares in 2020 and 28,343,514 shares in 2019 (Note 13)	(49,166)		(49,868)	
<b>Total Komatsu Ltd. shareholders' equity</b>	<b>1,771,606</b>	<b>48.5</b>	<b>1,815,582</b>	<b>49.9</b>
<b>Noncontrolling interests</b>	<b>84,619</b>	<b>2.3</b>	<b>87,286</b>	<b>2.4</b>
<b>Total equity</b>	<b>1,856,225</b>	<b>50.8</b>	<b>1,902,868</b>	<b>52.3</b>
<b>Total liabilities and equity</b>	<b>¥ 3,653,686</b>	<b>100.0</b>	<b>¥ 3,638,219</b>	<b>100.0</b>

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

# Consolidated Statements of Income and Consolidated Statements of Comprehensive Income

Komatsu Ltd. and Consolidated Subsidiaries

For the fiscal years ended March 31, 2020 and 2019.

## Consolidated Statements of Income

	2020		2019	
	Millions of yen	Ratio(%)	Millions of yen	Ratio(%)
Net sales (Notes 1, 7, 14, 15, 17 and 20)	¥ 2,444,870	100.0	¥ 2,725,243	100.0
Cost of sales (Notes 1, 8, 10, 12, 14, 17, 20 and 25)	1,749,048	71.5	1,885,163	69.2
Selling, general and administrative expenses (Notes 3, 8, 10, 12, 13, 17 and 25)	440,792	18.0	440,687	16.2
Impairment loss on long-lived assets (Notes 23 and 25)	3,194	0.1	1,251	0.0
Impairment loss on goodwill (Note 10)	3,699	0.2	—	—
Other operating income (expenses), net (Note 25)	2,570	0.1	(336)	(0.0)
<b>Operating income</b>	<b>250,707</b>	<b>10.3</b>	<b>397,806</b>	<b>14.6</b>
<b>Other income (expenses), net</b> (Note 25)				
Interest and dividend income (Note 7)	7,378	0.3	7,154	0.3
Interest expense	(24,592)	(1.0)	(24,101)	(0.9)
Other, net (Notes 6, 12, 14, 20 and 22)	(10,379)	(0.4)	(3,388)	(0.1)
Total	(27,593)	(1.1)	(20,335)	(0.7)
<b>Income before income taxes and equity in earnings of affiliated companies</b>	<b>223,114</b>	<b>9.1</b>	<b>377,471</b>	<b>13.9</b>
<b>Income taxes</b> (Notes 14 and 16)				
Current	66,464		112,541	
Deferred	(3,591)		(5,942)	
Total	62,873	2.6	106,599	3.9
<b>Income before equity in earnings of affiliated companies</b>	<b>160,241</b>	<b>6.6</b>	<b>270,872</b>	<b>9.9</b>
<b>Equity in earnings of affiliated companies</b>	<b>3,443</b>	<b>0.1</b>	<b>3,779</b>	<b>0.1</b>
<b>Net income</b>	<b>163,684</b>	<b>6.7</b>	<b>274,651</b>	<b>10.1</b>
<b>Less: Net income attributable to noncontrolling interests</b>	<b>9,840</b>	<b>0.4</b>	<b>18,160</b>	<b>0.7</b>
<b>Net income attributable to Komatsu Ltd.</b>	<b>¥ 153,844</b>	<b>6.3</b>	<b>¥ 256,491</b>	<b>9.4</b>
<b>Yen</b>				
<b>Per share data</b> (Note 18):				
<b>Net income attributable to Komatsu Ltd.:</b>				
Basic	¥ 162.93		¥ 271.81	
Diluted	¥ 162.80		¥ 271.51	

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

# Consolidated Statements of Comprehensive Income

	Millions of yen	
	2020	2019
<b>Net income</b>	¥ 163,684	¥ 274,651
<b>Other comprehensive income (loss), for the period, net of tax</b>		
Foreign currency translation adjustments (Notes 14 and 16)	(94,938)	(3,373)
Pension liability adjustments (Notes 12, 14 and 16)	(1,096)	(3,138)
Net unrealized holding gains (losses) on derivative instruments (Notes 14, 16 and 20)	(1,392)	(1,676)
Total	(97,426)	(8,187)
<b>Comprehensive income</b>	66,258	266,464
<b>Less: Comprehensive income attributable to noncontrolling interests</b>	3,259	17,888
<b>Comprehensive income attributable to Komatsu Ltd.</b>	¥ 62,999	¥ 248,576

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

Consolidated Statements of Equity  
Komatsu Ltd. and Consolidated Subsidiaries

For the fiscal year ended March 31, 2020

Millions of yen									
	Common stock	Capital surplus	Retained earnings		Accumulated other comprehensive income (loss)	Treasury stock	Total Komatsu Ltd. shareholders' equity	Non-controlling interests	Total equity
			Appropriated for legal reserve	Un-appropriated					
Balance at March 31, 2019	¥ 68,311	¥ 136,798	¥ 46,028	¥ 1,654,105	¥ (39,792)	¥ (49,868)	¥ 1,815,582	¥ 87,286	¥ 1,902,868
Cash dividends				(107,687)			(107,687)	(6,065)	(113,752)
Transfer to retained earnings appropriated for legal reserve			785	(785)			—		—
Other changes		10			(29)		(19)	139	120
Net income				153,844			153,844	9,840	163,684
Other comprehensive income (loss), for the period, net of tax (Note 14)					(90,845)		(90,845)	(6,581)	(97,426)
Issuance and exercise of stock acquisition rights (Note 13)		(759)					(759)		(759)
Purchase of treasury stock						(33)	(33)		(33)
Sales of treasury stock		35				735	770		770
Restricted stock compensation (Note 13)	378	375					753		753
Balance at March 31, 2020	¥ 68,689	¥ 136,459	¥ 46,813	¥ 1,699,477	¥ (130,666)	¥ (49,166)	¥ 1,771,606	¥ 84,619	¥ 1,856,225

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

For the fiscal year ended March 31, 2019

Millions of yen									
	Common stock	Capital surplus	Retained earnings		Accumulated other comprehensive income (loss)	Treasury stock	Total Komatsu Ltd. shareholders' equity	Non-controlling interests	Total equity
			Appropriated for legal reserve	Un-appropriated					
Balance at March 31, 2018	¥ 67,870	¥ 138,450	¥ 45,828	¥ 1,491,965	¥ (29,150)	¥ (50,423)	¥ 1,664,540	¥ 79,050	¥ 1,743,590
Cumulative effects of Accounting Standards Update—adoption of ASU 2014-09, net of tax				(515)			(515)	(12)	(527)
Cumulative effects of Accounting Standards Update—adoption of ASU 2016-01, net of tax				681	(681)		—		—
Cumulative effects of Accounting Standards Update—adoption of ASU 2016-16, net of tax				(860)			(860)		(860)
Cash dividends				(93,457)			(93,457)	(6,291)	(99,748)
Transfer to retained earnings appropriated for legal reserve			200	(200)			—		—
Other changes		(1,497)			(2,046)		(3,543)	(3,349)	(6,892)
Net income				256,491			256,491	18,160	274,651
Other comprehensive income (loss), for the period, net of tax (Note 14)					(7,915)		(7,915)	(272)	(8,187)
Issuance and exercise of stock acquisition rights (Note 13)		(653)					(653)		(653)
Purchase of treasury stock						(41)	(41)		(41)
Sales of treasury stock		60				596	656		656
Restricted stock compensation (Note 13)	441	438					879		879
Balance at March 31, 2019	¥ 68,311	¥ 136,798	¥ 46,028	¥ 1,654,105	¥ (39,792)	¥ (49,868)	¥ 1,815,582	¥ 87,286	¥ 1,902,868

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

Consolidated Statements of Cash Flows  
Komatsu Ltd. and Consolidated Subsidiaries  
For the fiscal years ended March 31, 2020 and 2019

	Millions of yen	
	2020	2019
<b>Operating activities</b>		
Net income	¥ 163,684	¥ 274,651
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	131,596	131,464
Deferred income taxes	(3,591)	(5,942)
Impairment loss and net loss (gain) on valuation of investment securities	(97)	499
Net gain on sale of fixed assets	(4,714)	(1,971)
Loss on disposal of fixed assets	3,980	3,660
Impairment loss on long-lived assets	3,194	1,251
Impairment loss on goodwill	3,699	—
Pension and retirement benefits, net	(1,672)	(1,827)
Changes in assets and liabilities:		
Decrease (increase) in trade receivables	44,568	(74,121)
Decrease (increase) in inventories	(9,915)	(99,507)
Increase (decrease) in trade payables	(38,340)	(37,683)
Increase (decrease) in income taxes payable	(19,445)	(22,971)
Other, net	22,234	35,045
Net cash provided by operating activities	295,181	202,548
<b>Investing activities</b>		
Capital expenditures	(184,707)	(192,050)
Proceeds from sale of fixed assets	14,968	11,200
Proceeds from sale of investment securities	844	1,960
Purchases of investment securities	(630)	(342)
Acquisition of subsidiaries and equity investees, net of cash acquired	(21,646)	(8,035)
Other, net *1	241	63
Net cash used in investing activities	(190,930)	(187,204)
<b>Financing activities</b>		
Proceeds from debt issued (Original maturities greater than three months)	587,157	400,176
Payment on debt (Original maturities greater than three months)	(436,952)	(339,971)
Short-term debt, net (Original maturities three months or less)	(37,449)	45,087
Dividends paid	(107,687)	(93,457)
Other, net *2	(8,526)	(15,495)
Net cash used in financing activities	(3,457)	(3,660)
<b>Effect of exchange rate change on cash and cash equivalents</b>	(1,657)	(7,602)
<b>Net increase in cash and cash equivalents</b>	99,137	4,082
<b>Cash and cash equivalents, beginning of year</b>	148,479	144,397
<b>Cash and cash equivalents, end of year</b>	¥ 247,616	¥ 148,479

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

\*1 In the fiscal year ended March 31, 2020, Komatsu (the Company and its consolidated subsidiaries) has classified "Proceeds from sale of subsidiaries and equity investees, net of cash disposed" as "Other, net" in the investing activities. Accordingly, the figure for the fiscal year ended March 31, 2019 was reclassified to conform to the presentation for the fiscal year ended March 31, 2020.

\*2 In the fiscal year ended March 31, 2020, Komatsu has classified "Repayments of finance lease obligations" and "Sale (purchase) of treasury stock, net" as "Other, net" in the financing activities. Accordingly, the figures for the

fiscal year ended March 31, 2019 were reclassified to conform to the presentation for the fiscal year ended March 31, 2020.



## **Notes to Consolidated Financial Statements**

### **Komatsu Ltd. and Consolidated Subsidiaries**

**For the fiscal years ended March 31, 2020 and 2019**

#### **1. Description of Business, Basis of Financial Statement Presentation and Summary of Significant Accounting Policies**

**Description of Business**  
In this report, Komatsu Ltd. is hereinafter referred to as the “Company” and together with its consolidated subsidiaries as “Komatsu.”

Komatsu primarily manufactures and markets various types of construction, mining and utility equipment throughout the world, provides retail financing to customers and sales distributors and is also engaged in the manufacture and sale of industrial machinery and others.

The consolidated net sales of Komatsu for the fiscal year ended March 31, 2020, consisted of the following: construction, mining and utility equipment business - 90.2%, retail finance business - 2.6%, industrial machinery and others business - 7.2%.

Sales are made principally under the Komatsu brand name, and are almost entirely executed through sales subsidiaries and sales distributors. These subsidiaries and distributors are responsible for marketing and distribution and primarily sell to retail dealers in their geographical area. Of consolidated net sales for the fiscal year ended March 31, 2020, 83.8% were generated outside Japan, with 38.9% in the Americas, 14.7% in Europe and CIS, 6.4% in China, 18.5% in Asia (excluding Japan and China) and Oceania, and 5.3% in the Middle East and Africa. The manufacturing operations of Komatsu are conducted primarily at plants in Japan, the United States, Brazil, the United Kingdom, Germany, Italy, Sweden, Russia, China, Indonesia, Thailand, India and South Africa.

#### **Basis of Financial Statement Presentation**

The accompanying consolidated financial statements are prepared and presented in accordance with generally accepted accounting principles in the United States of America (hereinafter “U.S. GAAP”).

The accompanying 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 being booked on each subsidiaries’ and affiliates’ financial statements are added to the accompanying consolidated financial statements. These adjustments are mainly due to the gaps of accounting principles between Japan and the United States of America. See Note 27 “Terminology, Forms and Preparation Methods of 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

### (1) Consolidation and Investments in Affiliated Companies

The consolidated financial statements include the accounts of the Company and all of its majority-owned Japanese and foreign subsidiaries, except for certain immaterial subsidiaries.

Variable interest entities are consolidated for which the Company is the primary beneficiary in accordance with Financial Accounting Standards Board (hereinafter “FASB”) Accounting Standards Codification<sup>TM</sup> (hereinafter “ASC”) 810, “Consolidation”. The consolidated balance sheets as of March 31, 2020 and 2019 include assets for the Variable interest entities of ¥15,211 million and ¥26,551 million, respectively. Consolidated variable interest entities mainly engage in equipment leasing in Europe. The majority of these assets are trade notes and accounts receivable, and long-term trade receivables.

Investments in affiliated companies whereby Komatsu has the ability to exercise significant influence over the operational and financial policies of a company, but does not have a controlling financial interest, are accounted for by the equity method.

### (2) Foreign Currency Translation and Transactions

Assets and liabilities of foreign operations are translated at the exchange rates in effect at each fiscal year-end, and income and expenses of foreign operations are translated at the average rates of exchange prevailing during each fiscal year in consolidating the financial statements of overseas subsidiaries. The resulting translation adjustments are included as a separate component of accumulated other comprehensive income (loss) in the accompanying consolidated financial statements. All foreign currency transaction gains and losses are included in other income (expenses), net in the period incurred.

### (3) Allowance for Doubtful Trade Receivables

Komatsu records allowance for doubtful receivables as the best estimate of the amount of probable credit losses in Komatsu’s existing receivables including financing receivables. The amount is determined based on historical experience, credit information of individual customers, and assessment of overdue receivables. An additional allowance for individual receivables is recorded when Komatsu becomes aware of a customer’s inability to meet its financial obligations, such as in the case of bankruptcy filings or deterioration of the customer’s business performance. The amount of estimated credit losses is further adjusted to reflect changes in customer circumstances.

### (4) Inventories

Inventories are stated at the lower of cost and net realizable value. Komatsu determines cost of work in process and finished products principally using the specific identification method based on actual costs accumulated under a job-order cost system. The cost of finished parts is determined principally using the first-in first-out method. Cost of materials and supplies is stated at average cost.

### (5) Investment Securities

Komatsu’s investments in marketable equity securities are stated at fair value. Changes in fair values are included in net income in the accompanying consolidated statements of income.

Komatsu has measured non-marketable equity securities without readily determinable fair value by the method where changes in observable prices in orderly transactions for identical or similar investments issued by the same issuer are added to or subtracted from the carrying amount after the write-down due to impairment, except for investments which are measured at net asset value per share.

## **(6) Property, Plant and Equipment, and Related Depreciation and Amortization**

Property, plant and equipment are stated at cost, less accumulated depreciation. Depreciation is calculated by the straight-line method based on the estimated useful lives of the assets.

The estimated useful lives used in computing depreciation of property, plant and equipment are as follows:

<u>Asset</u>	<u>Life</u>
Buildings	2 to 60 years
Machinery and equipment	2 to 20 years

Ordinary maintenance and repairs are charged to expense as incurred. Major replacements and improvements are capitalized. When properties are retired or otherwise disposed of, the costs of those properties and the related accumulated depreciation are removed from the consolidated balance sheets and the differences between the costs of those properties and the related accumulated depreciation are recognized in other operating income (expenses), net in the consolidated statements of income.

## **(7) Leases**

Komatsu has leasing arrangements as a lessee. Komatsu determines if an arrangement is a lease at the inception of each contract in accordance with FASB ASC 842, “Leases”. Some of the contracts include lease and non-lease components, which are not separated and accounted all components as those of a single lease. Additionally, Komatsu has adopted the rule in which an entity does not recognize operating lease right-of-use assets regarding operating leases agreement with an initial estimated lease term of twelve months or less.

Komatsu has leasing arrangements as a lessor. Komatsu determines if an arrangement is a lease at the inception of each contract in accordance with FASB ASC 842, “Leases”.

The details are as described in Note 17 “Leases”.

## **(8) Goodwill and Other Intangible Assets**

Komatsu uses the acquisition method of accounting for business combinations. Goodwill is tested for impairment at least once annually and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value below its carrying amount. Any recognized intangible assets determined to have an indefinite useful life are not to be amortized, but instead tested for impairment at least once annually and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value below its carrying amount until its useful life is determined to no longer be indefinite. Intangible assets with finite useful lives are amortized over their respective estimated useful lives and reviewed for impairment whenever there is an indicator of possible impairment. An impairment loss would be recognized when the carrying amount of an asset or an asset group exceeds the estimated undiscounted cash flows expected to be generated by the asset or an asset group. The amount of the impairment loss to be recorded is determined by the difference between the fair value of the asset or an asset group estimated using a discounted cash flow valuation model and carrying value.

## **(9) Revenue Recognition**

Komatsu recognizes revenue based on the following five steps in accordance with FASB ASC 606, “Revenue from Contracts with Customers”.

Step 1: Identify the contracts with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

The details are as described in Note 15 “Revenue”.

Taxes collected from customers and paid to governmental-authorities including consumption taxes are excluded from revenue.

**(10) Income Taxes**

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences and carryforwards are expected to be realized or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

If a tax position meets the more-likely-than-not recognition threshold based on the technical merits of the position, Komatsu recognizes the benefit of such position in the financial statements. The benefit of the tax position is measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon settlement with appropriate taxing authority.

**(11) Product Warranties**

After the product were sold or delivered, Komatsu repairs and replaces parts free of charge for a certain period in accordance with the contract. Thus, in order to provide for disbursement of the after-sales service costs, provision for product warranties is recognized based on the relevant historical result and is classified as other current liabilities and other liabilities.

**(12) Pension and Retirement Benefits**

Komatsu recognizes the overfunded or underfunded status of the defined benefit plans as an asset or liability in the consolidated balance sheet, with a corresponding adjustment to accumulated other comprehensive income (loss), net of tax.

Amortization of actuarial net gain or loss is included as a component of Komatsu's net periodic pension cost for defined benefit plans for a year if, as of the beginning of the year, that unrecognized net gain or loss exceeds 10 percent of the greater of (1) the projected benefit obligation or (2) the fair value of that plan's assets.

In such case, the amount of amortization recognized is the resulting excess divided by average remaining service period of active employees expected to receive benefits under the plan. The expected return on plan assets is determined based on the historical long-term rate of return on plan assets. The discount rate is determined based on the rates of return of high-quality fixed income investments currently available and expected to be available during the period to maturity of the pension benefits.

**(13) Share-Based Compensation**

The Company recognizes share-based compensation expense using the fair value method. The compensation expense for the stock option plans is measured at grant-date fair value and charged to expense over the vesting period. The compensation expense for the restricted stock compensation is expensed over the service period and recorded at the expected compensation amount.

**(14) Per Share Data**

Basic net income attributable to Komatsu Ltd. per share has been computed by dividing net income attributable to common shareholders by the weighted-average number of common shares outstanding during each fiscal year, after deducting treasury stock. Diluted net income attributable to Komatsu Ltd. per share reflects the potential dilution computed on the basis that all stock options were exercised (less the number of treasury stock assumed to be purchased from proceeds using the average market price of the Company's common shares) to the extent that each is not antidilutive.

### **(15) Cash and Cash Equivalents**

Cash and cash equivalents include highly liquid investments with an original maturity of three months or less at the date of purchase.

Komatsu's overseas subsidiaries participate in a global cash pooling system based on agreement with a single financial institution, which is used to fund short-term liquidity needs. This agreement contains specific provisions for the right to offset positive and negative cash balances on a global basis. The facility allows for cash withdrawals from this financial institution up to our aggregate cash deposits within the same financial institution. Komatsu's consolidated balance sheets as of March 31, 2020 and 2019 reflect cash net of withdrawals of ¥267,138 million and ¥256,615 million, respectively.

### **(16) Derivative Financial Instruments**

Komatsu uses various derivative financial instruments to manage its interest rate and foreign exchange exposure. All derivatives, including derivatives embedded in other financial instruments, are measured at fair value and recognized as either assets or liabilities on the consolidated balance sheet. Changes in the fair values of derivative instruments not designated or not qualifying as hedges are recognized in earnings in the current period. Changes in the fair values of derivative instruments which designated as fair value hedges are recognized in earnings, along with changes in the fair value of the hedged item. Changes in the fair values of derivative instruments which designated as cash flow hedges are reported in accumulated other comprehensive income (loss), and recognized in earnings when the hedged item is recognized in earnings.

### **(17) Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed of**

Long-lived assets and certain identifiable intangibles to be held and used by Komatsu are reviewed for impairment based on a cash flow analysis of the asset or an asset group whenever events or changes in circumstances indicate that the carrying amount of an asset or an asset group may not be recoverable. The assets to be held for use are considered to be impaired when estimated undiscounted cash flows expected to result from the use of the assets and their eventual disposition is less than their carrying amounts. The impairment losses are measured as the amount by which the carrying amount of the asset or an asset group exceeds the fair value. Long-lived assets and identifiable intangibles to be disposed of are reported at the lower of carrying amount or fair value less cost to sell.

### **(18) Use of Estimates**

Komatsu has made a number of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses presented in consolidated financial statements prepared in accordance with U.S. GAAP. Actual results could differ from the estimates and assumptions.

Komatsu has identified several areas where it believes estimates and assumptions are particularly critical to the financial statements. These are the determination of the useful lives of property, plant and equipment, the allowance for doubtful receivables, impairment of long-lived assets and goodwill, pension liabilities and expenses, product warranty liabilities, fair value of financial instruments, realization of deferred tax assets, income tax uncertainties and other contingencies. The current economic environment has increased the degree of uncertainty inherent in those estimates.

COVID-19 is a crisis broadly impacting the economy and corporate activities, and it could possibly impact Komatsu's financial position and results of operations. Just how COVID-19 will spread from this point forward, or when it will be contained, is still unclear. Nevertheless, based on the assumption that the COVID-19-related impacts will continue for a length of time in the fiscal year ending March 31, 2021, Komatsu has assessed 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. Komatsu is making its best estimates based on the information available. However, if actual future trends deviate from those assumptions, Komatsu's financial position and results of operations may be adversely affected.

## (19) Recently Adopted Accounting Standards

In the fiscal year ended March 31, 2020, Komatsu has adopted the Accounting Standards Update (hereinafter “ASU”) 2016-02 “Leases”. This update requires lessees to recognize most leases as the right-of-use assets and the lease liabilities on their balance sheets. This update does not substantially change lessor accounting. The FASB also modified the definition of lease. Additionally, the guidance expands qualitative and quantitative disclosures related to lease. Concerning accounting in relation to this update, Komatsu has adopted the rule in which an entity does not separate lease and non-lease components and regards all components as those of a single lease, and the exceptional rule in which an entity does not recognize short-term leases on the balance sheet. Concerning the transition methods in relation to this update, Komatsu has adopted a series of practical expedients in which an entity does not reassess whether any expired or existing lease contracts are or contain leases, the lease classification for them and initial direct costs for them. Komatsu has also adopted the additional transition methods in which an entity does not retrospectively restate presentation or disclosure of comparative years at the period of the application of the new accounting standards and an entity does not assess whether existing or expired land easements that were not previously accounted for as leases. The application of the provision has no significant impact on Komatsu’s financial position and results of operations.

In the fiscal year ended March 31, 2020, Komatsu has adopted ASU 2017-12 “Targeted Improvements to Accounting for Hedging Activities”. This update improves the application of hedge accounting under certain circumstances to reflect the economic consequences of an entity’s risk management activities in financial statements more appropriately. The update eliminates the requirement to separately measure and present effective portion and ineffective portion of hedging and requires an entity to record the full amount of change in fair value of the hedging instrument in the same income statement line as gain or loss arising from the hedged item. The application of the provision has no significant impact on Komatsu’s financial position and results of operations.

## (20) Recently Issued Accounting Standards Not Yet Adopted

In June 2016, the FASB issued 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 existing incurred loss model. The new 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. For all entities other than SEC filers, this update was planned to be effective for annual reporting periods beginning after December 15, 2020, including interim periods within that reporting period originally. In November 2019, the FASB changed the effective date of this update and this update will be effective for annual reporting periods beginning after December 15, 2022, including interim periods within that reporting period. Early adoption is permitted. This update should be adopted under the modified-retrospective approach through a cumulative-effect adjustment to retained earnings at the beginning of the initial application period. Komatsu is currently considering the adoption date and the impact of this update on Komatsu’s financial position and results of operations.

## 2. Supplemental Cash Flow Information

Additional cash flow information for the fiscal years ended March 31, 2020 and 2019, are as follows:

	Millions of yen			
	2020		2019	
<b>Additional cash flow information:</b>				
Interest paid	¥	24,876	¥	24,070
Income taxes paid		89,558		136,348



### 3. Business Combination

#### Immersive Corporation Pty Ltd

On July 1, 2019, the Company acquired Immersive Corporation Pty Ltd (hereafter “Immersive”), a mining workforce optimization company, through a wholly-owned subsidiary of the Company by purchasing all of the outstanding shares of Immersive.

Immersive develops, manufactures and sells mining equipment simulators for training machine operators for surface and underground mines. Immersive also offers educational programs designed to enhance the safety and productivity of customers’ site operations by using simulators, and provides training solutions designed to promote operational optimization by proposing recommendations.

In April 2019, Komatsu embarked on the new three-year mid-term management plan (FY2019- 2021), "DANTOTSU Value — FORWARD Together for Sustainable Growth," working together with its customers to achieve safe, highly productive, smart and clean worksites of the future. By integrating Immersive’s solutions into its line-up, Komatsu anticipates improvements in safety and productivity, as well as optimization of operations for our mining customers.

The fair value measurement of the acquired assets and assumed liabilities under ASC 805, “Business Combinations” was completed as of the issue date of the third quarterly report of the fiscal year ended March 31, 2020.

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	¥	15,755
Fair value of total consideration transferred		15,755
Recognized amounts of identifiable acquired assets and assumed liabilities		
Current assets	¥	3,583
Property, plant and equipment		444
Intangible assets		8,158
Other non-current assets		84
Total acquired assets		12,269
Current liabilities		(1,571)
Long-term liabilities		(2,576)
Total assumed liabilities		(4,147)
Net acquired assets		8,122
Goodwill		7,633
	¥	15,755

Intangible assets of ¥8,158 million are all intangible assets subject to amortization and primarily consist of the following.

	Millions of yen		
		Gross carrying amount	Amortization period
Customer relationships	¥	2,026	16 years
Technology assets		5,844	13 years

The goodwill of ¥7,633 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 fiscal year ended March 31, 2020 are ¥300 million (accumulated acquisition-related costs: ¥332 million) and included in selling, general and administrative expenses in the consolidated statements of income for the fiscal year ended March 31, 2020.

Immersive's results of operations included in the consolidated statements of income for the fiscal year ended March 31, 2020 since the date of acquisition were immaterial.

Assuming this acquisition had been made on April 1, 2018, the impact on Net Sales and Net income attributable to Komatsu Ltd. for the fiscal year ended March 31, 2020 and 2019 would be immaterial.

#### 4. Trade Notes and Accounts Receivable

Receivables at March 31, 2020 and 2019 are summarized as follows:

	Millions of yen	
	2020	2019
Trade notes	¥ 230,980	¥ 229,465
Accounts receivable	525,181	621,230
Total	756,161	850,695
Less: allowance-current	(11,766)	(8,512)
Trade notes and accounts receivable, net	¥ 744,395	¥ 842,183
Long-term trade receivables	425,974	420,609
Less: allowance-noncurrent	(5,056)	(4,246)
Long-term trade receivables, net	¥ 420,918	¥ 416,363

Installment and lease receivables (less unearned interest) are included in trade notes and accounts receivable and long-term trade receivables.

The roll-forward schedule of the allowance for credit losses of the financing receivables for the fiscal years ended March 31, 2020 and 2019 are as follows:

	Millions of yen	
	2020	2019
Balance at beginning of year	¥ 8,004	¥ 16,330
Provision	5,071	(1,832)
Charge-offs	(3,507)	(6,341)
Other	(347)	(153)
Balance at end of year	¥ 9,221	¥ 8,004

Komatsu considers that financing receivables of retail finance subsidiaries are past due, if unpaid for greater than 30 days. Cumulative past due financing receivables (31-90 days, greater than 90 days) at March 31, 2020 and 2019 were summarized as follows:

	Millions of yen	
	2020	2019
31-90 days past due	¥ 1,088	¥ 1,297
Greater than 90 days past due	773	1,530
Total past due	¥ 1,861	¥ 2,827

Nonaccrual financing receivables at March 31, 2020 and 2019 were not material.

Komatsu did not have any cash flows from securitization activities from the sale of trade notes and accounts receivable for the fiscal years ended March 31, 2020 and 2019.

Komatsu did not have any securitized trade notes and accounts receivable at March 31, 2020 and 2019.

## 5. Inventories

At March 31, 2020 and 2019, inventories comprise the following:

	Millions of yen	
	2020	2019
Finished products, including finished parts held for sale	¥ 586,468	¥ 594,880
Work in process	153,082	171,063
Materials and supplies	65,759	71,609
Total	¥ 805,309	¥ 837,552

## 6. Investment Securities

The realized gains and losses and gross unrealized holding gains and losses related to equity securities which are recorded in other income (expenses), net in the accompanying consolidated statements of income for the fiscal years ended March 31, 2020 and 2019 are as follows:

	Millions of yen	
	2020	2019
Net gains and losses recognized during the year on equity securities	¥ 97	¥ (499)
Less: net gains and losses recognized during the year on equity securities sold during the year	(185)	61
Unrealized gains and losses recognized during the year on equity securities still held as of March 31, 2020 and 2019	¥ 282	¥ (560)

Komatsu measures equity securities without readily determinable fair values by the method where changes in observable prices in orderly transactions for identical or similar investments issued by the same issuer are added to or subtracted from the carrying amount after the write-down due to impairment, except for investments which are measured at net asset value per share. As of March 31, 2020 and 2019, the carrying amounts of these investments were ¥7,328 million and ¥7,043 million, respectively. Any impairment or any adjustment relating to observable price changes recorded until March 31, 2020 and 2019 were not material.

## 7. Investments in and Advances to Affiliated Companies

At March 31, 2020 and 2019, investments in and advances to affiliated companies comprised the following:

	Millions of yen			
	2020		2019	
Investments in capital stock	¥	36,610	¥	36,066
Advances		1,600		1,255
Total	¥	38,210	¥	37,321

The investments in and advances to affiliated companies relate mainly to 20% to 50% of voting rights owned companies whereby Komatsu has the ability to exercise significant influence over the operational and financial policies.

At March 31, 2020 and 2019, trade notes and accounts receivable and short-term loans receivable from and trade notes, bills and accounts payable to affiliated companies comprised the following:

	Millions of yen			
	2020		2019	
Trade notes and accounts receivable, net	¥	27,976	¥	28,820
Short-term loans receivable		1,723		1,522
Trade notes, bills and accounts payable		5,876		7,360

Net sales to and dividends received from affiliated companies for the fiscal years ended March 31, 2020 and 2019, are as follows.

	Millions of yen			
	2020		2019	
Net sales	¥	81,730	¥	78,416
Dividends		1,399		1,340

Intercompany profits (losses) have been eliminated in the consolidated financial statements.

As of March 31, 2020 and 2019, consolidated unappropriated retained earnings included Komatsu's share of undistributed earnings of affiliated companies accounted for by the equity method in the amount of ¥23,937 million and ¥21,412 million, respectively.

The difference between the carrying value of the investments in affiliated companies and Komatsu's equity in the underlying net assets of such affiliated companies is insignificant as of March 31, 2020 and 2019.

Summarized financial information for affiliated companies as of March 31, 2020 and 2019, and for the fiscal years ended March 31, 2020 and 2019, is as follows:

	Millions of yen			
	2020		2019	
Current assets	¥	151,972	¥	153,905
Net property, plant and equipment - less accumulated depreciation and amortization		54,568		54,584
Investments and other assets		32,342		34,576
Total assets	¥	238,882	¥	243,065
Current liabilities	¥	97,745	¥	101,757
Noncurrent liabilities		36,785		40,623
Equity		104,352		100,685
Total liabilities and equity	¥	238,882	¥	243,065

	Millions of yen			
	2020		2019	
Net sales	¥	236,507	¥	237,570
Net income	¥	10,276	¥	10,336



## 8. Property, Plant and Equipment

The major classes of property, plant and equipment at March 31, 2020 and 2019, are as follows:

	Millions of yen	
	2020	2019
Land	¥ 112,683	¥ 115,738
Buildings	512,160	507,987
Machinery and equipment	660,007	666,364
Equipment leased to others	335,248	348,616
Construction in progress	31,909	27,859
Total	1,652,007	1,666,564
Less: accumulated depreciation and amortization	(894,328)	(890,142)
Net property, plant and equipment	¥ 757,679	¥ 776,422

After the adoption of ASU 2016-02, Komatsu has reclassified acquisition cost of equipment leased to customers under operating leases from Machinery and equipment, etc. to Equipment leased to others. Leased equipment under operating leases at fiscal year ended March 31, 2019 also have been reclassified.

Depreciation for the fiscal years ended March 31, 2020 and 2019, were ¥111,108 million and ¥110,215 million, respectively.

## 9. Pledged Assets

At March 31, 2020 and 2019, assets pledged as collateral for guarantees for debt are as follows:

	Millions of yen	
	2020	2019
Other current assets	¥ 211	¥ 326
Total	¥ 211	¥ 326

The above assets were pledged against the following liabilities:

	Millions of yen	
	2020	2019
Guarantees for debt	¥ 211	¥ 326
Total	¥ 211	¥ 326

# 10. Goodwill and Other Intangible Assets

Intangible assets other than goodwill at March 31, 2020 and 2019 are as follows:

	Millions of yen					
	2020			2019		
	Gross carrying amount	Accumulated amortization	Net carrying amount	Gross carrying amount	Accumulated amortization	Net carrying amount
Other intangible assets subject to amortization:						
Software	¥ 52,813	¥ (21,678)	¥ 31,135	¥ 42,798	¥ (20,030)	¥ 22,768
Leasehold	6,959	(1,675)	5,284	8,363	(1,844)	6,519
Trademarks	52,444	(10,866)	41,578	55,913	(7,832)	48,081
Customer relationships	73,505	(25,197)	48,308	73,773	(20,752)	53,021
Technology assets	37,423	(11,950)	25,473	32,030	(9,177)	22,853
Other	7,292	(4,635)	2,657	7,359	(3,579)	3,780
Total	230,436	(76,001)	154,435	220,236	(63,214)	157,022
Other intangible assets not subject to amortization			7,627			9,384
Total other intangible assets			¥ 162,062			¥ 166,406

The aggregate amortization expense of other intangible assets subject to amortization for the fiscal years ended March 31, 2020 and 2019 were ¥18,417 million and ¥19,645 million, respectively.

At March 31, 2020, the future estimated amortization expenses for each of five years relating to intangible assets currently recorded in the consolidated balance sheet are as follows:

Year ending March 31	Millions of yen
2021	¥ 18,597
2022	18,259
2023	16,607
2024	15,345
2025	14,073

The changes in carrying amounts of goodwill by operating segment for the fiscal years ended March 31, 2020 and 2019 are as follows:

	Millions of yen			
	Construction, Mining and Utility Equipment	Retail Finance	Industrial Machinery and Others	Total
<b>Balance at March 31, 2018</b>				
Goodwill	162,502	802	15,017	178,321
Accumulated impairment losses	(8,504)	—	(13,936)	(22,440)
	<u>¥ 153,998</u>	<u>¥ 802</u>	<u>¥ 1,081</u>	<u>¥ 155,881</u>
Goodwill acquired during the year	354	—	—	354
Foreign exchange impact	5,712	(26)	—	5,686
<b>Balance at March 31, 2019</b>				
Goodwill	168,568	776	15,017	184,361
Accumulated impairment losses	(8,504)	—	(13,936)	(22,440)
	<u>¥ 160,064</u>	<u>¥ 776</u>	<u>¥ 1,081</u>	<u>¥ 161,921</u>
Goodwill acquired during the year	11,007	—	—	11,007
Impairment losses	(3,699)	—	—	(3,699)
Foreign exchange impact	(11,580)	(128)	—	(11,708)
<b>Balance at March 31, 2020</b>				
Goodwill	167,995	648	15,017	183,660
Accumulated impairment losses	(12,203)	—	(13,936)	(26,139)
	<u>¥ 155,792</u>	<u>¥ 648</u>	<u>¥ 1,081</u>	<u>¥ 157,521</u>

## 11. Short-Term and Long-Term Debt

(1) Short-term debt at March 31, 2020 and 2019, consisted of the following:

	Millions of yen	
	2020	2019
Banks, insurance companies and other financial institutions	¥ 178,733	¥ 196,779
Commercial paper	304,925	207,880
Short-term debt	¥ 483,658	¥ 404,659

The weighted-average annual interest rates applicable to short-term debt outstanding at March 31, 2020 and 2019, were 1.9% and 2.2%, respectively.

Certain consolidated subsidiaries have entered into contracts for committed credit lines totaling ¥133,945 million and have unused committed lines of credit amounting to ¥112,135 million with certain financial institutions at March 31, 2020, which are available for full and immediate borrowings. The Company and Komatsu Finance America Inc. are a party to a committed ¥300,000 million and U.S.\$1,000 million commercial paper program and unused committed commercial paper program amounting to ¥93,000 million and U.S.\$100 million at March 31, 2020, are available upon the satisfaction of certain customary procedural requirements.

(2) Long-term debt at March 31, 2020 and 2019, consisted of the following:

	Millions of yen	
	2020	2019
Long-term debt without collateral:		
Banks, insurance companies and other financial institutions maturing serially through 2020-2025, weighted-average rate 2.6%	¥ 268,356	¥ 254,496
Euro Medium-Term Notes maturing serially through 2020-2024, weighted-average rate 3.0%	102,845	111,101
0.28% Unsecured Bonds due 2019	—	20,000
0.05% Unsecured Bonds due 2020	50,000	50,000
2.12% Unsecured Bonds due 2020	32,638	33,291
2.44% Unsecured Bonds due 2022	54,323	55,417
0.11% Unsecured Bonds due 2024	20,000	—
Other	558	1,736
Total	528,720	526,041
Less: current maturities	(118,880)	(53,556)
Long-term debt	¥ 409,840	¥ 472,485

(3) The Company, Komatsu Finance America Inc. and Komatsu Europe Coordination Center N.V. registered as an issuer under the Euro Medium-Term Note (hereinafter “EMTN”) Program on the London Stock Exchange. The registered amount of the EMTN Program at March 31, 2020 and 2019 were U.S.\$1,500 million and U.S.\$2,000 million respectively.

Under the EMTN Program, each of the issuers may from time to time issue notes denominated in any currency as may be agreed between the relevant issuers and dealers. The issuers under the EMTN Program issued ¥2,989 million during the fiscal year ended March 31, 2020, while they did not issue any EMTNs during the fiscal year ended March 31, 2019.

In November 2018, the Company’s bond program was renewed so that it could issue up to ¥100,000 million of variable-term bonds within a two-year period. As of March 31, 2020, ¥80,000 million remained unused under this program. In September 2017, the Komatsu Finance America Inc. issued U.S.\$800 million of variable-term bonds within a three-year or a five-year period. On the other hand, ¥50,000 million in the aggregate principal amount of bonds outstanding as of March 31, 2020 was issued under the past bond program prior to its 2018 renewal.

(4) As is customary in Japan, substantially all long-term and short-term bank loans are made under general agreements.

(5) Maturities of long-term debt at March 31, 2020 and 2019 respectively are as follows. There are no market value adjustments excluded from the amount of 2020 and 2019.

	Millions of yen			
	2020		2019	
Due within one year	¥	118,880	¥	53,556
Due after one year through two years		102,080		117,435
Due after two years through three years		221,213		83,171
Due after three years through four years		12,218		216,784
Due after four years through five years		74,329		12,568
Due after five years		—		42,527
Total	¥	528,720	¥	526,041

## 12. Liability for Pension and Other Retirement Benefits

The Company's employees, with certain minor exceptions, are covered by a severance payment and a defined benefit cash balance pension plan. The plan provides that approximately 60% of the employee benefits are payable as a pension payment, commencing upon retirement at age 60 (mandatory retirement age) and that the remaining benefits are payable as a lump-sum severance payment based on remuneration, years of service and certain other factors at the time of retirement. The plan also provides for lump-sum severance payments, payable upon earlier termination of employment.

Under the cash balance pension plan, each employee has an account which is credited yearly based on the current rate of pay and market-related interest rate.

Certain subsidiaries have various funded pension plans and/or unfunded severance payment plans for their employees, which are based on years of service and certain other factors. Komatsu's funding policy is to contribute the amounts to provide not only for benefits attributed to service to date but also for those expected to be earned in the future.

The reconciliation of beginning and ending balances of the benefit obligations and the fair value of the plan assets of the defined benefit plans are as follows:

	Millions of yen			
	2020		2019	
	Domestic	Overseas	Domestic	Overseas
<b>Change in benefit obligations:</b>				
Benefit obligations, beginning of year	¥ 135,947	¥ 234,821	¥ 132,473	¥ 237,054
Service cost	8,400	988	8,022	1,006
Interest cost	79	6,922	90	7,536
Actuarial loss (gain)	(574)	1,397	440	1,772
Plan participants' contributions	—	162	—	145
Effect of changes in consolidated subsidiaries	—	—	105	—
Plan amendment	1,329	—	931	1,727
Settlements	—	(1,637)	—	(238)
Benefits paid	(6,618)	(12,821)	(6,114)	(16,529)
Foreign currency exchange rate change	—	(10,314)	—	2,348
Benefit obligations, end of year	¥ 138,563	¥ 219,518	¥ 135,947	¥ 234,821
<b>Change in plan assets:</b>				
Fair value of plan assets, beginning of year	¥ 82,257	¥ 216,623	¥ 81,604	¥ 219,024
Actual return on plan assets	(775)	8,631	739	10,005
Employers' contributions	3,707	1,893	3,630	2,164
Plan participants' contributions	—	162	—	145
Plan amendment	984	—	—	—
Settlements	—	(1,637)	—	(284)
Benefits paid	(3,871)	(12,493)	(3,716)	(16,257)
Foreign currency exchange rate change	—	(10,160)	—	1,826
Fair value of plan assets, end of year	¥ 82,302	¥ 203,019	¥ 82,257	¥ 216,623
Funded status, end of year	¥ (56,261)	¥ (16,499)	¥ (53,690)	¥ (18,198)



Amounts recognized in the consolidated balance sheets at March 31, 2020 and 2019 are as follows:

	Millions of yen			
	2020		2019	
	Domestic	Overseas	Domestic	Overseas
Deferred income taxes and other assets	¥ —	¥ 16,930	¥ —	¥ 11,288
Other current liabilities	(146)	(607)	(136)	(639)
Liability for pension and retirement benefits	(56,115)	(32,822)	(53,554)	(28,847)
	¥ (56,261)	¥ (16,499)	¥ (53,690)	¥ (18,198)

Amounts recognized in accumulated other comprehensive income (loss) at March 31, 2020 and 2019 are as follows:

	Millions of yen			
	2020		2019	
	Domestic	Overseas	Domestic	Overseas
Actuarial loss	¥ 24,641	¥ 16,665	¥ 24,255	¥ 14,150
Prior service cost	1,512	909	1,342	1,043
	¥ 26,153	¥ 17,574	¥ 25,597	¥ 15,193

The accumulated benefit obligations for all defined benefit plans at March 31, 2020 and 2019 are as follows:

	Millions of yen			
	2020		2019	
	Domestic	Overseas	Domestic	Overseas
Accumulated benefit obligations	¥ 123,630	¥ 216,445	¥ 120,233	¥ 231,497

Information for pension plans with accumulated benefit obligations in excess of plan assets and pension plans with projected benefit obligations in excess of plan assets is as follows:

	Millions of yen			
	2020		2019	
	Domestic	Overseas	Domestic	Overseas
Plans with accumulated benefit obligations in excess of plan assets:				
Accumulated benefit obligations	¥ 122,514	¥ 126,785	¥ 119,215	¥ 187,869
Fair value of plan assets	80,988	95,535	77,382	160,956
Plans with projected benefit obligations in excess of plan assets:				
Projected benefit obligations	¥ 138,563	¥ 129,179	¥ 135,947	¥ 192,168
Fair value of plan assets	82,302	95,750	82,257	162,683

Net periodic cost of Komatsu's defined benefit plans for the fiscal years ended March 31, 2020 and 2019, consisted of the following components:

	Millions of yen			
	2020		2019	
	Domestic	Overseas	Domestic	Overseas
Service cost	¥ 8,400	¥ 988	¥ 8,022	¥ 1,006
Interest cost on projected benefit obligations	79	6,922	90	7,536
Expected return on plan assets	(1,236)	(9,692)	(1,222)	(10,979)
Amortization of actuarial loss or gain	1,051	(57)	1,231	162
Amortization of prior service cost	175	134	167	43
Net periodic cost	¥ 8,469	¥ (1,705)	¥ 8,288	¥ (2,232)

Net periodic cost components other than the service cost are recorded in other income (expenses), net in the accompanying consolidated statements of income.

Other changes in plan assets and benefit obligations recognized in other comprehensive income (loss) for the fiscal years ended March 31, 2020 and 2019 are summarized as follows:

	Millions of yen			
	2020		2019	
	Domestic	Overseas	Domestic	Overseas
Current year actuarial loss	¥ 1,437	¥ 2,458	¥ 923	¥ 2,746
Amortization of actuarial loss or gain	(1,051)	57	(1,231)	(162)
Current year prior service cost	345	—	931	1,727
Amortization of prior service cost	(175)	(134)	(167)	(43)
	¥ 556	¥ 2,381	¥ 456	¥ 4,268

The estimated actuarial loss and prior service cost for the defined benefit plans that will be amortized from accumulated other comprehensive income (loss) into net periodic cost for the fiscal year ending March 31, 2021 are summarized as follows:

	Millions of yen	
	Domestic	Overseas
Amortization of actuarial loss or gain	¥ 1,054	¥ 341
Amortization of prior service cost	145	238

Weighted-average assumptions used to determine benefit obligations of Komatsu's defined benefit plans at March 31, 2020 and 2019 are as follows:

	2020		2019	
	Domestic	Overseas	Domestic	Overseas
Discount rate	0.1%	3.1%	0.1%	3.4%
Assumed rate of increase in future compensation levels (Point-based benefit system)	4.5%	—	4.5%	—
Assumed rate of increase in future compensation levels	2.6%	3.1%	2.6%	3.8%

Weighted-average assumptions used to determine net periodic cost of Komatsu's defined benefit plans for the fiscal years ended March 31, 2020 and 2019 are as follows:

	2020		2019	
	Domestic	Overseas	Domestic	Overseas
Discount rate	0.1%	3.4%	0.1%	3.5%
Assumed rate of increase in future compensation levels (Point-based benefit system)	4.5%	—	4.5%	—
Assumed rate of increase in future compensation levels	2.6%	3.8%	2.6%	3.6%
Expected long-term rate of return on plan assets	1.5%	4.6%	1.5%	5.1%

The Company and certain Japanese subsidiaries have defined benefit cash balance pension plans. These companies adopt the assumed rate of increase in future compensation levels under the point-based benefit system.

Komatsu determines the expected long-term rate of return on plan assets based on the consideration of the current expectations for future returns and actual historical returns of each plan asset category.

## **Plan assets**

In order to secure long-term comprehensive earnings, Komatsu's investment policy is designed to ensure adequate plan assets to provide future payments of pension benefits to eligible participants. Taking into account the expected long-term rate of return on plan assets, Komatsu formulates a basic portfolio comprised of the judged optimum combination of equity and debt securities. Plan assets are principally invested in equity securities, debt securities and life insurance company general accounts in accordance with the guidelines of the basic portfolio in order to produce a total return that will match the expected return on a mid-term to long-term basis. Komatsu evaluates the gap between expected return and actual return of invested plan assets on an annual basis to determine if such differences necessitate a revision in the formulation of the basic portfolio. Komatsu revises the basic portfolio when and to the extent considered necessary to achieve the expected long-term rate of return on plan assets.

The "Pension and Retirement Benefit Committee" is organized in the Company in order to periodically monitor the performance of such plan assets.

The Company and its Japanese subsidiaries' targeted basic portfolio for plan assets consists of three major components: approximately 20% invested in equity securities, approximately 30% invested in debt securities, and approximately 50% invested in other assets, primarily consisting of investments in life insurance company general accounts. Foreign subsidiaries' targeted basic portfolio for plan assets, which varies by country, primarily consists of as follows: approximately 35% invested in equity securities and approximately 65% invested in debt securities. The equity securities are selected primarily from stocks that are listed on the securities exchanges. Prior to investing, Komatsu has investigated the business condition of the investee companies, and appropriately diversified investments by type of industry and other relevant factors. The debt securities are selected primarily from government bonds and municipal bonds, and corporate bonds. Prior to investing, Komatsu has investigated the quality of the issue, including credit rating, interest rate and repayment dates, and has appropriately diversified the investments. Pooled funds are selected using strategies consistent with the equity described above. As for investments in life insurance company general accounts, the contracts with the insurance companies include a guaranteed interest rate and return of capital. With respect to investments in foreign investment assets, Komatsu has investigated the stability of the underlying governments and economies, the market characteristics such as settlement systems and the taxation systems. For each such investment, Komatsu has selected the appropriate investment country and currency. There is no significant concentration of risk within the portfolio of investments. The three levels of input used to measure fair value are more fully described in Note 22.

The fair values of benefit plan assets at March 31, 2020 and 2019 by asset class are as follows:

	Millions of yen									
	Domestic					Overseas				
	Level 1	Level 2	Level 3	Investments measured at net asset value	Total	Level 1	Level 2	Level 3	Investments measured at net asset value	Total
<b>At March 31, 2020</b>										
Plan assets										
Cash	¥ 396	¥ —	¥ —	¥ —	¥ 396	¥ (2,841)	¥ —	¥ —	¥ —	¥ (2,841)
Equity securities										
Japanese equities	7,379	—	—	—	7,379	794	—	—	—	794
Foreign equities	5,869	—	—	565	6,434	8,438	37,040	—	30	45,508
Pooled funds	—	—	—	—	—	55	—	—	—	55
Debt securities										
Government bonds and municipal bonds	22,100	151	—	—	22,251	123	43,802	—	—	43,925
Corporate bonds	228	3,418	—	—	3,646	—	97,175	1,721	—	98,896
Other assets										
Life insurance company general accounts	—	36,982	—	—	36,982	—	—	—	—	—
Other	641	452	1,050	3,071	5,214	1,188	5,000	10,494	—	16,682
Total	¥ 36,613	¥ 41,003	¥ 1,050	¥ 3,636	¥ 82,302	¥ 7,757	¥ 183,017	¥ 12,215	¥ 30	¥ 203,019

	Millions of yen									
	Domestic					Overseas				
	Level 1	Level 2	Level 3	Investments measured at net asset value	Total	Level 1	Level 2	Level 3	Investments measured at net asset value	Total
<b>At March 31, 2019</b>										
Plan assets										
Cash	¥ 340	¥ —	¥ —	¥ —	¥ 340	¥ (1,328)	¥ —	¥ —	¥ —	¥ (1,328)
Equity securities										
Japanese equities	10,938	—	—	—	10,938	810	—	—	—	810
Foreign equities	8,887	—	—	—	8,887	11,343	38,923	—	30	50,296
Pooled funds	—	—	—	—	—	73	819	—	—	892
Debt securities										
Government bonds and municipal bonds	18,554	—	—	—	18,554	167	44,039	—	—	44,206
Corporate bonds	—	7,028	—	—	7,028	—	103,571	—	—	103,571
Other assets										
Life insurance company general accounts	—	36,510	—	—	36,510	—	—	—	—	—
Other	—	—	—	—	—	1,208	4,607	12,361	—	18,176
Total	¥ 38,719	¥ 43,538	¥ —	¥ —	¥ 82,257	¥ 12,273	¥ 191,959	¥ 12,361	¥ 30	¥ 216,623

- (1) The plan's equity securities include common stock of the Company in the amount of ¥12 million and ¥47 million at March 31, 2020 and 2019, respectively.
- (2) The plan's pooled funds which are primarily held by the U.K. subsidiaries invest in hedge funds.
- (3) The plan's government bonds and municipal bonds include approximately 10% Japanese bonds and 90% foreign bonds.

Each level into which assets are categorized is based on inputs used to measure the fair value of the assets, and does not indicate the risks of the assets.

Level 1 assets are comprised principally of equity and debt securities, which are valued using quoted prices in active markets. Level 2 assets are comprised of equity securities, debt securities and investments in life insurance company general accounts. Equity and debt securities are valued using inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly or indirectly. Investments in life insurance company general accounts are valued at conversion value.

The fair value of Level 3 assets mainly consist of the U.K. buy-in contracts held by foreign subsidiaries. The amount of these buy-in contracts are ¥10,494 million and ¥12,361 million at March 31, 2020 and 2019, respectively. These buy-in contracts are categorized as Level 3 due to the lack of active markets for these types of investments and the use of unobservable measurement inputs. Amounts of actual returns on, purchases and sales of these buy-in contracts for the fiscal years ended March 31, 2020 and 2019 are not material.

Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the three-level fair value hierarchy but have been recorded separately.

## Cash flows

### (1) Contributions

Komatsu expects to contribute ¥3,637 million and ¥1,309 million to their domestic benefit plans and their overseas benefit plans, respectively in the fiscal year ending March 31, 2021.

### (2) Estimated future benefit payments

The benefits expected to be paid in each of the next five years, and in the aggregate for the five years thereafter which reflect estimated future employee service are as follows:

Fiscal year ending March 31	Millions of yen	
	Domestic	Overseas
2021	¥ 7,265	¥ 11,908
2022	7,442	11,937
2023	9,358	12,006
2024	8,219	12,004
2025	7,395	11,989
Through 2026-2030	38,634	58,770



### Other postretirement benefit plans

Some U.S. subsidiaries provide certain postretirement health care and life insurance benefits for substantially all of their employees. The plans are contributory, with contributions indexed to salary levels. Employee contributions are adjusted to provide for any costs of the plans in excess of those paid for by the subsidiaries. The policy is to fund the cost of these benefits as claims and premiums are paid. In the fiscal year ended March 31, 2008 certain U.S. subsidiaries established a Voluntary Employees' Beneficiary Association ("VEBA") trust to hold assets and pay substantially all of these subsidiaries' self-funded post employment benefit plan obligations. The VEBA trust arrangement provides for segregation and legal restriction of the plan assets to satisfy plan obligations, and tax deductibility for contributions to the trust, subject to certain tax code limitations.

The reconciliation of beginning and ending balances of the accumulated postretirement benefit obligations and the fair value of the plan assets of the U.S. subsidiaries' plans are as follows:

	Millions of yen			
	2020		2019	
Change in accumulated postretirement benefit obligations:				
Accumulated postretirement benefit obligations, beginning of year	¥	16,537	¥	16,161
Service cost		558		537
Interest cost		562		587
Actuarial loss (gain)		(328)		(755)
Plan amendment		(1,157)		—
Benefits paid		(828)		(912)
Foreign currency exchange rate change		(184)		919
Accumulated postretirement benefit obligation, end of year	¥	15,160	¥	16,537
Change in plan assets:				
Fair value of plan assets, beginning of year	¥	11,019	¥	10,622
Actual return on plan assets		(36)		379
Employers' contributions		153		87
Benefits paid		(504)		(548)
Foreign currency exchange rate change		(226)		479
Fair value of plan assets, end of year	¥	10,406	¥	11,019
Funded status, end of year	¥	(4,754)	¥	(5,518)

Amounts recognized in the consolidated balance sheets at March 31, 2020 and 2019 are as follows:

	Millions of yen			
	2020		2019	
Deferred income taxes and other assets	¥	2,446	¥	2,049
Other current liabilities		(190)		(207)
Liability for pension and retirement benefits		(7,010)		(7,360)
	¥	(4,754)	¥	(5,518)

Amounts recognized in accumulated other comprehensive income (loss) at March 31, 2020 and 2019 are as follows:

	Millions of yen	
	2020	2019
Actuarial loss	¥ 1,426	¥ 1,174
Prior service cost	(1,149)	14
	¥ 277	¥ 1,188

Accumulated postretirement benefit obligations exceed plan assets for most of the U.S. subsidiaries' plans.

Net periodic cost of the U.S. subsidiaries' plans for the fiscal years ended March 31, 2020 and 2019 included the following components:

	Millions of yen	
	2020	2019
Service cost	¥ 558	¥ 537
Interest cost on projected benefit obligations	562	587
Expected return on plan assets	(583)	(596)
Amortization of actuarial loss or gain	39	101
Amortization of prior service cost	6	6
Net periodic cost	¥ 582	¥ 635

Net periodic cost components other than the service cost are recorded in other income (expenses), net in the accompanying consolidated statements of income.

Other changes in plan assets and accumulated postretirement benefit obligations recognized in other comprehensive income (loss) for the fiscal years ended March 31, 2020 and 2019 are summarized as follows:

	Millions of yen	
	2020	2019
Current year actuarial loss (gain)	¥ 291	¥ (538)
Amortization of actuarial loss or gain	(39)	(101)
Current year prior service cost	(1,157)	—
Amortization of prior service cost	(6)	(6)
	¥ (911)	¥ (645)

The estimated actuarial loss and prior service cost for the postretirement benefit plans that will be amortized from accumulated other comprehensive income (loss) into net periodic cost for the fiscal year ending March 31, 2021 are summarized as follows:

	Millions of yen
Amortization of actuarial loss or gain	¥ 74
Amortization of prior service cost	(121)

Weighted-average assumptions used to determine accumulated postretirement benefit obligations of the U.S. subsidiaries' plans at March 31, 2020 and 2019 are as follows:

	2020	2019
Discount rate	3.3%	3.9%
Assumed rate of increase in future compensation levels	4.0%	4.0%
Current healthcare cost trend rate	6.3%	6.5%
Ultimate healthcare cost trend rate	4.9%	5.0%
Number of years to reach ultimate healthcare cost trend rate	5	4

Weighted-average assumptions used to determine net periodic cost of the U.S. subsidiaries' plans for the fiscal years ended March 31, 2020 and 2019 are as follows:

	2020	2019
Discount rate	3.9%	3.9%
Assumed rate of increase in future compensation levels	4.0%	4.0%
Expected long-term rate of return on plan assets	5.6%	5.6%
Current healthcare cost trend rate	6.5%	6.2%
Ultimate healthcare cost trend rate	5.0%	5.0%
Number of years to reach ultimate healthcare cost trend rate	4	5

At March 31, 2020 and 2019, the impact of one percentage point change in the assumed health care cost trend rates would not be material to Komatsu's financial position and results of operations.

## Plan assets

The U.S. subsidiaries' investment policies are to provide returns that will maximize principal growth while accepting only moderate risk.

The U.S. subsidiaries' asset portfolio will be invested in a manner that emphasizes safety of capital while achieving total returns consistent with prudent levels of risk. The basic portfolio for the plan assets are comprised approximately of 35% equity securities and 65% debt securities.

The equity securities are selected primarily from stocks that are listed on the securities exchanges. Prior to investing, the U.S. subsidiaries have investigated the business condition of the invested companies, and appropriately diversified investments by type of industry and other relevant factors. The debt securities are selected primarily from government bonds and municipal bonds, and corporate bonds. Prior to investing, the U.S. subsidiaries have investigated the quality of the issue, including credit rating, interest rate and repayment dates, and have appropriately diversified the investments. Pooled funds are selected using strategies consistent with the equity described above. There is no significant concentration of risk within the portfolio of investments.

The three levels of input used to measure fair value are more fully described in Note 22.

The fair values of postretirement benefit plan assets at March 31, 2020 and 2019, by asset class are as follows:

	Millions of yen				
	Level 1	Level 2	Level 3	Investments measured at net asset value	Total
<b>At March 31, 2020</b>					
Plan assets					
Cash	¥ 526	¥ —	¥ —	¥ —	¥ 526
Equity securities					
Foreign equities	3,493	—	—	—	3,493
Pooled funds	—	—	—	—	—
Debt securities					
Government bonds and municipal bonds	—	4,126	—	—	4,126
Corporate bonds	503	1,490	—	—	1,993
Other assets					
Other	—	268	—	—	268
Total	¥ 4,522	¥ 5,884	¥ —	¥ —	¥ 10,406

	Millions of yen				
	Level 1	Level 2	Level 3	Investments measured at net asset value	Total
<b>At March 31, 2019</b>					
Plan assets					
Cash	¥ 543	¥ —	¥ —	¥ —	¥ 543
Equity securities					
Foreign equities	2,009	—	—	—	2,009
Pooled funds	2,296	—	—	—	2,296
Debt securities					
Government bonds and municipal bonds	1,272	2,976	—	—	4,248
Corporate bonds	—	1,923	—	—	1,923
Other assets					
Other	—	—	—	—	—
Total	¥ 6,120	¥ 4,899	¥ —	¥ —	¥ 11,019

(1) The plan's pooled funds include listed foreign equity securities primarily consisting of U.S. equity.

(2) The plan's government bonds consist of U.S. government bonds.

Each level into which assets are categorized is based on inputs used to measure the fair value of the assets, and does not indicate the risks of the assets.

Level 1 assets are comprised principally of equity securities, which are valued using quoted prices in active markets. Level 2 assets are comprised of debt securities, which are valued using inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly or indirectly.

## **Cash flows**

### **(1) Contributions**

The U.S. subsidiaries will not expect to contribute to their postretirement benefit plans in the fiscal year ending March 31, 2021.

### **(2) Estimated future benefit payments**

The benefits expected to be paid in each of the next five years, and in the aggregate for the five years thereafter which reflect estimated future employee service are as follows:

<u>Fiscal year ending March 31</u>	<u>Millions of yen</u>	
2021	¥	897
2022		899
2023		896
2024		872
2025		849
Through 2026-2030		4,164

Directors of Japanese subsidiaries are primarily covered by unfunded retirement allowance plans. At March 31, 2020 and 2019, the amounts required if all directors covered by the plans had terminated their service have been fully accrued. Such amounts are not material to Komatsu's financial position and results of operations for any of the periods presented.

Certain subsidiaries maintain various defined contribution plans covering certain employees. The amount of cost recognized for the fiscal years ended March 31, 2020 and 2019 are ¥10,180 million and ¥8,353 million, respectively.

### 13. Komatsu Ltd. Shareholders' Equity

(1)At March 31, 2020 and 2019, affiliated companies owned 824,200 and 843,600 shares which represent 0.09% and 0.09% of the Company's common shares outstanding, respectively.

(2)The Companies Act of Japan (hereinafter "the Act") imposes certain limitations on the amount of retained earnings available for dividends. Accordingly, total shareholders' equity of ¥597,728 million, included in the Company's general books of account as of March 31, 2020 is available for dividends under the Act.

The payment of a cash dividend totaling ¥36,859 million to shareholders of record on March 31, 2020 was resolved at the Ordinary General Meeting of Shareholders held on June 18, 2020. The dividend has not been reflected in the consolidated financial statements as of March 31, 2020. Dividends are reported in the consolidated statements of equity when they are approved.

(3)The Company had a stock option plan as stock-based remuneration.

#### The stock option plans resolved by the meeting of the Board of Directors held in and after July 2010.

The right to purchase the Company's shares is granted at an exercise price of ¥1 per share to directors and certain employees, and certain representative directors of major subsidiaries.

Based on the resolutions of the Ordinary General Meeting of Shareholders on June 23, 2010 and the Board of Directors on July 13, 2017, the Company issued 281 rights of its Stock Acquisition Rights to directors. Based on the resolutions of the Ordinary General Meeting of Shareholders on June 20, 2017 and the Board of Directors on July 13, 2017, the Company also issued 1,716 rights of its Stock Acquisition Rights to certain employees and certain representative directors of major subsidiaries during the fiscal year ended March 31, 2018. The options vest 100% on each of the grant dates and are exercisable from August 1, 2020.

The number of shares subject to one Stock Acquisition Right is 100 shares.

The Company transfers treasury stock without issuance of new stock when the Stock Acquisition Rights are exercised.

The following table summarizes information about stock option activities for the fiscal years ended March 31, 2020 and 2019:

	2020		2019	
	Number of shares	Weighted average exercise price Yen	Number of shares	Weighted average exercise price Yen
Outstanding at beginning of year	892,300	¥ 1	1,227,000	¥ 1
Granted	—	—	—	—
Exercised	(414,000)	1	(334,700)	1
Forfeited	—	—	—	—
Outstanding at end of year	<u>478,300</u>	<u>1</u>	<u>892,300</u>	<u>1</u>
Exercisable at end of year	278,600	1	442,500	1

The intrinsic values of options exercised were ¥912 million and ¥1,010 million for the fiscal years ended March 31, 2020 and 2019.

The information for options outstanding and options exercisable at March 31, 2020 is as follows:

Outstanding				Options Exercisable			
Number of shares	Weighted average exercise price	Intrinsic value	Weighted average remaining contractual life	Number of shares	Weighted average exercise price	Intrinsic value	Weighted average remaining contractual life
	Yen	Millions of yen	Years		Yen	Millions of yen	Years
478,300	¥ 1	¥ 850	4.1	278,600	¥ 1	¥ 495	3.3

(4) 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 (hereinafter the “Eligible Directors, etc.”) with medium- to long-term incentives and advancing the sharing of value between the directors and shareholders of the Company. The system is comprised of the following two compensation systems:

#### **Stock-Based Remuneration A (Performance-Based Remuneration for a Single Year)**

As an alternative to stock acquisition rights which have been granted as stock-based remuneration, the Company shall determine the amount of remuneration based on the Company’s single-year performance, etc. and pay a part of the amount of remuneration so determined in the form of restricted stock to the Eligible Directors, etc. each fiscal year. The restrictions will, in principle, be lifted 3 years after the grant of the granted shares. If, prior to the expiry of the restriction period, the Eligible Director, etc. retires without any reason recognized as legitimate by the Board of Directors of the Company, the Company shall acquire, free of charge, all or part of the granted shares.

#### **Stock-Based Remuneration B (Performance-Based Remuneration Linked to Performance of Mid-Range Management Plan)**

With respect to the period of the Company’s mid-range management plan, the Company shall grant restricted stock to the Eligible Directors, etc. each fiscal year based on the base amount of remuneration for each position. After the expiry of the period of the mid-range management plan, the Company shall determine the number of shares with respect to which the restrictions will be lifted according to the achievement status of the targets raised in the mid-range management plan, etc. In principle, the Company shall lift the restrictions 3 years after the grant of the granted shares. The Company shall acquire, free of charge, the granted shares with respect to which the Company decides not to lift the restrictions pursuant to the above provision. If, prior to the expiry of the restriction period, the Eligible Director, etc. retires without any reason recognized as legitimate by the Board of Directors of the Company, the Company shall acquire, free of charge, all or part of the granted shares.

The granted shares have the same rights as common shares to net income attributable to Komatsu Ltd. regardless of whether the restrictions are still existing.

Based on the resolutions of the Ordinary General Meeting of Shareholders on June 19, 2018 and the Board of Directors on July 12, 2019, the Company issued 328,770 shares of common shares of the Company as the restricted stock compensation to the Eligible Directors, etc.

Based on the resolutions of the Ordinary General Meeting of Shareholders on June 19, 2018 and the Board of Directors on July 12, 2018, the Company issued 284,800 shares of common shares of the Company as the restricted stock compensation to the Eligible Directors, etc.

The Company recognizes compensation expense using the fair value method. The fair values of the restricted stock are measured at grant-date fair value of common shares of the Company. Compensation expense for the fiscal year ended March 31, 2020 and 2019 were recorded in selling, general and administrative expenses, and were not material to Komatsu's financial position and results of operations.

The following table summarizes information about the restrict stock activities for the fiscal year ended March 31, 2020 and 2019:

	2020		2019	
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
		Yen		Yen
Outstanding at beginning of year	281,660	¥ 3,098	—	¥ —
Granted	328,770	2,508	284,800	3,098
Lifted	—	—	—	—
Forfeited	(21,980)	3,098	(3,140)	3,098
Outstanding at end of year	<u>588,450</u>	<u>2,768</u>	<u>281,660</u>	<u>3,098</u>



#### 14. Other Comprehensive Income (Loss)

Changes in accumulated other comprehensive income (loss) for the fiscal years ended March 31, 2020 and 2019 are as follows:

	Millions of yen				
	2020				
	Foreign currency translation adjustments	Net unrealized holding gains(losses) on securities available for sale	Pension liability adjustments	Net unrealized holding gains (losses) on derivative instruments	Total
Balance, beginning of the year	¥ (15,438)	¥ —	¥ (25,890)	¥ 1,536	¥ (39,792)
Other comprehensive income (loss) before reclassifications	(95,102)	—	(2,061)	94	(97,069)
Amounts reclassified from accumulated other comprehensive income (loss)	164	—	965	(1,486)	(357)
Net other comprehensive income (loss)	(94,938)	—	(1,096)	(1,392)	(97,426)
Less: other comprehensive income (loss) attributable to noncontrolling interests	(6,430)	—	(10)	(141)	(6,581)
Other comprehensive income (loss) attributable to Komatsu Ltd.	(88,508)	—	(1,086)	(1,251)	(90,845)
Equity transactions with noncontrolling interests	(29)	—	—	—	(29)
Balance, end of the year	¥(103,975)	¥ —	¥ (26,976)	¥ 285	¥(130,666)

All amounts are net of tax.

	Millions of yen				
	2019				
	Foreign currency translation adjustments	Net unrealized holding gains(losses) on securities available for sale	Pension liability adjustments	Net unrealized holding gains (losses) on derivative instruments	Total
Balance, beginning of the year	¥ (10,166)	¥ 681	¥ (22,745)	¥ 3,080	¥ (29,150)
Cumulative effects of Accounting Standards Update—adoption of ASU 2016-01, net of tax	—	(681)	—	—	(681)
Other comprehensive income (loss) before reclassifications	(3,395)	—	(4,309)	(4,401)	(12,105)
Amounts reclassified from accumulated other comprehensive income (loss)	22	—	1,171	2,725	3,918
Net other comprehensive income (loss)	(3,373)	—	(3,138)	(1,676)	(8,187)
Less: other comprehensive income (loss) attributable to noncontrolling interests	(175)	—	35	(132)	(272)
Other comprehensive income (loss) attributable to Komatsu Ltd.	(3,198)	—	(3,173)	(1,544)	(7,915)
Equity transactions with noncontrolling interests	(2,074)	—	28	—	(2,046)
Balance, end of the year	¥ (15,438)	¥ —	¥ (25,890)	¥ 1,536	¥ (39,792)

All amounts are net of tax.

Reclassification out of accumulated other comprehensive income (loss) for the fiscal years ended March 31, 2020 and 2019 are as follows:

	Millions of yen	
	2020	Affected line items in consolidated statements of income
Foreign currency translation adjustments		
Liquidation and sale	¥ (164)	Other income (expenses), net: Other, net
	(164)	Total before tax
	—	Income taxes
	(164)	Net of tax
Pension liability adjustments		
Amortization of actuarial loss or gain	(1,033)	Other income (expenses), net: Other, net
Amortization of prior service cost	(315)	Other income (expenses), net: Other, net
	(1,348)	Total before tax
	383	Income taxes
	(965)	Net of tax
Net unrealized holding gains (losses) on derivative instruments		
Forwards contracts	1,725	Net sales
	(211)	Cost of sales
	333	Other income (expenses), net: Other, net
	1,847	Total before tax
	(361)	Income taxes
	1,486	Net of tax
Total reclassification for the year	¥ 357	Net of tax

	Millions of yen	
	2019	Affected line items in consolidated statements of income
Foreign currency translation adjustments		
Liquidation and sale	¥ (22)	Other income (expenses), net: Other, net
	(22)	Total before tax
	—	Income taxes
	(22)	Net of tax
Pension liability adjustments		
Amortization of actuarial loss or gain	(1,494)	Other income (expenses), net: Other, net
Amortization of prior service cost	(216)	Other income (expenses), net: Other, net
	(1,710)	Total before tax
	539	Income taxes
	(1,171)	Net of tax
Net unrealized holding gains (losses) on derivative instruments		
Forwards contracts	(3,485)	Other income (expenses), net: Other, net
	(3,485)	Total before tax
	760	Income taxes
	(2,725)	Net of tax
Total reclassification for the year	¥ (3,918)	Net of tax

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

	Millions of yen		
	2020		
	Before tax amount	Tax (expense) or benefit	Net of tax amount
<b>Foreign currency translation adjustments</b>			
Foreign currency translation adjustments arising during the year	¥ (95,128)	¥ 26	¥ (95,102)
Less: reclassification adjustment for losses included in net income	164	—	164
Net foreign currency translation adjustments	(94,964)	26	(94,938)
<b>Pension liability adjustments</b>			
Pension liability adjustments arising during the year	(3,374)	1,313	(2,061)
Less: reclassification adjustment for losses included in net income	1,348	(383)	965
Net pension liability adjustments	(2,026)	930	(1,096)
<b>Net unrealized holding gains (losses) on derivative instruments</b>			
Unrealized holding gains arising during the year	639	(545)	94
Less: reclassification adjustment for gains included in net income	(1,847)	361	(1,486)
Net unrealized holding losses	(1,208)	(184)	(1,392)
<b>Other comprehensive income (loss)</b>	<b>¥ (98,198)</b>	<b>¥ 772</b>	<b>¥ (97,426)</b>
	Millions of yen		
	2019		
	Before tax amount	Tax (expense) or benefit	Net of tax amount
<b>Foreign currency translation adjustments</b>			
Foreign currency translation adjustments arising during the year	¥ (3,401)	¥ 6	¥ (3,395)
Less: reclassification adjustment for losses included in net income	22	—	22
Net foreign currency translation adjustments	(3,379)	6	(3,373)
<b>Pension liability adjustments</b>			
Pension liability adjustments arising during the year	(5,790)	1,481	(4,309)
Less: reclassification adjustment for losses included in net income	1,710	(539)	1,171
Net pension liability adjustments	(4,080)	942	(3,138)
<b>Net unrealized holding gains (losses) on derivative instruments</b>			
Unrealized holding losses arising during the year	(5,895)	1,494	(4,401)
Less: reclassification adjustment for losses included in net income	3,485	(760)	2,725
Net unrealized holding losses	(2,410)	734	(1,676)
<b>Other comprehensive income (loss)</b>	<b>¥ (9,869)</b>	<b>¥ 1,682</b>	<b>¥ (8,187)</b>

## 15. Revenue

Komatsu engages in the business activities of sales of products, services and retail financing for customers in Japan and overseas, under three operating segments: the “Construction, Mining and Utility Equipment” operating segment, the “Retail Finance” operating segment and the “Industrial Machinery and Others” operating segment. In these business activities, Komatsu provides goods or services identified in contracts with customers. Komatsu recognizes revenue when or as control over these goods or services is transferred to the customer at the amount of the transaction price that reflects the consideration to which it expects to be entitled. When two or more goods or services are provided to the same customer, Komatsu identifies performance obligations in a single contract or combined contracts and allocates the transaction price to each identified performance obligations based on relative stand-alone selling prices.

For sale of equipment, parts, attachment and others, revenue is recognized when the customers accept the goods or services. Conditions for acceptance, such as shipping, receipt by customers, completion of installation or completion of performance test, depend on contracts or arrangements with customers and the like. The consideration for those transactions is generally collected within three months after the performance obligation is satisfied.

For services such as periodic check, maintenance, and repair and other services, revenue is recognized when provision of the service is completed, or over the period for which the service is provided. Conditions for completion of service provision, including receipt of completion report, depend on contracts or arrangements with customers and the like. The consideration for those transactions is generally collected within three months after the performance obligation is satisfied.

Komatsu’s certain consolidated subsidiaries have signed long-term maintenance contracts with their customers, in which case the customers receive services and simultaneously consume them as the performance obligations are satisfied. Thus, revenue from such services is recognized over the period of the contract with the customer in accordance with the progress percentage on the basis of costs incurred, which appropriately represents the transfer of control to the customer.

Shipping and handling activities occurring after control over an equipment has transferred to a customer are not identified as services.

Certain transaction prices include variable consideration such as future discounts and sales returns. Variable consideration is an estimate of the expected value or the most likely amount, to the extent that it is probable that a significant reversal in cumulative revenue recognized up to that point will not occur when the uncertainty associated with the variable consideration is subsequently resolved. When the period between when control over goods or services is transferred to the customer and when the customer pays for the goods or services is expected to be one year or less at the inception of the contract, Komatsu does not make any adjustment for the effect of time value of consideration.

Komatsu is obligated to accept parts returned from customers for a certain period after the sale. In consideration of the relevant historical return result and other factors, Komatsu’s right to recover parts from customers is recognized in other current assets as a return asset, and also a refund liability is recognized in other current liabilities for its obligation to refund the customers upon return of parts.

With regard to transactions with combination of products, periodic check, maintenance and others, performance obligations are identified in a single contract or combined contracts. Transaction price is allocated to each identified performance obligation according to the proportion of stand-alone selling price that is determined based on observable price such as contract amount, and estimated cost including historical experience.

After the product are sold or delivered, Komatsu repairs the sold product and replaces parts free of charge for a certain period in accordance with the contract. Thus, in order to provide for disbursement of the after-sales service costs, provision for product warranties is recognized based on the relevant historical result. In addition to this standard warranty, Komatsu offers a package of extended warranty for power line (engine & power systems and hydraulic system) upon the purchase of a product and free maintenance service as a service program to maintain the performance of construction equipment over a longer period of time. Komatsu determines this program to be a service-type warranty, and identifies a separate performance obligation for recognizing revenue from this program. As the costs incurred to obtain a contract with a customer are to be amortized within one year, they are expensed as incurred by applying a practical expedient on the costs for obtaining a contract with a customer.

#### (1) Disaggregation of revenue

Revenue from contracts with customers and other sources during the fiscal year ended March 31, 2020 and 2019 are as follows.

	Millions of yen	
	2020	2019
Revenue recognized from contracts with customers	¥ 2,234,629	¥ 2,521,966
Revenue recognized from other sources	210,241	203,277
Total	¥ 2,444,870	¥ 2,725,243

The disaggregation of revenue by operating and geographic segment are described in Note 23.

Revenue recognized from other sources primarily comprises revenue recognized from lease contracts and financial income such as interest income.

#### (2) Contract balances

Contract balances arising from contracts with customers at March 31, 2020 and 2019 are as follows:

	Millions of yen	
	2020	2019
Receivables *1	¥ 980,371	¥ 1,067,025
Contract assets *2	3,483	7,443
Contract liabilities *3	100,472	94,720

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

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

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

Komatsu's contract assets mainly relate to its right to consideration for product sales contracts in the industrial machinery business, for which the performance obligation has been satisfied but the invoicing conditions have not been satisfied as of a reporting date. Contract assets are reclassified to receivables when the right to consideration becomes unconditional.

Komatsu's contract liabilities are those arising from all or part of the consideration received from the customers before the corresponding performance obligation is satisfied. The main components of the contract liabilities are unearned revenue and advances received. Komatsu recognizes unearned revenue by identifying separate performance obligations such as extended warranties. Advances received from the customers are recognized in long-term maintenance contracts for which revenue is recognized over the contract period, and also in product sales contracts for large press machines and the like for which revenue is recognized upon acceptance of the customers.

Revenue recognized for the fiscal year ended March 31, 2020 that was included in the contract liability balance as of March 31, 2019 was ¥52,387 million. Revenue recognized for the fiscal year ended March 31, 2019 that was included in the contract liability balance as of April 1, 2018 was ¥47,817 million.

The amount of revenue recognized during the fiscal year ended March 31, 2020 and 2019 from the performance obligations satisfied or partially satisfied in the previous periods and the amount of impairment losses recognized for receivables and contract assets are immaterial. Additionally, there were no significant changes in contract assets and contract liabilities for contracts with customers during the fiscal year ended March 31, 2020 and 2019.

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

As of March 31, 2020, the aggregate amount of the transaction price allocated to the remaining performance obligations that have original expected durations greater than one year was ¥177,207 million, of which ¥90,689 million is expected to be recognized as revenue in the fiscal year ending March 31, 2021.

## 16. Income Taxes

The sources of income before income taxes and equity in earnings of affiliated companies and the sources of income taxes for the fiscal years ended March 31, 2020 and 2019, were as follows:

	Millions of yen	
	2020	2019
Income before income taxes and equity in earnings of affiliated companies:		
Japan	¥ 65,421	¥ 151,703
Foreign	157,693	225,768
	¥ 223,114	¥ 377,471
Income taxes:		
Current -		
Japan	¥ 21,642	¥ 52,850
Foreign	44,822	59,691
	¥ 66,464	¥ 112,541
Deferred -		
Japan	¥ 1,427	¥ (3,314)
Foreign	(5,018)	(2,628)
	¥ (3,591)	¥ (5,942)
Total	¥ 62,873	¥ 106,599

Total income taxes recognized for the fiscal years ended March 31, 2020 and 2019 were applicable to the following:

	Millions of yen	
	2020	2019
Income before income taxes and equity in earnings of affiliated companies	¥ 62,873	¥ 106,599
Other comprehensive income(loss):		
Foreign currency translation adjustments	(26)	(6)
Pension liability adjustments	(930)	(942)
Net unrealized holding gains(losses) on derivative instruments	184	(734)
Total income taxes	¥ 62,101	¥ 104,917

Temporary differences and tax loss carryforwards which gave rise to deferred tax assets and liabilities at March 31, 2020 and 2019, are as follows:

	Millions of yen			
	2020		2019	
Deferred tax assets:				
Allowances provided, not yet recognized for tax	¥	7,473	¥	7,862
Accrued expenses		40,601		41,520
Investment securities		1,054		1,453
Pension and retirement benefits		17,504		17,149
Property, plant and equipment		1,398		1,398
Operating lease liabilities		15,116		—
Inventories		11,959		12,275
Net operating loss carryforwards		31,794		32,649
Research and development expenses		1,431		1,678
Tax credit carryforwards		2,123		2,930
Other		9,013		12,957
Total gross deferred tax assets		139,466		131,871
Less: valuation allowance		(25,779)		(29,118)
Total deferred tax assets	¥	113,687	¥	102,753
Deferred tax liabilities:				
Unrealized holding gains on securities available for sale	¥	—	¥	24
Property, plant and equipment		24,280		23,963
Operating lease right-of-use assets		15,093		—
Intangible assets		28,825		32,318
Undistributed earnings of foreign subsidiaries and affiliated companies accounted for by the equity method		8,294		7,077
Other		239		514
Total deferred tax liabilities	¥	76,731	¥	63,896
Total deferred tax assets	¥	36,956	¥	38,857

Net deferred tax assets and liabilities as of March 31, 2020 and 2019 are reflected on the consolidated balance sheets under the following captions:

	Millions of yen			
	2020		2019	
Deferred income taxes and other assets	¥	62,832	¥	64,506
Deferred income taxes and other liabilities		(25,876)		(25,649)
	¥	36,956	¥	38,857



The valuation allowance was ¥31,244 million as of March 31, 2018. The net changes in the total valuation allowance for the fiscal years ended March 31, 2020 and 2019 were a decrease of ¥3,339 million and a decrease of ¥2,126 million, respectively.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible and net operating losses available to be utilized. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets, net of the existing valuation allowances at March 31, 2020 and 2019, are deductible, management believes it is more likely than not that the companies will realize the benefits of these deductible differences and net operating loss carryforwards. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced.

As of March 31, 2020, Komatsu had tax credit carryforwards of approximately ¥2,123 million, which will expire within the year ending March 31, 2026.

The Company and its Japanese subsidiaries are subject to a National Corporate tax rate of approximately 23%, an inhabitant tax of approximately 5% and a deductible Enterprise tax of approximately 5%, which in the aggregate resulted in a Japanese statutory tax rate of approximately 31.3% for the fiscal year ended March 31, 2020 and 2019. The inhabitant tax rate and Enterprise tax rate vary by local jurisdiction.

The differences between the Japanese statutory tax rates and the effective tax rates for the fiscal years ended March 31, 2020 and 2019, are summarized as follows:

	2020	2019
Japanese statutory tax rate	31.3%	31.3%
Increase (decrease) in tax rates resulting from:		
Change in valuation allowance	(0.5)	(0.9)
Expenses not deductible for tax purposes	2.1	1.6
Income of foreign subsidiaries taxed at lower than Japanese normal rate	(4.0)	(3.5)
Tax credit for research and development expenses	(1.9)	(0.7)
Effect of enacted changes in U.S. tax act	—	0.2
Other, net	1.2	0.2
Effective tax rate	28.2%	28.2%

Foreign subsidiaries are subject to income taxes of the countries in which they operate. At March 31, 2020 and 2019, undistributed earnings of foreign subsidiaries amount to ¥1,055,635 million and ¥971,118 million, respectively. The Company has a policy to distribute a certain portion of undistributed earnings of foreign subsidiaries. As of March 31, 2020 and 2019, Komatsu recognized deferred tax liabilities of ¥2,612 million and ¥1,462 million, respectively, associated with those earnings. As of March 31, 2020 and 2019, Komatsu did not recognize deferred tax liabilities of ¥49,269 million and ¥47,264 million, respectively, for such portion of undistributed earnings of foreign subsidiaries that the Company intends to reinvest indefinitely. At March 31, 2020, certain subsidiaries had net operating loss carryforwards aggregating approximately ¥68,258 million, which may be used as a deduction in determining taxable income in future periods. The period available to offset future taxable income varies in each tax jurisdiction as follows:

<u>At March 31, 2020</u>	<u>Millions of yen</u>
Within 5 years	¥ 30,093
6 to 20 years	2,464
Indefinite periods	35,701
Total	¥ 68,258

For other net operating loss carryforwards than the aforementioned amount, at March 31, 2020, some U.S. subsidiaries had net operating loss carryforwards associated with state tax aggregating approximately ¥241,812 million, which may be used as a deduction in determining taxable income in future periods. The deferred tax assets associated with those net operating loss carryforwards were ¥15,366 million.

The reconciliation of beginning and ending balances of unrecognized tax benefits are as follows:

	<u>Millions of yen</u>	
	<u>2020</u>	<u>2019</u>
Balance at beginning of year	¥ 16,094	¥ 12,064
Additions for tax positions related to current period	1,215	1,715
Additions for tax positions related to prior period	386	2,358
Reductions for tax positions related to prior period	(411)	(136)
Reductions for settlements	(766)	—
Other	(129)	93
Balance at end of year	¥ 16,389	¥ 16,094

Total net amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate	16,389	16,094
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Although Komatsu believes its estimates of unrecognized tax benefits are reasonable, uncertainties regarding the final determination of income tax audit settlements and any related litigation could affect the total amount of unrecognized tax benefits in the future periods. For the fiscal years ended March 31, 2020 and 2019, interest and penalties related to unrecognized tax benefits were not material. Based on the information available as of March 31, 2020, Komatsu does not expect significant changes to the unrecognized tax benefits within the next twelve months. Komatsu files income tax returns in Japan and various foreign tax jurisdictions. Komatsu is no longer subject to income tax examinations by the tax authority before and in the fiscal year ended March 31, 2015 in Japan and, is no longer subject to income tax examinations by the tax authority before and in the fiscal year ended March 31, 2011 in the United States. In other foreign tax jurisdictions, the other subsidiaries are no longer subject to income tax examinations by tax authorities before and in the fiscal year ended March 31, 2011 with few exceptions.

## 17. Leases

### (1) Lessee

Komatsu leases lands, buildings, vehicles, employee housings, etc. through finance and operating leases. Some of these leases may include options to extend or terminate the lease with preliminary notice. Komatsu determines lease terms with the options on the lease commencement date if it is reasonably certain that Komatsu will exercise those options. As a rate implicit in the most of Komatsu's leases cannot be determined, Komatsu recognizes right-of-use assets and lease liabilities calculated present value of lease payments by using incremental borrowing rate based on the information available. Komatsu's finance leases are not material.

Supplementary information to operating leases on the balance sheet as of March 31, 2020 is as follows:

	2020
Weighted average remaining lease term	8.6years
Weighted average discount rates	1.9%

Amounts of maturities of operating lease liabilities in each of the next five years and in the aggregate for the five years thereafter as of March 31, 2020 are as follows:

	Millions of yen	
	2020	
2021	¥	15,522
2022		9,938
2023		6,477
2024		4,666
2025		3,263
Thereafter		18,707
Total minimum lease payments	¥	58,573
Less: Imputed interest		(5,016)
Total lease liabilities	¥	53,557

Lease costs for the fiscal year ended March 31, 2020 are comprised of the following:

	Millions of yen	
	2020	
Operating lease cost	¥	18,834
Short term lease cost		4,479

Variable lease payments that are not included in lease liabilities are not material.

Supplementary cash flow information to leases for the fiscal year ended March 31, 2020 is as follows:

	Millions of yen	
	2020	
Cash paid for amount included in the measurement of lease liabilities		
Operating leases		
Cash flows by operating activities	¥	19,214
Noncash activity - Rights of use assets obtained in exchange for lease liabilities		
Operating leases	¥	17,475

Leases that have not yet commenced but that create significant rights and obligations as of March 31, 2020 are not material.

Rent expenses under cancelable and non-cancelable operating leases amounted to ¥22,638 million for the fiscal year ended March 31, 2019.

At March 31, 2019, the future minimum lease payments under non-cancelable operating leases and finance leases are as follows:

Fiscal year ended March 31	Millions of yen		
	Finance leases	Operating lease commitments	Total
2020	¥ 744	¥ 8,620	¥ 9,364
2021	627	6,007	6,634
2022	161	4,277	4,438
2023	8	3,210	3,218
2024	141	2,278	2,419
Thereafter	—	5,075	5,075
Total minimum lease payments	¥ 1,681	¥ 29,467	¥ 31,148
Less: amounts representing interest	(64)		
Present value of net minimum finance lease payments	¥ 1,617		

## (2) Lessor

Komatsu provides sales-type and operating leases as a lessor for leveling cash payments of its customers when customers purchase primarily Komatsu's construction and mining equipment. Revenue from the sale of these products under sales-type leases is recognized at the inception of the lease. Interest income on sales-type leases is recognized over the life of each lease using the interest method. Revenue from operating leases is recognized on a straight-line basis over the lease term. Some of these leases may include options to extend or terminate the lease. Some of these leases also may include options for the lessee to purchase the underlying assets at stated fixed price or fair market value.

The residual value of Komatsu's leased equipment is determined based on its estimated end-of-term market values. Komatsu estimates the residual value of leased equipment at the inception of the lease based on historical used equipment market sales prices, latest trends of the market, etc. Komatsu monitors estimated residual values of the leased equipment during the term of leases through understanding trends of the market. The present value of guaranteed residual value provided by customers as of March 31, 2020 is ¥8,425 million.

Net investment in the sales-type leases as of March 31, 2020 is comprised of the following:

	Millions of yen	
	2020	
Lease receivables	¥	181,560
Unguaranteed residual assets		8,105
Net investment in the sales-type leases *	¥	189,665
Less: current portion		(82,700)
	¥	106,965

\* The net investment in the sales-type leases is included in trade notes and accounts receivable, net and long-term trade receivables, net on the consolidated balance sheet.

Undiscounted lease payments to be received under sales-type and operating leases in each of the next five years and in the aggregate for the five years thereafter as of March 31, 2020 are as follows:

	Millions of yen			
	Sales-type leases		Operating leases	
2021	¥	81,929	¥	33,133
2022		53,501		18,207
2023		35,440		8,043
2024		16,300		3,648
2025		6,198		1,314
Thereafter		914		342
Total undiscounted lease payments to be received	¥	194,282	¥	64,687
Less: Imputed interest		(12,722)		—
Total lease receivables	¥	181,560	¥	—

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

	Millions of yen	
	2020	
Sales-type lease revenue		
Revenue recognized at the commencement date *	¥	91,122
Interest income		9,859
Total sales-type lease revenue		100,981
Operating lease revenue		92,664
Total	¥	193,645

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

Equipment sales revenue from sales-type leases is recognized at the inception of the lease. At March 31, 2019 lease receivables comprised the following:

	Millions of yen	
	2019	
Minimum lease payments receivable	¥	175,248
Unearned income		(12,540)
Net lease receivables	¥	162,708

# 18. 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	
	2020	2019
Net income attributable to Komatsu Ltd.	¥ 153,844	¥ 256,491
Net income attributable to participating securities (restricted stocks)	75	44
Net income attributable to common shareholders	¥ 153,769	¥ 256,447

	Number of shares	
	2020	2019
Weighted average number of common shares outstanding, less treasury stock	944,230,565	943,625,229
Weighted average number of participating securities (restricted stocks)	459,183	163,556
Weighted average number of common shares	943,771,382	943,461,673

	Yen	
	2020	2019
Basic net income attributable to Komatsu Ltd. per share	¥ 162.93	¥ 271.81

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	
	2020	2019
Net income attributable to Komatsu Ltd.	¥ 153,844	¥ 256,491
Net income attributable to participating securities (restricted stocks)	75	44
Net income attributable to common shareholders	¥ 153,769	¥ 256,447

	Number of shares	
	2020	2019
Weighted average number of common shares outstanding, less treasury stock	944,230,565	943,625,229
Dilutive effect of:		
Stock options	741,949	1,063,977
Weighted average number of participating securities (restricted stocks)	459,183	163,556
Weighted average number of diluted common shares	944,513,331	944,525,650

	Yen	
	2020	2019
Diluted net income attributable to Komatsu Ltd. per share	¥ 162.80	¥ 271.51

## 19. Commitments and Contingent Liabilities

At March 31, 2019, Komatsu was contingently liable for discounted and transferred receivables on a recourse basis with the financial institutions of ¥103 million.

Komatsu provides guarantees to third parties of loans of the employees, affiliated companies, customers and other companies. The guarantees of loans relating to the employees are mainly made for their housing loans. The guarantees of loans relating to the affiliated companies, customers and other companies are made to enhance the credit of those companies. For each guarantee provided, Komatsu would have to perform under a guarantee if the borrower defaults on a payment within the contract terms. The contract terms are from 10 years to 30 years in the case of employees with housing loans, and from 1 year to 7 years in the case of loans relating to the affiliated companies, customers and other companies. The maximum amount of undiscounted payments Komatsu would have had to make in the event of default at March 31, 2020 and 2019 were ¥12,142 million and ¥14,917 million, respectively. The fair value of the liabilities recognized for Komatsu's obligations as guarantors under those guarantees at March 31, 2020 were insignificant. Certain of those guarantees were secured by collateral and insurance issued to Komatsu.

Komatsu provides guarantees that subsidiaries of the Company perform the obligations of the terms and conditions of contracts by standby letters of credit issued by banks. Komatsu would have to pay the liabilities incurred to banks if the subsidiaries don't perform the obligations of the terms and conditions of contracts. The maximum amount of undiscounted payments Komatsu would have had to make in the event of defaults of the contracts at March 31, 2020 and 2019 were ¥15,590 million and ¥16,850 million, respectively.

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

Commitments for capital investment outstanding at March 31, 2020 and 2019 aggregated approximately ¥52,300 million and approximately ¥29,300 million, respectively.

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

Komatsu has business activities with customers, dealers and associates around the world and its trade receivables from such parties and the guarantees for them are well diversified to minimize concentrations of credit risks.

Management does not anticipate incurring losses on its trade receivables in excess of established allowances.

Komatsu also issues contractual product warranties under which it generally guarantees the performance of products delivered and services rendered for a certain period or term. Changes in accrued product warranty cost for the years ended March 31, 2020 and 2019 are summarized as follows:

	Millions of yen	
	2020	2019
Balance at beginning of year	¥ 43,565	¥ 44,623
Addition	25,942	31,481
Utilization	(29,227)	(29,141)
Other	(1,821)	(3,398)
Balance at end of year	¥ 38,459	¥ 43,565

## 20. Derivative Financial Instruments

### Risk Management Policy

Komatsu is exposed to market risk primarily from changes in foreign currency exchange and interest rates with respect to debt obligations, international operations and foreign currency denominated credits and debts. In order to manage these risks that arise in the normal course of business, Komatsu enters into various derivative transactions for hedging pursuant to its policies and procedures (Notes 21 and 22). Komatsu does not enter into derivative financial transactions for trading or speculative purposes.

Komatsu has entered into interest rate swap and cap agreements, partly concurrent with currency swap agreements for the purpose of managing the risk resulting from changes in cash flow or fair value that arise in their interest rate and foreign currency exposure with respect to certain short-term and long-term debts.

Komatsu operates internationally, which exposes Komatsu to the foreign exchange risk against existing assets and liabilities and transactions denominated in foreign currencies (principally the U.S. dollar and the Euro). In order to reduce these risks, Komatsu executes forward exchange contracts and option contracts based on its projected cash flow in foreign currencies.

Komatsu is exposed to credit-related losses in the event of nonperformance by counterparties to derivative financial instruments, but Komatsu does not expect any counterparties to fail to meet their obligations because of the high credit rating of the counterparties. Komatsu has not held any derivative instruments which consisted of credit-risk-related contingent features.

### Cash Flow Hedges

Komatsu uses derivative financial instruments designated as cash flow hedges to manage Komatsu's foreign exchange risks associated with forecasted transactions and Komatsu's interest risks associated with debt obligations. For transactions denominated in foreign currencies, Komatsu typically hedges forecasted and firm commitment exposures to the variability in cash flow basically up to one year. For the variable rate debt obligations, Komatsu enters into interest rate swap contracts to manage the changes in cash flows. Komatsu records the changes in fair value of derivative instruments designated as cash flow hedges in accumulated other comprehensive income (loss). These amounts are reclassified into same location as earnings derived from hedged item when the hedged items impact earnings. Approximately ¥332 million of existing losses included in accumulated other comprehensive income (loss) at March 31, 2020 will be reclassified into earnings within twelve months from that date. Cash flow hedges discontinued during the fiscal year ended March 31, 2020 as a result of anticipated transactions that are no longer probable of occurring were not material to Komatsu's financial position and results of operations.

### Undesignated Derivative Instruments

Komatsu has entered into interest rate swap and cross-currency swap contracts not designated as hedging instruments under ASC 815, "Derivatives and Hedging" as a means of managing Komatsu's interest rate exposures for short-term and long-term debts. Forward contracts not designated as hedging instruments under ASC 815 are also used to hedge certain foreign currency exposures. The changes in fair value of such instruments are recognized currently in earnings.

### Notional Principal Amounts of Derivative Financial Instruments

Notional principal amounts of derivative financial instruments outstanding at March 31, 2020 and 2019 are as follows:

	Millions of yen			
		2020		2019
Forwards contracts:				
Sale of foreign currencies	¥	147,655	¥	209,878
Purchase of foreign currencies		101,835		145,476
Interest rate swaps and cross-currency swap agreements		83,088		108,606



Fair value of derivative instruments at March 31, 2020 and 2019 on the consolidated balance sheets are as follows:

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

Millions of yen				
2019				
Derivative instruments designated as hedging instruments	Derivative Assets		Derivative Liabilities	
	Location on the consolidated Balance Sheets	Estimated fair value	Location on the consolidated Balance Sheets	Estimated fair value
Forwards contracts	Other current assets	¥ 893	Other current liabilities	¥ 577
	Deferred income taxes and other assets	1	Deferred income taxes and other liabilities	404
Interest rate swaps and cross-currency swap agreements	Other current assets	1	Other current liabilities	1
	Deferred income taxes and other assets	3	Deferred income taxes and other liabilities	513
Total		¥ 898		¥ 1,495

Undesignated derivative instruments	Derivative Assets		Derivative Liabilities	
	Location on the consolidated Balance Sheets	Estimated fair value	Location on the consolidated Balance Sheets	Estimated fair value
Forwards contracts	Other current assets	¥ 1,980	Other current liabilities	¥ 1,649
	Deferred income taxes and other assets	2	Deferred income taxes and other liabilities	2
Interest rate swaps and cross-currency swap agreements	Other current assets	98	Other current liabilities	163
	Deferred income taxes and other assets	104	Deferred income taxes and other liabilities	46
Total		¥ 2,184		¥ 1,860
Total Derivative Instruments		¥ 3,082		¥ 3,355

The effects of derivative instruments on the consolidated statements of income and the consolidated statements of comprehensive income for the fiscal years ended March 31, 2020 and 2019 are as follows:

**Derivative instruments designated as cash flow hedging relationships**

Millions of yen				
2020				
	Amount of gains (losses) recognized in OCI on derivatives	Location of consolidated statements of income	Gains (losses) reclassified from accumulated OCI on derivatives	Amount
Forwards contracts	¥ 1,146	Net sales	¥	1,725
		Cost of sales		(211)
		Other income (expenses), net: Other, net		333
Interest rate swaps and cross-currency swap agreements	(507)	—		—
Total	¥ 639		¥	1,847

Millions of yen					
2019					
	Effective portion			Ineffective portion and amount excluded from effectiveness testing	
	Amount of gains (losses) recognized in OCI on derivatives	Location of gains (losses) reclassified from accumulated OCI into income	Amount of gains (losses) reclassified from accumulated OCI into income	Location of gains (losses) recognized in income on derivatives	Amount of gains (losses) recognized in income on derivatives
Forwards contracts	¥ (5,427)	Other income (expenses), net: Other, net	¥ (4,321)	Other income (expenses), net: Other, net	¥ 836
Interest rate swaps and cross-currency swap agreements	(468)	—	—	—	—
Total	¥ (5,895)		¥ (4,321)		¥ 836

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

## Derivative instruments not designated as hedging instruments relationships

Millions of yen			
2020			
	Location of gains (losses) recognized in income on derivatives		Amount of gains (losses) recognized in income on derivatives
Forwards contracts	Other income (expenses), net: Other, net	¥	4,067
Interest rate swaps and	Cost of sales		(34)
cross-currency swap agreements	Other income (expenses), net: Other, net		(27)
Total		¥	4,006

Millions of yen			
2019			
	Location of gains (losses) recognized in income on derivatives		Amount of gains (losses) recognized in income on derivatives
Forwards contracts	Other income (expenses), net: Other, net	¥	1,347
Interest rate swaps and	Cost of sales		(51)
cross-currency swap agreements	Other income (expenses), net: Other, net		(96)
Total		¥	1,200

## 21. 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) Investment securities, marketable equity securities (Note 22)

The fair values of investment securities are stated in Note 22 and therefore are not included in the table below.

### (3) Long-term trade receivables, net, excluding lease receivables (Note 4)

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.

### (4) 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.

### (5) Derivatives (Notes 20 and 22)

The fair values of derivative financial instruments are stated in Note 22 and therefore are not included in the table below.

The carrying amounts and the estimated fair values of the financial instruments as of March 31, 2020 and 2019, and fair value levels are summarized as follows:

	Millions of yen				Fair Value Levels
	2020		2019		
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value	
Cash and cash equivalents	¥ 247,616	¥ 247,616	¥ 148,479	¥ 148,479	Level 1
Time deposits	2,057	2,057	2,331	2,331	Level 2
Long-term trade receivables, net, excluding lease receivables	314,592	314,592	294,025	294,025	Level 2
Short-term debt	483,658	483,658	404,659	404,659	Level 2
Long-term debt, including current portion	528,720	528,460	526,041	523,921	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 22.

## 22. 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 March 31, 2020 and 2019 are as follows:

		Millions of yen							
At March 31, 2020		Level 1		Level 2		Level 3		Total	
Assets									
Investment securities, marketable equity securities									
Manufacturing industry		¥	—	¥	—	¥	—	¥	—
Derivatives									
Forward contracts			—		9,089		—		9,089
Interest rate swaps and cross-currency swap agreements			—		753		—		753
Total		¥	—	¥	9,842	¥	—	¥	9,842
Liabilities									
Derivatives									
Forward contracts		¥	—	¥	3,829	¥	—	¥	3,829
Interest rate swaps and cross-currency swap agreements			—		1,066		—		1,066
Total		¥	—	¥	4,895	¥	—	¥	4,895
		Millions of yen							
At March 31, 2019		Level 1		Level 2		Level 3		Total	
Assets									
Investment securities, marketable equity securities									
Manufacturing industry		¥	430	¥	—	¥	—	¥	430
Derivatives									
Forward contracts			—		2,876		—		2,876
Interest rate swaps and cross-currency swap agreements			—		206		—		206
Total		¥	430	¥	3,082	¥	—	¥	3,512
Liabilities									
Derivatives									
Forward contracts		¥	—	¥	2,632	¥	—	¥	2,632
Interest rate swaps and cross-currency swap agreements			—		723		—		723
Total		¥	—	¥	3,355	¥	—	¥	3,355

**Investment securities**

Marketable equity securities are classified in Level 1 in the fair value hierarchy. Marketable equity securities are measured using a market approach based on the quoted market prices in active markets.

**Derivatives** (Notes 20 and 21)

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.

The following table summarizes information about changes of Level 3 for the fiscal years ended March 31, 2020 and 2019:

	Millions of yen	
	2020	2019
Balance, beginning of year	¥ —	¥ (242)
Total gains or losses (realized / unrealized)	—	242
Included in earnings	—	257
Included in other comprehensive income (loss)	—	(15)
Balance, end of year	¥ —	¥ —

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

For the fiscal years ended March 31, 2020 and 2019, assets and liabilities that were measured at fair value on a non-recurring basis were not material.

## 23. 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 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.

The following tables present financial information regarding Komatsu's operating segments and geographic information at March 31, 2020 and 2019, and for the fiscal years then ended:

### Operating segments:

	Millions of yen	
	2020	2019
<b>Net sales:</b>		
Construction, Mining and Utility Equipment -		
External customers	¥ 2,205,976	¥ 2,466,660
Intersegment	5,287	12,326
Total	2,211,263	2,478,986
Retail Finance -		
External customers	62,952	57,355
Intersegment	7,958	6,230
Total	70,910	63,585
Industrial Machinery and Others -		
External customers	175,942	201,228
Intersegment	1,644	2,007
Total	177,586	203,235
Elimination	(14,889)	(20,563)
Consolidated	¥ 2,444,870	¥ 2,725,243
<b>Segment profit:</b>		
Construction, Mining and Utility Equipment	¥ 227,311	¥ 365,346
Retail Finance	12,673	17,506
Industrial Machinery and Others	13,703	18,637
Total segment profit	253,687	401,489
Corporate expenses and elimination	1,343	(2,096)
Total	255,030	399,393
Impairment loss on long-lived assets	3,194	1,251
Impairment loss on goodwill	3,699	—
Other operating income (expenses), net	2,570	(336)
Operating income	250,707	397,806
Interest and dividend income	7,378	7,154
Interest expense	(24,592)	(24,101)
Other, net	(10,379)	(3,388)
Consolidated income before income taxes and equity in earnings of affiliated companies	¥ 223,114	¥ 377,471

	Millions of yen	
	2020	2019
<b>Segment assets:</b>		
Construction, Mining and Utility Equipment	¥ 2,521,646	¥ 2,559,432
Retail Finance	841,063	842,147
Industrial Machinery and Others	216,728	206,419
Corporate assets and elimination	74,249	30,221
Consolidated	¥ 3,653,686	¥ 3,638,219
<b>Depreciation and amortization:</b>		
Construction, Mining and Utility Equipment	¥ 91,049	¥ 94,150
Retail Finance	32,266	29,505
Industrial Machinery and Others	6,210	6,205
Consolidated	¥ 129,525	¥ 129,860
<b>Capital investment:</b>		
Construction, Mining and Utility Equipment	¥ 116,282	¥ 98,809
Retail Finance	45,636	76,198
Industrial Machinery and Others	4,634	4,203
Consolidated	¥ 166,552	¥ 179,210

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

a) Construction, Mining and Utility Equipment operating segment:

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

b) Retail Finance:

Financing

c) Industrial Machinery and Others operating segment:

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

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

Segment assets are those assets used in the operations of each segment. Unallocated corporate assets consist primarily of cash and cash equivalents maintained for general corporate purposes.

Amortization for the fiscal years ended March 31, 2020 and 2019, does not include amortization of long-term prepaid expenses of ¥2,071 million and ¥1,604 million.

Impairment loss on long-lived assets recorded in each segment asset for the fiscal years ended March 31, 2020 and 2019, are as follows:

	Millions of yen	
	2020	2019
Construction, Mining and Utility Equipment	¥ 2,158	¥ 1,015
Retail Finance	1	—
Industrial Machinery and Others	1,035	236
Total	¥ 3,194	¥ 1,251



**Geographic information:**

Net sales determined by customer location for the fiscal year ended March 31, 2020 are as follows:

	Millions of yen			
	2020			
	Construction, Mining and Utility Equipment	Retail Finance	Industrial Machinery and Others	Total
Japan	¥ 310,856	¥ 2,324	¥ 83,404	¥ 396,584
The Americas	882,842	49,042	18,966	950,850
Europe and CIS	347,138	2,527	9,914	359,579
China	127,064	3,135	25,615	155,814
Asia (excluding Japan and China) and Oceania	409,158	5,845	37,728	452,731
Middle East and Africa	128,918	79	315	129,312
Total	¥ 2,205,976	¥ 62,952	¥ 175,942	¥ 2,444,870

Net sales to U.S.A. in the Americas for the fiscal year ended March 31, 2020 were ¥511,966 million.

The amounts classified into revenue recognized from other sources described in Note 15 to the Consolidated Financial Statements for the fiscal year ended March 31, 2020 within the net sales of the Construction, Mining and Utility Equipment operating segment are ¥35,733 million in Japan, ¥32,865 million in the Americas, ¥30,986 million in Europe and CIS, ¥32,636 million in China, and ¥15,752 million in Asia (excluding Japan and China) and Oceania. Net sales of the Retail Finance operating segment for the fiscal year ended March 31, 2020 are primarily the amounts classified into revenue recognized from other sources described in Note 15 to the Consolidated Financial Statements.

Net sales determined by customer location for the fiscal year ended March 31, 2019 are as follows:

	Millions of yen			
	2019			
	Construction, Mining and Utility Equipment	Retail Finance	Industrial Machinery and Others	Total
Japan	¥ 312,791	¥ 1,937	¥ 89,432	¥ 404,160
The Americas	937,850	43,842	32,895	1,014,587
Europe and CIS	342,213	2,640	13,663	358,516
China	164,803	3,267	24,590	192,660
Asia (excluding Japan and China) and Oceania	554,611	5,577	40,566	600,754
Middle East and Africa	154,392	92	82	154,566
Total	¥ 2,466,660	¥ 57,355	¥ 201,228	¥ 2,725,243

Net sales to U.S.A. in the Americas for the fiscal year ended March 31, 2019 were ¥521,391 million.

The amounts classified into revenue recognized from other sources described in Note 15 to the Consolidated Financial Statements for the fiscal year ended March 31, 2019 within the net sales of the Construction, Mining and Utility Equipment operating segment are ¥36,251 million in Japan, ¥29,275 million in the Americas, ¥26,583 million in Europe and CIS, ¥47,406 million in China, and ¥6,757 million in Asia (excluding Japan and China) and Oceania. Net sales of the Retail Finance operating segment for the fiscal year ended March 31, 2019 are primarily the amounts classified into revenue recognized from other sources described in Note 15 to the Consolidated Financial Statements.

Net sales determined by geographic origin for the fiscal years ended March 31, 2020 and 2019, and property, plant and equipment determined based on physical location at March 31, 2020 and 2019, are as follows:

	Millions of yen			
	2020		2019	
Net sales:				
Japan	¥	534,514	¥	632,903
The Americas		891,329		930,269
Europe and CIS		355,928		372,649
China		137,257		176,053
Others		525,842		613,369
Total	¥	<u>2,444,870</u>	¥	<u>2,725,243</u>
Property, plant and equipment:				
Japan	¥	364,347	¥	360,409
The Americas		244,603		255,664
Europe and CIS		40,885		41,439
Others		107,844		118,910
Total	¥	<u>757,679</u>	¥	<u>776,422</u>

There were no sales to a single major external customer for the fiscal years ended March 31, 2020 and 2019. Property, plant and equipment located in U.S.A. in the Americas at March 31, 2020 and 2019 were ¥173,024 million and ¥180,945 million, respectively.

## 24. Supplementary Information to Balance Sheets

At March 31, 2020 and 2019, other current assets were comprised of the following:

	Millions of yen	
	2020	2019
Prepaid expenses	¥ 14,521	¥ 14,161
Short-term loans receivable:		
Affiliated companies	1,723	1,522
Other	30	36
Total	¥ 1,753	¥ 1,558
Other	131,139	122,696
Total	¥ 147,413	¥ 138,415

At March 31, 2020 and 2019, other current liabilities were comprised of the following:

	Millions of yen	
	2020	2019
Accrued expenses	¥ 110,310	¥ 119,198
Advances received	58,248	56,275
Other	129,267	138,478
Total	¥ 297,825	¥ 313,951

Valuation and qualifying accounts deducted from assets to which they apply for the fiscal years ended March 31, 2020 and 2019 were comprised of the following:

	Millions of yen	
	2020	2019
Allowance for doubtful receivables		
Balance at beginning of year	¥ 12,758	¥ 23,657
Additions		
Charged to costs and expenses	10,589	5,270
Charged to other accounts	22	5
Deductions	(6,547)	(16,174)
Balance at end of year	¥ 16,822	¥ 12,758

Deductions were principally collectible or uncollectible accounts and notes charged to the allowance.

	Millions of yen	
	2020	2019
Valuation allowance for deferred tax assets		
Balance at beginning of year	¥ 29,118	¥ 31,244
Additions		
Charged to costs and expenses	2,364	9,188
Charged to other accounts	—	—
Deductions	(5,703)	(11,314)
Balance at end of year	¥ 25,779	¥ 29,118

Deductions were principally changes in the expected realization of deferred tax assets and realization or expiration of net operating loss carryforwards.

## 25. Supplementary Information to Statements of Income

The following information shows research and development expenses and advertising costs, for the fiscal years ended March 31, 2020 and 2019. Research and development expenses and advertising costs are charged to expense as incurred and are included in cost of sales and selling, general and administrative expenses in consolidated statements of income.

	Millions of yen	
	2020	2019
Research and development expenses	¥ 74,761	¥ 73,447
Advertising costs	3,694	3,326

Shipping and handling costs included in selling, general and administrative expenses for the fiscal years ended March 31, 2020 and 2019, were as follows:

	Millions of yen	
	2020	2019
Shipping and handling costs	¥ 48,217	¥ 55,706

For the fiscal years ended March 31, 2020 and 2019, Komatsu recognized an impairment loss of ¥3,194 million and ¥1,251 million related to property, plant and equipment and intangible assets at the Company and certain subsidiaries, as profitability of the assets was expected to be low in the future and Komatsu estimated the carrying amounts would not be recovered by the future cash flows.

Other operating income (expenses), net for the fiscal years ended March 31, 2020 and 2019, were comprised of the following:

	Millions of yen	
	2020	2019
Gain on sale of fixed assets	¥ 5,955	¥ 2,653
Loss on disposal or sale of fixed assets	(5,221)	(4,342)
Other	1,836	1,353
Total	¥ 2,570	¥ (336)

Other income (expenses), net for the fiscal years ended March 31, 2020 and 2019, were comprised of the following:

	Millions of yen	
	2020	2019
Interest income		
Installment receivables	¥ 1,684	¥ 1,929
Other	5,174	4,776
Dividends	520	449
Interest expense	(24,592)	(24,101)
Impairment loss and net loss (gain) on valuation of investment securities	97	(499)
Exchange gain (loss), net	(12,904)	(5,597)
Other	2,428	2,708
Total	¥ (27,593)	¥ (20,335)

**26. Material Subsequent Events**

Not applicable.

Komatsu evaluated subsequent events through June 29, 2020, the issue date of its consolidated financial statements.

## **27. Terminology, Forms and Preparation Methods of Consolidated Financial Statements**

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

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

### **(1) Scope of consolidation**

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

### **(2) Accounting policies**

#### **a. Deferred income on installment sales**

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

#### **b. Share issuance cost**

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

#### **c. Accounting for retirement benefits**

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

#### **d. Business combination and goodwill**

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

### **(3) Presentation methods and other matters**

#### **a. Presentation of legal retained earnings**

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

#### **b. Extraordinary income and loss**

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

#### **c. Investment and rental properties**

In accordance with J. GAAP, if the investment and rental properties are material, disclose notes for the outline, the carrying amount in the consolidated balance sheets and fair value of these properties are required. However, such notes are omitted in the Company's consolidated financial statements because the total amount of investment and rental properties is immaterial.

## Supplementary Schedule

### Detailed Statements of Bonds

Refer to Note 11 in the notes of consolidated financial statements.

### Detailed Statements of Borrowings, etc.

Refer to Note 11 in the notes of consolidated financial statements.

### Detailed Statements of Asset Retirement Obligation

The amounts of asset retirement obligation at the beginning and end of this fiscal year are less than a hundredth of the amounts of total liabilities and total equity at the beginning and end of this fiscal year, respectively. This statement has been omitted because it is immaterial.

## (2) Others

### Quarterly Financial Information

	Millions of yen except per share amounts			
	Three months ended June 30, 2019	Six months ended September 30, 2019	Nine months ended December 31, 2019	Fiscal year ended March 31, 2020
Net sales	¥ 609,767	¥ 1,213,485	¥ 1,827,442	¥ 2,444,870
Income before income taxes and equity in earnings of affiliated companies	66,910	128,212	189,922	223,114
Net income attributable to Komatsu Ltd.	47,476	90,062	135,268	153,844
Net income attributable to Komatsu Ltd. per share (Yen)				
Basic	50.30	95.40	143.27	162.93
Diluted	50.25	95.32	143.15	162.80

	Yen			
	Three months ended June 30, 2019	Three months ended September 30, 2019	Three months ended December 31, 2019	Three months ended March 31, 2020
Net income attributable to Komatsu Ltd. per share				
Basic	50.30	45.11	47.87	19.67
Diluted	50.25	45.07	47.83	19.66